CLARK ENERGY COOPERATIVE, INC.
AND SUBSIDIARY
KENTUCKY 49

CONSOLIDATED FINANCIAL REPORT

April 30, 2023

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clark Energy Cooperative, Inc. and Subsidiary
Winchester, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Clark Energy Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheets as of April 30, 2023 and 2022, 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 consolidated financial statements.

In our 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, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Clark Energy Cooperative, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clark Energy Cooperative, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Clark Energy Cooperative, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clark Energy Cooperative, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 14, 2023, on our consideration of Clark Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Clark Energy Cooperative, Inc. and Subsidiary's 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 the Clark Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 14, 2023

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
April 30, 2023 and 2022

Assets	2023	2022
Utility Plant, at original cost		
In service	$ 158,097,088	$ 150,577,466
Under construction	862,042	1,401,229
	158,959,130	151,978,695
Less accumulated depreciation	55,502,924	52,319,741
	103,456,206	99,658,954
Investments and Other Assets		
Note receivable, less current portion	103,481	- -
Associated organizations	32,514,848	33,315,936
Goodwill, net of amortization	221,913	258,898
Total investments and other assets	32,840,242	33,574,834
Current Assets		
Cash and cash equivalents	1,538,054	1,817,875
Accounts receivable, less allowance for 2023 of $54,767 and 2022 of $56,156	2,264,366	1,896,892
Current portion of note receivable	68,590	- -
Other receivables	1,022,044	2,871,852
Material and supplies, at average cost	1,623,727	1,069,470
Prepayments and other current assets	220,222	261,471
Total current assets	6,737,003	7,917,560
Deferred Debits	1,579,731	1,879,658
Total assets	$ 144,613,182	$ 143,031,006

Members' Equities and Liabilities	2023	2022
Members' Equities		
Patronage capital and retained earnings	$ 67,188,542	$ 66,279,644
Accumulated other comprehensive (loss)	(1,670,584)	(1,683,784)
Other equities	4,562,859	3,917,938
Total members' equities	70,080,817	68,513,798
Long-Term Liabilities		
Long-term debt, less current portion	60,744,221	62,178,325
Finance lease obligations, less current portion	296,791	175,187
Accumulated postretirement benefits	4,098,018	4,073,816
Total long-term liabilities	65,139,030	66,427,328
Current Liabilities		
Short-term borrowings	2,261,268	861,056
Current portion of long-term debt	3,013,191	3,216,490
Current portion of finance lease obligations	57,094	33,989
Accounts payable	721,717	861,506
Consumer deposits	1,120,230	1,126,068
Accrued expenses	1,921,124	1,736,744
Total current liabilities	9,094,624	7,835,853
Consumer Advances for Construction	298,711	254,027
Total members' equities and liabilities	$ 144,613,182	$ 143,031,006

The Notes to Consolidated Financial Statements are an integral part of these statements.

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended April 30, 2023 and 2022

	2023	2022
Operating Revenues	$ 63,202,589	$ 57,113,383
Operating Expenses		
Cost of power and propane	42,753,544	37,027,382
Distribution - operations	2,940,519	2,685,477
Distribution - maintenance	4,432,839	4,002,891
Consumer accounts	1,749,706	1,714,335
Customer service and information	306,337	306,495
Administrative and general	2,061,982	1,774,016
Depreciation, excluding $370,328 in 2023 and $339,717 in 2022 charged to clearing accounts	6,177,185	5,944,868
Amortization of goodwill	36,985	- -
Interest on long-term debt	1,724,629	1,735,551
Other interest	141,677	39,236
Taxes, other than income	63,549	73,570
Other deductions	38,450	56,569
Total cost of service	62,427,402	55,360,390
Operating Margins	775,187	1,752,993
Nonoperating Margins (Deficits) and Business Income Tax		
Interest income	41,590	60,316
Gain on sale of equipment	47,216	18,767
Unrelated business income tax expense	(178,194)	(157,754)
Other nonoperating income	7,563	1,010,233
	(81,825)	931,562
Patronage Capital Credits		
Generation and transmission	1,506,358	436,925
Other organizations	79,692	100,017
	1,586,050	536,942
Net Margins	2,279,412	3,221,497
Other Comprehensive Income		
Postretirement benefits amortization of net loss	13,200	12,864
Total Comprehensive Income	$ 2,292,612	$ 3,234,361

The Notes to Consolidated Financial Statements are an integral part of these statements.

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended April 30, 2023 and 2022

	Patronage Capital						
	Assigned	Assignable	Retired	Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - April 30, 2021	$ 70,294,768	$ 908,301	$ (8,144,922)	$ 63,058,147	$ 3,889,601	$ (1,696,648)	$ 65,251,100
Comprehensive income:							
Net margins	3,221,497			3,221,497			3,221,497
Postretirement benefit obligation							
Amortization						12,864	12,864
Total comprehensive income							3,234,361
Refunds of capital credits					28,337		28,337
Balance - April 30, 2022	73,516,265	908,301	(8,144,922)	66,279,644	3,917,938	(1,683,784)	68,513,798
Comprehensive income:							
Net margins	2,279,412			2,279,412			2,279,412
Postretirement benefit obligation							
Amortization						13,200	13,200
Total comprehensive income							2,292,612
Refunds of capital credits			(1,370,514)	(1,370,514)	644,921		(725,593)
Balance - April 30, 2023	$ 75,795,677	$ 908,301	$ (9,515,436)	$ 67,188,542	$ 4,562,859	$ (1,670,584)	$ 70,080,817

The Notes to Consolidated Financial Statements are an integral part of these statements.

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended April 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 2,279,412	$ 3,221,497
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	6,177,185	5,944,868
Charged to clearing accounts	370,328	339,717
Amortization of finance lease ROU assets	43,686	- -
Amortization of goodwill	36,985	- -
Amortization of postretirement actuarial adjustment	13,200	12,864
Patronage capital credits	(1,586,050)	(536,942)
(Gain) on sale of equipment	(47,216)	(18,767)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	1,482,334	(600,613)
Material and supplies	(554,257)	(302,583)
Prepayments	41,249	(41,908)
Deferred debits	299,927	181,313
Accounts payable	(139,789)	(77,720)
Consumer deposits	(5,838)	8,398
Accrued expenses	184,380	100,738
Accumulated postretirement benefits	24,202	30,103
Accumulated supplemental retirement	- -	46,066
Consumer advances for construction	44,684	(3,082)
Net cash provided by operating activities	8,664,422	8,303,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(9,480,036)	(7,868,766)
Plant removal costs	(961,437)	(859,936)
Salvage recovered from plant retirements	216,782	107,557
Note receivable	(172,071)	- -
Other investments, net	2,565,332	527,430
Net cash (used in) investing activities	(7,831,430)	(8,093,715)
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships and capital	(1,480,351)	(128,665)
Increase (decrease) in other equities	644,921	(8,349)
Additional long-term borrowings	2,912,000	3,000,000
Payments on long-term debt	(4,549,403)	(3,366,468)
Prinicpal payments on finance lease obligations	(40,192)	(33,254)
Additional short-term borrowings	45,512,603	38,646,158
Payments on short-term borrowings	(44,112,391)	(37,785,102)
Net cash provided by (used in) financing activities	(1,112,813)	324,320
Net increase (decrease) in cash and cash equivalents	(279,821)	534,554
Cash and cash equivalents, beginning of year	1,817,875	1,283,321
Cash and cash equivalents, end of year	$ 1,538,054	$ 1,817,875
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,843,416	$ 1,763,564
Cash payments for income taxes	$ 178,194	$ 157,754
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Vehicle acquired with finance lease	$ 184,900	$ - -

The Notes to Consolidated Financial Statements are an integral part of these statements.

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. 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 accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Principals of consolidation

The consolidated financial statements include the accounts of Clark Energy and Clark Energy Propane Plus, LLC (Propane Plus). Clark Energy is the sole member of Propane Plus. All significant intercompany accounts and transactions have been eliminated. Propane Plus uses a calendar year-end for reporting purposes, and the consolidated financial statements include the activity of Propane Plus for the years ended December 31, 2022 and 2021. There were no events through April 30, 2023 and 2022, that had a material effect on the financial position or results of operations of Propane Plus.

Business activity

Clark Energy provides distribution electric service to residential, business, and commercial consumers in 11 counties in central Kentucky. Propane Plus sells propane and related accessories to residential and commercial customers in central Kentucky. Clark Energy provides overall business direction to Propane Plus.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States 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 consolidated 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 consolidated financial statements.

Utility plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead costs including any construction period interest and taxes. There was no interest required to be capitalized during the years ended April 30, 2023 and 2022.

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' property and equipment consist primarily of propane tanks located on customers' premises, bulk tanks, trucks used for delivery, buildings, and office equipment.

Note 1. Significant Accounting Policies (Continued)

Utility plant (continued)

The major classifications of utility plant in service consist of the following as of April 30, 2023 and 2022:

	2023	2022
Electric Plant:		
General plant	$ 139,790,608	$ 133,702,497
Distribution plant	13,090,727	12,405,580
	152,881,335	146,108,077
Plant under construction	862,042	1,401,229
	153,743,377	147,509,306
Less accumulated depreciation	52,701,312	49,684,116
Net electric plant	101,042,065	97,825,190
Propane Plant:		
Propane tanks on customer premises	2,296,038	1,610,611
Bulk tanks	708,563	708,563
Delivery and other trucks	1,184,607	1,131,571
Land and buildings	769,251	765,460
Office and other equipment	257,294	253,184
	5,215,753	4,469,389
Less accumulated depreciation	2,801,612	2,635,625
Net propane plant	2,414,141	1,833,764
Net utility plant	$ 103,456,206	$ 99,658,954

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 4.16% for distribution plant. General plant rates range from 2.5% to 20%. Propane Plus' depreciation is computed using the straight-line method over the useful lives of its assets. Amortization of assets under capital leases is included in depreciation expense.

Note 1. Significant Accounting Policies (Continued)

Goodwill

Adoption of Accounting Pronouncement

Goodwill was recorded in connection with the purchase of 50% of the interest of Propane Plus from an unrelated party on June 30, 2000. The excess of the payment price over the value of assets acquired, $269,890, was recorded as goodwill. Effective May 1, 2022, Clark Energy adopted Accounting Standards Codification [ASC] 350, *Intangibles - Goodwill and Other*, which extended the alternative for the accounting for goodwill for private companies to not-for-profit entities, such as Clark Energy. As a result, Clark Energy began to amortize goodwill on a straight-line basis over 10 years and made an election to test goodwill for impairment at the entity level. Amortization expense related to goodwill totaled $36,985 for the year ended April 30, 2023. Accumulated amortization totaled $47,977 and $10,992 for the years ended April 30, 2023 and 2022, respectively.

Propane Plus tests goodwill for impairment when a triggering event occurs that indicates the fair value of the entity may be below its carrying value. As of April 30, 2023 and 2022, management does not believe an impairment exists.

Cash and cash equivalents

Clark Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Clark Energy maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

Accounts receivable

Accounts receivable consists of amounts due for sales of electric energy and propane. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Clark Energy and Propane Plus use the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and supplies

Clark Energy and Propane Plus value materials and supplies at the lower of average cost or net realizable value.

Propane inventory

Propane Plus purchases all of its propane requirements from unrelated parties through Kentucky Propane Plus, LLC. Propane is delivered to bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis. Propane is valued at the lower of average cost or net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Note receivable

Propane Plus has an unsecured note receivable with Jackson Energy Propane Plus LLC which is payable over a 36-month period, carries a variable interest rate of 3.25% as of April 30, 2023, and matures on August 27, 2025. The note had a principal balance of $172,071 as of April 30, 2023.

Leases

Adoption of Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Clark Energy adopted the standard effective May 1, 2022, and recognized and measured leases existing at, or entered into after, May 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended April 30, 2022 are made under prior lease guidance in FASB ASC 840.

Clark Energy elected the available practical expedients to account for existing capital leases as finance leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, Clark Energy recognized on May 1, 2022, a lease liability at the carrying amount of the capital lease obligations on April 30, 2022, of $209,176 and a right-of-use asset at the carrying amount of the capital lease asset of $215,933.

The standard did not have a material impact on the consolidated financial statements, the accounting for finance leases remained substantially unchanged.

Clark Energy leases vehicles and determines if an arrangement is a lease at inception. Finance lease right-of-use assets are included in utility plant on the consolidated balance sheets. Finance lease obligations are included in current liabilities and long-term liabilities on the consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Leases (continued)

ROU assets represent Clark Energy's right to use an underlying asset for the lease term and lease liabilities represent Clark Energy's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, Clark Energy uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Clark Energy's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Cost of power

Clark Energy is one of 16 members of East Kentucky Power Cooperative (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. There are certain surcharges, clauses, and credits that East Kentucky includes to Clark Energy that are passed on to consumers using a methodology prescribed by the PSC.

Taxes

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

Advertising

Clark Energy and Propane Plus expense advertising costs as incurred. Advertising expense totaled to $17,756 and $18,993 for the years ended April 30, 2023 and 2022, respectively.

Comprehensive income (loss)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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 and workers compensation. Each of these areas is covered through the purchase of commercial insurance.

Credit risk

Clark Energy grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Income tax status

Clark Energy qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Clark Energy's tax-exempt purpose is subject to taxation as unrelated business income. Clark Energy is responsible for reporting unrelated business income associated with its wholly owned subsidiary Propane Plus, a limited liability company.

Clark Energy's accounting policy provides that a tax expense/benefits from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Clark Energy has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Clark Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Clark Energy did not recognize any interest or penalties during the years ended April 30, 2023 and 2022.

Clark Energy's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Management services

Propane Plus is one of four propane companies that contracts with an individual who manages the day-to-day operations of each propane company and arranges for the purchase of bulk propane. Propane Plus shares the cost equally for the labor, benefits, and other costs of this manager.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Pension accounting

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the consolidated statements of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending April 30, 2024.

Clark Energy is currently in the process of evaluating the impact of the adoption of this ASU on the consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through July 14, 2023, the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Revenue from contracts

Clark Energy is engaged in the distribution and sale of electricity to residential and commercial customers in 11 counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Clark Energy satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by Clark Energy. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 15 days of the date of the bill. Revenue related to pole attachments are billed annually in arrears in December. The performance obligation is satisfied ratably over the life of the contract and revenue is recognized monthly as earned.

Propane Plus is engaged in the delivery and sale of propane gas to residential and commercial customers in and around the central Kentucky area, and the sale of propane gas appliances and parts. Revenue from these activities is generated from a price list determine by the board of directors based on the season and availability of obtaining propane in the market. Propane Plus satisfies their performance obligation upon the delivery of propane to customers. Each truck has a meter to measure the amount of propane gas delivered to the customer. The amount of revenue recognized is the billed volume of propane gas multiplied by the established rate. Customers are billed at the time of delivery and receive a discount if paid within 14 days of delivery. When customers request a tank on their premises, they agree to purchase all propane needs from Propane Plus.

Significant judgements

Clark Energy has multiple billing cycles that process customer bills on approximately the same day each month. The amounts billed are based on actual meter readings of kilowatt hours used for the billing period. The amount of revenue recorded each month represents a full month of kilowatt hour usage. There are no significant judgements for over or under-billed revenues because each month’s revenue is based on actual meter readings. This method of revenue recognition presents fairly, Clark Energy’s transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC. Propane Plus recognizes revenue at the point when customer orders are delivered, therefore, there are no unbilled or overbilled amounts to recognize.

Performance obligations

Clark Energy and Propane Plus customers generally have no minimum purchase commitments. Clark Energy and Propane Plus recognize revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of April 30, 2023 and 2022.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows Clark Energy and Propane Plus revenues from contracts with customers disaggregated by customer class, for the years ended April 30, 2023 and 2022:

	2023	2022
Residential	$ 44,894,692	$ 41,023,359
Small commercial	11,444,609	10,017,293
Large commercial	1,161,567	920,739
Public lights	167,140	143,354
Rent from electric property	748,329	699,864
Penalties	499,370	462,837
Miscellaneous services	135,915	145,196
Propane	4,150,967	3,700,741
Total	$ 63,202,589	$ 57,113,383

Contract assets and liabilities

Contract assets include unbilled pole attachments and are included in other receivables on the balance sheet. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of April 30:

	2023	2022	2021
Contract assets			
Unbilled pole attachments	$ 268,378	$ 233,120	$ 215,280
Contract liabilities			
Consumer deposits	$ 1,120,230	$ 1,126,068	$ 1,166,583

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of April 30, 2023 and 2022:

	2023	2022
East Kentucky, patronage capital	$ 29,965,398	$ 29,528,473
Economic development loans	- -	1,407,392
CFC, CTCs	776,692	778,316
UUS, patronage capital	417,755	388,835
CFC, patronage capital	298,237	310,620
Federated Insurance, patronage capital	236,930	236,930
Other associated organizations	819,836	665,370
Total	$ 32,514,848	$ 33,315,936

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations (Continued)

Clark Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (CFC) are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest ranging from zero to 5.00% and are scheduled to mature at varying times from 2025 to 2080. The economic development loans are secured by a portion of the assets pledged by Clark Energy's consumers or guarantees from local banks. The notes are zero interest rate loans.

Note 4. Leases

Clark Energy has finance leases for vehicles. The leases have remaining lease terms of 5 years to 7 years. As of April 30, 2023, assets recorded under finance leases were $465,681 and accumulated depreciation associated with finance leases was $99,443. The ROU assets are included with utility plant on the consolidated balance sheets.

The components of lease expense were as follows for the year ended April 30:

	2023
Finance lease cost	
Right-of-use asset amortization	$ 43,686
Interest expense	6,741
Total lease cost, net	$ 50,427

Other information related to leases was as follows for the year ended April 30:

Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 5,576
Financing cash flows from finance leases	$ 40,191
Right-of-use assets obtained in exchange for lease obligations	
Finance leases	$ 391,797
Weighted average remaining lease term	
Finance leases	5.80 years
Weighted average discount rate	
Finance leases	4.07%

Note 4. Leases (Continued)

Future undiscounted lease payments for finance leases with initial terms of one year or more as of April 30, 2023, were as follows:

2024	$ 70,154
2025	70,154
2026	70,154
2027	70,154
2028	63,782
Thereafter	54,761
	399,159
Less imputed interest	(45,274)
Net lease liabilities	$ 353,885

As of April 30, 2022, Clark Energy's finance (capital) lease was accounted for under ASC 840, Leases. Clark Energy leased one of its vehicles under a capital lease. The economic substance of the lease is that Clark Energy is financing the acquisition of the asset through the lease, and accordingly, it is recorded in Clark Energy's assets and liabilities. The following is an analysis of the leased asset included in utility plant:

	2022
Vehicle	$ 266,948
Less accumulated amortization	(51,015)
Total	$ 215,933

Note 5. 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 30.00% 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 25.00% of the net margins for the next preceding year, Clark Energy may distribute the difference between 25.00% and the payments made to such estates. Clark Energy's equity at April 30, 2023 and 2022 was 48.46% and 47.90% of total assets, respectively.

Note 6. Long-Term Debt

All assets of Clark Energy, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2056. Long-term debt consists of the following as of April 30, 2023 and 2022:

	2023	2022
Clark Energy		
Notes due FFB, 1.118% - 4.506%	$ 58,636,977	$ 57,985,647
Economic Development, USDA, no interest	- -	1,444,430
Notes due CFC:		
Notes due at 3.65% - 4.65%	940,623	1,098,985
Note to fund prepaid pension cost, 4.65%	- -	115,967
Notes to refinance RUS loans, 3.50%	4,179,812	4,749,786
	63,757,412	65,394,815
Less current portion	3,013,191	3,216,490
Long-term portion	$ 60,744,221	$ 62,178,325

The interest rates on the notes to CFC are subject to repricing at various dates for each individual note. RUS assesses 12.5 basis points to administer the FFB loans. As of April 30, 2023 and 2022, there was $26,000,000 and $2,912,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

As of April 30, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 3,013,191
2025	3,161,366
2026	3,242,537
2027	6,296,530
2028	3,176,716
Thereafter	44,867,072
	$ 63,757,412

Note 7. Short-Term Borrowings

As of April 30, 2023 and 2022, Clark Energy had a short-term line of credit of $5,000,000 available from CoBank with variable interest rates of 7.02% and 3.13%, respectively. There were no advances against the line of credit as of April 30, 2023 and 2022, and the line of credit matures in February 2024. Additionally, Clark Energy had a line of credit of $8,500,000 available from CFC with variable interest rates of 6.75% and 2.45% as of April 30, 2023 and 2022, respectively. Advances against the line of credit were $2,261,268 and $861,056 as of April 30, 2023 and 2022, respectively. The CFC line of credit matures in December 2049.

Note 8. Pension Plans

All eligible employees of Clark Energy participate in the NRECA Retirement and Security Plan (RS 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 Energy's contributions to the RS Plan in 2023 and 2022 represent less than 5.00% of the total contributions made to the plan by all participating employers. Clark Energy made contributions to the plan of $837,905 in 2023 and $829,401 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022. The benefit factor is 2.0 for employees hired prior to December 31, 2016, and 1.75 for employees hired after December 31, 2016.

In the RS 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 RS Plan was over 85 percent funded at January 1, 2023 and 2022 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 RS 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 RS 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 RS 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 RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

Two prepayment options were available to participating cooperatives:

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

Note 8. Pension Plans (Continued)

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS 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 RS Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA).

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on net utility plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its total assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the RS Plan prepayment to be permitted debt and accordingly, it will be excluded from the application of Section 6.13(e). During May, 2013, Clark Energy made an accelerated payment to NRECA in the amount of $2,753,407. The payment was funded with $1,000,000 from 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 where employees, managers, and the chief operating officer receive a portion of the net profits. The profit-sharing percentage was 14% for the years ended December 31, 2022 and 2021. The pension contribution amount was $119,713 and $101,413 for the years ended December 31, 2022 and 2021, respectively.

Note 9. Postretirement Benefits

Clark Energy sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees contribute a portion of the cost of coverage. The following is a reconciliation of the postretirement obligation. The plan is unfunded and there have been no significant changes that affect the comparability of 2023 and 2022.

The funded status of the plan was as follows as of April 30, 2023 and 2022:

	2023	2022
Projected benefit obligation	$ (4,098,018)	$ (4,073,816)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,098,018)	$ (4,073,816)

Note 9. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended April 30, 2023 and 2022:

	2023	2022
Benefit obligation at beginning of year	$ 4,073,816	$ 4,027,750
Components of net periodic benefit cost:		
Service cost	36,547	34,227
Interest cost	70,252	67,309
Net periodic benefit cost	106,799	101,536
Benefits paid	(82,597)	(55,470)
Benefit obligation at end of year	$ 4,098,018	$ 4,073,816
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,098,018	$ 4,073,816
Amounts included in other comprehensive income:		
Amortization of net loss	$ 13,200	$ 12,864
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 4,323,000	
Net periodic benefit cost	$ 112,700	

For measurement purposes, an annual rate of increase of 6.00% in 2019, then decreasing by .25% per year until 3.00% per year, in the per capita cost of covered healthcare benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50% in 2023 and 2022.

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $50,507; 2025 - $50,171; 2026 - $49,543; 2027 - $49,081; 2028 - $48,623.

Note 10. Commitments

Clark Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other 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. Related Party Transactions

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Environmental Contingency

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

Note 13. Contingencies

Clark Energy, on occasion, 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 consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Clark Energy Cooperative, Inc. and Subsidiary
Winchester, Kentucky

We have audited the consolidated financial statements of Clark Energy Cooperative, Inc. and Subsidiary as of and for the years ended April 30, 2023 and 2022, and our report thereon dated July 14, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 25 and 26 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 consolidated financial statements. The consolidating 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 consolidated 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 our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 14, 2023

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
April 30, 2023

Assets	Clark Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost				
In service	$ 152,881,335	$ 5,215,753	$ - -	$ 158,097,088
Under construction	862,042	- -	- -	862,042
	153,743,377	5,215,753	- -	158,959,130
Less accumulated depreciation	52,701,312	2,801,612	- -	55,502,924
	101,042,065	2,414,141	- -	103,456,206
Investments and Other Assets				
Note receivable, less current portion	- -	103,481	- -	103,481
Associated organizations	32,514,848	- -	- -	32,514,848
Goodwill, net of amortization	- -	221,913	- -	221,913
Investment in subsidiary	4,100,868	- -	(4,100,868)	- -
Total investments and other assets	36,615,716	325,394	(4,100,868)	32,840,242
Current Assets				
Cash and cash equivalents	432,981	1,105,073	- -	1,538,054
Accounts receivable, less allowance for Energy of $38,333 and Propane of $16,434	2,041,474	222,892	- -	2,264,366
Current portion of note receivable	- -	68,590	- -	68,590
Other receivables	1,022,044	- -	- -	1,022,044
Material and supplies, at average cost	1,378,601	245,126	- -	1,623,727
Prepayments and other current assets	147,033	73,189	- -	220,222
Total current assets	5,022,133	1,714,870	- -	6,737,003
Deferred Debits	1,579,731	- -	- -	1,579,731
Total assets	$ 144,259,645	$ 4,454,405	$ (4,100,868)	$ 144,613,182

Members' Equities and Liabilities	Clark Energy	Propane Plus	Eliminations	Consolidated
Members' Equities				
Memberships and capital	$ - -	$ 1,164,000	$ (1,164,000)	$ - -
Patronage capital and retained earnings	67,188,542	3,008,201	(3,008,201)	67,188,542
Accumulated other comprehensive (loss)	(1,670,584)	- -	- -	(1,670,584)
Other equities	4,491,526	- -	71,333	4,562,859
Total members' equities	70,009,484	4,172,201	(4,100,868)	70,080,817
Long-Term Liabilities				
Long-term debt, less current portion	60,744,221	- -	- -	60,744,221
Finance lease obligations, less current portion	296,791	- -	- -	296,791
Accumulated postretirement benefits	4,098,018	- -	- -	4,098,018
Total long-term liabilities	65,139,030	- -	- -	65,139,030
Current Liabilities				
Short-term borrowings	2,261,268	- -	- -	2,261,268
Current portion of long-term debt	3,013,191	- -	- -	3,013,191
Current portion of finance lease obligations	57,094	- -	- -	57,094
Accounts payable	712,921	8,796	- -	721,717
Consumer deposits	980,466	139,764	- -	1,120,230
Accrued expenses	1,787,480	133,644	- -	1,921,124
Total current liabilities	8,812,420	282,204	- -	9,094,624
Consumer Advances for Construction	298,711	- -	- -	298,711
Total members' equities and liabilities	$ 144,259,645	$ 4,454,405	$ (4,100,868)	$ 144,613,182

CLARK ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended April 30, 2023

	Clark Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 59,051,622	$ 4,150,967	$ - -	$ 63,202,589
Operating Expenses				
Cost of power and propane	40,967,095	1,786,449	- -	42,753,544
Distribution - operations	2,204,007	736,512	- -	2,940,519
Distribution - maintenance	4,432,839	- -	- -	4,432,839
Consumer accounts	1,417,214	332,492	- -	1,749,706
Customer service and information	306,337	- -	- -	306,337
Administrative and general	1,825,723	236,259	- -	2,061,982
Depreciation, excluding $370,328 charged to clearing accounts	5,966,057	211,128	- -	6,177,185
Amortization of goodwill	- -	36,985	- -	36,985
Interest on long-term debt	1,724,629	- -	- -	1,724,629
Other interest	141,677	- -	- -	141,677
Taxes, other than income	52,690	10,859	- -	63,549
Other deductions	38,450	- -	- -	38,450
Total cost of service	59,076,718	3,350,684	- -	62,427,402
Operating Margins (Deficits)	(25,096)	800,283	- -	775,187
Nonoperating Margins (Deficits) and Business Income Tax				
Interest income	36,037	5,553	- -	41,590
Gain on sale of equipment	47,216	- -	- -	47,216
Unrelated business income tax expense	(178,194)	- -	- -	(178,194)
Other nonoperating income	813,399	12,274	(818,110)	7,563
	718,458	17,827	(818,110)	(81,825)
Patronage Capital Credits				
Generation and transmission	1,506,358	- -	- -	1,506,358
Other organizations	79,692	- -	- -	79,692
	1,586,050	- -	- -	1,586,050
Net Margins	2,279,412	818,110	(818,110)	2,279,412
Other comprehensive Income				
Postretirement benefits amortization of net loss	13,200	- -	- -	13,200
Total Comprehensive Income	$ 2,292,612	$ 818,110	$ (818,110)	$ 2,292,612

INDEPENDENT AUDITOR'S 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. and Subsidiary
Winchester, Kentucky

We 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, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of April 30, 2023 and the related consolidated statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated July 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free of material misstatement, we 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 14, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
Clark Energy Cooperative, Inc. and Subsidiary
Winchester, Kentucky

We 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 consolidated financial statements of Clark Energy Cooperative, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of April 30, 2023, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 14, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2023, on our consideration of the Corporation's internal control over financial reporting and on our 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 our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation 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 and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation'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 our audit, we noted no matters regarding the Corporation's accounting and records to indicate that the Corporation 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;

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- Disclose material related party transactions in the consolidated 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	$	487,131
Prepaid pension costs		933,100
Substation installation		159,500
	$	1,579,731

The deferred credits are as follows:

Consumer advances for construction	$	298,711

Clark Energy Cooperative, Inc. is a 100% owner of a subsidiary, Clark Energy Propane Plus, LLC, which is engaged in the distribution sales of propane gas in and around the areas in which Clark Energy provides electric service. The activity of the subsidiary is as follows for the year ended April 30, 2023:

		Investment
Beginning balance	$	3,460,952
Net income		818,110
Distributions		(178,194)
Ending balance	$	4,100,868

The purpose of this report is solely to communicate, in connection with the audit of the consolidated financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 14, 2023