Kentucky 49
Clark Energy Cooperative
and Subsidiary
Winchester, Kentucky

Audited Financial Statements
April 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Clark Energy Cooperative

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Clark Energy Cooperative and Subsidiary, which comprise the balance sheets as of April 30, 2017 and 2016, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Directors
Clark Energy Cooperative

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clark Energy Cooperative and Subsidiary as of April 30, 2017 and 2016, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated June 26, 2017, 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* in considering internal control over financial reporting and compliance and should be considered in assessing the results of my audits.

Report on Supplemental Information

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Cooperative's consolidated financial statements. The consolidating schedules on pages 15-17 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Alan Zumstein

Alan M. Zumstein, CPA
June 26, 2017

Clark Energy Cooperative and Subsidiary
Consolidated Balance Sheets, April 30, 2017 and 2016

	2017	2016
Assets		
Utility Plant, net	$ 89,209,193	$ 88,845,936
Investments and Other Assets:		
Associated organizations and others	26,359,109	24,166,556
Goodwill	258,898	258,898
	26,618,007	24,425,454
Current Assets:		
Cash and cash equivalents	1,233,777	1,084,175
Accounts receivable, less allowance for uncollectible accounts	1,871,087	1,964,829
Material and supplies	601,549	489,122
Prepayments	332,321	888,501
	4,038,734	4,426,627
Deferred Debits	2,918,756	2,218,023
Total	$ 122,784,690	$ 119,916,040
Members' Equities and Liabilities		
Members' Equities:		
Patronage capital and retained earnings	$ 54,784,513	$ 51,654,140
Accumulated other comprehensive income	(728,192)	(361,404)
Other equities and minority interest	2,251,361	2,253,419
	56,307,682	53,546,155
Long Term Debt	53,946,315	57,304,349
Current Liabilities:		
Accounts payable	970,510	987,786
Short term borrowings	2,900,000	-
Current portion of long term debt	3,176,660	3,144,166
Consumer deposits	1,055,034	1,032,831
Other current and accrued liabilities	1,329,651	1,245,224
	9,431,855	6,410,007
Accumulated Postretirement Benefits	2,712,073	2,215,606
Accrued Supplemental Retirement	165,149	200,377
Consumer Advances for Construction	221,616	239,546
Total	$ 122,784,690	$ 119,916,040

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary
Consolidated Statements of Revenue and Comprehensive Income
for the years ended April 30, 2017 and 2016

	2017	2016
Operating Revenues	$ 48,333,112	$ 48,875,012
Operating Expenses:		
Cost of purchases	31,414,577	31,404,896
Distribution - operations	2,499,895	3,157,409
Distribution - maintenance	3,527,354	3,922,323
Consumer accounts	1,698,117	1,800,360
Customer service and information	191,105	252,582
Administrative and general	1,589,154	1,653,193
Depreciation, excluding $317,743 in 2017 and $344,221 in 2016 charged to clearing accounts	5,217,122	5,068,857
Taxes	70,116	273,710
Interest on long-term debt	1,226,190	1,308,175
Other interest	48,211	45,623
Other deductions	23,718	23,264
	47,505,559	48,910,392
Operating Margins	827,553	(35,380)
Nonoperating Margins		
Interest income	42,395	38,168
Subsidiary and others	12,453	56,250
	54,848	94,418
Patronage Capital Assigned		
G&T	2,177,586	2,030,328
Others	70,386	79,388
	2,247,972	2,109,716
Net Margins	3,130,373	2,168,754
Comprehensive Income:		
Postretirement benefits	(366,788)	36,800
Total Comprehensive Income	$ 2,763,585	$ 2,205,554

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary
Statements of Changes in Members' Equity
for the years ended April 30, 2016 and 2017

	Patronage Capital					Accumulated	Total
					Other	Comprehensive	Members'
	Assigned	Assiganble	Retired	Total	Equities	Income	Equity
Balance - April 30, 2015	$ 52,753,401	$ 803,119	$ (4,071,134)	$ 49,485,386	$ 2,720,949	$ (398,204)	$ 51,808,131
Comprehensive income:							
Net margins	2,168,754			2,168,754			2,168,754
Postretirement benefit obligation							
Amortization						36,800	
Adjustments						-	36,800
Total comprehensive income							2,205,554
Refunds of capital credits				-			-
Other equities	132,114	(132,114)		-	(467,530)		(467,530)
Balance - April, 2016	55,054,269	671,005	(4,071,134)	51,654,140	2,253,419	(361,404)	53,546,155
Comprehensive income:							
Net margins	3,154,866			3,154,866			3,154,866
Postretirement benefit obligation							
Amortization						72,530	
Adjustments						(439,318)	(366,788)
Total comprehensive income							2,788,078
Refunds of capital credits				-			-
Other equities	167,234	(191,727)		(24,493)	(2,058)		(26,551)
Balance - April, 2017	$ 58,376,369	$ 479,278	$ (4,071,134)	$ 54,784,513	$ 2,251,361	$ (728,192)	$ 56,307,682

The accompanying notes are an integral part of the financial statements.

Clark Energy Cooperative and Subsidiary
Consolidated Statements of Cash Flows
for the years ended April 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net margins	$ 3,130,373	$ 2,168,754
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	5,217,122	5,068,857
Charged to clearing accounts	317,743	344,221
Patronage capital credits assigned	(2,247,972)	(2,109,717)
Change in current assets and liabilities:		
Receivables	93,742	(114,535)
Material and supplies	(112,427)	9,585
Prepayments and deferred debits	(144,553)	(26,848)
Payables	(17,276)	189,428
Accumulated postretirement benefits	129,679	139,134
Accrued supplemental retirement	(35,228)	(33,076)
Accrued expenses	84,427	(173,984)
	6,415,630	5,484,595
Cash Flows from Investing Activities:		
Plant additions	(5,486,162)	(4,572,256)
Plant removal costs	(496,774)	(597,500)
Salvage recovered from plant retirements	84,814	114,289
Consumer deposits and advances	4,273	22,776
Other investments, net	55,419	63,822
	(5,838,430)	(4,991,645)
Cash Flows from Financing Activities:		
Retire capital credits and dividends	-	(333,458)
Capital and other equities	(2,058)	(113,328)
Additional long-term borrowings	-	5,500,351
Payments on long-term debt	(3,325,540)	(3,228,332)
Short term borrowings (repayments)	2,900,000	(2,135,649)
	(427,598)	(310,416)
Net increase in cash	149,602	182,534
Cash and cash equivalents - beginning of period	1,084,175	901,641
Cash and cash equivalents - end of period	$ 1,233,778	$ 1,084,175
Supplemental cash flows information:		
Interest paid on long-term debt	$ 1,217,612	$ 1,354,702
Income taxes paid	$ 7,353	$ 208,525

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 and also Clark Energy Service Corporation ("Service Corporation") and Clark Energy Propane Plus, LLC ("Propane Plus"), collectively the Subsidiary. During 2017 Services Corporation purchased the 25% outstanding stock owned by East Kentucky Power Cooperative ("East Kentucky"). 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:

	2017	2016
Electric Plant:		
Distribution plant	$114,695,982	$110,961,547
General plant	11,166,110	11,063,623
	125,862,092	122,025,170
Plant under construction	383,170	487,060
	126,245,262	122,512,230
Less accumulated depreciation	38,459,776	35,157,064
Net electric plant	87,785,486	87,355,166
Propane Plant:		
Propane tanks on customers' premises	1,049,461	1,050,390
Bulk tanks	604,062	599,521
Delivery and other trucks	944,265	905,374
Buildings and land	238,024	238,024
Office and other equipment	238,439	218,916
	3,074,251	3,012,225
Less accumulated depreciation	1,650,544	1,521,455
Net propane plant	1,423,707	1,490,770
Net utility plant	$89,209,193	$88,845,936

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 4.2% 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.

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 an 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 $47,103 at 2017 and $63,187 at 2016. There were no individual account balances that exceeded 10% of outstanding accounts receivable as of 2017 or 2016.

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 $12,000 for 2017 and $23,711 for 2016. There were no individual account balances that exceeded 10% of outstanding accounts receivable as of 2017 or 2016.

The Companies are required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Company's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

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.

Note 1. Summary of Significant Accounting Policies, continued

Propane Inventory Propane is measured at the end of each month and valued based on the current purchase price of propane.

Goodwill The 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 2017 or 2016.

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.

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: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of Clark Energy's cash and cash equivalents, other receivables, inventories, trade accounts payable, accrued expenses and 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 and liabilities are not considered financial instruments because they represent activities specifically related to Clark Energy. Long term debt cannot 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. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

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.

Note 1. Summary of Significant Accounting Policies, continued

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. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes. All tax related issues would be passed on to Service Corporation. Propane Plus uses the same depreciation for book and taxes, therefore, deferred taxes are considered immaterial and are not recorded.

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 statutes, 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 2017 or 2016, the years' tax returns are filed. Clark Energy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Reclassifications Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the financial position and operations.

Subsequent Events Management has evaluated subsequent events through June 26, 2017, 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

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.

Investments in associated organizations and others consist of:

	2017	2016
East Kentucky, patronage capital	$24,342,351	$22,164,766
CFC - CTC's	834,616	838,485
Other associated organizations	988,824	944,065
Cash value of life insurance	193,318	219,240
	$26,359,109	$24,166,556

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, 2017 was 46% of total assets.

Note 4. Long Term Debt

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:

	2017	2016
Notes due RUS, 2.5% to 6.0%	$7,507,811	$7,891,786
Notes due FFB, 0.783% to 4.506%	44,501,965	46,311,013
Notes due CFC 2.75% - 3.6%	1,953,807	2,200,502
Fund prepaid pension costs 2.35%	636,859	944,262
Refinance RUS loans, 4.0% - 4.65%	2,080,458	2,615,023
	4,671,124	5,759,787
	56,680,900	59,962,586
Current portion	3,130,000	3,100,000
Long term portion for Clark Energy	53,550,900	56,862,586
East Kentucky 2.75%	442,075	485,929
Current portion	46,660	44,166
Long term portion for Propane Plus	395,415	441,763
Total long term portion	$53,946,315	$57,304,349

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 2047. Clark Energy has loan funds available from FFB in the amount of $20,000,000. RUS assess 12.5 basis points to administer the FFB loans.

During August, 2015, Services Corporation purchased East Kentucky's outstanding stock with a note payable in the amount of $500,351. The note is for 10 years with an interest rate of 2.75% (prime minus ½%). Monthly principal and interest payments are $4,739.62.

As of April 30, 2017, the annual principal payments of Clark Energy for the next five years are as follows: 2018 - $3,130,000; 2019 - $3,490,000; 2020 - $3,270,000; 2021 - $3,315,000; 2022 - $3,320,000.

As of April 30, 2017, the annual principal payments of Propane Plus for the next five years are as follows: 2018 - $46,660; 2019 – 47,960, 2020 - $49,295; 2021 – 49,500; 2022 - $49,750.

Note 5. Short Term Borrowings

At April 30, 2017, Clark Energy had a short term line of credit of $8,500,000 available from CFC. At April 30 2017, Clark Energy had advances against the line of credit in the amount of $2,900,000 at an interest rate of 2.50%.

Note 6. Pension Plan

All eligible employees of Clark participate in the NRECA Retirement and Security Plan (“R&S Plan”), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor’s identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Clark’s contributions to the R&S Plan in 2017 and 2016 represent less than 5 percent of the total contributions made to the plan by all participating employers. Clark made contributions to the plan of $819,745 in 2017 and $816,173 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016. The contribution rate is 2.0 for employees hired prior to December 31, 2016 and 1.75 for employees hired after December 31, 2016.

In the R&S Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (“PPA”) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was over 80 percent funded at January 1, 2016 and 2015 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (“R&S”) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan’s unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative’s annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan’s amortization schedule.

Note 6. Pension Plan, continued

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts ("USoA").

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the R&S Plan prepayment to be "Permitted Debt" and accordingly, it will be excluded from the application of Section 6.13(e). During May, 2014, Clark Energy made an accelerated payment to NRECA in the amount of $2,753,407. One-million dollars was funded with general funds and the remaining from a 6 year loan with CFC. The amount was recorded as a deferred debit and is being amortized over 15 years through the benefits matrix in the amount of $168,264.

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 2017 was $23,921and 2016 was $78,555.

Note 7. 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 discount rate used in determining the APBO was 4.75% for 2017 and 2016. The health care cost trend rate used to compute the APBO is an 8% annual rate of increase for 2017, and decreasing gradually to 5.5%, then remain at that level thereafter.

Projected retiree benefit payments for the next five years are expected to be as follows: 2018 - $45,800; 2019 - $48,900; 2020 - $54,400; 2021 - $60,900; 2022 - $63,900.

The funded status of the plan is as follows:

	2017	2016
Projected benefit obligation	(2,712,073)	($2,215,606)
Fair value of plan assets	-	-
Funded status	($2,712,073)	($2,215,606)

Note 7. Postretirement Benefits, continued

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

	2017	2016
Benefit obligation at beginning of year	$2,215,606	$2,113,272
Net periodic benefit cost:		
Service cost	16,120	49,410
Interest cost	97,400	92,830
	113,520	142,240
Benefits paid	(56,371)	(39,906)
Actuarial gain/loss	439,318	-
Benefit obligation at end of year	$2,712,073	$2,215,606
Amounts included in accumulated comprehensive income:		
Unrecognized actuarial gain (loss)	($728,192)	($361,404)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$2,890,000	
Net periodic benefit cost	120,000	

Note 8. 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 9. 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 10. Commitments

Clark Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform 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 11. Contingencies

Clark Energy is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

* * * * * *

Clark Energy Cooperative and Subsidiary
Consolidating Balance Sheet, April 30, 2017

	Energy	Subsidiary	Eliminations	Consolidated
Net Utility Plant	$ 87,785,486	$ 1,423,707		$ 89,209,193
Investments and Other Assets:				
Associated organizations	26,359,109			26,359,109
Goodwill, net of amortization		258,898		258,898
Subsidiary	2,057,355		(2,057,355)	-
	28,416,464	258,898	(2,057,355)	26,618,007
Current Assets:				
Cash and cash equivalents	458,254	775,523		1,233,777
Accounts receivable, less allowance for uncollectible accounts	1,737,150	133,937		1,871,087
Material and supplies, at average cost	537,678	63,871		601,549
Prepayments	296,071	36,250		332,321
	3,029,153	1,009,581		4,038,734
Deferred Debits	2,918,756			2,918,756
Total	$ 122,149,859	$ 2,692,186	$ (2,057,355)	$ 122,784,690
Members' and Stockholder's Equities:				
Capital	$ -	$ 1,592,000	$ (1,592,000)	$ -
Patronage capital and retained earnings	54,784,513	1,238,176	(1,238,176)	54,784,513
Accumulated comprehensive income	(728,192)			(728,192)
Other equities	2,253,770	(775,230)	772,821	2,251,361
	56,310,091	2,054,946	(2,057,355)	56,307,682
Long Term Debt	53,550,900	395,415		53,946,315
Current Liabilities:				
Accounts payable	775,345	195,165	-	970,510
Short term borrowings	2,900,000			2,900,000
Current portion of long term debt	3,130,000	46,660		3,176,660
Consumer deposits	1,055,034			1,055,034
Accrued expenses	1,329,651			1,329,651
	9,190,030	241,825	-	9,431,855
Accumulated Postretirement Benefits	2,712,073			2,712,073
Accrued Supplemental Retirement	165,149			165,149
Consumer Advances for Construction	221,616			221,616
Total	$ 122,149,859	$ 2,692,186	$ (2,057,355)	$ 122,784,690

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary

Consolidating Statement of Revenue and Comprehensive Income

for the year ended April 30, 2017

	Energy	Subsidiary	Eliminations	Consolidated
Operating Revenues	$45,950,546	$ 2,382,566	$ -	$ 48,333,112
Operating Expenses:				
Cost of purchases	30,570,982	843,595		31,414,577
Distribution - operations	1,917,219	582,676		2,499,895
Distribution - maintenance	3,527,354			3,527,354
Consumer accounts	1,435,072	263,045		1,698,117
Customer service and information	191,105			191,105
Administrative and general	1,402,244	186,910	-	1,589,154
Depreciation, excluding $344,221 charged				
to clearing accounts	4,999,773	217,349		5,217,122
Taxes	62,763	7,353		70,116
Interest on long term debt	1,212,907	13,283		1,226,190
Other interest	48,211			48,211
Other deduction	23,718			23,718
Total cost of electric service	45,391,348	2,114,211		47,505,559
Operating Margins	559,198	268,355		827,553
Nonoperating Margins:				
Interest income	42,147	248		42,395
Subsidiary and others	281,056	2,798	(271,401)	12,453
	323,203	3,046	(271,401)	54,848
Patronage Capital, associated organizations				
G&T capital credits	2,177,586			2,177,586
Others	70,386		-	70,386
	2,247,972			2,247,972
Net Margins	3,130,373	271,401	(271,401)	3,130,373
Comprehensive Income:				
Postretirement benefits	(366,788)			(366,788)
Total Comprehensive Income	$ 2,763,585	$ 271,401	$ (271,401)	$ 2,763,585

The accompanying notes are an integral part of these statements.

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Clark Energy Cooperative, Inc.

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clark Energy Cooperative, Inc., which comprise the balance sheets as of April 30, 2017 and 2016, and the related statements of revenue and comprehensive income, member' equities, and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated June 26, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Clark Energy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clark Energy's internal control. Accordingly, I do not express an opinion on the effectiveness of Clark Energy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clark Energy's financial statements are free of material misstatement, I performed tests 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan Zumstein

Alan M. Zumstein, CPA
June 26, 2017

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Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Clark Energy Cooperative, Inc.

Independent Auditor's Report

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clark Energy Cooperative, Inc. ("the Cooperative"), which comprise the balance sheet as of April 30, 2017, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 26, 2017. In accordance with *Government Auditing Standards*, we have also issued my report dated June 26, 2017, on my consideration of the Cooperative's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2017, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

Board of Directors
Clark Energy Cooperative, Inc.

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, which are listed below.

The deferred debits are as follows:

GPS system	$625,794
Prepaid pension costs	2,034,462
Substation installation	258,500
	$2,918,756

The deferred credits are as follows:

Consumer advances for construction	$221,616

Clark Energy is a 100% owner of a subsidiary, Clark Energy Services Corporation, which is engaged in the distribution sales of propane gas through a limited liability company (LLC) in and around the areas in which Clark Energy provides electric service. The investment is accounted for using the equity method of accounting. The original investment was $9,000. The investment is as follows:

	Investment	Profits
Beginning balance	$1,194,000	$591,954
Activity for 2017	-	271,401
Ending balance	$1,194,000	$863,355

This report is intended solely for the information and use of the board of directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
June 26, 2017