

Central Plains Energy Project

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Central Plains Energy Project
June 30, 2008 and 2007

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows.....	7
Notes to Financial Statements	8



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Central Plains Energy Project
Lincoln, Nebraska

We have audited the accompanying balance sheets of Central Plains Energy Project as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007. These financial statements are the responsibility of Central Plains Energy Project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Plains Energy Project as of June 30, 2008 and 2007, and the changes in its financial position and cash flows year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 23, 2008

BKD, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Central Plains Energy Project's ("CPEP's") financial performance provides an overview of CPEP's financial activities for the year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007. Please read this information in conjunction with the accompanying financial highlights, the basic financial statements and the accompanying notes to the financial statements.

CPEP was created in August 2006 pursuant to an Interlocal Cooperation Agreement for the purpose of, among other things, securing reliable and economical supplies of natural gas for the benefit of municipal utilities. CPEP's current members include the Metropolitan Utilities District of Omaha, Nebraska ("MUD"), the City of Hastings, Nebraska ("Hastings"), and the Municipal Gas Utility of the City of Cedar Falls, Iowa ("CFU").

Central Plains Energy Project, Gas Project Revenue Bonds (Project No. 1) – Series 2007A and Series 2007B ("Project No. 1") were issued on February 21, 2007. Project No. 1 provided for the acquisition by CPEP of the right to receive approximately 100 billion cubic feet of natural gas from J. Aron. This gas is to be delivered to CPEP at designated delivery points in specified daily quantities each month over the approximately 20-year (238-month) term of the Prepaid Natural Gas Sales Agreement.

Financial Analysis

The following condensed financial statements summarize CPEP's financial position and operating results for the year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007.

Condensed Balance Sheets

	June 30,		Variance 2008 to 2007
	2008	2007	
Assets			
Current assets	\$ 51,941,662	\$ 52,025,319	\$ (83,657)
Prepaid gas supply, long-term	434,867,224	461,376,429	(26,509,205)
Restricted investments - noncurrent	37,960,000	37,960,000	-
Costs recoverable from future billings	6,297,223	-	6,297,223
Other noncurrent assets	4,518,149	4,792,522	(274,373)
Total assets	<u>\$ 535,584,258</u>	<u>\$ 556,154,270</u>	<u>\$ (20,570,012)</u>
Liabilities and Net Assets (Deficit)			
Current liabilities	\$ 22,354,713	\$ 21,374,788	\$ 979,925
Costs refundable from future billings	-	259,730	(259,730)
Long-term debt	513,309,325	534,514,416	(21,205,091)
Total liabilities	<u>535,664,038</u>	<u>556,148,934</u>	<u>(20,484,896)</u>
Unrestricted net assets (deficit)	<u>(79,780)</u>	<u>5,336</u>	<u>(85,116)</u>
Total net assets (deficit)	<u>(79,780)</u>	<u>5,336</u>	<u>(85,116)</u>
Total liabilities and net assets (deficit)	<u>\$ 535,584,258</u>	<u>\$ 556,154,270</u>	<u>\$ (20,570,012)</u>

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Period Ended June 30,</u>		<u>Variance</u>
	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
Operating revenues	\$ 43,029,114	\$ 22,912,102	\$ 20,117,012
Operating expenses	<u>(28,849,235)</u>	<u>(15,243,524)</u>	<u>(13,605,711)</u>
Operating income	<u>14,179,879</u>	<u>7,668,578</u>	<u>6,511,301</u>
Nonoperating revenues (expenses)			
Net costs to be recovered in future periods	6,556,954	(259,730)	6,816,684
Member rebates, net	(1,098,260)	-	(1,098,260)
Investment income	3,018,536	966,361	2,052,175
Interest expense	(22,104,991)	(8,092,972)	(14,012,019)
Other	<u>(637,234)</u>	<u>(276,901)</u>	<u>(360,333)</u>
Net nonoperating expenses	<u>(14,264,995)</u>	<u>(7,663,242)</u>	<u>(6,601,753)</u>
Increase (decrease) in net assets	<u>\$ (85,116)</u>	<u>\$ 5,336</u>	<u>\$ (90,452)</u>

2008 Financial Highlights

Operating Revenues:

- The increase in operating revenues is due to an entire fiscal year of gas deliveries during 2008 versus six months during 2007 on Project No 1.

Operating Expenses:

- Operating expenses increased due to increased legal fees for litigation during the year and a full year of operation during 2008 versus six months during 2007.

2007 Financial Highlights

Balance Sheet

- Total assets and liabilities result from the issuance of revenue bonds related to Project No. 1.

Operating Revenues:

- Operating revenues consist of the gas deliveries beginning in January 2007 to MUD and CFU. The monthly revenue is based on a specified index less a discount from such index price. The discount is adjusted by an administrative fee that is used to cover administrative expenses and is approved by the CPEP Board of Directors.

Operating Expenses:

- Operating expenses consist primarily of the amortization of the gas supplies in connection with Project No. 1.

Nonoperating Revenues and (Expenses)

- Nonoperating revenues consist primarily of interest income on restricted assets held in connection with Project No. 1.
- Nonoperating expenses consist primarily of interest expense related to Project No. 1. Other expenses include net costs to be recovered in future periods. Under SFAS 71, certain income and expense items are deferred and not included in the determination of net income until such costs are recoverable.

General Trends and Significant Events

There has been a great deal of activity nationally involving the use of tax-exempt bond proceeds to pre-pay for natural gas supplies by public entities. This is a result of the development of favorable federal rules and regulations regarding this use of tax-exempt bond proceeds and market conditions which have resulted in significant economic benefits for public entities who have participated. The presence of several interested and competitive supply sources combined with favorable interest rate and capital market conditions have led to the issuance of over \$19 billion of tax-exempt bonds in the U.S. since early 2006.

CPEP is not solely focused on the development of projects involving the issuance of bonds by the entity. CPEP also intends to consider participation in projects developed and issued by other joint action groups who are willing to include non-member participants. CPEP is also continually evaluating supply options not related to the use of tax-exempt bond proceeds. However, the use of tax-exempt bonds for the prepayment of natural gas is anticipated to be a primary focus of the public gas supply market during the next fiscal year.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about CPEP's financial position and activities. The balance sheets present CPEP's assets, liabilities and net assets (deficit) as of June 30, 2008 and 2007. The statements of revenues, expenses and changes in net assets present CPEP's operating results and changes in net assets for the year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007. The statements of cash flow provide information about the flow of cash within CPEP by activities for the year ended June 30, 2008 and for the period August 15, 2006 to June 30, 2007. The notes to the financial statements provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Report of Management

CPEP has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that CPEP's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of CPEP in conformity with accounting principles generally accepted in the United States of America. If you have questions about this report or need additional financial information, contact our Project Manager at the address shown below.

Central Plains Energy Project
3100 South 61st Ave
Omaha, Nebraska 68106-3621
402-504-7771

James J. Knight
Project Manager

Central Plains Energy Project

Balance Sheets

June 30, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 595,736	\$ 2,224,025
Accounts receivable	1,912,320	1,556,392
Accrued interest receivable	5,373	10,747
Prepaid expenses	30,336	5,000
Restricted short-term investments	22,888,692	20,211,235
Prepaid gas supply, current	26,509,205	28,017,920
Total current assets	51,941,662	52,025,319
Noncurrent Assets		
Restricted investments	37,960,000	37,960,000
Prepaid gas supply, long-term	434,867,224	461,376,429
Deferred bond issue costs	4,518,149	4,792,522
Costs recoverable from future billings	6,297,223	-
Total noncurrent assets	483,642,596	504,128,951
Total assets	\$ 535,584,258	\$ 556,154,270
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,944,713	\$ 8,929,788
Current maturities of long-term debt	19,410,000	12,445,000
Total current liabilities	22,354,713	21,374,788
Costs Refundable from Future Billings	-	259,730
Long-term Debt	513,309,325	534,514,416
Net Assets (Deficit)		
Unrestricted	(79,780)	5,336
Total net assets (deficit)	(79,780)	5,336
Total liabilities and net assets (deficit)	\$ 535,584,258	\$ 556,154,270

Central Plains Energy Project
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008 and for the
Period August 15, 2006 to June 30, 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Gas supply	\$ 42,343,590	\$ 22,843,212
Administrative service fee	685,524	68,890
	<u>43,029,114</u>	<u>22,912,102</u>
Operating Expenses		
Cost of gas sold	28,017,920	15,114,904
Administrative and general	831,315	128,620
	<u>28,849,235</u>	<u>15,243,524</u>
Operating Income	<u>14,179,879</u>	<u>7,668,578</u>
Nonoperating Revenues (Expenses)		
Investment income	3,018,536	966,361
Net costs to be recovered in future periods	6,556,954	(259,730)
Member rebates, net	(1,098,260)	-
Interest expense	(22,104,991)	(8,092,972)
Amortization of debt issuance costs	(274,373)	(148,017)
Arbitrage rebates and bond fees	(362,861)	(128,884)
	<u>(14,264,995)</u>	<u>(7,663,242)</u>
Increase (Decrease) in Net Assets	(85,116)	5,336
Net Assets, Beginning of Period	<u>5,336</u>	<u>-</u>
Net Assets (Deficit), End of Period	<u>\$ (79,780)</u>	<u>\$ 5,336</u>

Central Plains Energy Project
Statements of Cash Flows
Year Ended June 30, 2008 and for the
Period August 15, 2006 to June 30, 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Cash received from customers	\$ 42,673,186	\$ 21,355,710
Cash paid to other suppliers of goods and services	(412,995)	(94,377)
Payment to gas supplier	-	(504,509,253)
	<u>42,260,191</u>	<u>(483,247,920)</u>
Net cash provided by (used in) operating activities		
Noncapital Financing Activities		
Proceeds from issuance of long-term debt	-	547,628,105
Principal payments on long-term debt	(12,445,000)	-
Member rebates	(1,098,260)	-
Interest paid	(30,691,674)	-
Payment of bond issue costs	-	(4,940,539)
	<u>(44,234,934)</u>	<u>542,687,566</u>
Net cash provided by (used in) noncapital financing activities		
Investing Activities		
Interest received on investment securities	3,023,910	955,614
Purchases of investment securities	(2,677,456)	(58,171,235)
	<u>346,454</u>	<u>(57,215,621)</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash and Cash Equivalents	(1,628,289)	2,224,025
Cash and Cash Equivalents, Beginning of Period	<u>2,224,025</u>	<u>-</u>
Cash and Cash Equivalents, End of Period	<u>\$ 595,736</u>	<u>\$ 2,224,025</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 14,179,879	\$ 7,668,578
Changes in operating assets and liabilities		
Accounts receivable	(355,928)	(1,556,392)
Prepaid expenses	(25,336)	(5,000)
Prepaid gas supply	28,017,920	(489,394,349)
Accounts payable	443,656	39,243
	<u>443,656</u>	<u>39,243</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 42,260,191</u>	<u>\$(483,247,920)</u>

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Central Plains Energy Project (CPEP) is a governmental agency formed under the provisions of the Nebraska Interlocal Cooperation Act and Nebraska non-profit corporation statutes. CPEP was formed to:

- Seek out and secure supplies of long-term, reliable natural gas at below market prices;
- Create economies of scale through aggregation of participant volumes;
- Adopt a “portfolio” strategy of natural gas purchasing to attain diversification of supply and suppliers;
- Minimize the costs and risks of natural gas acquisition to individual participants through joint action; and
- Form supportive long-term business relationships with similarly situated public entities.

CPEP was formed on August 15, 2006 and began the administrative process to secure a gas prepayment project and associated revenue bonds to finance it. CPEP executed the various project agreements and bond indenture documents and began supplying natural gas to customers in January, 2007.

Reporting Entity

In evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to GASB No. 14, *The Financial Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units* includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity’s fiscal dependency on others. CPEP has determined that it has no reportable component units.

Accounting Method

CPEP’s funds are accounted for on the accrual basis of accounting. CPEP’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and License prescribed by the Federal Energy Regulatory Commission (FERC). CPEP prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, CPEP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Accounting Method - Continued

Under the provisions of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, CPEP prescribes rate making recovery for certain transactions. This method includes the standard that debt service requirements, as opposed to interest expense and amortization, are a cost for rate making purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

CPEP considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted of money market mutual funds invested in government securities.

Investments

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Guaranteed investment contracts with financial services companies are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2008 and 2007.

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Prepaid Gas Supply

CPEP prepays for deliveries of natural gas supplies with the proceeds from revenue bonds. Prepaid gas supplies are stated at average cost, as determined by each prepay contract.

Costs Recoverable/Refundable from Future Billings

The Natural Gas Supply Agreements for the project establishes a pricing mechanism outlining the methods for billing customers for the natural gas supply. Expenses in excess of amounts currently billable to customers under the pricing mechanism will be recovered from future billings to customers and are classified as a deferred debit. Current billings in excess of expenses will be returned in future billings or rebates to customers. These amounts are principally related to long-term supply and include interest expense, amortization, and other project costs that are realized at different times than they are billed to customers.

Net Asset Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Classification of Revenues

CPEP has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating revenues include those derived from delivery of gas supplies to customers.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Classification of Revenues - Continued

- Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities such as net costs to be recovered in future periods and investment income.

Derivative Instruments

Derivative instruments are utilized by CPEP to manage market risk and, reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include a commodity swap agreement which convert index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and an interest rate swap agreement which effectively converts CPEP's variable interest rate to a synthetic fixed rate. The financial statements do not reflect any of these instruments as assets or liabilities, and changes in fair value are not reflected in changes in net assets. Gas supply revenues in each operating period include the netting adjustments of the commodity swap agreement. Interest expense in each operating period include the netting adjustments of the interest rate swap agreement.

Income Taxes

In accordance with certain provisions of the Interlocal Cooperation Act and non-profit corporation statutes of Nebraska and related governing laws and regulations, CPEP is exempt from federal and state income taxes.

Reclassification

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Deposits and Investments

Deposits

State statutes require banks either to give bond or to pledge government securities to CPEP in the amount of CPEP's deposits. At June 30, 2008 and 2007, CPEP's deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

Investments

CPEP's investing is performed in accordance with the trust indenture for the gas supply project discussed in Note 3. The trust indenture identifies qualified investments as direct obligations of the United States government or any of its agencies, obligations guaranteed by the United States government or any of its agencies, certificates of deposit, repurchase agreements, guaranteed investment contracts, and certain corporate and municipal bonds.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2008 and 2007

Note 2: Deposits, Investments and Investment Return – Continued

At June 30, 2008 and 2007, CPEP had the following investments, maturities and credit ratings:

	Fair Value	Maturities in Years		Credit Rating
		Less Than 1	More Than 10	
June 30, 2008				
Money market mutual funds - US treasury	\$ 571,650	\$ 571,650	\$ -	N/A
Cash held at trustee	1,943	1,943	-	N/A
Guaranteed investment contracts	60,848,692	-	60,848,692	Unrated
	<u>\$61,422,285</u>	<u>\$ 573,593</u>	<u>\$60,848,692</u>	
June 30, 2007				
Money market mutual funds - US treasury	\$ 1,989,681	\$ 1,989,681	\$ -	N/A
Cash held at trustee	157,402	157,402	-	N/A
Guaranteed investment contracts	58,171,235	-	58,171,235	Unrated
	<u>\$60,318,318</u>	<u>\$ 2,147,083</u>	<u>\$58,171,235</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. While maturities of the guaranteed investment contracts are reflected consistent with the contract maturity, the funds are available for specific uses as identified in the trust indentures and by contract, there is no interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The trust indenture requires corporate bonds to have credit ratings of AA – S & P or Aa3 – Moody's.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 2: Deposits, Investments and Investment Return – Continued

Credit Risk - Continued

During 2008, one of CPEP's investment issuers experienced an insurer downgrade to A2 from Aaa as rated by Moody's Investors Service. In accordance with the investment agreement with this issuer, established under the trust indenture, the issuer delivered, and granted to the Trustee, as custodian, a first and priority security interest in collateral consisting of government agency securities equal to 105% of all amounts invested.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, CPEP would not be able to recover the value of its investment securities that are in the possession of an outside party. None of the underlying securities of CPEP's investments at June 30, 2008 and 2007 are subject to custodial credit risk.

Concentration of Credit Risk

CPEP and the trust indenture place no limit on the amount that may be invested in any one issuer.

	Portfolio Composition	
	June 30,	
	2008	2007
Guaranteed investment contracts		
Transamerica Life Insurance Company	\$ 22,888,692	\$ 20,211,235
MBIA, Inc.	37,960,000	37,960,000

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at June 30, 2008 and 2007 as follows:

	2008	2007
Carrying Value		
Deposits	\$ 22,143	\$ 76,942
Investments	61,422,285	60,318,318
	<u>\$ 61,444,428</u>	<u>\$ 60,395,260</u>

Central Plains Energy Project
Notes to Financial Statements
June 30, 2008 and 2007

Note 2: Deposits, Investments and Investment Return – Continued

Included in the following balance sheet captions:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 595,736	\$ 2,224,025
Restricted short-term investments	22,888,692	20,211,235
Restricted long-term investments	37,960,000	37,960,000
	<u>\$ 61,444,428</u>	<u>\$ 60,395,260</u>

Of the cash and cash equivalents balances reflected above, \$573,593 and \$2,147,083 were restricted for debt service at June 30, 2008 and 2007, respectively.

Note 3: Long-term Debt

Long-term debt at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Revenue bonds		
2007 Series A (Fixed Rate), Gas Project Revenue Bonds (Project No. 1), 5.00% - 5.25%, due December 1, 2007 to 2021	\$ 227,810,000	\$ 240,255,000
2007 Series B (Index Rate), Gas Project Revenue Bonds (Project No. 1), due December 1, 2010 to 2026	288,875,000	288,875,000
	516,685,000	529,130,000
Plus premium	16,034,325	17,829,416
Less current maturities of long-term debt	(19,410,000)	(12,445,000)
Long-term debt	<u>\$ 513,309,325</u>	<u>\$ 534,514,416</u>

In February 2007, CPEP issued \$529,130,000 of gas supply revenue bonds to fund the prepayment of 100,855,393 Mmbtus of gas from J. Aron & Company with deliveries beginning January 1, 2007 and ending October 31, 2026. Metropolitan Utilities District (MUD) and Municipal Gas Utility of the City of Cedar Falls, Iowa (CFU) will purchase the scheduled monthly gas at a specified index less a discount from such index price for the entire term of January 1, 2007 through October 31, 2026.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2008 and 2007

Note 3: Long-term Debt – Continued

CPEP entered into an interest rate swap with J. Aron & Company in connection with the Series 2007B, Gas Project Revenue Bonds. Under the swap agreement, CPEP pays a fixed amount and receives a variable payment computed at 67% of the three month USD-LIBOR rate plus 0.31% to 0.65%. The interest payments reflected in the table below for the Series 2007B variable rate bonds, were calculated based on the interest rate swap agreement (See Note 5) which convert this issue to an effective fixed rate of approximately 3.78% to 4.25%.

Long-term debt activity for 2007 includes the issuance of the above revenue bonds for \$529,130,000. Long term debt activity for 2008 is summarized below:

	Series 2007A	Series 2007B	Total
Balance, July 1, 2007	\$ 240,255,000	\$ 288,875,000	\$ 529,130,000
Less schedule principal payments on bonds	<u>(12,445,000)</u>	<u>-</u>	<u>(12,445,000)</u>
Balance, June 30, 2008	<u>\$ 227,810,000</u>	<u>\$ 288,875,000</u>	<u>\$ 516,685,000</u>

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at June 30, 2008, are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 19,410,000	\$ 23,155,561	\$ 42,565,561
2010	18,370,000	22,323,210	40,693,210
2011	17,350,000	21,648,280	38,998,280
2012	18,015,000	20,870,077	38,885,077
2013	19,130,000	19,941,452	39,071,452
2014-2018	110,060,000	84,544,817	194,604,817
2019-2023	139,275,000	54,723,917	193,998,917
2024-2027	<u>175,075,000</u>	<u>17,549,548</u>	<u>192,624,548</u>
	<u>\$ 516,685,000</u>	<u>\$264,756,862</u>	<u>\$ 781,441,862</u>

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 4: Related Party Transactions

All of CPEP's natural gas sales have been to members. Additionally, all administrative service fees were received from members. At June 30, 2008 and 2007, all accounts receivable are due from members.

CPEP's operating management is engaged under an administrative services contract with another entity. Administrative fees incurred under this contract totaled approximately \$75,000 and \$235,000 during 2008 and 2007, respectively.

Note 5: Derivative Instruments

GASB Technical Bulletin No. 2003-1 provides guidance for derivative instrument disclosures. The bulletin applies only to derivatives that are not reported at fair value in the financial statements. Those disclosures are as follows:

Commodity Swap Agreements

Objective of Swaps: CPEP has entered into floating to fixed commodity swap (a "Commodity Swap") in connection with the natural gas prepay transaction. The purpose of the Commodity Swap is to correlate gas sales revenue CPEP receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.

Terms: The Commodity Swap extends to the date of the final maturity of the related Natural Gas Supply Agreement. The Commodity Swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas sold pursuant to the related Natural Gas Supply Agreement. Payments under the Commodity Swap are based on nationally published gas indices at the gas delivery points.

Fair Value: As of June 30, 2008, the Commodity Swap had an approximate negative fair value of \$51,700,000.

This negative fair value represents the present value of the differences of the monthly fixed prices in the related Commodity Swap, less the forward price curve at the gas delivery points based on market consensus, adjusted for basis differential and multiplied by the corresponding monthly gas volume using a forward interest rate curve as a discount rate.

CPEP has recorded the long term prepaid gas supply contract asset at cost. Notwithstanding the fact that the swap agreement and the prepaid gas contract are controlled by terms of the bond resolution, on a stand-alone basis the long-term prepaid gas contract has a fair value at June 30, 2008, that exceeds carrying value by an amount which approximates and offsets the negative value of the commodity swap. This valuation is based upon the same pricing methodology as discussed above for the Commodity Swap.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 5: Derivative Instruments – Continued

Commodity Swap Agreements - Continued

Termination Risk: The Commodity Swap terminates in the event of a “triggering event” under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swap entered into in connection with Project No. 1, no payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit Risk: The Commodity Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or Swap Counterparty nonperformance, and in connection with other specified events. Generally, the only amounts due upon termination of the CPEP Commodity Swap would be previously accrued but unpaid amounts. However, if the CPEP Commodity Swap is terminated as a result of CPEP's default or as a result of the termination of the Prepaid Natural Gas Sales Agreement, CPEP would be obligated to pay a termination payment to the Swap Counterparty based on the net present value of the remaining notional quantities of gas during the remaining term multiplied by a fixed amount. If the Swap Counterparty is rated below "A2" by Moody's Investors Service, Inc. or "A" by Standard & Poor's Ratings Services, the Swap Counterparty, within five Local Business Days, must provide CPEP adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to CPEP.

Interest Rate Swap Agreement

Objective of Swaps: CPEP entered into an interest rate swap (the “Interest Rate Swap”) in connection with its Series 2007B Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related Commodity Swap with its variable rate debt service payment on these bonds.

Terms: The Interest Rate Swap extends to the date of the final maturity of these bonds and requires payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the Interest Rate Swap, CPEP pays the counterparty a fixed payment of 3.779%, 4.032% and 4.237% on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2007B Bonds.

Fair Value: As of June 30, 2008, the Interest Rate Swap had an approximate negative fair value of \$11,200,000.

This negative value represents observable market information for Treasury bonds and LIBOR spreads on a given day to construct a smooth yield curve for LIBOR swaps; from this yield curve, a path of future expected floating LIBOR interest rates for CPEP's swap transaction was derived; the floating LIBOR rates were calculated to reflect CPEP's specific LIBOR formulas; the path of the floating payments is then “averaged” together to determine a single fixed rate over the same time horizon. This calculated fixed rate represents the on-market rate as this specific

Central Plains Energy Project

Notes to Financial Statements

June 30, 2008 and 2007

Note 5: Derivative Instruments – Continued

Interest Rate Swap Agreement - Continued

valuation date for a transaction identical to CPEP's swap transactions; the corresponding on-market fixed rate to each actual fixed rate of CPEP's swaps was compared; the difference between the actual rate and the on-market swap rate is multiplied by the applicable notional amount outstanding on each future payment date and a hypothetical payment is generated; these payments are calculated at each future payment date and present-valued back to the valuation date using a zero coupon discount rate derived from the LIBOR swap curve; the sum total of these values is the swap's fair value.

Termination Risk: The Interest Rate Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Interest Rate Swap, no termination payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit risk: The Interest Rate Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or Swap Counterparty nonperformance, and in connection with other specified events. The only amounts due upon termination of the Interest Rate Swap would be previously accrued but unpaid amounts. No termination payment, market-based or otherwise, is to be made by either party in connection with an early termination of the Interest Rate Swap. If the Swap Counterparty's Credit Support Provider is rated below "Baa3" by Moody's Investors Service, Inc. or "BBB-" by Standard & Poor's Ratings Services, the Swap Counterparty, within five Local Business Days, must provide CPEP adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to CPEP.

Note 6: Significant Estimates and Concentrations

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Major Suppliers

CPEP purchased all of its natural gas supply from one national gas supplier. There are a limited number of national gas suppliers in which CPEP could contract with under prepay gas transactions and any disruption of deliveries under the supply contracts could have an impact on CPEP operations.