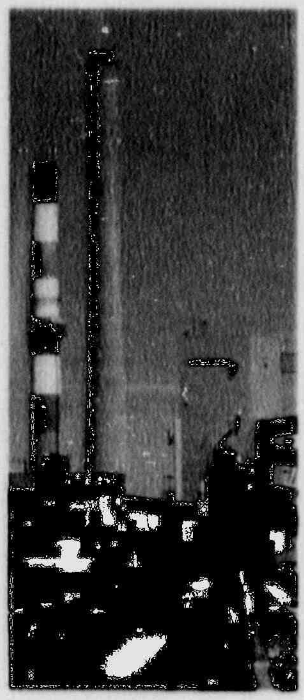
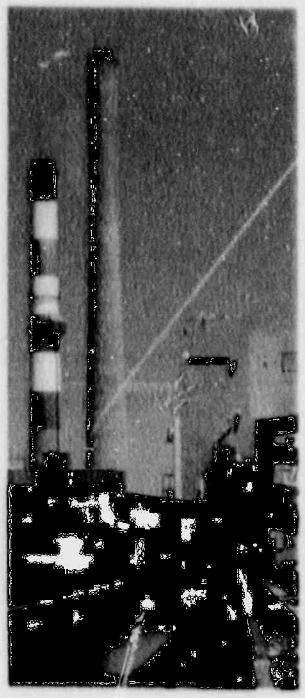
WOLVERINE POWER SUPPLY COOPERATIVE, INC.





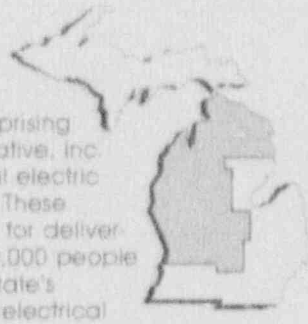

# 1989 Annual Report

WOLVERINE POWER SUPPLY COOPERATIVE, INC.



# 1989 Annual Report

# Member-Systems



The seven member-systems comprising Wolverine Power Supply Cooperative, Inc. provide reliable and economical electric energy in 35 Michigan counties. These member-systems are responsible for delivering electric energy to nearly 500,000 people every day and are among the state's leaders in customer service and electrical reliability.

**Cherryland Electric Cooperative, Inc.**
P.O. Box 298
Grawn, MI 49637
(616) 276-9212
Philip Cole - General Manager

**O & A Electric Cooperative, Inc.**
490 Quarterline Road
Newaygo, MI 49337
(616) 652-1651
Robert L. Hance - General Manager

**Oceana Electric Cooperative**
P.O. Box 232
Hart, MI 49420
(616) 873-2155
Robert Frederiksen - General Manager

**Presque Isle Electric Cooperative, Inc.**
19831 M-68
Onaway, MI 49765
(517) 733-8515
A. Barkley Travis - General Manager

**Top O' Michigan Electric Company**
1123 E. Division, P.O. Box 70
Boyne City, MI 49712
(616) 582-6521
Tom Hanna - General Manager

**Tri-County Electric Cooperative**
P.O. Box 379
Portland, MI 48875
(517) 647-7554
Robert W. Matheny - General Manager

**Western Michigan Electric Cooperative**
P.O. Box 248
Scottville, MI 49454
(616) 757-4724
Jack W. Stickney - General Manager

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Wolverine Power Supply Cooperative, headquartered in Cadillac, Michigan, is a nonprofit electric generation and transmission cooperative supplying wholesale electric energy to seven electric distribution cooperatives serving a total consumer-membership exceeding 140,000 in 35 Michigan counties. Wolverine owns and/or operates 157,000 kilowatts of coal-fired, natural gas, diesel and hydroelectric generation and owns and maintains more than 1,600 miles of 69,000 and 138,000 volt transmission line.

# Board of Directors

WAYNE NORDBECK
President
Cherryland

CARL MORTON
Senior Vice President
Tri-County

CARL FORTELKA
Secretary
O & A

THADDEUS GAWEL
Treasurer
Presque Isle

MELVIN BASEL
Presque Isle

WILLIAM CHAPIN
Tri-County

FRED FOLTZ, JR.
Top O' Michigan

ROBERT HASENBANK
Western Michigan

WALLACE HOFFMAN
Oceana

TERRY LAUTNER
Cherryland

DR. HAROLD McCAUGHRIN
Top O' Michigan

BURTON SCOTT
O & A

MARTIN THOMSON
Presque Isle

ROBERT THUROW
Western Michigan

THOMAS VAN PELT
Cherryland

RICHARD WALSWORTH
Oceana

# Corporate Ideals & Objectives

WE BELIEVE:

.....that an adequate supply of lowest possible cost electricity is one of the most important ingredients for improving the economy and the people's standard of living.

.....that the Rural Electrification Administration program of providing long-term, low interest loan funds to the rural electric cooperatives is one of the most valuable programs for the social and economic benefit of people ever undertaken by our Federal government, and that this program should be continued as an important device to foster the economic development of rural areas and to help improve the standard of living of its consumer-owners.

.....that a clean and healthy environment which we all need and enjoy must be maintained and that the energy industry must do all that is feasible to minimize the negative impacts on the environment.

..... that the benefits of the development of our natural resources should accrue to the people, and the State and Federal governments have a principal responsibility for establishing and maintaining programs and policies to protect the public interest in the maximum multipurpose development of conservation and utilization of our water, power resources and natural beauty.

.....that our Cooperative was established for all its members and the benefits of its operation should accrue to them on a consistent and uniform basis.

TO THESE ENDS, WE PLEDGE OURSELVES TO THE FOLLOWING OBJECTIVES:

.....to provide for our members an adequate supply of wholesale electric power and high quality of service at the lowest possible cost to our membership as a whole.

.....to maintain a competent staff of dedicated employees and to establish policies which provide direction to management and staff for the day to day operation of the Cooperative.

.....to adopt a one, five and ten-year plan for implementation by and guidance of the management of the Cooperative.

.....to conduct the business affairs of the Cooperative as the trustee for the interest of the members, and on a basis of honesty and equity.

.....to help promote the area development throughout the Cooperative's service area by working with our member systems in the planning and execution of programs to help develop the natural, human and economic resources within the region and to encourage efficient use of electrical energy.

.....to conduct a vigorous member service program in order to promote the Cooperative's policies, plans and progress among employees, members and other interested parties.

Nineteen Hundred Eighty Nine was a year of transition for Wolverine Power Supply Cooperative. From our power supply situation to the relocation of our new corporate offices, the past year was definately one in which change was the dominating factor.

In terms of wholesale energy sold to our seven member-systems, the past year was a record one. We sold more than 1.2 billion kilowatthours of energy to our member-systems — a three percent increase over last year's level. We're proud that each of the member-systems contributed to this increase.

Increased sales result in increased margins and Wolverine completed 1989 with margins totaling more than $5.7 million, of which $4.3 million applied to the Fermi II Debt Service Escrow Account.

The overall cost of wholesale power to our member-systems increased the past year. These increases were primarily attributable to rate hikes necessitated by the Seventh Amendment to the Fermi II Participation Agreement. Our internal operating costs have remained very stable, and in many instances have been reduced.

The cost of wholesale power to our member-systems was 49.91 mills per kilowatthour, of which 7.35 mills per kilowatthour was the result of the Seventh Amendment sale agreement. However, these increases wane in comparison to our anticipated costs had we remained an owner in Fermi II.

Transition was most clearly evident in the relocation of our corporate offices from Boyne City to the new 23,000 square foot facility near Cadillac. Operational efficiencies have improved as a result of this new facility which we occupied in late September 1989. In addition, the transition resulted in the loss of only one staff member.

Building upon relationships with the municipal electric members of the Michigan Public Power Agency was also an important task throughout the year. Wolverine and several of the state's municipal electric utilities are in the process of forming a new municipal/cooperative power pool. We have also joined forces in an attempt to purchase additional ownership in the Consumers Power Company transmission system — thereby reducing expensive wheeling charges.

The Rural Electrification Administration (REA) request for additional security on our approximately $20 million R-12 construction loan also received a great deal of attention from our management staff and Board of Directors. This loan was approved by REA last September. However, monies cannot be advanced until adequate security is provided to REA. This loan is imperative to Wolverine's ability to meet the continued growth throughout the system.

Wayne B. Nordbeck

Raymond G. Towne

The 25,000 kw Bumips STAG unit resumed base-load operation in April 1989. Installation of a new reduction gear box resulted in 3,500 kw of additional capacity at the plant. A favorable natural gas supply contract has been approved which will also allow for intermediate and peak loading of generating units at our Hersey Plant.

A new three-year collective bargaining agreement was reached with Local 876 of the International Brotherhood of Electrical Workers this past July. The IBEW represents nearly one-half of Wolverine's 130 employees.

Benefits attainable through implementation of a load management system were under review by staff and Central Area Data Processing. Wolverine and the member-systems will begin implementation of such a load control system in late 1990 or early 1991. Potential savings to Wolverine and its member-systems through load management could total several million dollars.

Staff and consulting engineers R.W. Beck pursued the application and federal licensing of the Cooperative's Kleber and Tower hydroelectric generating facilities. Federal operating licenses are necessary for Wolverine to maintain the ability to own and operate the two small hydro generating facilities on the Black River in Cheboygan County. Fish entrainment and other monitoring studies will be ongoing throughout the next two years. Ongoing repair and maintenance work at the two facilities has also resulted in greater operational efficiencies.

The Michigan Public Service Commission also continued to play a vital support role in our operations — particularly with the implementation of controlled water heating and other incentive rates. We will continue to look to the Commission staff for its guidance and support.

Most importantly, our staff and employees were the primary reason for the many successes we achieved.

Wayne B Nordbeck

Wayne B. Nordbeck
President

Raymond G. Towne

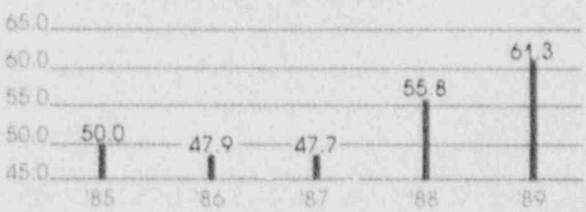
Raymond G. Towne
Executive Vice President
and General Manager

# Finance & Administrative Services

Walter J. Garcia
Manager

With the completion of the audit by the independent accounting firm of Coopers & Lybrand, Wolverine recorded the best year financially in the Cooperative's history. In 1989, Wolverine sales reached 1,223,600 mwh which generated revenues in excess of $61,000,000. The 9.9% increase over 1988 revenue is attributed to a 3.13% increase in mwh sales to our member-cooperatives and the increase of 3.5 mills in our rates through the Michigan Public Service Commission (MPSC) Order U-8994. This increase was required in order to meet the debt service obligation to the Rural Electrification Administration (REA) in repayment of the $200,000,000 debt remaining from the Fermi II settlement. In compliance with the Debt Restructuring Agreement, Wolverine was required to deposit $4,282,700 in an escrow account during 1989. These funds will be used to repay certain Federal Financing Bank (FFB) debt within the next two years.

$ Operating Revenue (millions)




The Fermi II closing is in the final stages; most of the legal and financial documents have been prepared and are awaiting signatures as the February 21, 1990 closing date draws near. On this date, The Detroit Edison Company will give REA mortgage bonds in the amount of $540,000,000 and Wolverine will sign two mortgage notes totaling $200,000,000 to complete the first sale of a jointly-owned nuclear plant by a Cooperative to an investor-owned utility.

Through the Power Supply Cost Recovery (PSCR) refund mechanism, Wolverine refunded $384,000 to its seven member-distribution cooperatives and another $445,500 from the Times Interest Earned Ratio (TIER) refund. The TIER refund is an MPSC order that allows Wolverine to reduce its revenues from members in order to maintain a 1.35 TIER. The Cooperative finished the year with net margins of approximately $5,730,000.

The Finance and Administrative Services department has worked diligently with REA regarding the R-12 construction loan during the past year. The $20,000,000 guaranteed and insured loan will allow Wolverine to construct new transmission lines and substations necessary in order to meet system demand and continued growth. The loan will also allow us to upgrade our facilities and continue our reliability to our members. The final conditions surrounding the R-12 loan should be settled early in 1990.

On September 19, 1989, the Cooperative relocated its corporate headquarters from Boyne City to Cadillac. For the Finance and Administrative Services Department, this involved planning and organizing the transfer of 40 years of records. In order to accomplish this endeavor, a dedicated and cooperative effort was required by the Cooperative's personnel. The new facility enables management to operate more efficiently, improve communications and create a better working environment for its staff and employees.

Wolverine's continued growth was evident by the addition of $2,400,000 in plant service in 1989. The total plant retired in our system last year was $325,000. Wolverine accrued $2,000,000 in real and personal property tax liability this year.

With a new corporate headquarters and the Fermi II settlement completed, the Finance and Administrative Services Department staff and its employees are looking forward to improving accounting procedures and expanding our knowledge in the ever-changing utility industry in the following year. Our efforts will focus on financial forecasting, cost of service study, budget and planning, PSCR filing, plant accounting and the development of software programs on the IBM System 36.

Richard L. Lang
General Counsel

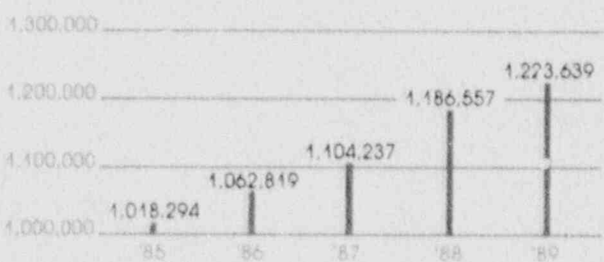
The past year was highlighted by the move of Wolverine's general offices to the new facilities near Cadillac. Our expanded, centralized facilities are promoting greater efficiency and the centralized location in the middle of Wolverine's system has substantially reduced travel and telephone time.

During the past year, Wolverine has continued to obtain business franchises. Revocable 30-year franchises have been obtained from Greenwood Township (Oscoda County), Allendale Township (Ottawa County), Zeeland Township (Ottawa County) and Garfield Charter Township (Grand Traverse County). All of these franchises have been or are being submitted to the electors of the Township in the next few weeks for ratification, which will make the franchises irrevocable for thirty (30) years if a favorable vote is obtained.

Wolverine has not been able to complete negotiations with Consumers Power Company to allow additional purchases of an undivided interest in Consumers' transmission system so as to be able to transmit additional power over the Consumers' system without paying wheeling rates. Wolverine is still hopeful that these negotiations can be successfully concluded.

An amendment to the Shell Coal Contract was negotiated so as to reduce the required purchases of coal to six boat loads for 1989.

**Energy Sold to Member Systems (mwh)**




Wolverine completed and executed an agreement for the Bradley Interconnection with Consumers Power Company in Wayland Township. Also, Wolverine is completing a new three way interconnection agreement for the Sternberg Substation near Grand Haven, among Grand Haven, Consumers Power and Wolverine.

Considerable time and money has been spent on the hydro licensing application pending before FERC. As a part of the licensing, Wolverine has had to develop a comprehensive safety plan including performing certain studies and maintenance work. Also, the Michigan Department of Natural Resources (DNR) and the U.S. Fish and Wildlife Service are requiring fish studies to determine the effect of the dams on the movement of fish and the numbers of fish being killed or injured when passing through turbines. Wolverine's license application is still pending and will not be further considered until at least the summer of 1991, when the fish studies are completed. In addition, Wolverine is having to install certain recreational facilities at the dams, as required by the DNR.

Wolverine has completed negotiation of a gas supply contract with the Natural Gas Clearinghouse for purchase of 4,000 to 6,000 MMBTU per day to be used at the Bumips and Hersey Plants. The contract provided for a first year fixed price favorable to Wolverine and thereafter an indexed price for the second year. A gas transportation contract has been entered into with American Natural Resources for transportation of the gas from Louisiana to Michigan at favorable rates. A contract has been signed with Michigan Gas Utilities for delivery of the gas to the Burnips Plant. In addition, Wolverine has entered into a gas distribution contract and gas storage contract with MichCon and its affiliated marketing company, for the transportation and storage of gas to be used at the Hersey Plant. These contracts do not require minimum amounts to be purchased or payment of monthly stand-by charges.

Wolverine has completed arrangements and obtained a purchase order from Medusa Cement Company to have all fly ash from the Advance Steam Plant delivered to the cement plant for use in the cement manufacturing processes.

Wolverine has been involved in the following court proceedings during the past year:

1. Settlement of Presque Isle County condemnation cases and an appeal by property owners claiming substantial additional appraisal fees owed by Wolverine; the appeal was dropped by the property owners without Wolverine paying additional fees.

2. Settlement of amounts to be paid Grand River Power Company under PURPA for avoided costs after Wolverine appealed the unfavorable MPSC decision; the settlement reduces Wolverine's monthly payment by about $2,000 retroactively.

3. Wolverine is defending a power surge case in District Court.

4. Wolverine, through its insurance carrier agreed to pay $60,000 to the owner and pilot of the helicopter involved in the fatal accident at the Burnips Plant, based upon Circuit Court mediation.

Finally, Wolverine recently completed the sale of its interest in Fermi II, which interest was purchased by Detroit Edison; the closing of this complex and difficult sale provides Wolverine with reasonable power costs and a secure financial future.

# Power Production

James R. Nickel, P.E.
Manager

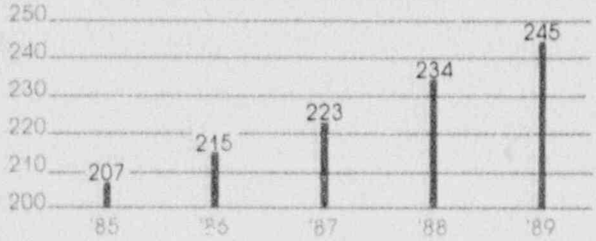
Large scale projects, both in terms of impact and capital expenditures, received the most attention from department staff and employees this past year. The majority of these efforts focused upon methods of providing Wolverine's seven member-systems with an even more reliable and economical supply of wholesale electric energy.

Wolverine continued to operate the Municipal Cooperative Pool (MCP) during 1989. This pool combines the loads and resources of Wolverine with Traverse City, Grand Haven, Zeeland and Lowell, and has been of considerable mutual benefit for over 20 years.

Extensive negotiations continued with the municipal electric members of the Michigan Public Power Agency in an effort to combine power pooling operations. Present estimates place a combined power pool in operation sometime in early 1991. In addition to the existing MCP members, the combined pool will include the cities of Lansing, Petoskey, Charlevoix, Harbor Springs and Holland. This pool will have substantially more resources than the MCP, and will enhance Wolverine's ability to obtain economical capacity and energy in the future.

The Cooperative's future power supply also received close scrutiny as part of a cost/benefit analysis for the proposed load management program. The significant growth in both electrical demand and energy sold to the member-systems has already resulted in the Cooperative reaching the 1998 peak demand levels which were forecasted in the 1986 Power Requirements Study (PRS).

**System Peak Demand (mw)**




Ability to control electrical demand during peak periods will result in significant savings to the member-customer, the member-systems and Wolverine. Wolverine staff, working in conjunction with Central Area Data Processing, is presently completing the Cooperative's load management feasibility study and, if results substantiate feasibility, Wolverine and its member-systems will be working to begin installing system control equipment by late 1990. The Michigan Public Service Commission has already approved Controlled Water Heating, Dual Fuel and Electrical Storage heating rates for the member-systems to offer their member-customers.

Staff and consulting engineers R.W. Beck moved forward with final licensing efforts at the Cooperative's Tower and Kleber hydroelectric generation facilities. In conjunction with the U.S. Fish and Wildlife Service, the Michigan Department of Natural Resources and the Federal Energy Regulatory Commission (FERC), the Cooperative is following all licensing procedures necessary to allow for continued ownership and operation of the two small generating facilities located on the Black River near Tower. Fish entrainment and other wildlife and recreational studies are now underway. The licensing process, and the extensive environmental studies involved, were required by the FERC as a result of Congressional actions during the late 1980's.

A new all-time peak demand level of 245,500 kw was reached on November 16. This peak was more than 12,000 kw higher than the 1988 peak. However, it is also important to note that the Cooperative's winter and summer peak demand levels are both increasing. Wolverine has traditionally been a winter peaking system but the past several years have narrowed the gap between summer and winter peaks.

New natural gas supply and transportation contracts were signed for operation of the 23,000 kw Burnips STAG Unit and the diesel and gas turbine units at the Hersey Generating Plant. The Burnips unit operated throughout much of 1989 as a base-load unit — and will likely continue operation in that mode unless natural gas prices rise sharply. Operation of the Burnips Plant resulted in less reliance on purchased power from outside sources and lower overall wholesale power costs. The 23,000 kw Advance Steam Plant's Unit No. 3 continued operation as a base-load unit, while the plant's two smaller units were operated on an intermediate and peak loading basis.

Richard B. Chappell
Manager

New construction, maintenance and operations activities were the primary point of focus for department staff and employees during the past year. The continued growth of Wolverine's seven member-systems, and aging of Wolverine's system was, and continues to be, the primary reason for the majority of this work.

All departmental efforts were aimed at ensuring transmission system integrity continues at high levels:

New distribution substations were constructed and energized at Drenthe and Osceola. A temporary mobile substation was installed at South Airport, until the permanent substation is finished this June. Each of these substations was, or is being built, specifically to accommodate increased system growth. The Drenthe Substation, constructed on behalf of O & A Electric Cooperative, serves the new Highpointe Industrial Park near Zeeland. Kalium Chemicals,


also served by O & A Electric Cooperative, is the primary benefactor of the Osceola Substation. Cherryland Electric Cooperative member-customers, J.P. Manufacturing and Lake Pointe Village are two examples of the commercial and industrial growth which allowed Wolverine to construct the South Airport Substation. Several new distribution substations are being considered in 1990.

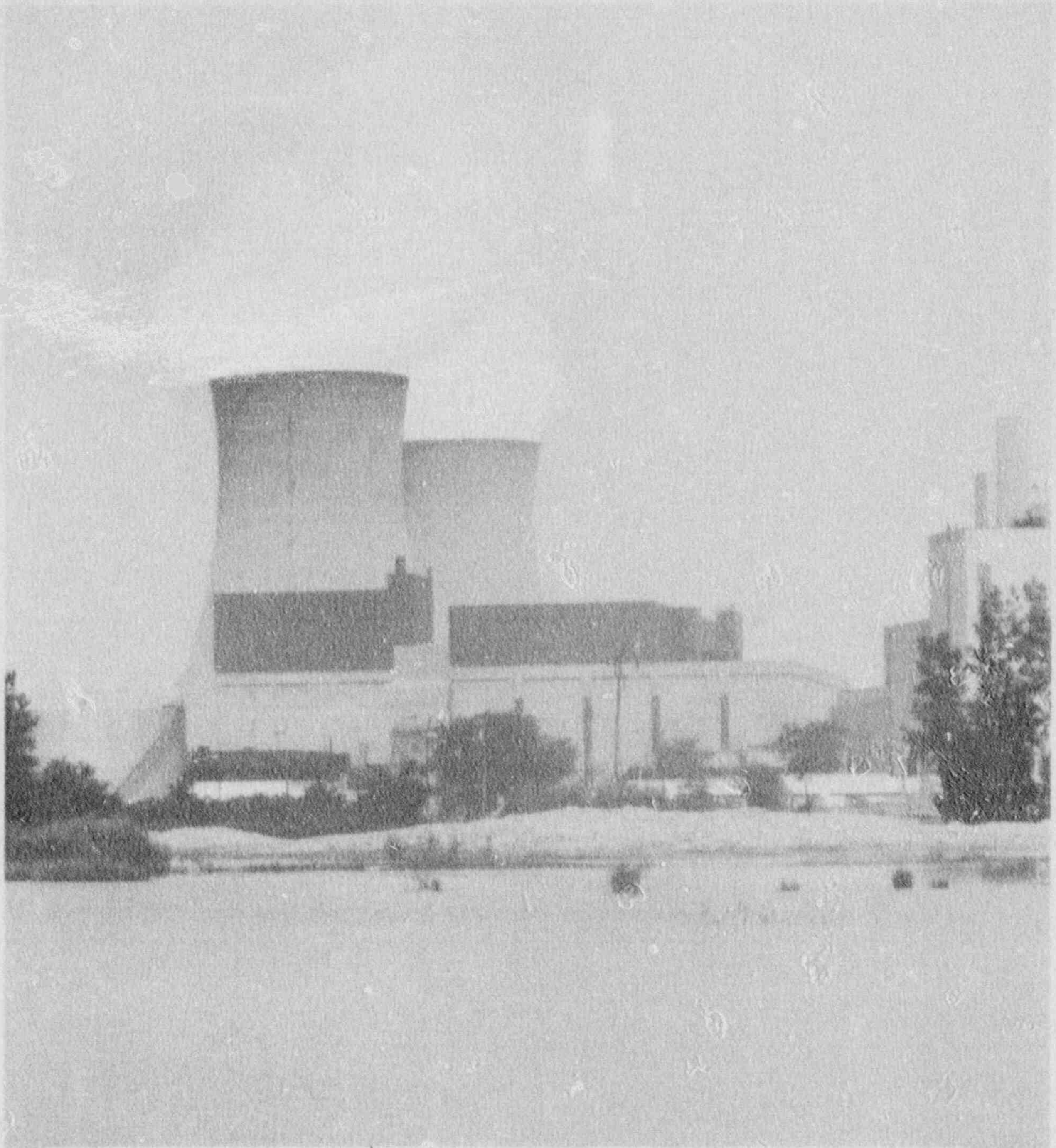
Staff, in conjunction with Greiner, Inc. and Asea Brown Boveri, completed initial engineering and site work for the new 50 MVA Bradley Interconnection substation with Consumers Power Company. Located near Wayland, this high-voltage interconnection will further improve transmission system voltage regulation and reliability for O & A Electric Cooperative and Tri-County Electric Cooperative.

Nelson Tree Service, under supervision and direction from environmental staff, continued with brush clearing and tree trimming work on several of the Cooperative's rights-of-way. Environmental staff were also actively involved in the procurement of additional properties and rights-of-way for electrical substations and transmission lines. The environmental staff is also monitoring all toxic, hazardous, restricted use chemicals and oils for proper permits and required records and procedures.

Energies were also spent on clean-up efforts at the Grand Ledge Substation this past summer as vandals pierced an electrical transformer radiator causing several hundred gallons of oil to be spilled on the substation property. Wolverine staff and line personnel and the Michigan Department of Natural Resources worked very closely together to ensure clean-up was completed in compliance with all applicable regulations.

The Apprenticeship Lineman's Training Program, supervised by Safety Director Art Bingham, continues to flourish. In excess of 20 investor-owned, municipal and electric cooperative utilities presently have linemen participating in the classroom/on-the-job training.

Implementation of a new Computer Assisted Design (CAD) drafting system is already helping to expedite several of the department's drafting and technician functions. This new CAD system allows a much greater degree of accuracy, precision and speed in all electrical design and drawing areas. A new GO TRAC 300 Flex Trac unit has also been purchased and will greatly improve pole change out procedures.



On February 21, 1990, Wolverine, the Detroit Edison Company and the Rural Electrification Administration completed the landmark agreement that allowed the Cooperative to sell its entire ownership interest in the Fermi II Nuclear Power Plant back to Detroit Edison. Examining one of the many closing documents are (left to right) Jack VanMark, Acting REA Administrator, Raymond G. Towne, Wolverine General Manager and Walter J. McCarthy Jr., Detroit Edison Chairman and Chief Executive Officer.

**1968:** Plans revealed for six-year $226 million Fermi plant.

**1969:** Construction permits sought and site preparation begins.

**1972:** Atomic Energy Commission (now the Nuclear Regulatory Commission) issues permit.

**1973:** Costs double to more than $500 million.

**1974:** Construction stops for 27 months until 1977.

**1977:** Northern Michigan Electric Cooperative and Wolverine Electric Cooperative (forerunners of Wolverine Power Supply Cooperative, Inc.) jointly purchase a 20 percent ownership in Fermi II.

**1978:** Cost estimates for Fermi II reach $1 billion.

**1979:** Three Mile Island accident results in design changes at Fermi II and other nuclear plants.

**1980:** Wolverine Electric Co-op and Northern Michigan Electric Co-op seek $181 million in additional loans from the Rural Electrification Administration (REA) to finance their share of increased Fermi II construction costs.

**1981:** Increased regulations push construction cost to $2 billion.

**1982:** Northern Michigan Electric Co-op and Wolverine Electric Co-op seek an additional $220 million from the REA for Fermi II construction.

**1983:** Construction 95 percent complete.

**1983:** Wolverine Power Supply seeks additional $170 million loan from REA to finance Fermi II construction.

**1983:** Wolverine and Edison reach agreement capping Wolverine's investment costs in Fermi II.

**January 1985:** Wolverine announces it may need a fourth REA loan to pay its interest on Fermi II investment costs.

**March 1985:** Fermi II gets license for low power testing, cost now pegged at $3.1 billion.

**June 1985:** Edison agrees to make Wolverine's interest and principal payments in return for a buy back of a portion of Wolverine's ownership in the plant.

**July 1985:** NRC grants Edison full-power license for Fermi II, giving it the highest rating possible for a nuclear plant. Edison officials predict 75 percent power will be reached by October.

**July 1985:** NRC learns of premature chain reaction and orders plant not to go beyond 5 percent power.

**September 1985:** Edison makes first interest payment for Wolverine.

**October 1985:** Fermi II shut down for routine maintenance.

**March 1986:** Edison begins making Wolverine's principal payments in exchange for buy back of a proportional amount of Wolverine's plant ownership.

**July 1986:** Cost now at $3.8 billion. NRC approves restart low power testing.

**September 1986:** NRC grants permission for Fermi II to operate at 20 percent power. Cost reaches $4.23 billion.

**October 1986:** Edison nears completion of first phase of testing at 20 percent power. Commercial operation predicted by May 1987.

**October 1986:** Wolverine agrees to sell the remainder of its ownership in Fermi II back to Edison for approximately $550 million on January 1, 1990. In the meantime, Edison will pay $264 million in interest and principal for Wolverine.

**January 1988:** Detroit Edison meets guidelines proposed by the Michigan Public Service Commission and Fermi II begins commercial operation. Detroit Edison customers begin to see their electric bill increase as a result of Fermi II's cost.

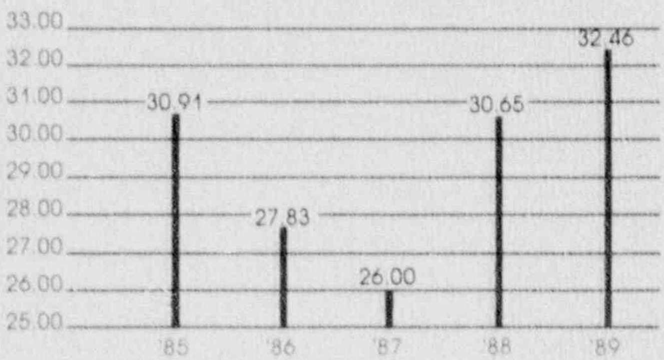
**January 15-16, 1990:** Fermi II pre-closing held at REA offices in Washington, D.C.

**February 20-21, 1990:** Fermi II sale closing is held in Washington, D.C. Detroit Edison assumes Wolverine's total ownership in Fermi II and the Cooperative is relieved of approximately $550 million in related indebtedness.

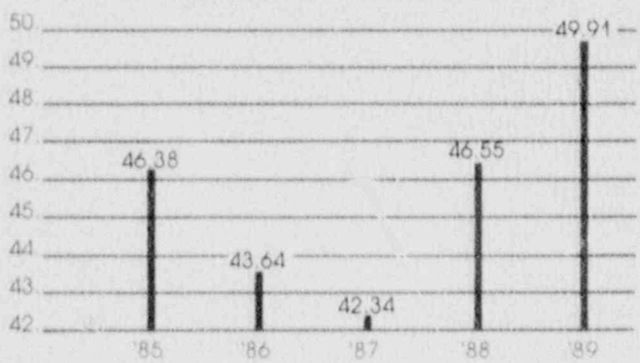
# Financial Highlights 1989

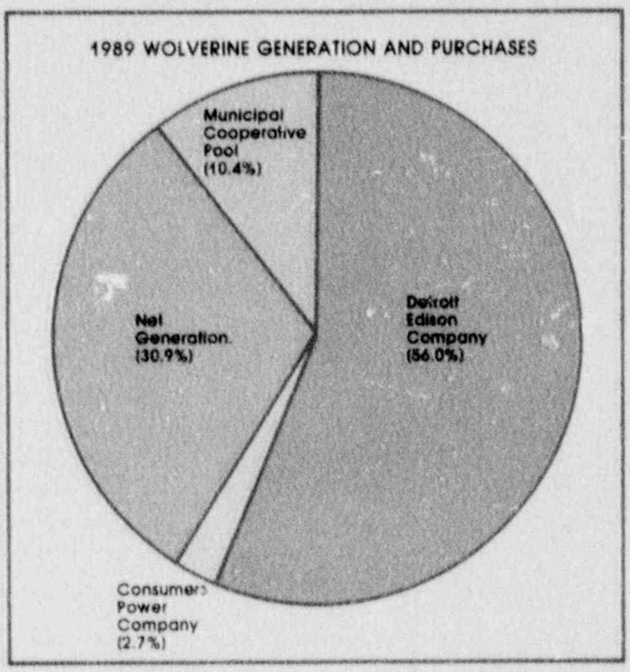
| | |
|---|---|
| Assets | 877,173,186 |
| Operating Revenues | 61,348,334 |
| Total Cost of Electric Service | 56,643,994 |
| Non-Operating Margins | 1,012,066 |
| Net Margins | 5,731,576 |
| System Peak Demand (mw) | 245 |
| Energy Sales (mwh) | 1,223,639 |
| Member Revenue per kwh Sold (mills/kwh) | 49.91 |
| Purchased Power Costs (mills/kwh) | 32.46 |
| Total Cost of Electric Service (mills/kwh sold) | 46.33 |
| Advance Plant Fuel Cost (mills/kwh) | 24.42 |
| Purchased Coal ($/ton) | 50.29 |
| Full-Time Employees | 123 |

**Purchased Power Costs (mills per kwh)**




**Wholesale Power Costs (mills per kwh)**



MICHIGAN 46, NEWAYGO
WOLVERINE POWER SUPPLY COOPERATIVE, INC.
CADILLAC, MICHIGAN

Report on Audit of Financial Statements
for the years ended December 31, 1989 and 1988

CONTENTS

Coopers
&Lybrand

certified public accountants

## Report of Independent Accountants

To the Board of Directors and Members of
Wolverine Power Supply Cooperative, Inc.:

We have audited the accompanying balance sheets of Wolverine Power Supply Cooperative, Inc. as of December 31, 1989 and 1988, and the related statements of revenue, patronage capital and other equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wolverine Power Supply Cooperative, Inc. as of December 31, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As more fully described in Note D to the financial statements, construction delays and cost overruns at the Fermi II Nuclear Power Plant (Fermi II), in which the Cooperative had an undivided ownership interest until February 21, 1990, have adversely affected the Cooperative's financial condition. On December 14, 1987, the Cooperative entered into an agreement with The Detroit Edison Company (Detroit Edison) to sell its remaining ownership interest in Fermi II to Detroit Edison on or about February 21, 1990. Under the agreement, the selling price was equal to the Cooperative's Fermi II indebtedness less $200 million. Detroit Edison assumed responsibility for the Cooperative's Fermi II debt with the Federal Financing Bank (FFB), less $200 million for which the Cooperative will remain liable. With respect to the remaining $200 million indebtedness not assumed by Detroit Edison, the Cooperative and the Rural Electrification Administration (guarantor of the FFB debt) have entered into a Debt Restructuring Agreement which will require the Cooperative to make annual debt service payments of $8,148,000, plus additional amounts based on load growth. On June 21, 1988, the Cooperative received approval from the Michigan Public Service Commission to implement rate increases necessary to meet its future restructured debt obligations.

Coopers & Lybrand

South Bend, Indiana
February 16, 1990, except for Note D,
as to which the date is February 21, 1990

MICHIGAN 46, NEWAYGO

WOLVERINE POWER SUPPLY COOPERATIVE, INC.

BALANCE SHEETS, as of December 31, 1989 and 1988

| ASSETS | 1989 | 1988 |
|---|---|---|
| Electric plant, at cost | | |
| (Notes A, B, G and I): | | |
| In service | $ 117,798,308 | $ 115,746,264 |
| Construction work in progress | 3,282,882 | 2,160,566 |
| | 121,081,190 | 117,906,830 |
| Less, Accumulated depreciation and amortization | 47,739,544 | 44,278,291 |
| Net electric plant | 73,341,646 | 73,628,539 |
| Investment in Fermi II, at net realizable value (Notes A, D and G) | 755,487,250 | 766,415,653 |
| Other assets and investments: | | |
| Investments in associated organizations (Note C) | 3,015,954 | 3,598,848 |
| Note receivable | 237,726 | 235,558 |
| Total other assets and investments | 3,253,680 | 3,834,406 |
| Current assets: | | |
| Cash and cash investments - General funds | 8,090,833 | 7,249,301 |
| Cash - Construction funds | 56,714 | 114,807 |
| Rate increase escrow fund (Note D) | 4,678,034 | 715,720 |
| Accounts receivable | 7,298,720 | 6,397,416 |
| Receivable from Detroit Edison (Note D) | 16,794,828 | 19,211,742 |
| Materials and supplies (Note A) | 7,486,509 | 7,807,448 |
| Other current and accrued assets | 395,979 | 534,624 |
| Total current assets | 44,801,617 | 42,031,058 |
| Deferred charges | 288,993 | — |
| Total assets | $ 877,173,186 | $ 885,909,656 |

The accompanying notes are a part of the financial statements.

| EQUITIES AND LIABILITIES | 1989 | 1988 |
|---|---|---|
| Equities: | | |
| Memberships | $ 1,400 | $ 1,400 |
| Patronage capital | 20,046,115 | 15,341,774 |
| Other equities | 3,920,042 | 2,892,807 |
| Total equities | 23,967,557 | 18,235,981 |
| Long-term debt (Notes D and G): | | |
| Fermi II | 749,946,876 | 763,881,701 |
| Other | 67,072,477 | 69,708,707 |
| Total long-term debt | 817,019,353 | 833,590,408 |
| Commitments and contingencies (Notes D and J) | | |
| Current liabilities: | | |
| Current maturities of long-term debt (Note G): | | |
| Fermi II | 8,100,000 | 7,000,000 |
| Other | 3,288,200 | 2,529,600 |
| Accounts payable - purchased power | 5,205,990 | 4,396,541 |
| Accounts payable - other | 939,918 | 578,988 |
| Refunds payable to members (Note F) | 366,868 | 975,159 |
| Taxes and wages payable | 1,820,023 | 1,982,633 |
| Accrued vacation and sick leave | 659,675 | 611,945 |
| Accrued interest (Note D) | 15,805,602 | 16,008,401 |
| Total current liabilities | 36,186,276 | 34,083,267 |
| Total equities and liabilities | $ 877,173,186 | $ 885,909,656 |

## STATEMENTS OF REVENUE
for the years ended December 31, 1989 and 1988

| | 1989 Amount | 1989 Percent of Operating Revenues |
|---|---|---|
| Operating revenues | $ 61,348,334 | 100.0% |
| Operating expenses: | | |
| Purchased power | 29,460,053 | 48.0 |
| Power generation: | | |
| Operation | 10,999,918 | 17.9 |
| Maintenance | 1,416,007 | 2.3 |
| Transmission expense: | | |
| Operation | 1,245,997 | 2.0 |
| Maintenance | 650,604 | 1.1 |
| Distribution expense: | | |
| Operation | 224,718 | .4 |
| Maintenance | 206,942 | .3 |
| Administrative and general: | | |
| Operation | 2,439,661 | 4.0 |
| Maintenance | 170,197 | .3 |
| Depreciation and amortization (Note B) | 3,453,691 | 5.6 |
| Taxes | 2,295,005 | 3.8 |
| Total operating expenses | 52,562,793 | 85.7 |
| Operating margins before fixed charges | 8,785,541 | 14.3 |
| Fixed charges: | | |
| Interest on debt (Note A) | 4,081,200 | 6.6 |
| Operating margins after fixed charges | 4,704,341 | 7.7 |
| Capital credits | 15,169 | — |
| Net operating margins | 4,719,510 | 7.7 |
| Non-operating margins: | | |
| Interest income | 1,012,066 | 1.6 |
| Net margins from continuing operations | 5,731,576 | 9.3 |
| Income from discontinued Fermi II operations (Note D) | — | — |
| Net margins | $ 5,731,576 | 9.3% |

The accompanying notes are a part of the financial statements.

| 1988 | | |
|---|---|---|
| Amount | Percent of Operating Revenues | Increase (Decrease) |
| $ 55,841,118 | 100.0% | $ 5,507,216 |
| 29,041,980 | 52.0 | 418,073 |
| 9,611,071 | 17.2 | 1,388,847 |
| 1,470,676 | 2.6 | (54,669) |
| 1,187,324 | 2.1 | 58,673 |
| 513,990 | .9 | 136,614 |
| 236,499 | .5 | (11,781) |
| 155,945 | .3 | 50,997 |
| 2,245,614 | 4.0 | 194,047 |
| 163,277 | .3 | 6,920 |
| 3,419,336 | 6.1 | 34,355 |
| 2,221,948 | 4.0 | 73,057 |
| 50,267,660 | 90.0 | 2,295,133 |
| 5,573,458 | 10.0 | 3,212,083 |
| 4,115,934 | 7.4 | (34,734) |
| 1,457,524 | 2.6 | 3,246,817 |
| 15,821 | — | (652) |
| 1,473,345 | 2.6 | 3,246,165 |
| 664,541 | 1.2 | 347,525 |
| 2,137,886 | 3.8 | 3,593,690 |
| — | — | — |
| $ 2,137,886 | 3.8% | $ 3,593,690 |

## STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
for the years ended December 31, 1989 and 1988

PATRONAGE CAPITAL

| | 1989 | 1988 |
|---|---|---|
| Balance, beginning of year | $ 15,341,774 | $ 13,884,250 |
| Operating margins - assignable | 4,704,341 | 1,457,524 |
| Balance, end of year | $ 20,046,115 | $ 15,341,774 |
| Assignable | $ 4,704,341 | $ 1,457,524 |
| Assigned to date | 15,341,774 | 13,884,250 |
| Total | $ 20,046,115 | $ 15,341,774 |

OTHER EQUITIES

| | 1989 | 1988 |
|---|---|---|
| Balance, beginning of year | $ 2,892,807 | $ 2,212,445 |
| Non-operating margins | 1,012,066 | 664,541 |
| Capital credits | 15,169 | 15,821 |
| Balance, end of year | $ 3,920,042 | $ 2,892,807 |

The accompanying notes are a part of the financial statements.

# STATEMENTS OF CASH FLOWS
## for the years ended December 31, 1989 and 1988

| | 1989 | 1988 |
|---|---|---|
| Cash flows provided by (used in) operating activities: | | |
| Net margins from continuing operations | $ 5,731,576 | $ 2,137,886 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,614,361 | 3,529,526 |
| Capital credits assigned from CFC | (15,169) | (15,821) |
| Other deferred charges | (288,993) | 26,687 |
| (Increase) decrease in current assets: | | |
| Rate increase escrow fund | (3,962,314) | (715,720) |
| Accounts receivable | (901,304) | (889,587) |
| Receivable from Detroit Edison | 2,416,914 | (19,211,742) |
| Materials and supplies | 320,939 | (268,272) |
| Other current and accrued assets | 132,740 | 226,342 |
| Increase (decrease) in current liabilities: | | |
| Accounts payable - purchased power | 809,449 | 620,184 |
| Accounts payable - other | 360,930 | (469,363) |
| Refunds payable to members | (608,291) | 81,866 |
| Taxes and wages payable | (162,610) | 169,779 |
| Accrued vacation and sick leave | 47,730 | 42,480 |
| Accrued interest | (202,799) | 15,838,776 |
| Net cash provided by continuing operating activities | 7,293,159 | 1,103,021 |
| Net cash provided by (used in) discontinued operating activities | — | — |
| Net cash provided by operating activities | 7,293,159 | 1,103,021 |
| Cash flows provided by (used in) investing activities: | | |
| Proceeds from sale of investment in Fermi II | — | 4,322,464 |
| Capital credits refunded from CFC | 598,063 | 721,516 |
| Payments received on note for sale of office building | 3,737 | 8,542 |
| Purchase of other investments | — | (1,000) |
| Payments for interest and other costs capitalized relating to Fermi II | (1,906,422) | (2,100,892) |
| Purchase of electric plant | (3,327,468) | (2,607,967) |
| Net cash provided by (used in) investing activities | (4,632,090) | 342,663 |
| Cash flows provided by (used in) financing activities: | | |
| Advances from REA | 630,000 | 1,155,000 |
| Payments of long-term debt | (2,507,630) | (1,141,675) |
| Cash provided by (used in) financing activities | (1,877,630) | 13,325 |
| Increase in cash and cash investments | 783,439 | 1,459,009 |
| Cash and cash investments, beginning of year | 7,364,108 | 5,905,099 |
| Cash and cash investments, end of year | $ 8,147,547 | $ 7,364,108 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the years ended December 31, 1989 and 1988 for: | | |
| Interest, net of interest capitalized | $ 2,276,351 | $ 3,621,894 |

The accompanying notes are a part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 1989 and 1988

NOTE A — ACCOUNTING POLICIES

The following is a summary of the accounting policies adopted by Wolverine Power Supply Cooperative, Inc. (the "Cooperative") which have a significant effect on the financial statements.

Inventory Valuation - Materials and supplies are stated at average unit cost, which is not in excess of market.

Fermi II Costs - The Cooperative has capitalized all costs incurred in connection with Fermi II, including interest costs on Fermi II related debt (see Note D). Total interest costs of $1,775,944 and $5,211,745 were capitalized during the years ended December 31, 1989 and 1988, respectively.

Fermi II is under an agreement for sale and is presented separately in the balance sheets. The carrying amount at December 31, 1989 and 1988 includes approximately $200 million of estimated loss on disposal, which is being deferred in accordance with Statement of Financial Accounting Standards No. 90 (see Note D).

Federal Income Taxes - The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, no provision for federal income taxes has been made in these financial statements.

NOTE B — ELECTRIC PLANT AND DEPRECIATION

Electric plant in service consisted of the following at December 31, 1989 and 1988:

| | 1989 | 1988 |
|---|---|---|
| Intangible plant | $ 628,005 | $ 628,005 |
| Production plant | 38,626,190 | 38,594,088 |
| Transmission plant | 55,119,041 | 54,784,332 |
| Distribution plant | 14,573,956 | 14,442,594 |
| General plant | 8,851,116 | 7,297,245 |
| Total | $ 117,798,308 | $ 115,746,264 |

Provision has been made for depreciation of production, transmission and distribution plants at straight-line composite annual rates of 3.10%, 2.75% and 2.88%, respectively.

General plant annual depreciation rates have been applied on a straight-line basis and are as follows:

| | |
|---|---|
| Structures and improvements | 2% |
| Transportation equipment | 14-17% |
| Power operated equipment | 10-11% |
| Communications equipment | 8% |
| Office furniture and fixtures | 6-10% |
| Tools and shop equipment | 6% |
| Laboratory equipment | 6% |
| Other general plant | 5-10% |

Depreciation and amortization of electric plant in service was charged as follows for the years ended December 31, 1989 and 1988:

| | 1989 | 1988 |
|---|---|---|
| Charged to: | | |
| Depreciation and amortization | $ 3,453,691 | $ 3,419,336 |
| Fuel handling expense | 12,208 | 12,208 |
| Clearing accounts | 148,462 | 97,982 |
| Total | $ 3,614,361 | $ 3,529,526 |

## NOTES TO FINANCIAL STATEMENTS, Continued
## for the years ended December 31, 1989 and 1988

NOTE C: INVESTMENTS IN ASSOCIATED ORGANIZATIONS:

Investments in associated organizations consisted of the following at December 31, 1989 and 1988:

| | 1989 | 1988 |
|---|---|---|
| National Rural Utilities Cooperative Finance Corporation: | | |
| Capital term certificates | $ 2,880,695 | $ 2,880,695 |
| Patronage capital credits | 120,598 | 703,492 |
| Other | 14,661 | 14,661 |
| Total | $ 3,015,954 | $ 3,598,848 |

NOTE D: FERMI II:

Fermi II costs consisted of the following at December 31, 1989 and 1988:

| | 1989 | 1988 |
|---|---|---|
| Plant in service | $ 733,898,424 | $ 733,898,424 |
| Nuclear fuel | 37,930,694 | 38,234,885 |
| Escrow funds | 16,213,743 | 7,037,267 |
| Materials and supplies | 2,205,896 | 2,205,896 |
| Deferred operating expenses and depreciation | 18,046,592 | 11,073,864 |
| Total | 808,294,349 | 792,450,336 |
| Less: Accumulated depreciation and amortization | 52,807,099 | 26,034,683 |
| Total, net | $ 755,487,250 | $ 766,415,653 |

By a Participation Agreement dated February 8, 1977, the Cooperative and The Detroit Edison Company ("Detroit Edison") were joint owners, as tenants in common, of a 1,093 megawatt nuclear generating unit known as Enrico Fermi Nuclear Power Plant Unit No. II ("Fermi II"), located in Frenchtown Township, Monroe County, Michigan. Under the Participation Agreement, the Cooperative agreed to purchase a twenty percent (20%) undivided interest in Fermi II and receive a twenty percent (20%) entitlement to the plant's capacity and net energy output.

When the Cooperative entered into the Participation Agreement in 1977, it was anticipated that Fermi II would be completed in 1980 at a cost of less than $1 billion. Fermi II's cost ultimately rose to more than $4.5 billion. The plant achieved commercial operation on January 23, 1988.

The construction delays and cost overruns have adversely affected the Cooperative's financial condition and caused the Cooperative and Detroit Edison to enter into a number of amendments to the initial Participation Agreement. The most relevant of these amendments is the Seventh Amendment dated December 14, 1987, which calls for the sale of the Cooperative's entire Fermi II ownership interest as originally outlined in a Term Sheet signed by the Cooperative, Detroit Edison and the Rural Electrification Administration (REA) on August 7, 1987.

NOTE D: FERMI II, Continued

The terms of the Seventh Amendment, which have been formally approved by the Cooperative and its member distribution cooperatives, Detroit Edison, and REA include the following:

Detroit Edison provided the Cooperative with funds necessary to meet its quarterly Fermi II related principal and interest obligations to FFB through December 31, 1989. Total principal and interest payments made to the FFB by Detroit Edison for the years ended December 31, 1989 and 1988 were $73,133,201 and $50,972,407, respectively. The receivable from Detroit Edison and the majority of the accrued interest payable at December 31, 1989 and 1988 is a result of the fourth quarter 1989 and 1988 payments not being received from Detroit Edison until January 2, 1990 and January 3, 1989, respectively.

In June 1989 the Cooperative converted, as requested by Detroit Edison, its Fermi II related short and intermediate term FFB debt into long-term debt. The Cooperative paid $63,094 of prepayment penalties associated with the debt conversion.

The Cooperative has entered into a Power Supply Agreement with Detroit Edison requiring the purchase of major portions of the Cooperative's capacity and energy requirements, on a firm and interruptible basis, from Detroit Edison through December 31, 2025.

The Cooperative and Detroit Edison have obtained all regulatory approvals necessary to implement the Seventh Amendment.

On February 21, 1990, Detroit Edison purchased the Cooperative's remaining Fermi II ownership interest, at which time title passed to Detroit Edison. The amount which Detroit Edison paid the Cooperative was equal to the Cooperative's total unamortized Fermi II debt on January 2, 1990, less $200 million, and all additional Fermi II related costs not financed. The selling price approximated $558 million which represents Fermi II debt which Detroit Edison will assume responsibility for payment to the Federal Financing Bank.

With respect to the Cooperative's remaining $200 million in Fermi II indebtedness not being assumed by Detroit Edison, the Cooperative and REA have entered into a Debt Restructuring Agreement which is incorporated into the Seventh Amendment. On April 5, 1988, the Cooperative received approval from the Michigan Public Service Commission (the "Commission") to enter into said Debt Restructuring Agreement with REA.

Consistent with the Debt Restructuring Agreement, this remaining $200 million of debt will be separated into two notes: a $100 million Fixed Obligation Note and a $100 million Load Growth Note. Each note shall bear interest at a rate of 7.5% per annum commencing on the date of sale.

On June 21, 1988, the Cooperative received approval from the Commission, per Order No. U-8994, to implement rate increases necessary to meet the $100 million Fixed Obligation Note. It was determined that a $100 million debt repayable over 36 years at 7.5% interest per year resulted in an annual debt service payment of $8,148,000. The Cooperative and REA then determined that the annual required payments of $8,148,000 could be met through the equivalent of a six mills per kWh rate increase effective January 1, 1990.

The rate increase is being accomplished in three steps — one mill per kWh on June 1, 1988, and an additional two and one-half mills per kWh on January 1, 1989 and January 1, 1990. This three-step rate increase reflects the Cooperative's desire to avoid sudden and disruptive rate increases to its member distribution cooperatives.

With respect to the $100 million Load Growth Note, payments thereon are based upon the Cooperative's load growth as defined in the Debt Restructuring Agreement. The formula for repayment of this $100 million Load Growth Note is based upon a 1.1 growth multiplier derived by calculating the average load growth of the three preceeding years. In any instance, the Cooperative's annual payment pursuant to the $100 million Load Growth Note will not be less than the annual payment for the prior year. In addition, portions of the $100 million Load Growth Note which are not repaid by December 31, 2025 will be discharged by REA.

NOTE D: FERMI II, Concluded

Funds generated from the rate increases have been placed in a Rate Increase Escrow Fund, $63,094 of which was used to pay debt conversion penalties in June 1989. The remaining funds in the Rate Increase Escrow Fund will be used to reduce non-Fermi II related debt.

The Cooperative has received funds from Detroit Edison for the decommissioning of Fermi II and nuclear fuel expense, and the decommissioning amount was deposited into a Decommissioning Trust Fund. The difference between the nuclear fuel expense and the principal payment of debt associated with the nuclear fuel in the reactor was deposited into the Nuclear Fuel Fund Escrow account. Upon completion of the sale to Detroit Edison, the Decommissioning Trust Fund was assigned to Detroit Edison and the Nuclear Fund Escrow account was used to reduce FFB debt related to Fermi II.

Operating results of Fermi II for 1989 and 1988 are reported separately as discontinued operations in the statements of revenue and are summarized below.

| | 1989 | 1988 |
|---|---|---|
| Revenues | $ 102,071,495 | $ 88,829,022 |
| Operating expenses, excluding depreciation | 97,142,204 | 81,063,689 |
| Depreciation | 20,894,748 | 17,703,697 |
| Total expenses | 118,036,952 | 98,767,386 |
| Less, deferred expenses | 15,965,457 | 9,938,364 |
| Net expenses | 102,071,495 | 88,829,022 |
| Income from discontinued operations | $ — | $ — |

Depreciation has been provided since the date of commercial operations on a straight-line basis over 38 years. Depreciation in excess of principal paid by Detroit Edison on the Fermi II related debt has been deferred.

The transaction is being accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" and SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended by SFAS No. 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs," whereby the remaining Fermi II related deferred charges after the sale to Detroit Edison of approximately $200 million will be amortized to expense over the term of the Debt Restructuring Agreement in amounts approximating principal repayments on the $200 million debt.

NOTE E: LINE OF CREDIT

The Cooperative has available an unsecured line-of-credit with the National Rural Utilities Cooperative Finance Corporation (CFC), whereby advances of $12,000,000 for general operations are available until April 1990 subject to CFC approval for advances requested. Interest on advances is determined monthly by CFC.

NOTE F: REFUNDS PAYABLE TO MEMBERS

Refunds payable to members consist of two separate refunds. The first refund is determined under a Michigan statute, 1982 PA304, whereby estimated power cost for a twelve-month period is billed by the Cooperative to its member-distribution cooperatives each month. On a monthly basis, a reconciliation of actual power cost to estimated power cost determines the under or over-collection with the appropriate amount being collected from or refunded to the member-distribution cooperatives. Total over collections in 1989 and 1988 were $249,471 and $1,917,514, respectively. At December 31, 1989 the Cooperative had under-collected $78,672, which will be realized through subsequent billings. At December 31, 1988, the Cooperative had over-collected $569,849, which was refunded to its member-distribution cooperatives.

The second is a 1.35 TIER Refund approved by the Board of Directors in 1989 and 1988. The refund is the difference between 35% of interest on long-term debt and net margins before the TIER Refund. The refund is allocated to the members based on each member's percentage of power purchased to total power purchased by members. The amount of the 1.35 TIER Refund payable at December 31, 1989 and 1988 is $445,540 and $405,310, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued,
for the years ended 1989 and 1988

NOTE G: LONG-TERM DEBT

Substantially all assets are pledged as collateral for long-term debt. Long-term debt consisted of the following at December 31, 1989 and 1988:

| | 1989 | | 1988 | |
|---|---|---|---|---|
| | Fermi II | Other | Fermi II | Other |
| CFC | $ — | $ 1,211,770 | $ — | $ 1,217,344 |
| REA | — | 48,663,357 | — | 49,946,965 |
| FFB | 758,046,876 | 20,485,550 | 770,881,701 | 21,073,998 |
| Total | 758,046,876 | 70,360,677 | 770,881,701 | 72,238,307 |
| Less, Current maturities | 8,100,000 | 3,288,200 | 7,000,000 | 2,529,600 |
| Long-term debt | $ 749,946,876 | $ 67,072,477 | $ 763,881,701 | $ 69,708,707 |

National Rural Utilities Cooperative Finance Corporation (CFC) note bears interest at 10.5% per annum. The note is payable in quarterly installments to the year 2019.

Rural Electrification Administration (REA) mortgage notes bear interest at 2% and 5% per annum. The notes are payable in quarterly installments to the year 2018.

Federal Financing Bank (FFB) notes, guaranteed by REA bear interest at 7.205% - 10.645% per annum at December 31, 1989. The rate of interest is redetermined by FFB at each change of maturity date.

Advances made under FFB notes issued prior to October 1, 1983, have a seven year deferment before the repayment of principal is required. The final principal payment of all loans is established when the notes are issued. At the time of each advance, the Cooperative can select an initial maturity date for that advance of not less than two years or more than seven years. Extensions of the initial maturity date are available, however not to be less than two years in length. The total period of the initial maturity date and extensions cannot exceed a maximum of seven years. After the maximum seven year maturity, the advances are to be repaid according to FFB guidelines.

Maturity dates of all Fermi II related advances issued after October 1, 1983 were determined by REA based on the project's estimated commercial operation date. All advances under these notes are to be repaid according to FFB guidelines.

All notes issued prior to October 1, 1983 are 34 year mortgage notes and all notes issued after October 1, 1983 are 30 year mortgage notes.

Unadvanced loan funds of $3,545,000 are available to the Cooperative on loan commitments from FFB at December 31, 1989.

Annual maturities of long-term debt for those notes being repaid, excluding FFB notes in deferment at December 31, 1989, in accordance with the Debt Restructuring Agreement, for the next five years are as follows: 1990 - $11,388,200; 1991 - $11,406,900; 1992 - $11,427,600; 1993 - $11,455,400 and 1994 - $11,459,300.

## NOTES TO FINANCIAL STATEMENTS, Concluded
for the years ended December 31, 1989 and 1988

NOTE H: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a retirement and security program and savings plan for employees of the National Rural Electric Cooperative Association (NRECA) and its member systems. The retirement and security program provides benefits to employees based on years of service and the highest five years of compensation for the last ten years of employment. Contributions to the retirement and security program, which are determined by the NRECA, were $-0- in 1989 and 1988. There were no contributions due to the NRECA declaring a moratorium on contributions as a result of the retirement and security program being overfunded. Contributions to the savings plan, which are based on a percentage of employees' compensation, were $147,093 in 1989 and $137,804 in 1988.

NOTE I: COMMITMENTS AND CONTINGENCIES

The Cooperative leases certain warehouses and equipment. Minimum annual rental commitments under these operating leases are as follows: 1990 - $16,550; 1991 - $7,820; 1992 - $4,690; 1993 - $1,120; 1994 - $1,120 and thereafter - $2,240.

Rental expense under all operating leases aggregated $62,471 and $63,268 for the years ended December 31, 1989 and 1988, respectively.

The Cooperative is a defendant in various legal proceedings arising in the normal course of business. In the opinion of management, based on the advice of legal counsel, the ultimate resolution of these proceedings will not have a material effect on the Cooperative's results of operations or financial position.

NOTES






Wolverine Power
SUPPLY COOPERATIVE

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