

2017 ANNUAL REPORT

ON-GOING FEDERAL CASE, RETIREMENTS AND ATTENTION TO SAFETY ARE THE HEADLINES FOR 2017



Dan Dasho
President & CEO



Virgil Monroe
Chairperson

The federal issue having Cloverland Electric paying costs for the retiring Presque Isle Power Plant in Marquette that has dominated the news for Cloverland since 2014 continued through 2017 and continues to be favorable for Cloverland. Two of the five Federal Energy Regulatory Commission (FERC) seats were vacant with President Trump having to appoint and the Senate confirming the two new commissioners. In October, the full commission issued an order agreeing that the \$65 million Wisconsin Energy Corporation (WEC) had received was excessive, unjust and unreasonable. FERC ordered WEC to refund approximately \$22.6 million. Of the remaining balance, Cloverland may be responsible for approximately \$6 million. A pending case in the D.C. Circuit Court of Appeals will decide if Cloverland will have to pay this amount.

Through the year, Cloverland honored three retiring employees representing 119 years of service to Edison Sault and Cloverland - Roger Bawks (35), Terry Paquette (42) and Craig Davidson (42). Cloverland is blessed with experienced employees who have stepped up to fill these positions. Four employees were transferred to fill the openings and four new employees were hired bringing the total to 107 highly-trained, dedicated employees. While other electric utilities across the country are facing challenges recruiting qualified linemen, Cloverland receives many highly-qualified applications when a position opening is posted.

In June, members participated in the director election process with a choice of

seven candidates running for three board seats. Members elected William LaLonde (St. Ignace) as a new director for District A; incumbent John Sawruk (Sault Ste. Marie) was reelected in District B and incumbent Virgil Monroe (Manistique) was reelected in District C. The board agreed to increase the pages of Cloverland Connections magazine to publish the full, approved minutes of each board meeting. The same document is also available on the co-op's website.

Members on Sugar Island, Drummond Island and in Bay Mills, Bruce, Dafter, Marquette, Pickford, Raber, Soo and Superior townships are enjoying better service reliability and fewer weather-related outages as a result of Cloverland's right-of-way maintenance program. Cloverland maintains more than 4,000 miles of power lines on an eight-year rotation schedule. Members have contacted the cooperative acknowledging this maintenance program has reduced their outage frequency.

System planning is always a top concern for Cloverland. The co-op develops a 20-year, long range engineering plan. That plan is then divided into a four-year work plan establishing short-term goals that eventually complete the long-range plan. Recent GIS and mapping activities of the entire system have aided in this process.

Cloverland is unique in that it is a distribution and a generation electric utility. Of the 900 electric cooperatives across the country, only a handful own and operate generation facilities. Cloverland has a crew that maintains the 116-year old hydroelectric

plant on the St. Mary's River, a diesel plant in Dafter, a diesel plant in DeTour and a diesel plant in Manistique. The 2.4-mile power canal restoration project started in 2014 to repair or replace sections of the wall that have eroded or collapsed is continuing. The multi-year, multi-million dollar project is a wise and prudent investment in our infrastructure that saves Cloverland members \$1.25 million each month in wholesale power costs. These savings contribute to Cloverland having the lowest electric rates in the Upper Peninsula.

No electric utility can operate without safety in everything we do. Cloverland Electric participates in an in-depth review process evaluating every area of our offices, our trucks, our procedures and our facilities. The national program, called the Rural Electric Safety Achievement Program (RESAP) is a three-year safety accreditation program that Cloverland has achieved for many consecutive years. The panel of judges are directors of safety at neighboring cooperatives who are very strict with safety. This attention to safety allows all our employees to do their job serving you and then go home at the end of the day to friends and family.

You, our members, are the Cloverland family. We all live, work and play in this wonderful area of the Eastern Upper Peninsula. We appreciate the trust you place in us as this organization works every day for the betterment of our communities and members in delivering safe, reliable and affordable electricity.

BOARD OF DIRECTORS

AS OF DECEMBER 31, 2017

DISTRICT A



William LaLonde
29 S. Marley St.
St. Ignace, MI 49781
Term Expires 2020

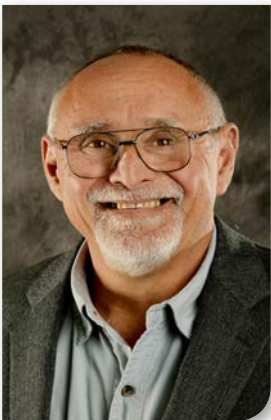


Richard Newland
1045 S. Caribou Lake Rd.
DeTour Village, MI 49725
Term Expires 2018



Jason St. Onge
P.O. Box 1840
Mackinac Island, MI 49757
Term Expires 2019

DISTRICT B



Carmine Bonacci Jr.
3314 S. Sun Glow
Sault Ste. Marie, MI 49783
Term Expires 2019



Charles Litzner
220 W. 8th Street
Sault Ste. Marie, MI 49783
Secretary/Treasurer
Term Expires 2018



John Sawruk
2649 W. 14th St.
Sault Ste. Marie, MI 49783
Term Expires 2020

DISTRICT C



Peter Legault
137 22 W. Raski Rd.
Engadine, MI 49827
Term Expires 2019



Virgil Monroe
603 Oak St.
Manistique, MI 49854
Chairperson
Term Expires 2020



Ron Provo
521N County Rd. 441
Manistique, MI 49854
Vice Chairperson
Term Expires 2018



OFFICER COMPENSATION DISCLOSURE

President and CEO
base annual salary is
\$273,000 plus benefits.

DIRECTORS' COMPENSATION DISCLOSURE

Directors do not receive
a salary for their service,
but by resolution of
the board, a fixed
sum and expenses, if
any, may be allowed
for the attendance at
cooperative business.

**REGULAR
MEETINGS
\$800**

**SPECIAL
MEETINGS
\$400**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Cloverland Electric Cooperative, Inc. which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue, equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Generally accepted accounting principles require that all majority-owned subsidiaries be consolidated in the financial statements with the parent company. If the financial statements of the cooperative had been consolidated with its majority-owned subsidiary, total assets and total liabilities would have increased by \$0 and \$1,278,964 for the years ended December 31, 2017 and 2016, respectively.

In our opinion, except for the effects of not including the wholly-owned subsidiary's activity, the financial statements referred to above present fairly, in all material respects, the financial position of Cloverland Electric Cooperative, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 14, 2018, on our consideration of Cloverland Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

REVENUE AND EXPENSES

Operating Statement	2017	2016
Electric Energy Revenue	\$76,582,515	\$79,435,273
Capital Credits Received from Associations	412,393	299,361
Total Operating Revenue	\$76,994,908	\$79,734,634
Generating Expenses	\$4,261,321	\$4,040,849
Cost of Purchased Power	32,060,298	35,139,919
Transmission Expense	7,418,390	9,028,438
Operations	3,027,813	2,776,011
Maintenance	5,474,310	5,385,250
Consumer Accounting and Collections	2,112,190	2,277,231
Customer Service	1,346,663	1,362,200
Sales Expense	122,173	121,785
Administrative and General	4,195,659	4,388,648
Taxes: Property	2,778,224	2,768,714
Taxes: Other	-	(4,000)
Interest on Long-Term Debt	4,423,631	4,424,979
Interest Expense Other	51,632	110,656
Depreciation Expense	6,289,193	6,098,646
Total Operating Expenses	\$73,561,497	\$77,919,326
Operating Margins	\$3,433,411	\$1,815,308
Non-Operating Margins	557,622	1,046,901
Total Margins	\$3,991,033	\$2,862,209

BALANCE SHEET

Assets	2017	2016
Net Utility Plant	\$151,819,583	\$148,798,379
Current and Non-Current Assets		
Cash and Temporary Cash Investments	\$2,688,657	\$2,790,360
Other Assets and Investments	16,418,618	15,574,964
Accounts Receivable	9,502,400	9,654,724
Materials and Supplies	4,315,599	3,464,147
Other Current and Non-Current Assets	10,353,631	11,072,409
Total Current & Non-Current Assets	\$43,278,905	\$42,556,604
Total Assets	\$195,098,488	\$191,354,983
Equities and Liabilities		
Current and Long Term Liabilities		
Long Term Obligations to FFB ¹	\$114,620,950	\$111,535,320
Long Term Obligations to CoBank	21,560,926	22,656,700
Long Term Obligations to CFC ²	3,233,157	3,547,818
Current and Accrued Liabilities	18,779,409	20,750,706
Non-Current Liabilities	1,964,915	1,992,775
Total Liabilities	\$160,159,357	\$160,483,319
Equities		
Membership Fees	\$140,420	\$132,330
Margins and Other Equities	34,798,711	30,739,334
Total Equities	\$34,939,131	\$30,871,664
Total Equities & Liabilities	\$195,098,488	\$191,354,983

¹Federal Financing Bank ²Cooperative Finance Corporation

EXECUTIVE TEAM



Dan Dasho
President & CEO



Todd Chapman
Director of
Communications



Dianne Hemming
Director of Human
Resources and
Assistant Controller



Brian Lavey
Director of Engineering



James Mackie
Director of Operations



Wendy Malaska
Director of Member
Services and Key Accounts



Robert Malaski
CFO and Director of Power
Marketing and Regulatory Affairs



Phil Schmitigal
Director of Generation



Jim Wilson
Director of Safety



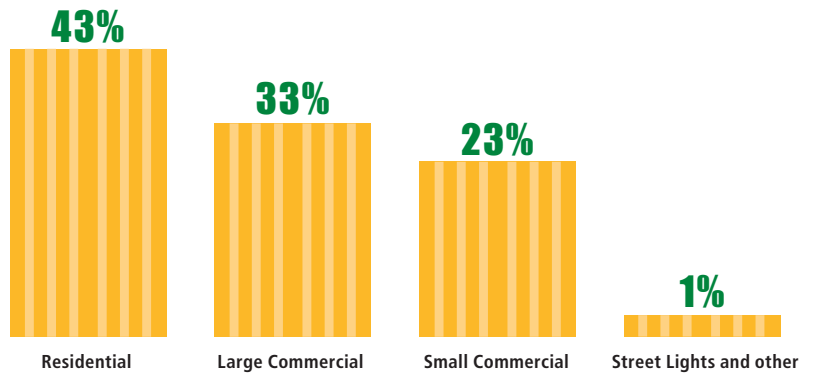
Charles Zane
Director of Information
Technology

CLOVERLAND ELECTRIC COOPERATIVE IS AN
EQUAL OPPORTUNITY PROVIDER AND EMPLOYER.

SUMMARY STATEMENT OF CASH FLOWS

	2017	2016
Net Cash Provided by Operating Activities	\$11,878,126	\$8,011,307
Net Cash Used in Investing Activities	(10,192,479)	(11,571,922)
Net Cash Provided by Financing Activities	1,787,350	5,528,833
Net Increase (Decrease) in Cash & Cash Equivalents	\$(101,703)	\$1,968,218
Cash and Temporary Cash Investments, Beginning	2,790,360	822,142
Cash and Temporary Cash Investments, Ending	\$2,688,657	\$2,790,360

WHERE DOES IT COME FROM?



WHERE DOES IT GO?



2017 STATS

EMPLOYEES	107
SERVICES	42,583
TOTAL MEMBERSHIPS	33,964
New Memberships	1,657
Inactive Memberships	2,492
MILES OF ENERGIZED LINE	4,074
CAPITAL CREDIT ALLOCATION	\$2,881,968