Kentucky 49
Clark Energy Cooperative
and Subsidiary
Winchester, Kentucky

Audited Financial Statements
April 30, 2014 and 2013

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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, 2014 and 2013, 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 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 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 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.

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, 2014 and 2013, 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, 2014, 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.

Other Matter

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information on pages 15-17 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Alan M. Zumstein

Alan M. Zumstein, CPA
June 12, 2014

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Clark Energy Cooperative and Subsidiary

Consolidated Balance Sheets, April 30, 2014 and 2013

	2014	2013
Assets		
Utility Plant, net	$ 87,933,426	$ 87,105,227
Investments and Other Assets:		
Associated organizations and others	19,468,537	16,655,746
Goodwill	258,898	258,898
	19,727,435	16,914,644
Current Assets:		
Cash and cash equivalents	845,877	851,983
Accounts receivable, less allowance for uncollectible accounts	2,221,669	3,376,794
Material and supplies	389,282	488,241
Prepayments	599,821	701,426
	4,056,649	5,418,444
Prepaid Pension Costs	2,585,143	-
Total	$ 114,302,653	$ 109,438,315
Members' Equities and Liabilities		
Members' Equities:		
Patronage capital and retained earnings	$ 47,130,999	$ 43,310,273
Accumulated other comprehensive income	(432,388)	(210,596)
Other equities and minority interest	2,071,085	1,543,493
	48,769,696	44,643,170
Long Term Debt	55,292,967	54,611,958
Current Liabilities:		
Accounts payable	873,454	1,110,550
Short term borrowings	1,400,000	1,600,000
Current portion of long term debt	2,950,000	2,805,000
Consumer deposits	955,758	904,722
Other current and accrued liabilities	1,508,882	1,482,415
	7,688,094	7,902,687
Accumulated Postretirement Benefits	2,012,503	1,680,475
Accrued supplemental retirement	264,505	293,665
Consumer advances for construction	274,888	306,360
Total	$ 114,302,653	$ 109,438,315

The accompanying notes are an integral part of these statements.

Consolidated Statements of Revenue and Comprehensive Income

for the years ended April 30, 2014 and 2013

	2014	2013
Operating Revenues	$ 54,006,223	$ 51,734,884
Operating Expenses:		
Cost of purchases	35,930,013	34,482,905
Distribution - operations and maintenance	5,922,581	5,579,792
Consumer accounts	1,765,335	1,581,635
Customer service and information	336,912	255,934
Administrative and general	1,600,279	1,596,568
Depreciation, excluding $292,239 in 2014 and $283,149 in 2013 charged to clearing accounts	4,714,103	4,582,878
Taxes	155,086	71,782
	50,424,310	48,151,494
Operating Margins before Interest Charges	3,581,913	3,583,390
Interest Charges:		
Interest on long-term debt	1,577,890	1,694,814
Other interest	61,163	56,444
	1,639,053	1,751,258
Operating Margins after Interest Charges	1,942,860	1,832,132
Nonoperating Margins		
Interest income	44,981	39,351
Subsidiary and others	(7,397)	(61,118)
	37,584	(21,767)
Patronage Capital assigned, associated organizations	2,875,999	2,206,613
Net Margins	4,856,443	4,016,978
Other Comprehensive Income:		
Postretirement benefits	(221,792)	14,208
Noncontrolling interests	(41,376)	(48,926)
Total Comprehensive Income	$ 4,593,275	$ 3,982,260

The accompanying notes are an integral part of these statements.

Statements of Changes in Members' Equity
for the years ended April 30, 2013 and 2014

	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 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)
Assign margins				-
Other equities		636,326		636,326
Balance - April 30, 2013	43,310,273	1,543,493	(210,596)	44,643,170
Comprehensive income:				
Net margins	4,856,443			4,856,443
Postretirement benefit obligation				
Amortization			14,208	
Adjustments			(236,000)	(221,792)
Noncontrolling interests				-
Total comprehensive income				4,634,651
Refunds of capital credits	(1,035,717)			(1,035,717)
Transfers to other equity		-		-
Other equities		486,216		486,216
Balance - April, 2014	$ 47,130,999	$ 2,029,709	$ (432,388)	$ 48,728,320

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

Consolidated Statements of Cash Flows

for the years ended April 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margins	$ 4,856,443	$ 4,016,978
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,714,103	4,582,878
Charged to clearing accounts	292,239	256,364
Patronage capital credits assigned	(2,875,999)	(2,206,613)
Change in assets and liabilities:		
Receivables	1,155,125	(1,691,135)
Material and supplies	98,959	45,415
Prepayments and deferred debits	(2,483,538)	(347,632)
Payables	(237,096)	99,728
Consumer deposits and advances	19,564	68,529
Accumulated postretirement benefits	110,236	107,364
Accrued supplemental retirement	(29,160)	(27,382)
Accrued expenses	26,467	28,596
	5,647,343	4,933,090
Cash Flows from Investing Activities:		
Plant additions	(5,466,116)	(5,320,503)
Plant removal costs	(414,450)	(504,826)
Salvage recovered from plant retirements	46,025	69,447
Other investments, net	63,208	32,870
	(5,771,333)	(5,723,012)
Cash Flows from Financing Activities:		
Retire capital credits and dividends	(1,035,717)	(1,404,672)
Capital and other equities	527,592	636,326
Additional long-term borrowings	3,771,123	3,000,000
Payments on long-term debt	(2,945,114)	(2,558,347)
Short term borrowings (repayments)	(200,000)	1,230,000
	117,884	903,307
Net increase in cash	(6,106)	113,385
Cash and cash equivalents - beginning of period	851,983	738,598
Cash and cash equivalents - end of period	$ 845,877	$ 851,983
Supplemental cash flows information:		
Interest paid on long-term debt	$ 1,579,068	$ 1,715,300
Income taxes paid	$ 80,899	$ 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:

	2014	2013
Electric Plant:		
Distribution plant	$104,258,378	$100,745,378
General plant	10,456,598	10,244,437
	114,714,976	110,989,815
Plant under construction	865,262	732,362
	115,580,238	111,722,177
Less accumulated depreciation	29,199,506	26,119,222
Net electric plant	86,380,732	85,602,955
Propane Plant:		
Propane tanks on customers' premises	1,042,016	1,022,015
Bulk tanks	596,483	545,124
Delivery and other trucks	792,935	691,781
Buildings and land	218,073	218,073
Office and other equipment	205,119	191,807
	2,854,626	2,668,800
Less accumulated depreciation	1,301,932	1,166,528
Net propane plant	1,552,694	1,502,272
Net utility plant	$87,933,426	$87,105,227

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 $103,836 at 2014 and $72,311 at 2013. There were no individual account balances that exceeded 10% of outstanding accounts receivable at April 30, 2014 or 2013.

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 $7,000 for 2013 and $10,000 for 2012. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2013 or 2012.

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 2014 or 2013.

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, 2013 or 2012. 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, 2014, 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:

	2014	2013
East Kentucky, patronage capital	$17,514,544	$14,719,558
CFC - CTC's	845,849	849,352
Other associated organizations	853,971	809,423
Cash value of life insurance	254,173	277,413
	$19,468,537	$16,655,746

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, 2014 was 43% of total assets. Patronage capital consists of:

	2014	2013
Assigned to date	$48,174,579	$43,554,526
Assignable	1,396,726	1,160,336
Retirements of capital credits	(2,440,306)	(1,404,589)
	$47,130,999	$43,310,273

Note 4. Short Term Borrowings

At April 30, 2014, Clark Energy had a short term line of credit of $8,500,000 available from CFC. At April 30 2014, Clark Energy had advances of $1,400,000 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:

	2014	2013
Notes due RUS, 3.875% to 6%	$8,568,390	$8,881,997
Notes due FFB, 0.041% to 4.913%	41,489,221	40,872,252
Notes due CFC 3.65% - 5.75%	2,719,111	3,003,038
Fund prepaid pension costs 2.35%	1,537,876	-
Refinance RUS loans, 3.65% - 4.65%	3,768,856	4,402,929
	8,025,843	7,405,967
	58,083,454	57,160,216
Current portion	2,850,000	2,700,000
Long term portion for Clark Energy	55,233,454	54,460,216
East Kentucky 2.75%	159,513	256,742
Current portion	100,000	90,000
Long term portion for Propane Plus	59,513	166,742
Total long term portion	$55,292,967	$54,626,958

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 $8,000,000 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, 2014, the annual principal payments of Clark Energy for the next five years are as follows: 2015 - \$2,850,000; 2016 - \$3,000,000; 2017 - \$3,100,000; 2018 - \$3,200,000; 2019 - \$3,300,000.

As of April 30, 2014, the annual principal payments of Propane Plus for the next five years are as follows: 2015 - \$100,000; 2016 - \$59,513; 2017 - none.

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 2014 and 2013 represent less than 5 percent of the total contributions made to the plan by all participating employers. Clark made contributions to the plan of \$722,086 in 2014 and \$1,061,356 in 2013. There have been no significant changes that affect the comparability of 2014 and 2013.

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, 2013 and 2012 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 2014 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 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 2014 was \$44,657 and 2013 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:

	2014	2013
Projected benefit obligation	($2,012,503)	($1,680,475)
Fair value of plan assets	-	-
Funded status	($2,012,503)	($1,680,475)

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

	2014	2013
Benefit obligation at beginning of year	$1,680,475	$1,587,319
Net periodic benefit cost:		
Service cost	45,735	50,733
Interest cost	89,865	84,867
	135,600	135,600
Benefits paid	(39,572)	(42,444)
Actuarial gain/loss	236,000	-
Benefit obligation at end of year	$2,012,503	$1,680,475

Projected retiree benefit payments for the next five years are expected to be as follows: 2015 - $45,800; 2016 - $48,900; 2017 - $54,400; 2018 - $60,900; 2019 - $63,900.

The discount rate used in determining the APBO was 5.0% for 2014 and 2013. 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 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.

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Clark Energy Cooperative and Subsidiary

Consolidating Balance Sheet, April 30, 2014

Assets	Energy	Services	Propane	Eliminations	Consolidated
Net Utility Plant	$ 86,380,732		$ 1,552,694		$ 87,933,426
Investments and Other Assets:					
Associated organizations	19,468,537				19,468,537
Goodwill, net of amortization			258,898		258,898
Subsidiary	1,588,660	2,116,368		(3,705,028)	-
	21,057,197	2,116,368	258,898	(3,705,028)	19,727,435
Current Assets:					
Cash and cash equivalents	439,965	1,845	404,067		845,877
Accounts receivable, less allowance for uncollectible accounts	2,133,291		88,378		2,221,669
Material and supplies, at average cost	340,734		48,548		389,282
Prepayments	566,817		33,004		599,821
	3,480,807	1,845	573,997		4,056,649
Prepaid Pension Costs	2,585,143				2,585,143
Total	$ 113,503,879	$ 2,118,213	$ 2,385,589	$ (3,705,028)	$ 114,302,653
Members' Equities and Liabilities					
Members' and Stockholder's Equities:					
Capital	$ -	$ 1,194,000	$ 1,025,121	$ (2,219,121)	$ -
Patronage capital and retained earnings	47,130,999	397,069	1,088,838	(1,485,907)	47,130,999
Accum other comprehensive income	(432,388)				(432,388)
Minority interests and other equities	1,543,941	527,144			2,071,085
	48,242,552	2,118,213	2,113,959	(3,705,028)	48,769,696
Long Term Debt	55,233,454		59,513		55,292,967
Current Liabilities:					
Accounts payable	761,337		112,117	-	873,454
Short term borrowings	1,400,000				1,400,000
Current portion of long term debt	2,850,000		100,000		2,950,000
Consumer deposits	955,758				955,758
Accrued expenses	1,508,882				1,508,882
	7,475,977	-	212,117	-	7,688,094
Accumulated Postretirement Benefits	2,012,503				2,012,503
Accrued Supplemental Retirement	264,505				264,505
Consumer Advances for Construction	274,888				274,888
Total	$ 113,503,879	$ 2,118,213	$ 2,385,589	$ (3,705,028)	$ 114,302,653

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Comprehensive Income

for the year ended April 30, 2014

	Energy	Services	Propane	Eliminations	Consolidated
Operating Revenues	$51,283,521	$ -	$ 2,722,702	$ -	$ 54,006,223
Operating Expenses:					
Cost of purchases	34,550,311		1,379,702		35,930,013
Distribution - operations and maintenance	5,421,734		500,847		5,922,581
Consumer accounts	1,539,231		226,104		1,765,335
Customer service and information	336,912		-		336,912
Administrative and general	1,438,703	915	160,661	-	1,600,279
Depreciation, excluding $292,239 charged to clearing accounts	4,535,133		178,970		4,714,103
Taxes	56,472	80,899	17,715		155,086
	47,878,496	81,814	2,464,000		50,424,310
Operating Margins before Interest Charges	3,405,025	(81,814)	258,702		3,581,913
Interest Charges:					
Interest on long term debt	1,572,049		5,841		1,577,890
Other interest	61,163				61,163
	1,633,212		5,841		1,639,053
Operating Margins after Interest Charges	1,771,813	(81,814)	252,861		1,942,860
Nonoperating Margins:					
Interest income	44,628	4	349		44,981
Subsidiary and others	164,003	256,950	3,740	(432,090)	(7,397)
	208,631	256,954	4,089	(432,090)	37,584
Patronage Capital, associated organizations	2,875,999				2,875,999
Net Margins	4,856,443	175,140	256,950	(432,090)	4,856,443
Other Comprehensive Income:					
Postretirement benefits	(221,792)				(221,792)
Noncontrolling interests		(41,376)			(41,376)
Total Comprehensive Income	$ 4,634,651	$ 133,764	$ 256,950	$ (432,090)	$ 4,593,275

The accompanying notes are an integral part of these statements.

Consolidating Statement of Cash Flows

for the year ended April 30, 2014

	Energy	Services	Propane	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$ 4,856,443	$ 175,140	$ 256,950	$ (432,090)	$ 4,856,443
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization					
Charged to expense	4,535,133		178,970		4,714,103
Charged to clearing accounts	292,239				292,239
Patronage capital credits	(2,875,999)				(2,875,999)
(Profit) or loss in subsidiary	(131,355)	(256,950)		388,305	-
Accumulated postretirement benefits	110,236				110,236
Accrued supplemental retirement	(29,160)				(29,160)
Change in assets and liabilities:					
Receivables	1,193,607		(38,482)		1,155,125
Material and supplies	70,306		28,653		98,959
Prepayments and deferred debits	(2,482,639)		(899)		(2,483,538)
Payables	(249,586)	-	12,490	-	(237,096)
Consumer deposits and advances	19,564				19,564
Accrued expenses	26,467				26,467
	5,335,256	(81,810)	437,682	(43,785)	5,647,343
Cash Flows from Investing Activities:					
Plant additions	(5,236,724)		(229,392)		(5,466,116)
Plant removal costs	(414,450)				(414,450)
Salvage recovered from plant	46,025				46,025
Other investments, net	63,208				63,208
	(5,541,941)		(229,392)		(5,771,333)
Cash Flows from Financing Activities:					
Retire of capital credits and dividends	(1,035,717)	82,959	(82,959)		(1,035,717)
Other equities	486,216	(2,409)		43,785	527,592
Long term advances	3,771,123				3,771,123
Payments on long term debt	(2,847,885)		(97,229)		(2,945,114)
Short term borrowings (repayments)	(200,000)		-		(200,000)
	173,737	80,550	(180,188)	43,785	117,884
Net increase in cash	(32,948)	(1,260)	28,102		(6,106)
Cash and cash equivalents - beginning of period	472,913	3,105	375,965		851,983
Cash and cash equivalents - end of period	$ 439,965	$ 1,845	$ 404,067		$ 845,877
Supplemental cash flows information:					
Interest paid on long term debt	$ 1,573,227		$ 5,841		$ 1,579,068
Income taxes paid		$ 80,899			$ 80,899

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

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, 2014 and 2013, 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, 2014.

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 not 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. 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 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, 2014

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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

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 ("the Cooperative"), which comprise the balance sheet as of April 30, 2014, 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 12, 2014. In accordance with *Government Auditing Standards*, we have also issued my report dated June 12, 2014, 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 and my schedule of findings and recommendations 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, 2014, 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;

- 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; and
- Comply with the requirements for the detailed schedule of investments.

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 12, 2014

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To the Board of Directors
Clark Energy Cooperative

I have audited the consolidated financial statements of Clark Energy Cooperative and Subsidiary for the year ended April 30, 2014, and have issued my report thereon dated June 12, 2014. 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, 2013, 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, 2014, 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.

However, I noted the following:

There was a work order performed during the year that did not appear to be necessary. There were several accounting issues related this work order. They are listed as follows:

1. The type of work performed always requires a staking sheet and work order number assigned prior to commencement of any work. However, work was started before either of these occurred.
2. Labor performed prior to getting a work order number was charged to underground inspection when the work was clearly construction. Employees were instructed by a supervisor to record labor in this account to override where labor would normally be recorded.
3. Material was checked out of the warehouse without a material picking list that always accompanies a work order. Since there was not a work order assigned, there was no material picking list. Material should never leave the warehouse without proper documentation. This is essential to proper inventory controls.
4. As a general rule, when overhead is replaced with underground, there is a cost differential that the consumer pays. This is calculated prior to starting work and the consumer is either billed or pays in advance. There was no indication that this occurred prior to starting the work order. The consumer was subsequently billed for the work perfomed.

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, 2014, 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, 2013.

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, 2013, 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, 2014, 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 debits and credits are as follows:

Prepaid pension costs	$2,585,143
Consumer advances for construction	$274,888

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	$263,305
Activity for 2013		133,764
Ending balance	$1,194,000	$397,069

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, 2014