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Clark Energy Cooperative
and Subsidiary
Winchester, Kentucky

Audited Financial Statements
April 30, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
Clark Energy Cooperative
Winchester, Kentucky

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, 2013 and 2012, and the related statements of revenue and comprehensive income, changes in 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 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 financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of American 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 my 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.

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, 2013 and 2012, 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 12, 2013, 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.

Alan M. Zumstein

Alan M. Zumstein, CPA
June 12, 2013

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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

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 consolidated financial statements of Clark Energy Cooperative and Subsidiary, which comprise the balance sheets as of April 30, 2013 and 2012, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated June 12, 2013.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Clark Energy'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 Clark Energy's internal control over financial reporting. Accordingly, I do no express an opinion on the effectiveness of Clark Energy's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clark Energy'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*.

Purpose of this Report

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

Alan M. Zumstein, CPA
June 12, 2013

Clark Energy Cooperative and Subsidiary

Consolidated Balance Sheets, April 30, 2013 and 2012

	2013	2012
Assets		
Utility Plant, net	$ 87,105,227	$ 86,188,587
Investments and Other Assets:		
Associated organizations and others	16,655,746	14,512,003
Goodwill	258,898	258,898
	16,914,644	14,770,901
Current Assets:		
Cash and cash equivalents	851,983	738,598
Accounts receivable, less allowance for uncollectible accounts	3,376,794	1,685,659
Material and supplies	488,241	533,656
Prepayments	701,426	353,794
	5,418,444	3,311,707
Total	$ 109,438,315	$ 104,271,195
Members' Equities and Liabilities		
Members' Equities:		
Patronage capital and retained earnings	$ 43,310,273	$ 40,697,967
Accumulated other comprehensive income	(210,596)	(224,804)
Other equities and minority interest	1,543,493	907,167
	44,643,170	41,380,330
Long Term Debt	54,611,958	54,170,305
Current Liabilities:		
Accounts payable	1,110,550	1,010,822
Short term borrowings	1,600,000	400,000
Current portion of long term debt	2,805,000	2,805,000
Consumer deposits	904,722	836,660
Other current and accrued liabilities	1,482,415	1,453,819
	7,902,687	6,506,301
Accumulated Postretirement Benefits	1,680,475	1,587,319
Accrued supplemental retirement	293,665	321,047
Consumer advances for construction	306,360	305,893
Total	$ 109,438,315	$ 104,271,195

The accompanying notes are an integral part of these statements.

Consolidated Statements of Revenue and Comprehensive Income

for the years ended April 30, 2013 and 2012

	2013	2012
Operating Revenues	$ 51,734,884	$ 48,722,427
Operating Expenses:		
Cost of purchases	34,482,905	32,770,970
Distribution - operations and maintenance	5,579,792	5,531,984
Consumer accounts	1,581,635	1,694,801
Customer service and information	255,934	272,284
Administrative and general	1,596,568	1,616,060
Depreciation, excluding $283,149 in 2012 and $281,672 in 2011 charged to clearing accounts	4,582,878	4,456,122
Taxes	71,782	140,445
	48,151,494	46,482,666
Operating Margins before Interest Charges	3,583,390	2,239,761
Interest Charges:		
Interest on long-term debt	1,694,814	1,840,652
Other interest	56,444	85,366
	1,751,258	1,926,018
Operating Margins after Interest Charges	1,832,132	313,743
Nonoperating Margins		
Interest income	39,351	43,470
Subsidiary and others	(61,118)	243,243
	(21,767)	286,713
Patronage Capital assigned, associated organizations	2,206,613	2,339,595
Net Margins	4,016,978	2,940,051
Other Comprehensive Income:		
Postretirement benefits	14,208	14,208
Noncontrolling interests	(48,926)	(11,244)
Total Comprehensive Income	$ 3,982,260	$ 2,943,015

The accompanying notes are an integral part of these statements.

Statements of Changes in Members' Equity
for the years ended April 30, 2012 and 2013

	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 37,960,729	$ 704,354	$ (239,012)	$ 38,426,071
Comprehensive income:				
Net margins	2,940,051			2,940,051
Postretirement benefit obligation				
Amortization			14,208	
Adjustments			-	14,208
Noncontrolling interests				-
Total comprehensive income				2,954,259
Refunds of capital credits				-
Transfers to other equity	(202,813)	202,813		-
Other equities				-
Balance - April 30, 2012	40,697,967	907,167	(224,804)	41,380,330
Comprehensive income:				
Net margins	4,016,978			4,016,978
Postretirement benefit obligation				
Amortization			14,208	
Adjustments			-	14,208
Noncontrolling interests				-
Total comprehensive income				4,031,186
Refunds of capital credits	(1,404,672)			(1,404,672)
Transfers to other equity		-		-
Other equities		636,326		636,326
Balance - April, 2013	$ 43,310,273	$ 1,543,493	$ (210,596)	$ 44,643,170

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

Consolidated Statements of Cash Flows

for the years ended April 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net margins	$ 4,016,978	$ 2,940,051
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,582,878	4,456,122
Charged to clearing accounts	256,364	283,149
Patronage capital credits assigned	(2,206,613)	(2,339,595)
Change in assets and liabilities:		
Receivables	(1,691,135)	399,460
Material and supplies	45,415	(51,349)
Prepayments	(347,632)	(4,105)
Payables	99,728	568,439
Consumer deposits and advances	68,529	52,788
Accumulated postretirement benefits	107,364	102,770
Accrued supplemental retirement	(27,382)	(25,707)
Accrued expenses	28,596	(57,089)
	4,933,090	6,324,934
Cash Flows from Investing Activities:		
Plant additions	(5,320,503)	(5,110,651)
Plant removal costs	(504,826)	(419,590)
Salvage recovered from plant retirements	69,447	105,201
Other investments, net	32,870	31,008
	(5,723,012)	(5,394,032)
Cash Flows from Financing Activities:		
Retire capital credits and dividends	(1,404,672)	-
Capital and other equities	636,326	(11,158)
Additional long-term borrowings	3,000,000	1,000,000
Payments on long-term debt	(2,558,347)	(2,600,722)
Short term borrowings (repayments)	1,230,000	420,000
	903,307	(1,191,880)
Net increase in cash	113,385	(260,978)
Cash and cash equivalents - beginning of period	738,598	999,576
Cash and cash equivalents - end of period	$ 851,983	$ 738,598
Supplemental cash flows information:		
Interest paid on long-term debt	$ 1,715,300	$ 1,849,984
Income taxes paid	$ 79,372	$ 79,372

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:

	2013	2012
Electric Plant:		
Distribution plant	$100,745,378	$97,886,764
General plant	10,244,437	9,905,273
	110,989,815	107,792,037
Plant under construction	732,362	1,178,924
	111,722,177	108,970,961
Less accumulated depreciation	26,119,222	24,384,109
Net electric plant	85,602,955	84,586,852
Propane Plant:		
Propane tanks on customers' premises	1,022,015	1,089,255
Bulk tanks	545,124	538,388
Delivery and other trucks	691,781	691,781
Buildings and land	218,073	218,073
Office and other equipment	191,807	179,777
	2,668,800	2,717,274
Less accumulated depreciation	1,166,528	1,115,539
Net propane plant	1,502,272	1,601,735
Net utility plant	$87,105,227	$86,188,587

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 $72,311 at 2013 and $44,677 at 2012. There were no individual account balances that exceeded 10% of outstanding accounts receivable at April 30, 2013 or 2012.

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 $10,000 for 2012 and $8,459 for 2011. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2012 or 2011.

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 2013 or 2012.

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, 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 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.

Effective January 1, 2008, Clark Energy adopted the provisions of the *Income Taxes Topic* of the FASB ASC 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 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 December 31, 2012 or 2011. 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 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 12, 2013, the date the financial statements were available to be issued. Clark Energy participated in an accelerated funding of its retirement plan (see Note 6).

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:

	2013	2012
East Kentucky, patronage capital	$14,719,558	$12,576,750
CFC - CTCs	849,352	852,662
Other associated organizations	809,423	805,178
Cash value of life insurance	277,413	277,413
	$16,655,746	$14,512,003

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, 2013 was 40% of total assets. Prior years' losses are being carried forward to be offset with future years' non operating margins. Patronage capital consists of:

	2013	2012
Assigned to date	$43,554,526	$40,368,837
Assignable	1,160,336	550,190
Retirements of capital credits	(1,404,589)	-
Prior year deficit's	-	(221,060)
	$43,310,273	$40,697,967

Note 4. Short Term Borrowings

At April 30, 2013, Clark Energy had a short term line of credit of $8,500,000 available from CFC. At April 30 2013, Clark Energy had advances of $1,600,000 at an interest rate of 2.90%.

Note 5. 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:

	2013	2012
Notes due RUS, 3.875% to 6%	$8,881,997	$9,180,577
Notes due FFB, 0.073% to 4.913%	40,872,252	39,069,705
Notes due CFC 3.65% - 5.75%	3,003,038	3,316,197
Refinance RUS loans, 3.65% - 4.65%	4,402,929	5,065,274
	7,405,967	8,381,471
	57,160,216	56,631,753
Current portion	2,700,000	2,700,000
Long term portion for Clark Energy	54,460,216	53,931,753
East Kentucky 2.75%	256,742	343,552
Current portion	90,000	105,000
Long term portion for Propane Plus	166,742	238,552
Total long term portion	$54,626,958	$54,170,305

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 $10,000,000 of loan funds available from FFB. RUS assess 12.5 basis points to administer the FFB loans.

Note 4. Long Term Debt, continued

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 2013 and 2012 was 2.75%.

As of April 30, 2013, the annual principal payments of Clark Energy for the next five years are as follows: 2014 - $2,700,000; 2015 - $2,800,000; 2016 - $3,000,000; 2017 - $3,200,000; 2018 - $3,300,000.

As of April 30, 2013, the annual principal payments of Propane Plus for the next five years are as follows: 2014 - $105,000; 2015 - $110,000; 2016 - $120,000; 2017 - $125,000; 2018 - $135,000.

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 2013 and 2012 represent less than 5 percent of the total contributions made to the plan by all participating employers. Clark made contributions to the plan of $1,061,356 in 2013 and $915,370 in 2012. There have been no significant changes that affect the comparability of 2013 and 2012.

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 between 65 percent and 80 percent funded at January 1, 2012 and 2011 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.

Cooperatives participating in the NRECA R&S plan were allowed to make an Accelerated Funding Payment ("prepayment") and receive an immediate reduction in their current contribution requirement equal to approximately 25% of their 2013 billing rate. Although the new (reduced) billing rate can change over time, the relative value of the reduction will continue to benefit prepaying cooperatives in future years, potentially for as many as 10-15 years or longer. During May, 2013, 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 will be recorded as a deferred debit and amortized over 15 years through the benefits matrix.

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 2013 was $17,670 and 2012 was $17,670.

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 funded status of the plan is as follows:

	2013	2012
Projected benefit obligation	($1,680,475)	($1,587,319)
Fair value of plan assets	-	-
Funded status	($1,680,475)	($1,587,319)

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

	2013	2012
Benefit obligation at beginning of year	$1,587,319	$1,498,757
Net periodic benefit cost:		
Service cost	50,733	48,018
Interest cost	84,867	87,582
	135,600	135,600
Benefits paid	(42,444)	(47,038)
Actuarial gain/loss	-	-
Benefit obligation at end of year	$1,680,475	$1,587,319

Projected retiree benefit payments for the next five years are expected to be as follows: 2014 - $45,800; 2015 - $48,900; 2016 - $54,400; 2017 - $60,900; 2018 - $63,900.

The discount rate used in determining the APBO was 6.0% for 2013 and 2012. The health care cost trend rate used to compute the APBO is a 8% annual rate of increase for 2007, and decreasing gradually to 5.5%, then remain at that level thereafter.

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 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 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.

* * * * * *

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, 2013 and 2012 and for the years then ended appears on page 1. My audits were 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

Alan M. Zumstein, CPA
June 12, 2013

Clark Energy Cooperative and Subsidiary

Consolidating Balance Sheet, April 30, 2013

Assets	Energy	Services	Propane	Eliminations	Consolidated
Net Utility Plant	$ 85,602,955		$ 1,502,272		$ 87,105,227
Investments and Other Assets:					
Associated organizations	16,655,746				16,655,746
Goodwill, net of amortization			258,898		258,898
Subsidiary	1,457,305	1,939,968		(3,397,273)	-
	18,113,051	1,939,968	258,898	(3,397,273)	16,914,644
Current Assets:					
Cash and cash equivalents	472,913	3,105	375,965		851,983
Accounts receivable, less allowance for uncollectible accounts	3,326,898		49,896		3,376,794
Material and supplies, at average cost	411,040		77,201		488,241
Prepayments	669,321		32,105		701,426
	4,880,172	3,105	535,167		5,418,444
Total	108,596,178	1,943,073	2,296,337	(3,397,273)	109,438,315
Members' Equities and Liabilities					
Members' and Stockholder's Equities:					
Capital	-	1,194,000	1,025,121	(2,219,121)	-
Patronage capital and retained earnings	43,310,273	263,305	914,847	(1,178,152)	43,310,273
Accum other comprehensive income	(210,596)				(210,596)
Minority interests and other equities	1,057,725	485,768			1,543,493
	44,157,402	1,943,073	1,939,968	(3,397,273)	44,643,170
Long Term Debt	54,460,216		151,742		54,611,958
Current Liabilities:					
Accounts payable	1,010,923		99,627	-	1,110,550
Short term borrowings	1,600,000				1,600,000
Current portion of long term debt	2,700,000		105,000		2,805,000
Consumer deposits	904,722				904,722
Accrued expenses	1,482,415				1,482,415
	7,698,060	-	204,627	-	7,902,687
Accumulated Postretirement Benefits	1,680,475				1,680,475
Accrued Supplemental Retirement	293,665				293,665
Consumer Advances for Construction	306,360				306,360
Total	$ 108,596,178	$ 1,943,073	$ 2,296,337	$ (3,397,273)	$ 109,438,315

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Comprehensive Income

for the year ended April 30, 2013

	Energy	Services	Propane	Eliminations	Consolidated
Operating Revenues	$49,290,129	$ -	$ 2,444,755	$ -	$ 51,734,884
Operating Expenses:					
Cost of purchases	33,203,088		1,279,817		34,482,905
Distribution - operations and maintenance	5,135,441		444,351		5,579,792
Consumer accounts	1,381,036		200,599		1,581,635
Customer service and information	255,934		-		255,934
Administrative and general	1,452,744	1,285	142,539	-	1,596,568
Depreciation, excluding $283,149 charged to clearing accounts	4,422,453		160,425		4,582,878
Taxes	54,267		17,515		71,782
	45,904,963	1,285	2,245,246		48,151,494
Operating Margins before Interest Charges	3,385,166	(1,285)	199,509		3,583,390
Interest Charges:					
Interest on long term debt	1,687,144		7,670		1,694,814
Other interest	56,444				56,444
	1,743,588		7,670		1,751,258
Operating Margins after Interest Charges	1,641,578	(1,285)	191,839		1,832,132
Nonoperating Margins:					
Interest income	38,639	81	631		39,351
Subsidiary and others	130,148	196,908	4,438	(392,612)	(61,118)
	168,787	196,989	5,069	(392,612)	(21,767)
Patronage Capital, associated organizations	2,206,613				2,206,613
Net Margins	4,016,978	195,704	196,908	(392,612)	4,016,978
Other Comprehensive Income:					
Postretirement benefits	14,208				14,208
Noncontrolling interests		(48,926)			(48,926)
Total Comprehensive Income	$ 4,031,186	$ 146,778	$ 196,908	$ (392,612)	$ 3,982,260

The accompanying notes are an integral part of these statements.

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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MEMBER
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To the Board of Directors
Clark Energy Cooperative

I have audited the financial statements of Clark Energy Cooperative for the year ended April 30, 2013, and have issued my report thereon dated June 12, 2013. I conducted my audit 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 the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the Cooperative for the year ended December 31, 2012, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated June 12, 2013, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding the Cooperative's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended April 30, 2013, of the Cooperative.
  1. The Cooperative has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS Financial and Operating Report, Electric Distribution to RUS:
  1. Agreed amounts reported in RUS Financial and Operating Report, Electric Distribution to the Cooperative's records as of December 31, 2012.

The results of my tests indicate that, with respect to the items tested, the Cooperative complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that the Cooperative had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS Financial and Operating Report, Electric Distribution to RUS and the RUS Financial and Operating Report, Electric Distribution, as of December 31, 2012, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, the Cooperative received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Comments on Other Additional Matters

In connection with my audit of the Cooperative, nothing came to my attention that caused me to believe that the Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);

- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended April 30, 2013, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred credits are as follows:

Consumer advances for construction	$306,360

Clark Energy is a 75% owner of Clark Energy Services Corporation, which owns 100% of the stock of Clark Energy Propane Plus, LLC. Clark Propane distributes propane to residential and commercial customers in and around areas where Clark Energy Cooperative provides electric service. Clark Energy Cooperative's initial investment was $9,000. The investment and profits (losses) are as follows:

	Investment	Profits
Beginning balance	$1,194,000	$116,527
Activity for 2013	-	146,778
Ending balance	$1,194,000	$263,305

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.

Alan M. Zumstein

Alan M. Zumstein, CPA
June 12, 2013