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Clark Energy Cooperative, Inc.
and Subsidiary
Winchester, Kentucky

Audited Financial Statements
April 30, 2018 and 2017

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CONTENTS

Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Balance Sheets	3
Statements of Revenue and Comprehensive Income	4
Statements of Changes in Member's Equities	5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 14
Additional Consolidating Information	
Balance Sheet	15
Statement of Revenue and Comprehensive Income	16
Supplementary Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 18
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers	19 - 20

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Independent Auditor's Report

To the Board of Directors
Clark Energy Cooperative, Inc.

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Clark Energy Cooperative, Inc. and Subsidiary, which comprise the balance sheets as of April 30, 2018 and 2017, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Clark Energy Cooperative, Inc.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clark Energy Cooperative, Inc. and Subsidiary as of April 30, 2018 and 2017, 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 15, 2018, on my consideration of Clark Energy Cooperative, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and should be considered in assessing the results of my audits.

Report on Supplemental Information

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

Alan Zumstein

Alan M. Zumstein, CPA
June 15, 2018

Clark Energy Cooperative and Subsidiary
Consolidated Balance Sheets, April 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Utility Plant, net	\$ 90,312,378	\$ 89,209,193
Investments and Other Assets:		
Associated organizations and others	27,291,041	26,359,109
Goodwill	258,898	258,898
	<u>27,549,939</u>	<u>26,618,007</u>
Current Assets:		
Cash and cash equivalents	1,632,147	1,233,777
Accounts receivable, less allowance for uncollectible accounts	2,262,549	1,871,087
Material and supplies	707,917	601,549
Prepayments	335,122	332,321
	<u>4,937,735</u>	<u>4,038,734</u>
Deferred Debits	<u>2,782,833</u>	<u>2,918,756</u>
Total	<u>\$ 125,582,885</u>	<u>\$ 122,784,690</u>
<u>Members' Equities and Liabilities</u>		
Members' Equities:		
Patronage capital and retained earnings	\$ 56,011,527	\$ 54,784,513
Accumulated other comprehensive income	(805,662)	(728,192)
Other equities and minority interest	2,846,052	2,251,361
	<u>58,051,917</u>	<u>56,307,682</u>
Long Term Debt	<u>56,552,431</u>	<u>53,946,315</u>
Current Liabilities:		
Accounts payable	504,166	970,510
Short term borrowings	1,400,000	2,900,000
Current portion of long term debt	3,247,960	3,176,660
Consumer deposits	1,055,162	1,055,034
Other current and accrued liabilities	1,479,692	1,329,651
	<u>7,686,980</u>	<u>9,431,855</u>
Accumulated Postretirement Benefits	2,908,495	2,712,073
Accrued Supplemental Retirement	128,234	165,149
Consumer Advances for Construction	254,828	221,616
Total	<u>\$ 125,582,885</u>	<u>\$ 122,784,690</u>

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary
Consolidated Statements of Revenue and Comprehensive Income
for the years ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues	<u>\$ 50,732,697</u>	<u>\$ 48,333,112</u>
Operating Expenses:		
Cost of purchases	33,128,841	31,414,577
Distribution - operations	2,364,677	2,499,895
Distribution - maintenance	3,360,305	3,527,354
Consumer accounts	1,585,748	1,698,117
Customer service and information	236,010	191,105
Administrative and general	1,375,693	1,589,154
Depreciation, excluding \$328,563 in 2018 and \$317,743 in 2017 charged to clearing accounts	5,279,662	5,217,122
Taxes	186,001	70,116
Interest on long-term debt	1,384,179	1,226,190
Other interest	59,845	48,211
Other deductions	31,035	23,718
	<u>48,991,996</u>	<u>47,505,559</u>
Operating Margins	<u>1,740,701</u>	<u>827,553</u>
Nonoperating Margins		
Interest income	38,135	42,395
Subsidiary and others	122,029	12,453
	<u>160,164</u>	<u>54,848</u>
Patronage Capital Assigned		
G&T	902,425	2,177,586
Others	100,156	70,386
	<u>1,002,581</u>	<u>2,247,972</u>
Net Margins	2,903,446	3,130,373
Comprehensive Income:		
Postretirement benefits	<u>(77,470)</u>	<u>(366,788)</u>
Total Comprehensive Income	<u>\$ 2,825,976</u>	<u>\$ 2,763,585</u>

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary
Statements of Changes in Members' Equity
for the years ended April 30, 2017 and 2018

	Patronage Capital			Other	Accumulated	Total
	<u>Assigned</u>	<u>Assignable</u>	<u>Retired</u>	<u>Equities</u>	<u>Comprehensive Income</u>	<u>Members' Equity</u>
Balance - April, 2016	\$ 55,054,269	\$ 671,005	\$ (4,071,134)	\$ 2,253,419	\$ (361,404)	\$ 53,546,155
Comprehensive income:						
Net margins	3,130,373					3,130,373
Postretirement benefit obligation						
Amortization					72,530	
Adjustments					(439,318)	(366,788)
Total comprehensive income						2,763,585
Refunds of capital credits						
Other equities	191,727	(191,727)		(2,058)		(2,058)
Balance - April, 2017	58,376,369	479,278	(4,071,134)	2,251,361	(728,192)	56,307,682
Comprehensive income:						
Net margins	2,903,446					2,903,446
Postretirement benefit obligation						
Amortization					64,236	
Adjustments					(141,706)	(77,470)
Total comprehensive income						2,825,976
Refunds of capital credits						
Other equities	(135,983)		(1,540,449)	594,691		(945,758)
Balance - April, 2018	\$ 61,143,832	\$ 479,278	\$ (5,611,583)	\$ 2,846,052	\$ (805,662)	\$ 58,051,917

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

Clark Energy Cooperative and Subsidiary
Consolidated Statements of Cash Flows
for the years ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Net margins	\$ 2,767,444	\$ 3,130,373
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	5,279,662	5,217,122
Charged to clearing accounts	328,563	317,743
Patronage capital credits assigned	(1,002,581)	(2,247,972)
Change in current assets and liabilities:		
Receivables	(391,462)	93,742
Material and supplies	(106,368)	(112,427)
Prepayments and deferred debits	133,122	(144,553)
Payables	(466,344)	(17,276)
Accumulated postretirement benefits	118,952	129,679
Accrued supplemental retirement	(36,915)	(35,228)
Accrued expenses	150,041	84,427
	<u>6,774,114</u>	<u>6,415,630</u>
Cash Flows from Investing Activities:		
Plant additions	(6,301,287)	(5,486,162)
Plant removal costs	(466,164)	(496,774)
Salvage recovered from plant retirements	56,051	84,814
Consumer deposits and advances	33,340	4,273
Other investments, net	79,128	55,419
	<u>(6,598,932)</u>	<u>(5,838,430)</u>
Cash Flows from Financing Activities:		
Retire capital credits and dividends	(1,540,430)	-
Capital and other equities	586,202	(2,058)
Additional long-term borrowings	6,000,000	-
Payments on long-term debt	(3,322,584)	(3,325,540)
Short term borrowings (repayments)	(1,500,000)	2,900,000
	<u>223,188</u>	<u>(427,598)</u>
Net increase in cash	398,370	149,602
Cash and cash equivalents - beginning of period	<u>1,233,777</u>	<u>1,084,175</u>
Cash and cash equivalents - end of period	<u>\$ 1,632,147</u>	<u>\$ 1,233,777</u>
Supplemental cash flows information:		
Interest paid on long-term debt	\$ 1,359,068	\$ 1,217,612
Income taxes paid	\$ 107,675	\$ 7,353

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Clark Energy and Clark Energy Propane Plus, LLC ("Propane Plus"), collectively the Subsidiary. 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.

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.

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:

	<u>2018</u>	<u>2017</u>
<i>Electric Plant:</i>		
Distribution plant	\$118,300,185	\$114,695,982
General plant	<u>11,190,772</u>	<u>11,166,110</u>
	129,490,957	125,862,092
Plant under construction	<u>498,838</u>	<u>383,170</u>
	129,989,795	126,245,262
Less accumulated depreciation	<u>41,030,107</u>	<u>38,459,776</u>
Net electric plant	<u>88,959,688</u>	<u>87,785,486</u>
<i>Propane Plant:</i>		
Propane tanks on customers' premises	1,060,305	1,049,461
Bulk tanks	622,684	604,062
Delivery and other trucks	984,915	944,265
Buildings and land	241,845	238,024
Office and other equipment	<u>244,521</u>	<u>238,439</u>
	3,154,270	3,074,251
Less accumulated depreciation	<u>1,801,580</u>	<u>1,650,544</u>
Net propane plant	<u>1,352,690</u>	<u>1,423,707</u>
Net utility plant	<u>\$90,312,378</u>	<u>\$89,209,193</u>

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

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 \$73,822 at 2018 and \$47,103 at 2017. There were no individual account balances that exceeded 10% of outstanding accounts receivable as of 2018 or 2017.

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 \$22,000 for 2018 and \$12,000 for 2017. There were no individual account balances that exceeded 10% of outstanding accounts receivable as of 2018 or 2017.

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 invoice is received, 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.

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

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.

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

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 2018 or 2017.

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

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

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

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

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

Clark Energy may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

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.

Advertising Clark Energy expenses advertising costs as incurred.

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

Income Tax Status Clark Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Clark Energy include no provision for income taxes. Income taxes for Service Corporation are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes. All tax related issues would be passed on to Service Corporation. Propane Plus uses the same depreciation for book and taxes, therefore, deferred taxes are considered immaterial and are not recorded.

Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Clark Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Clark Energy did not recognize any interest or penalties during the years ended 2018 or 2017, the years' tax returns are filed. Clark Energy's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Subsequent Events Management has evaluated subsequent events through June 15, 2018, 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:

	<u>2018</u>	<u>2017</u>
East Kentucky, patronage capital	\$25,244,777	\$24,342,351
CFC - CTC's	1,158,253	1,152,561
Other associated organizations	727,756	670,879
Cash value of life insurance	160,255	193,318
	<u>\$27,291,041</u>	<u>\$26,359,109</u>

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, 2018 was 46% of total assets.

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 4. Long Term Debt

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

	<u>2018</u>	<u>2017</u>
Notes due RUS, 2.5% to 6.0%	\$-	\$7,507,811
Notes due FFB, 1.738% to 4.506%	48,777,283	44,501,965
Notes due CFC 3.0% - 4.65	3,324,666	1,953,807
Fund prepaid pension costs 2.35%	276,144	636,859
Refinance RUS loans, 3.50%	7,029,664	2,080,458
	10,630,474	4,671,124
	59,407,757	56,680,900
Current portion	3,200,000	3,130,000
Long term portion for Clark Energy	56,207,757	53,550,900
East Kentucky 3.75%	392,634	442,075
Current portion	47,960	46,660
Long term portion for Propane Plus	344,674	395,415
Total long term portion	<u>\$56,552,431</u>	<u>\$53,946,315</u>

The interest rates on the notes to CFC are subject to change every seven years from the repricing date for each individual note. The long term debt is due in quarterly and monthly installments of varying amounts through 2047. Clark Energy has loan funds available from FFB in the amount of \$14,000,000. RUS assess 12.5 basis points to administer the FFB loans. During 2018, Clark Energy refinanced \$7,409,666 of higher interest rate RUS loans with funds from CFC.

During August, 2015, Propane Plus purchased East Kentucky's outstanding stock with a note payable in the amount of \$500,351. The note is for 10 years with an interest rate of 2.75% (prime minus ½%). Monthly principal and interest payments are \$4,740.

As of April 30, 2018, the annual principal payments of Clark Energy for the next five years are as follows: 2019 - \$3,200,000; 2020 - \$3,070,000; 2021 - \$3,200,000; 2022 - \$3,350,000; 2023 - \$3,400,000.

As of April 30, 2018, the annual principal payments of Propane Plus for the next five years are as follows: 2019 - \$47,960; 2020 - \$49,295; 2021 - \$49,500; 2022 - \$52,080; 2023 - \$53,530.

Note 5. Short Term Borrowings

At April 30, 2018, Clark Energy had a short term line of credit of \$8,500,000 available from CFC. At April 30 2018, Clark Energy had advances against the line of credit in the amount of \$1,400,000 at an interest rate of 3.25%.

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

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 2018 and 2017 represent less than 5 percent of the total contributions made to the plan by all participating employers. Clark made contributions to the plan of \$825,910 in 2018 and \$819,745 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017. The contribution rate is 2.0 for employees hired prior to December 31, 2016 and 1.75 for employees hired after December 31, 2016.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was over 85 percent funded at January 1, 2017 and 2016 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

Two prepayment options were available to participating cooperatives:

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

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

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 6. Pension Plan, continued

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

Propane Plus has a profit sharing plan of 10% of net profits, before the pension amount, where managers receive 5% of the plan amount and the remaining employees share the remaining 5%. The pension amount for 2018 was \$64,584 and 2017 was \$23,921.

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:

	<u>2018</u>	<u>2017</u>
Projected benefit obligation	(2,908,495)	(\$2,712,073)
Fair value of plan assets	-	-
Funded status	<u>(\$2,908,495)</u>	<u>(\$2,712,073)</u>

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

	<u>2018</u>	<u>2017</u>
Benefit obligation at beginning of year	<u>\$2,712,073</u>	<u>\$2,215,606</u>
Net periodic benefit cost:		
Service cost	13,147	16,120
Interest cost	110,873	97,400
	124,020	113,520
Benefits paid	(69,304)	(56,371)
Actuarial gain/loss	141,706	439,318
Benefit obligation at end of year	<u>\$2,908,495</u>	<u>\$2,712,073</u>
Amounts included in accumulated comprehensive income:		
Unrecognized actuarial gain (loss)	<u>(\$805,662)</u>	<u>(\$728,192)</u>
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	\$3,097,000	
Net periodic benefit cost	132,000	

Clark Energy Cooperative, Inc. and Subsidiary
Notes to Financial Statements

Note 7. Postretirement Benefits, continued

The discount rate used in determining the APBO was 4.75% for 2018 and 2017. The health care cost trend rate used to compute the APBO is an 8% annual rate of increase for 2018, and decreasing gradually to 5.5%, then remain at that level thereafter.

Projected retiree benefit payments for the next five years are expected to be as follows: 2019 - \$45,800; 2020 - \$48,900; 2021 - \$54,400; 2022 - \$60,900; 2023 - \$63,900.

Note 8. Related Party Transactions

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

Note 9. Environmental Contingency

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

Note 10. Commitments

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

Note 11. Contingencies

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

* * * * *

Clark Energy Cooperative and Subsidiary
Consolidating Balance Sheet, April 30, 2018

	<u>Energy</u>	<u>Subsidiary</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net Utility Plant	\$ 88,959,688	\$ 1,352,690		\$ 90,312,378
Investments and Other Assets:				
Associated organizations	27,291,041			27,291,041
Goodwill, net of amortization		258,898		258,898
Subsidiary	2,035,788		(2,035,788)	-
	<u>29,326,829</u>	<u>258,898</u>	<u>(2,035,788)</u>	<u>27,549,939</u>
Current Assets:				
Cash and cash equivalents	941,069	691,078		1,632,147
Accounts receivable, less allowance for uncollectible accounts	2,207,766	54,783		2,262,549
Material and supplies, at average cost	600,365	107,552		707,917
Prepayments	296,872	38,250		335,122
	<u>4,046,072</u>	<u>891,663</u>		<u>4,937,735</u>
Deferred Debits	<u>2,782,833</u>			<u>2,782,833</u>
Total	<u>\$ 125,115,422</u>	<u>\$ 2,503,251</u>	<u>\$ (2,035,788)</u>	<u>\$ 125,582,885</u>
Members' and Stockholder's Equities:				
Capital	\$ -	\$ 1,592,000	\$ (1,592,000)	\$ -
Patronage capital and retained earnings	56,011,527	1,225,098	(1,225,098)	56,011,527
Accumulated comprehensive income	(805,662)			(805,662)
Other equities	2,839,972	(775,230)	781,310	2,846,052
	<u>58,045,837</u>	<u>2,041,868</u>	<u>(2,035,788)</u>	<u>58,051,917</u>
Long Term Debt	<u>56,207,757</u>	<u>344,674</u>		<u>56,552,431</u>
Current Liabilities:				
Accounts payable	435,417	68,749	-	504,166
Short term borrowings	1,400,000			1,400,000
Current portion of long term debt	3,200,000	47,960		3,247,960
Consumer deposits	1,055,162			1,055,162
Accrued expenses	1,479,692			1,479,692
	<u>7,570,271</u>	<u>116,709</u>	<u>-</u>	<u>7,686,980</u>
Accumulated Postretirement Benefits	2,908,495			2,908,495
Accrued Supplemental Retirement	128,234			128,234
Consumer Advances for Construction	254,828			254,828
Total	<u>\$ 125,115,422</u>	<u>\$ 2,503,251</u>	<u>\$ (2,035,788)</u>	<u>\$ 125,582,885</u>

The accompanying notes are an integral part of these statements.

Clark Energy Cooperative and Subsidiary
Consolidating Statement of Revenue and Comprehensive Income
for the year ended April 30, 2018

	<u>Energy</u>	<u>Subsidiary</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues	<u>\$ 47,962,301</u>	<u>\$ 2,770,396</u>	<u>\$ -</u>	<u>\$ 50,732,697</u>
Operating Expenses:				
Cost of purchases	31,384,437	1,744,404		33,128,841
Distribution - operations	1,973,509	391,168		2,364,677
Distribution - maintenance	3,360,305			3,360,305
Consumer accounts	1,409,158	176,590		1,585,748
Customer service and information	236,010			236,010
Sales	10,523	125,479		
Administrative and general	1,375,693		-	1,375,693
Depreciation, excluding \$344,221 charged to clearing accounts	5,049,589	230,073		5,279,662
Taxes	62,315	123,686		186,001
Interest on long term debt	1,369,035	15,144		1,384,179
Other interest	59,845			59,845
Other deduction	31,035			31,035
Total cost of electric service	<u>46,321,454</u>	<u>2,806,544</u>		<u>49,127,998</u>
Operating Margins	<u>1,640,847</u>	<u>(36,148)</u>		<u>1,604,699</u>
Nonoperating Margins:				
Interest income	37,841	294		38,135
Subsidiary and others	86,175	22,766	13,088	122,029
	<u>124,016</u>	<u>23,060</u>	<u>13,088</u>	<u>160,164</u>
Patronage Capital, associated organizations				
G&T capital credits	902,425			902,425
Others	100,156		-	100,156
	<u>1,002,581</u>			<u>1,002,581</u>
Net Margins	<u>2,767,444</u>	<u>(13,088)</u>	<u>13,088</u>	<u>2,767,444</u>
Comprehensive Income:				
Postretirement benefits	<u>(77,470)</u>			<u>(77,470)</u>
Total Comprehensive Income	<u>\$ 2,689,974</u>	<u>\$ (13,088)</u>	<u>\$ 13,088</u>	<u>\$ 2,689,974</u>

The accompanying notes are an integral part of these statements.

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

To the Board of Directors
Clark Energy Cooperative, Inc.

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clark Energy Cooperative, Inc., which comprise the balance sheets as of April 30, 2018 and 2017, and the related statements of revenue and comprehensive income, member' equities, and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated June 15, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clark Energy's financial statements are free of

To the Board of Directors
Clark Energy Cooperative, Inc.

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

Purpose of this Report

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

Alan Zumstein

Alan M. Zumstein, CPA
June 15, 2018

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

Board of Directors
Clark Energy Cooperative, Inc.

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clark Energy Cooperative, Inc. ("the Cooperative"), which comprise the balance sheet as of April 30, 2018, 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 15, 2018. In accordance with *Government Auditing Standards*, we have also issued my report dated June 15, 2018, on my consideration of the Cooperative's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2018, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

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

Board of Directors
Clark Energy Cooperative, Inc.

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

The deferred debits are as follows:

GPS system	\$689,931
Prepaid pension costs	1,850,902
Substation installation	242,000
	<u>\$2,782,833</u>

The deferred credits are as follows:

Consumer advances for construction	<u>\$254,828</u>
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Clark Energy is a 100% owner of a subsidiary, Clark Energy Services Corporation, which is engaged in the distribution sales of propane gas through a limited liability company (LLC) in and around the areas in which Clark Energy provides electric service. The investment is accounted for using the equity method of accounting. The original investment was \$9,000. The investment is as follows:

	<u>Investment</u>	<u>Profits</u>
Beginning balance	\$1,194,000	\$863,355
Activity for 2018	<u>-</u>	<u>(21,567)</u>
Ending balance	<u>\$1,194,000</u>	<u>\$841,788</u>

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 15, 2018