# Kentucky 49
# Clark Energy Cooperative
# and Subsidiary
# Winchester, Kentucky

Audited Financial Statements
April 30, 2011 and 2010

ALAN ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT
1032 Chetford Drive
Lexington, Kentucky 40509

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**Lexington, Kentucky 40509**

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MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS
• TENNESSEE STATE BOARD OF ACCOUNTANCY


**Independent Auditor's Report**

To the Board of Directors
Clark Energy Cooperative

I have audited the accompanying consolidated balance sheets of Clark Energy Cooperative and Subsidiary, as of April 30, 2011 and 2010, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Clark Energy Cooperative's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clark Energy Cooperative and Subsidiary as of April 30, 2011 and 2010, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 14, 2011, on my consideration of Clark Energy Cooperative's internal control over financial reporting and my 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 my 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 my audits.

Alan M. Zumstein, CPA
June 14, 2011

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To the Board of Directors
Clark Energy Cooperative

I have audited the consolidated financial statements of Clark Energy Cooperative and Subsidiary as of and for the years ended April 30, 2011 and 2010, and have issued my report thereon dated June 14, 2011. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audits, I considered the Cooperative's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clark's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein, CPA
June 14, 2011

Clark Energy Cooperative and Subsidiary

Consolidated Balance Sheets, April 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Assets | | |
| Utility Plant, net | $ 85,502,818 | $ 84,866,861 |
| Investments and Other Assets: | | |
| Associated organizations and others | 12,223,417 | 10,859,653 |
| Goodwill | 258,898 | 258,898 |
| | 12,482,315 | 11,118,551 |
| Current Assets: | | |
| Cash and cash equivalents | 999,576 | 936,452 |
| Accounts receivable, less allowance for uncollectible accounts | 2,085,119 | 1,785,962 |
| Material and supplies | 482,307 | 369,662 |
| Prepayments | 349,689 | 234,294 |
| | 3,916,691 | 3,326,370 |
| Total | $ 101,901,824 | $ 99,311,782 |
| Members' Equities and Liabilities | | |
| Members' Equities: | | |
| Patronage capital and retained earnings | $ 37,757,830 | $ 33,719,049 |
| Accumulated other comprehensive income | (239,012) | (253,220) |
| Other equities and minority interest | 918,412 | 879,889 |
| | 38,437,230 | 34,345,718 |
| Long Term Debt | 56,330,027 | 57,588,289 |
| Current Liabilities: | | |
| Accounts payable | 442,383 | 536,770 |
| Short term borrowings | - | 200,000 |
| Current portion of long term debt | 2,246,000 | 2,065,000 |
| Consumer deposits | 754,864 | 763,246 |
| Other current and accrued liabilities | 1,510,908 | 1,684,367 |
| | 4,954,155 | 5,249,383 |
| Accumulated Postretirement Benefits | 1,498,757 | 1,413,384 |
| Accrued supplemental retirement | 346,754 | 371,034 |
| Consumer advances for construction | 334,901 | 343,974 |
| Total | $ 101,901,824 | $ 99,311,782 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Revenue and Patronage Capital

for the years ended April 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Operating Revenues | $ 50,016,641 | $ 45,526,548 |
| Operating Expenses: | | |
| Cost of purchases | 32,293,883 | 31,233,556 |
| Distribution - operations and maintenance | 5,104,371 | 5,018,086 |
| Consumer accounts | 1,723,532 | 1,560,914 |
| Customer service and information | 236,142 | 238,649 |
| Administrative and general | 1,539,699 | 1,684,154 |
| Depreciation, excluding $281,672 in 2011 and $289,938 in 2010 charged to clearing accounts | 4,208,288 | 3,176,163 |
| Taxes | 56,212 | 82,823 |
| | 45,162,127 | 42,994,345 |
| Operating Margins before Interest Charges | 4,854,514 | 2,532,203 |
| Interest Charges: | | |
| Interest on long-term debt | 2,245,142 | 2,512,177 |
| Other interest | 80,853 | 150,753 |
| | 2,325,995 | 2,662,930 |
| Operating Margins after Interest Charges | 2,528,519 | (130,727) |
| Nonoperating Margins | | |
| Interest income | 47,134 | 44,260 |
| Subsidiary and others | 57,611 | 65,484 |
| | 104,745 | 109,744 |
| Patronage Capital assigned, associated organizations | 1,396,387 | 1,421,535 |
| Net Margins | 4,029,651 | 1,400,552 |
| Patronage Capital - beginning of year | 33,719,049 | 32,318,497 |
| Transfer to minority interest and others | 9,130 | - |
| Patronage Capital - end of year | $ 37,757,830 | $ 33,719,049 |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

for the years ended April 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net margins | $ 4,029,651 | $ 1,400,552 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation: | | |
| Charged to expense | 4,208,288 | 3,176,163 |
| Charged to clearing accounts | 281,672 | 289,938 |
| Patronage capital credits assigned | (1,396,387) | (1,421,535) |
| Change in assets and liabilities: | | |
| Receivables | (299,157) | 1,268,004 |
| Material and supplies | (112,645) | 148,988 |
| Prepayments | (115,395) | 206 |
| Payables | (94,387) | 211,744 |
| Consumer deposits and advances | (17,455) | (98,444) |
| Accumulated postretirement benefits | 99,581 | 89,293 |
| Accrued supplemental retirement | (24,280) | (22,736) |
| Accrued expenses | (173,459) | (45,373) |
| | 6,386,027 | 4,996,800 |
| **Cash Flows from Investing Activities:** | | |
| Plant additions | (4,748,270) | (5,106,858) |
| Plant removal costs | (408,631) | (497,069) |
| Salvage recovered from plant retirements | 30,984 | 40,036 |
| Other investments, net | 23,492 | (53,964) |
| | (5,102,425) | (5,617,855) |
| **Cash Flows from Financing Activities:** | | |
| Capital and other equities | 56,784 | 79,011 |
| Additional long-term borrowings | 1,000,000 | 5,000,000 |
| Payments on long-term debt | (2,077,262) | (1,809,917) |
| Short term borrowings (repayments) | (200,000) | (2,500,000) |
| | (1,220,478) | 769,094 |
| Net increase in cash | 63,124 | 148,039 |
| Cash and cash equivalents - beginning of period | 936,452 | 788,413 |
| Cash and cash equivalents - end of period | $ 999,576 | $ 936,452 |
| **Supplemental cash flows information:** | | |
| Interest paid on long-term debt | $ 2,257,312 | $ 2,534,955 |
| Income taxes paid | $ - | $ 32,500 |

The accompanying notes are an integral part of these statements.

**Note 1. Summary of Significant Accounting Policies**

Clark Energy Cooperative ("Clark Energy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

**Principles of Consolidation** The accompanying consolidated financial statements include the accounts of Clark Energy Cooperative, Clark Energy Service Corporation ("Service Corporation") and Clark Energy Propane Plus, LLC ("Propane Plus"). Clark Energy owns 75% and East Kentucky Power Cooperative ("East Kentucky") owns 25% of Service Corporation's outstanding stock. Service Corporation owns 100% of the outstanding stock of Propane Plus. All significant inter company accounts and transactions have been eliminated. Clark Energy uses an audit date of April 30. The Subsidiary operates on a fiscal year ending December 31. The consolidated financial statements reflect the year end of April 30 for Clark Energy and December 31 for the Subsidiary, respectively.

**Utility Plant** Clark Energy's electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

Propane Plus' fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, and trucks used in the delivery of propane.

Utility plant consists of:

| | 2011 | 2010 |
|---|---|---|
| Electric Plant: | | |
| Distribution plant | $95,021,010 | $92,548,114 |
| General plant | 9,284,335 | 9,346,945 |
| | 104,305,345 | 101,895,059 |
| Plant under construction | 783,271 | 383,290 |
| | 105,088,616 | 102,278,349 |
| Less accumulated depreciation | 21,161,802 | 18,704,067 |
| Net electric plant | 83,926,814 | 83,574,282 |
| | | |
| Propane Plant: | | |
| Propane tanks on customers' premises | 1,111,680 | 1,045,872 |
| Bulk tanks | 493,678 | 424,843 |
| Delivery and other trucks | 605,736 | 477,182 |
| Buildings and land | 184,220 | 49,500 |
| Office and other equipment | 177,842 | 162,306 |
| | 2,573,156 | 2,159,703 |
| Less accumulated depreciation | 997,152 | 867,124 |
| Net propane plant | 1,576,004 | 1,292,579 |
| Net utility plant | $85,502,818 | $84,866,861 |

**Note 1. Summary of Significant Accounting Policies**, continued

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

**Depreciation** Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.44% to 10.0%, with a composite rate of 4.1% for distribution plant. General plant rates range from 2.5% to 20%. Propane Plus's depreciation is computed using the straight-line method over the useful lives of its assets.

**Cash Equivalents** Clark Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

**Off Balance Sheet Risk** Clark Energy maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

**Fair Value Measurements** The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices of similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of Clark Energy's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets are not considered financial instruments because they represent activities specifically related to Clark Energy. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Clark Energy may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2011 and 2010.

**Note 1. Summary of Significant Accounting Policies**, continued

**Revenue** Clark Energy records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Clark Energy's sales are concentrated in a eleven (11) county area of central Kentucky. Consumers must pay their bill within 20 days of billing, at which time a disconnect notice is sent with payment to be within 10 days. If not paid, then consumers are subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $59,829 at 2011 and $49,374 at 2010. There were no individual account balances that exceeded 10% of outstanding accounts receivable at April 30, 2011 or 2010.

Propane Plus recognizes revenue when earned, regardless of the period in which customers are billed. Propane sales are recognized when deliveries are made, tank rental each month, and sales of related accessories at the time of sale. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $6,745 for 2011 and $26,909 for 2010. There were no individual account balances that exceeded 10% of outstanding accounts receivable at April 30, 2011 or 2010.

**Cost of Power** Clark Energy is one of sixteen (16) members of East Kentucky. Under a wholesale power agreement, Clark Energy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

**Cost of Propane** Propane Plus purchases all of its propane requirements from an unrelated party through Kentucky Propane Plus, LLC, a related party. Propane is delivered in bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis.

**Goodwill** Goodwill was recorded in connection with the purchase of one-half (1/2) interest from an unrelated party on June 30, 2000. The excess of the purchase price over the value of assets acquired has been recorded as goodwill. Goodwill was tested for impairment and it was determined that goodwill has not been impaired, therefore, there was no impairment of goodwill for 2011 or 2010.

**Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

**Risk Management** Clark Energy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

**Advertising** Clark Energy expenses advertising costs as incurred.

**Income Tax Status** Clark Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Clark Energy include no provision for income taxes. Income taxes for Service Corporation are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Service Corporation uses the same depreciation for book and tax purposes, therefore, there are no deferred taxes to report.

**Note 1. Summary of Significant Accounting Policies**, continued

Effective January 1, 2009, Clark Energy adopted the provisions of FASB ASC 740, *Income Taxes* that pertains to accounting for uncertainty in income taxes. Clark Energy had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statures, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Clark Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Clark Energy did not recognize any interest or penalties during the years ended April 30, 2011 or 2010

**Subsequent Events** Management has evaluated subsequent events through June 14, 2011, the date the financial statements were available to be issued. There were no significant subsequent events to report.

**Note 2. Investments in Associated Organizations and Others**

Investments in associated organizations and others consist of:

| | 2011 | 2010 |
|---|---|---|
| East Kentucky, patronage capital | $10,301,353 | $8,976,669 |
| CFC - CTC's | 855,673 | 858,437 |
| Other associated organizations | 788,978 | 747,134 |
| Cash value of life insurance | 277,413 | 277,413 |
| | $12,223,417 | $10,859,653 |

Clark Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

**Note 3. Patronage Capital**

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Clark Energy may distribute the difference between 25% and the payments made to such estates. The equity at April 30, 2011 was 38% of total assets. Prior years' losses are being carried forward to be offset with future years' non operating margins. Patronage capital consists of:

| | 2011 | 2010 |
|---|---|---|
| Assigned to date | $36,850,265 | $33,913,706 |
| Assignable | $1,128,625 | $204,470 |
| Prior year deficit's | (221,060) | (399,127) |
| | $37,757,830 | $33,719,049 |

**Note 4. Accumulated Other Comprehensive Income**

The changes in accumulated other comprehensive income, which includes the effects of postretirement benefits, are as follows:

| | 2011 | 2010 |
|---|---|---|
| Balance, beginning | ($253,220) | ($267,429) |
| Amortization | 14,208 | 14,209 |
| Adjustments | - | - |
| Balance, end | ($239,012) | ($253,220) |

**Note 5. Long Term Debt**

The interest rates on the notes to CFC are subject to change every seven years from the repricing date for each individual note. The long term debt is due in quarterly and monthly installments of varying amounts through 2039. Clark Energy has $14,000,000 of loan funds available from FFB. RUS assess 12.5 basis points to administer the FFB loans.

On September 12, 2000, East Kentucky issued a "Commercial Note With Guaranty" in the amount of $839,299 to allow Service Corporation to purchase its one-half interest. The interest rate is variable, with the rate being the "*Index Rate*", as published in the Wall Street Journal, minus one-half percent. The rate at 2011 and 2010 was 2.75%.

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), and CFC under a joint mortgage agreement. Long term debt consists of:

| | 2011 | 2010 |
|---|---|---|
| Notes due RUS, 3.875% to 6% | $9,462,250 | $16,113,113 |
| Notes due FFB, 0.102% to 4.913% | 39,192,489 | 39,095,398 |
| Notes due CFC 3.65% - 5.75% | 3,620,049 | 3,919,240 |
| Refinance RUS loans, 3.65% - 4.65% | 5,857,871 | - |
| | 9,477,920 | 3,919,240 |
| | 58,132,659 | 59,127,751 |
| Current portion | 2,150,000 | 2,000,000 |
| Long term portion for Clark Energy | 55,982,659 | 57,127,751 |
| East Kentucky 2.75% | 443,368 | 525,538 |
| Current portion | 96,000 | 65,000 |
| Long term portion for Propane Plus | 347,368 | 460,538 |
| Total long term portion | $56,330,027 | $57,588,289 |

As of April 30, 2011, the annual principal payments of Clark Energy for the next five years are as follows: 2012 - $2,150,000; 2013 - $2,200,000; 2014 - $2,400,000; 2015 - $2,500,000; 2016 - $2,600,000.

As of April 30, 2011, the annual principal payments of Propane Plus for the next five years are as follows: 2012 - $96,000; 2013 - $100,000; 2014 - $105,000; 2015 - $110,000; 2016 - $115,000.

**Note 6. Short Term Borrowings**

At April 30, 2011, Clark Energy had a short term line of credit of $8,500,000 available from CFC. All advances against this line of credit have been repaid during the audit period.

**Note 8. Pension Plan**

Clark Energy provides retirement benefits for substantially all employees through participation in the NRECA Retirement and Security Program, a multi-employer plan. Contributions for pension expense were $903,908 for 2011 and $739,390 for 2010. In this master multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer.

Propane Plus has a profit sharing plan of 10% of net profits, before the pension amount, where managers receive 5% of the plan amount and the remaining employees share the remaining 5%. The pension amount for 2011 was $15,602 and 2010 was $15,305.

**Note 9. Postretirement Benefits**

Clark Energy sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees contribute a portion of the cost of coverage. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

| | 2011 | 2010 |
|---|---|---|
| Projected benefit obligation | ($1,498,757) | ($1,413,384) |
| Fair value of plan assets | - | - |
| Funded status | ($1,498,757) | ($1,413,384) |

The components of net periodic postretirement benefit costs are as follows:

| | 2011 | 2010 |
|---|---|---|
| Benefit obligation at beginning of year | $1,413,384 | $1,338,300 |
| Net periodic benefit cost: | | |
| Service cost | 38,249 | 30,770 |
| Interest cost | 82,551 | 78,030 |
| Amortization of actuarial gain/loss | 14,800 | 14,800 |
| | 135,600 | 123,600 |
| Benefits paid | (50,227) | (48,516) |
| Actuarial gain/loss | - | - |
| Benefit obligation at end of year | $1,498,757 | $1,413,384 |

Projected retiree benefit payments for the next five years are expected to be as follows: 2012 - $45,800; 2013 - $48,900; 2014 - $54,400; 2015 - $60,900; 2016 - $63,900.

The discount rate used in determining the APBO was 6.0% for 2011 and 2010. The health care cost trend rate used to compute the APBO is an 9% annual rate of increase for 2007, and decreasing gradually to 5.5%, then remain at that level thereafter.

**Note 10. Related Party Transactions**

Several of the Directors of Clark Energy, its President & CEO, and another employee are on the boards of directors of various associated organizations.

**Note 11. Commitments**

Clark Energy is contingently liable as guarantor for approximately $97,000 of long term obligations of East Kentucky to RUS, CFC, and institutional investors. Substantially all assets of Clark Energy are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 4. This contingent liability was part of an overall financing plan for the construction of a generating facility near Maysville, Kentucky.

Clark Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain meter reading, construction, and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

**Note 12. Environmental Contingency**

Clark Energy, from time to time, is required to work with and handle PCB's, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is a possibility that environmental conditions may arise which would require Clark Energy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Clark Energy's financial position or its future cash flows.

**Note 13. Rate Matters**

East Kentucky increased its base rates to Clark Energy during August, 2007 by 2%, in April, 2009 by 7%, and in January 2011 by 5%. Clark Energy passed these increases on to its customers using the methodology prescribed the PSC. During June, 2010, the PSC granted Clark Energy an increase in its base rates by approximately $3,900,000, or 8%.

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**Independent Auditor's Report**

To the Board of Directors
Clark Energy Cooperative

My report on the audits of the consolidated financial statements of Clark Energy Cooperative and Subsidiary as of April 30, 2011and 2010 and for the years then ended appears on page 1. My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The supplementary consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in my opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Alan M. Zumstein, CPA
June 14, 2011

Clark Energy Cooperative and Subsidiary

Consolidating Balance Sheet, April 30, 2011

| Assets | Energy | Services | Propane | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net Utility Plant | $ 83,926,814 | | $ 1,576,004 | | $ 85,502,818 |
| Investments and Other Assets: | | | | | |
| Associated organizations | 12,173,417 | | 50,000 | | 12,223,417 |
| Goodwill, net of amortization | | | 258,898 | | 258,898 |
| Subsidiary | 1,344,257 | 1,777,781 | | (3,122,038) | - |
| | 13,517,674 | 1,777,781 | 308,898 | (3,122,038) | 12,482,315 |
| Current Assets: | | | | | |
| Cash and cash equivalents | 745,861 | 14,562 | 239,153 | | 999,576 |
| Accounts receivable, less allowance for uncollectible accounts | 1,980,746 | | 104,373 | | 2,085,119 |
| Material and supplies, at average cost | 406,231 | | 76,076 | | 482,307 |
| Prepayments | 327,789 | | 21,900 | | 349,689 |
| | 3,460,627 | 14,562 | 441,502 | | 3,916,691 |
| Total | 100,905,115 | 1,792,343 | 2,326,404 | (3,122,038) | 101,901,824 |
| Members' Equities and Liabilities | | | | | |
| Members' and Stockholder's Equities: | | | | | |
| Capital | - | 1,194,000 | 1,025,121 | (2,219,121) | - |
| Patronage capital and retained earnings | 37,757,830 | 150,257 | 752,660 | (902,917) | 37,757,830 |
| Accum other comprehensive income | (239,012) | | | | (239,012) |
| Minority interests and other equities | 470,326 | 448,086 | | | 918,412 |
| | 37,989,144 | 1,792,343 | 1,777,781 | (3,122,038) | 38,437,230 |
| Long Term Debt | 55,982,659 | | 347,368 | | 56,330,027 |
| Current Liabilities: | | | | | |
| Accounts payable | 337,128 | | 105,255 | - | 442,383 |
| Short term borrowings | - | | | | - |
| Current portion of long term debt | 2,150,000 | | 96,000 | | 2,246,000 |
| Consumer deposits | 754,864 | | | | 754,864 |
| Accrued expenses | 1,510,908 | | | | 1,510,908 |
| | 4,752,900 | - | 201,255 | - | 4,954,155 |
| Accumulated Postretirement Benefits | 1,498,757 | | | | 1,498,757 |
| Accrued Supplemental Retirement | 346,754 | | | | 346,754 |
| Consumer Advances for Construction | 334,901 | | | | 334,901 |
| Total | $ 100,905,115 | $ 1,792,343 | $ 2,326,404 | $ (3,122,038) | $ 101,901,824 |

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary

Consolidating Balance Sheet, April 30, 2010

| Assets | Energy | Services | Propane | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net Utility Plant | $ 83,574,282 | | $ 1,292,579 | | $ 84,866,861 |
| Investments and Other Assets: | | | | | |
| Associated organizations | 10,809,653 | | 50,000 | | 10,859,653 |
| Goodwill, net of amortization | | | 258,898 | | 258,898 |
| Subsidiary | 1,228,690 | 1,622,918 | | (2,851,608) | - |
| | 12,038,343 | 1,622,918 | 308,898 | (2,851,608) | 11,118,551 |
| Current Assets: | | | | | |
| Cash and cash equivalents | 349,327 | 15,335 | 571,790 | | 936,452 |
| Accounts receivable, less allowance for uncollectible accounts | 1,726,041 | | 59,921 | | 1,785,962 |
| Material and supplies, at average cost | 340,615 | | 29,047 | | 369,662 |
| Prepayments | 223,594 | | 10,700 | | 234,294 |
| | 2,639,577 | 15,335 | 671,458 | | 3,326,370 |
| Total | 98,252,202 | 1,638,253 | 2,272,935 | (2,851,608) | 99,311,782 |
| **Members' Equities and Liabilities** | | | | | |
| Members' and Stockholder's Equities: | | | | | |
| Capital | - | 1,194,000 | 1,025,121 | (2,219,121) | - |
| Patronage capital and retained earnings | 33,719,049 | 34,690 | 597,797 | (632,487) | 33,719,049 |
| Accum other comprehensive income | (253,220) | | | | (253,220) |
| Minority interests and other equities | 470,326 | 409,563 | | | 879,889 |
| | 33,936,155 | 1,638,253 | 1,622,918 | (2,851,608) | 34,345,718 |
| Long Term Debt | 57,127,751 | | 460,538 | | 57,588,289 |
| Current Liabilities: | | | | | |
| Accounts payable | 412,291 | | 124,479 | - | 536,770 |
| Short term borrowings | 200,000 | | | | 200,000 |
| Current portion of long term debt | 2,000,000 | | 65,000 | | 2,065,000 |
| Consumer deposits | 763,246 | | | | 763,246 |
| Accrued expenses | 1,684,367 | | | | 1,684,367 |
| | 5,059,904 | - | 189,479 | - | 5,249,383 |
| Accumulated Postretirement Benefits | 1,413,384 | | | | 1,413,384 |
| Accrued Supplemental Retirement | 371,034 | | | | 371,034 |
| Consumer Advances for Construction | 343,974 | | | | 343,974 |
| Total | $ 98,252,202 | $ 1,638,253 | $ 2,272,935 | $ (2,851,608) | $ 99,311,782 |

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Patronage Capital

for the year ended April 30, 2011

| | Energy | Services | Propane | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating Revenues | $ 47,562,701 | $ - | $ 2,453,940 | $ - | $ 50,016,641 |
| Operating Expenses: | | | | | |
| Cost of purchases | 30,809,630 | | 1,484,253 | | 32,293,883 |
| Distribution - operations and maintenance | 4,635,406 | | 468,965 | | 5,104,371 |
| Consumer accounts | 1,511,821 | | 211,711 | | 1,723,532 |
| Customer service and information | 236,142 | | | | 236,142 |
| Administrative and general | 1,388,400 | 865 | 150,434 | - | 1,539,699 |
| Depreciation, excluding $281,672 charged to clearing accounts | 4,077,301 | | 130,987 | | 4,208,288 |
| Taxes | 42,839 | | 13,373 | | 56,212 |
| | 42,701,539 | 865 | 2,459,723 | | 45,162,127 |
| Operating Margins before Interest Charges | 4,861,162 | (865) | (5,783) | | 4,854,514 |
| Interest Charges: | | | | | |
| Interest on long term debt | 2,232,831 | | 12,311 | | 2,245,142 |
| Other interest | 80,853 | | | | 80,853 |
| | 2,313,684 | | 12,311 | | 2,325,995 |
| Operating Margins after Interest Charges | 2,547,478 | (865) | (18,094) | | 2,528,519 |
| Nonoperating Margins: | | | | | |
| Interest income | 42,296 | 92 | 4,746 | | 47,134 |
| Subsidiary and others | 43,490 | 142,688 | 168,211 | (296,778) | 57,611 |
| | 85,786 | 142,780 | 172,957 | (296,778) | 104,745 |
| Patronage Capital, associated organizations | 1,396,387 | | | | 1,396,387 |
| Net Margins | 4,029,651 | 141,915 | 154,863 | (296,778) | 4,029,651 |
| Patronage Capital - beginning of year | 33,719,049 | 34,690 | 597,797 | (632,487) | 33,719,049 |
| Dividends | | - | - | - | - |
| Transfer to minority interests | 9,130 | (26,348) | - | 26,348 | 9,130 |
| Patronage Capital - end of year | $ 37,757,830 | $ 150,257 | $ 752,660 | $ (902,917) | $ 37,757,830 |

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Patronage Capital

for the year ended April 30, 2010

| | Energy | Services | Propane | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating Revenues | $ 43,233,531 | $ - | $ 2,293,017 | $ - | $ 45,526,548 |
| Operating Expenses: | | | | | |
| Cost of purchases | 29,810,692 | | 1,422,864 | | 31,233,556 |
| Distribution - operations and maintenance | 4,559,734 | | 458,352 | | 5,018,086 |
| Consumer accounts | 1,353,994 | | 206,920 | | 1,560,914 |
| Customer service and information | 238,649 | | | | 238,649 |
| Administrative and general | 1,536,259 | 865 | 147,030 | - | 1,684,154 |
| Depreciation, excluding $289,938 charged to clearing accounts | 3,055,257 | | 120,906 | | 3,176,163 |
| Taxes | 42,498 | 32,500 | 7,825 | | 82,823 |
| | 40,597,083 | 33,365 | 2,363,897 | | 42,994,345 |
| Operating Margins before Interest Charges | 2,636,448 | (33,365) | (70,880) | | 2,532,203 |
| Interest Charges: | | | | | |
| Interest on long term debt | 2,488,919 | | 23,258 | | 2,512,177 |
| Other interest | 150,753 | | | | 150,753 |
| | 2,639,672 | | 23,258 | | 2,662,930 |
| Operating Margins after Interest Charges | (3,224) | (33,365) | (94,138) | | (130,727) |
| Nonoperating Margins: | | | | | |
| Interest income | 37,961 | | 6,299 | | 44,260 |
| Subsidiary and others | (55,720) | (15,769) | 151,081 | (14,108) | 65,484 |
| | (17,759) | (15,769) | 157,380 | (14,108) | 109,744 |
| Patronage Capital, associated organizations | 1,421,535 | | | | 1,421,535 |
| Net Margins | 1,400,552 | (49,134) | 63,242 | (14,108) | 1,400,552 |
| Patronage Capital - beginning of year | 32,318,497 | 82,117 | 654,854 | (736,971) | 32,318,497 |
| Dividends | | 25,000 | (25,000) | - | - |
| Transfer to minority interests | | (23,293) | (95,299) | 118,592 | - |
| Patronage Capital - end of year | $ 33,719,049 | $ 34,690 | $ 597,797 | $ (632,487) | $ 33,719,049 |

The accompanying notes are an integral part of these statements.