

Central Plains Energy Project

Accountants' Report and Financial Statements

June 30, 2010 and 2009



Central Plains Energy Project

June 30, 2010 and 2009

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets	6
Statements of Revenues, Expenses and Changes in Net Assets (Deficit).....	7
Statements of Cash Flows.....	8
Notes to Financial Statements	9

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Central Plains Energy Project
Omaha, Nebraska

We have audited the accompanying balance sheets of Central Plains Energy Project as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the years then ended. 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6, in 2010 Central Plains Energy Project changed its method of accounting for derivative instruments as required by Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting, and Financial Reporting for Derivative Instruments*, by retroactively restating prior year financial statements.

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.

BKD, LLP

November 29, 2010

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 years ended June 30, 2010, 2009 and 2008. 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 & Company. This gas was 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. In 2009, Project No. 1 was amended as discussed below in the General Trends and Significant Events and will now terminate on October 31, 2023.

Central Plains Energy Project, Gas Project Variable Rate Revenue Bonds (Project No. 2) – Series 2009 ("Project No. 2") were issued on August 19, 2009. Project No. 2 provided for the acquisition by CPEP of the right to receive approximately 167 billion cubic feet of natural gas from Royal Bank of Canada. This gas is to be delivered to CPEP, at designated delivery points, in specified daily quantities each month over the approximately 30-year (360-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 years ended June 30, 2010, 2009 and 2008.

Condensed Balance Sheets

	June 30,			Variance 2010 to 2009	Variance 2009 to 2008
	2010	2009	2008		
Assets					
Current assets	\$ 100,634,289	\$ 49,318,078	\$ 51,941,662	\$ 51,316,211	\$ (2,623,584)
Restricted investments - noncurrent	37,960,000	37,960,000	37,960,000	-	-
Prepaid gas supply, long-term	855,281,009	409,538,062	434,867,224	445,742,947	(25,329,162)
Deferred bond issue costs	11,416,348	4,258,551	4,518,149	7,157,797	(259,598)
Costs recoverable from future billings	53,713,900	13,225,008	6,297,223	40,488,892	6,927,785
Deferred costs recoverable from future billings - derivative instruments	13,797,335	8,818,351	62,949,275	4,978,984	(54,130,924)
Total assets	<u>\$ 1,072,802,881</u>	<u>\$ 523,118,050</u>	<u>\$ 598,533,533</u>	<u>\$ 549,684,831</u>	<u>\$ (75,415,483)</u>

Condensed Balance Sheets – Continued

	June 30,			Variance 2010 to 2009	Variance 2009 to 2008
	2010	2009	2008		
Liabilities					
Current liabilities	\$ 25,575,124	\$ 20,280,274	\$ 21,862,969	\$ 5,294,850	\$ (1,582,695)
Long-term debt, net	1,031,891,148	493,269,248	513,309,325	538,621,900	(20,040,077)
Fair value of derivatives instruments	13,797,335	8,818,351	62,949,275	4,978,984	(54,130,924)
Other noncurrent liabilities	1,215,481	853,613	491,744	361,868	361,869
	<u>1,072,479,088</u>	<u>523,221,486</u>	<u>598,613,313</u>	<u>549,257,602</u>	<u>(75,391,827)</u>
Total liabilities					
Unrestricted net assets (deficit)	323,793	(103,436)	(79,780)	427,229	(23,656)
	<u>323,793</u>	<u>(103,436)</u>	<u>(79,780)</u>	<u>427,229</u>	<u>(23,656)</u>
Total net assets (deficit)					
Total liabilities and net assets (deficit)	<u>\$ 1,072,802,881</u>	<u>\$ 523,118,050</u>	<u>\$ 598,533,533</u>	<u>\$ 549,684,831</u>	<u>\$ (75,415,483)</u>

Condensed Statements of Revenues, Expenses and Changes in Net Assets (Deficit)

	Year Ended June 30,			Variance 2010 to 2009	Variance 2009 to 2008
	2010	2009	2008		
Gas supply	\$ 63,184,898	\$ 40,063,464	\$ 42,343,590	\$ 23,121,434	\$ (2,280,126)
Payment for reduction in gas deliveries	6,854,420	-	-	6,854,420	-
Other operating revenues	416,427	392,340	685,524	24,087	(293,184)
Total operating revenues	<u>70,455,745</u>	<u>40,455,804</u>	<u>43,029,114</u>	<u>29,999,941</u>	<u>(2,573,310)</u>
Cost of gas sold	49,155,050	26,509,205	28,017,920	22,645,845	(1,508,715)
Other operating expenses	151,520	375,468	831,315	(223,948)	(455,847)
Total operating expenses	<u>49,306,570</u>	<u>26,884,673</u>	<u>28,849,235</u>	<u>22,421,897</u>	<u>(1,964,562)</u>
Operating income	<u>21,149,175</u>	<u>13,571,131</u>	<u>14,179,879</u>	<u>7,578,044</u>	<u>(608,748)</u>
Nonoperating revenues (expenses)					
Investment income	6,691,934	2,955,517	3,018,536	3,736,417	(63,019)
Net costs to be recovered in future periods	28,848,441	6,927,785	6,556,954	21,920,656	370,831
Member rebates, net	(8,909,378)	(1,452,013)	(1,098,260)	(7,457,365)	(353,753)
Interest expense	(43,309,467)	(21,404,609)	(22,104,991)	(21,904,858)	700,382
Other	(4,043,476)	(621,467)	(637,234)	(3,422,009)	15,767
Net nonoperating expenses	<u>(20,721,946)</u>	<u>(13,594,787)</u>	<u>(14,264,995)</u>	<u>(7,127,159)</u>	<u>670,208</u>
Change in net assets (deficit)	<u>\$ 427,229</u>	<u>\$ (23,656)</u>	<u>\$ (85,116)</u>	<u>\$ 450,885</u>	<u>\$ 61,460</u>

2010 Financial Highlights

Balance Sheet:

- Prepaid gas supply increased due to the closing of CPEP Project No. 2 with the Royal Bank of Canada.
- Long-term debt increased due to the closing of CPEP Project No. 2 with the Royal Bank of Canada

Operating Revenues:

- Gas supply revenues increased due to the closing of CPEP Project No. 2 with the Royal Bank of Canada

Non-Operating Revenues:

- Member rebates increased due to two transactions with Goldman Sachs related to CPEP Project No. 1 that resulted in the early retirement of \$154.5 million of bonds. Goldman Sachs made a lump sum payment to compensate CPEP for the reduction in gas deliveries and the corresponding price discount.

2009 Financial Highlights

Balance Sheet:

- Prepaid gas supply decreased as a result of gas deliveries during the year.
- Long-term debt decreased due to scheduled debt service payments on the Series 2007A bonds.

Operating Revenues:

- Other operating revenues decreased due to a reduction in the administrative fee charged to CPEP's members.

Operating Expenses:

- Other operating expenses were lower in the current year as a result of decreased legal fees for litigation.

General Trends and Significant Events

On August 3, 2009, CPEP closed a transaction with Goldman Sachs related to CPEP Project No. 1. As part of this transaction, \$138 million of CPEP Project No. 1 bonds that were purchased by Goldman Sachs were retired in exchange for a reduction in gas deliveries to CPEP from Project No. 1. Goldman Sachs made a lump sum payment to compensate CPEP for the reduction in gas deliveries and the corresponding price discount. The term of CPEP Project No. 1 will decrease by three years and will now end in October of 2023.

On August 19th, 2009, CPEP closed its second pre-pay natural gas transaction. This is a \$718,445,000 30-year transaction with Royal Bank of Canada. City of Hastings, Nebraska, d.b.a Hastings Utilities, the Municipal Gas Utility of Cedar Falls, Iowa and the Metropolitan Utilities District of Omaha, Nebraska will purchase 100% of the gas volumes from the 30 year transaction.

In October 2009, CPEP closed a transaction with Goldman Sachs related to CPEP Project No. 1. As part of this transaction, \$16.5 million of CPEP Project No. 1 bonds that were purchased by Goldman Sachs were retired in exchange for a reduction in gas deliveries to CPEP from Project No. 1. Goldman Sachs made a lump sum payment to compensate CPEP for the reduction in gas deliveries and the corresponding price discount.

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, 2010 and 2009. The statements of revenues, expenses and changes in net assets (deficit) present CPEP's operating results and changes in net assets (deficit) for the years ended June 30, 2010 and 2009. The statements of cash flow provide information about the flow of cash within CPEP by activities for the years ended June 30, 2010 and 2009. 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.

* * * * *

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James J. Knight
Project Manager

Central Plains Energy Project

Balance Sheets

June 30, 2010 and 2009

	2010	2009 (Restated - Note 6)
Assets		
Current Assets		
Cash and cash equivalents	\$ 30,572,686	\$ 1,325,305
Accounts receivable	3,647,241	1,440,180
Accrued interest receivable	386,403	10,747
Prepaid expenses and other	45,781	31,406
Restricted short-term investments	18,503,813	21,181,278
Prepaid gas supply, current	47,478,365	25,329,162
Total current assets	100,634,289	49,318,078
Noncurrent Assets		
Restricted investments	37,960,000	37,960,000
Prepaid gas supply, long-term	855,281,009	409,538,062
Deferred bond issue costs	11,416,348	4,258,551
Costs recoverable from future billings	53,713,900	13,225,008
Deferred costs recoverable from future billings - derivative instruments	13,797,335	8,818,351
Total noncurrent assets	972,168,592	473,799,972
Total assets	\$1,072,802,881	\$ 523,118,050
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	528,802	\$ 21,084
Accrued interest payable	3,991,322	1,889,190
Current maturities of long-term debt	21,055,000	18,370,000
Total current liabilities	25,575,124	20,280,274
Noncurrent Liabilities		
Arbitrage rebate payable	1,215,481	853,613
Long-term debt, net	1,031,891,148	493,269,248
Fair value of derivative instruments	13,797,335	8,818,351
Total noncurrent liabilities	1,046,903,964	502,941,212
Net Assets (Deficit)		
Unrestricted	323,793	(103,436)
Total net assets (deficit)	323,793	(103,436)
Total liabilities and net assets	\$1,072,802,881	\$ 523,118,050

Central Plains Energy Project
Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Gas supply	\$ 63,184,898	\$ 40,063,464
Payment for reduction in gas deliveries	6,854,420	-
Administrative service fee	<u>416,427</u>	<u>392,340</u>
Total operating revenues	<u>70,455,745</u>	<u>40,455,804</u>
Operating Expenses		
Cost of gas sold	49,155,050	26,509,205
Administrative and general	<u>151,520</u>	<u>375,468</u>
Total operating expenses	<u>49,306,570</u>	<u>26,884,673</u>
Operating Income	<u>21,149,175</u>	<u>13,571,131</u>
Nonoperating Revenues (Expenses)		
Investment income	6,691,934	2,955,517
Net costs to be recovered in future periods	28,848,441	6,927,785
Member rebates, net	(8,909,378)	(1,452,013)
Interest expense	(43,309,467)	(21,404,609)
Amortization of debt issuance costs	(641,917)	(259,598)
Arbitrage rebates and bond fees	(3,410,206)	(361,869)
Other	<u>8,647</u>	<u>-</u>
Net nonoperating expenses	<u>(20,721,946)</u>	<u>(13,594,787)</u>
Change in Net Assets (Deficit)	427,229	(23,656)
Net Deficit, Beginning of Year	<u>(103,436)</u>	<u>(79,780)</u>
Net Assets (Deficit), End of Year	<u>\$ 323,793</u>	<u>\$ (103,436)</u>

Central Plains Energy Project
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Cash received from customers	\$ 61,394,264	\$ 40,927,944
Cash paid to swap provider and others	341,823	(838,354)
Payment for reduction in gas deliveries	6,854,420	-
Payment to gas supplier	(685,062,140)	-
	(616,471,633)	40,089,590
Noncapital Financing Activities		
Principal payments on long-term debt	(20,850,000)	(19,410,000)
Proceeds from issuance of long-term debt	718,445,000	-
Payment of bond issuance costs	(7,713,355)	-
Member rebates	(8,909,378)	(1,452,013)
Interest paid	(41,207,305)	(23,155,565)
Other	(3,039,691)	-
	636,725,271	(44,017,578)
Investing Activities		
Interest received on investment securities	6,316,278	2,950,143
Proceeds from sales and maturities of investment securities	2,677,465	1,707,414
	8,993,743	4,657,557
Increase in Cash and Cash Equivalents	29,247,381	729,569
Cash and Cash Equivalents, Beginning of Year	1,325,305	595,736
Cash and Cash Equivalents, End of Year	\$ 30,572,686	\$ 1,325,305
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 21,149,175	\$ 13,571,131
Changes in operating assets and liabilities		
Accounts receivable	(2,207,061)	472,140
Prepaid expenses and other	(14,375)	(1,070)
Prepaid gas supply	(635,907,090)	26,509,205
Accounts payable	507,718	(461,816)
	\$ (616,471,633)	\$ 40,089,590

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

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.

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 Governmental Accounting Standards Board (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 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, 2010 and 2009

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

Accounting Method - Continued

Under the provisions of FASB Accounting Standards Codification (ASC) 980, *Regulated Operations*, 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, 2010 and 2009, cash equivalents consisted of money market mutual funds invested in government securities, and U.S. Treasury Bills.

Investments

Guaranteed investment contracts with financial services companies are carried at contract value. Investment income consists of interest and dividend income.

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, 2010 and 2009.

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, 2010 and 2009

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 the prepay contract.

Costs Recoverable from Future Billings

The Natural Gas Supply Agreements for the projects establish 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. 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.

CPEP's derivative financial instruments are accounted for in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. In connection with this Statement, the fair value of CPEP's derivative financial instruments is recorded on the Balance Sheets, with an offsetting deferred asset or liability. At June 30, 2010 and 2009, the negative fair value of CPEP's derivative instruments is offset by a deferred debit.

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, and costs to be recovered from future revenues 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. CPEP reported a net deficit at June 30, 2009 as total liabilities exceeded total assets.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

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

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.
- 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 commodity swap agreements which convert index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and interest rate swap agreements which effectively convert CPEP's variable interest rate to a synthetic fixed rate. Interest expense in each operating period includes the netting adjustments of the interest rate swap agreements.

In 2010, in connection with the issuance of Project No. 2, CPEP entered into another interest rate swap agreement in order to generate price discounts to the Monthly Index Price for the three gas purchasers of Project No. 2. These gas purchasers will receive a minimum of a five cent per Dth discount from this 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 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

Note 2: Deposits, Investments and Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. CPEP's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance or bonds and other obligations of the U.S. Treasury or U.S. agencies. At June 30, 2010 and 2009, CPEP's deposits did not exceed federally insured limits.

Investments

CPEP's investing is performed in accordance with the trust indentures for the gas supply projects discussed in Note 5. The trust indentures identify 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.

At June 30, 2010 and 2009, CPEP had the following investments, maturities and credit ratings:

	Fair Value	Maturities in Years		Credit Rating Moody's/ S&P
		Less Than 1	More Than 10	
June 30, 2010				
Money market mutual funds - U.S. obligations	\$30,337,535	\$30,337,535	\$ -	Aaa/AAAm
Guaranteed investment contracts	56,463,813	-	56,463,813	Unrated
	<u>\$86,801,348</u>	<u>\$30,337,535</u>	<u>\$56,463,813</u>	
June 30, 2009				
Money market mutual funds - U.S. obligations	\$ 1,293,769	\$ 1,293,769	\$ -	Aaa/AAAm
Guaranteed investment contracts	59,141,278	-	59,141,278	Unrated
	<u>\$60,435,047</u>	<u>\$ 1,293,769</u>	<u>\$59,141,278</u>	

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 2: Deposits, Investments and Investment Return – Continued

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.

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.

During 2009, both counterparties to CPEP’s guaranteed investment contracts experienced an insurer downgrade as rated by Moody’s Investors Service. In accordance with the investment agreement with this issuer, established under the trust indenture for Project No. 1, the issuer delivered, and granted to the Trustee, as custodian, a first and priority security interest in qualified securities with a value equal to 105% of the investment contract or an interest in cash equal to 100% of the investment contract during 2010 and 2009.

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. The underlying securities for CPEP’s guaranteed investment contracts at June 30, 2010 and 2009, are held by an appointed custodian in other than CPEP’s name.

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,	
	2010	2009
Guaranteed investment contracts		
Transamerica Life Insurance Company	\$ 18,503,813	\$ 21,181,278
MBIA, Inc.	37,960,000	37,960,000
Money market mutual funds - U.S. obligations	30,337,535	*

(* Investment did not exceed 5% of total investments)

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 2: Deposits, Investments and Investment Return – Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Carrying Value		
Deposits	\$ 235,151	\$ 31,536
Investments	<u>86,801,348</u>	<u>60,435,047</u>
	<u>\$ 87,036,499</u>	<u>\$ 60,466,583</u>

Included in the following balance sheet captions:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 30,572,686	\$ 1,325,305
Restricted short-term investments	18,503,813	21,181,278
Restricted long-term investments	<u>37,960,000</u>	<u>37,960,000</u>
	<u>\$ 87,036,499</u>	<u>\$ 60,466,583</u>

Of the cash and cash equivalents balances reflected above, \$30,337,535 and \$1,293,769 were restricted for debt service at June 30, 2010 and 2009, respectively.

Investment Income

Investment income for the years ended June 30, 2010 and 2009, consisted of interest income of \$6,691,934 and \$2,955,517, respectively.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 3: Long-term Debt

Long-term debt at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</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	\$ 208,400,000	\$ 208,400,000
2007 Series B (Index Rate), Gas Project Revenue Bonds (Project No. 1), due December 1, 2010 to 2023	115,855,000	288,875,000
2009 Series A (Index Rate), Gas Project Revenue Bonds (Project No. 2) due June 1, 2010 to August 2039	<u>715,965,000</u>	<u>-</u>
	1,040,220,000	497,275,000
Plus premium	12,726,148	14,364,248
Less current maturities of long-term debt	<u>(21,055,000)</u>	<u>(18,370,000)</u>
Long-term debt	<u>\$1,031,891,148</u>	<u>\$ 493,269,248</u>

Long term debt activity for 2010 and 2009 is summarized below:

	<u>Series 2007A</u>	<u>Series 2007B</u>	<u>Series 2009</u>	<u>Total</u>
Balance, July 1, 2008	\$ 227,810,000	\$ 288,875,000	\$ -	\$ 516,685,000
Less scheduled principal payments on bonds	<u>(19,410,000)</u>	<u>-</u>	<u>-</u>	<u>(19,410,000)</u>
Balance, July 1, 2009	208,400,000	288,875,000	-	497,275,000
Issuance of new bonds	-	-	718,445,000	718,445,000
Less scheduled principal payments on bonds	-	(18,370,000)	(2,480,000)	(20,850,000)
Bonds surrendered and cancelled (See Note 5)	<u>-</u>	<u>(154,650,000)</u>	<u>-</u>	<u>(154,650,000)</u>
Balance, June 30, 2010	<u>\$ 208,400,000</u>	<u>\$ 115,855,000</u>	<u>\$ 715,965,000</u>	<u>\$ 1,040,220,000</u>

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 3: Long-term Debt – Continued

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 21,055,000	\$ 47,398,884	\$ 68,453,884
2012	21,280,000	46,483,053	67,763,053
2013	23,480,000	45,386,517	68,866,517
2014	24,950,000	44,210,100	69,160,100
2015	27,050,000	42,949,885	69,999,885
2016-2020	170,610,000	193,307,555	363,917,555
2021-2025	195,425,000	147,540,351	342,965,351
2026-2030	131,810,000	113,279,295	245,089,295
2031-2035	187,680,000	780,273,442	967,953,442
2036-2040	236,880,000	27,930,932	264,810,932
	<u>\$1,040,220,000</u>	<u>\$1,488,760,014</u>	<u>\$2,528,980,014</u>

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, 2010 and 2009, all accounts receivable are due from members.

CPEP's operating management is engaged under an administrative services contract with a member. Administrative fees incurred under this contract totaled approximately \$99,000 during 2009. Effective July 1, 2009, CPEP's Board of Directors voted to suspend these administrative fees for fiscal year 2010. On June 15, 2010, the CPEP Board approved a change of the MUD Administrative fees from zero/month to \$5,000/month effective July 1, 2010.

Note 5: Gas Purchase and Sales Agreements

CPEP has entered into long-term gas purchase and supply contracts for which prepayments have been made and amounts remaining of \$902,759,000 and \$434,867,000 are reflected in both current and noncurrent asset categories at June 30, 2010 and 2009, respectively. Long-term sales agreements also exist with customers, to take delivery of the natural gas over a period continuing through 2039. The sales price to the customer for these contracts is at specified index prices less a discount. As discussed in Note 6, swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 5: Gas Purchase and Sales Agreements - Continued

Gas Project Revenue Bonds, Series 2007A and Series 2007B (Project No. 1)

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. The revenue bonds are secured by a pledge of the gas supply revenues derived from the related prepay transaction.

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 in Note 3 for the Series 2007B variable rate bonds, were calculated based on the interest rate swap agreement (See Note 6) which converts this issue to an effective fixed rate of approximately 3.78% to 4.25%.

In August 2009, CPEP closed a transaction related to Project No. 1, which extinguished approximately \$154 million of the Series 2007 B (Index Rate) Gas Project Revenue Bonds, in exchange for a reduction in required gas deliveries and the corresponding price discount. CPEP received approximately \$6,854,420 as consideration for entering into the transaction, in which these monies were later distributed to MUD and CFU as a member rebate. As a result of this transaction, the term of Project No. 1 has decreased by three years and will now terminate on October 31, 2023.

Gas Project Variable Rate Revenue Bonds, Series 2009 (Project No. 2)

In July 2009, CPEP issued \$718,445,000 of gas supply revenue bonds to fund the prepayment of 166,746,600 Mmbtus of gas from Royal Bank of Canada with deliveries beginning July 1, 2009 and ending June 30, 2039. Metropolitan Utilities District (MUD), Municipal Gas Utility of the City of Cedar Falls, Iowa (CFU), and the City of Hastings will purchase the scheduled monthly gas at a specified index less a discount from such index price for the entire term of July 1, 2009 through June 30, 2039. The revenue bonds are secured by a pledge of the gas supply revenues derived from the related prepay transaction.

CPEP entered into an interest rate swap with the Royal Bank of Canada in connection with the Series 2009, Gas Project Revenue Bonds. Under the swap agreement, CPEP pays a fixed amount and receives a variable payment computed at a rate equal to that of the bonds. The interest payments reflected in the table in Note 3, were calculated based on the interest rate swap agreement which converts this issue to an effective fixed rate of approximately 4.52%.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

Note 6: Derivative Instruments

Implementation of New Accounting Principle

In 2010, CPEP implemented the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how governmental entities report information about derivative instruments, financial arrangements used by governmental entities to manage specific risks or make investments, in their financial statements. The statement specifically requires governmental entities to measure most derivative instruments at fair value in their financial statements. The balance sheet as of June 30, 2009 has been restated to record the negative fair value of the derivative instruments of \$8,818,351 as a noncurrent liability and reflect a deferred asset of the same amount. The adoption of GASB No. 53 had no impact on 2009 revenues, expenses or change in net assets.

Composition of Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2010 and 2009, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the 2010 financial statements are as follows:

June 30, 2010					
Change in Fair Value					
	Classification	Amount	Classification	Fair Value	Notional
Cash flow hedges:					
Pay-fixed commodity swaps - Project No. 1	Deferred Inflow	\$ 33,357,798	Debt	\$ 52,144,701	47,305,000
Pay-fixed interest rate swaps - Project No. 1	Deferred Outflow	13,318,947	Debt	(14,286,307)	47,305,000
Pay-fixed commodity swaps - Project No. 2	Deferred Inflow	43,093,930	Debt	43,093,930	718,445,000
Pay-fixed interest rate swaps - Project No. 2	Deferred Outflow	(140,277,089)	Debt	(140,277,089)	718,445,000
Investment derivatives instruments:					
Pay-variable interest rate swaps - Project No. 2	Investment revenue	45,527,430	Investment	45,527,430	718,445,000
		<u>\$ (4,978,984)</u>		<u>\$ (13,797,335)</u>	
June 30, 2009					
Change in Fair Value					
	Classification	Amount	Classification	Fair Value	Notional
Cash flow hedges:					
Pay-fixed commodity swaps - Project No. 1	Deferred Inflow	\$ (32,951,344)	Debt	\$ 18,786,903	47,305,000
Pay-fixed interest rate swaps - Project No. 1	Deferred Outflow	(16,394,226)	Debt	(27,605,254)	47,305,000
		<u>\$ (49,345,570)</u>		<u>\$ (8,818,351)</u>	

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

Note 6: Derivative Instruments – Continued

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and terms of CPEP's hedging derivative instruments outstanding at June 30, 2010 along with the credit rating of the associated counterparty:

Type	Objective	Notional Amount	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swaps - Project No. 1	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.	\$ 35,720,000; \$ 47,305,000; \$ 51,200,000;	12/1/2010; 12/1/2017; 12/1/2024	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.	Aaa / A
Pay-fixed commodity swaps - Project No. 1	CPEP has entered into a floating to fixed commodity swap (the "Commodity Swap") in connection with the natural gas prepay transaction. The purpose of the Commodity Swap is to correlate gas sales revenues CPEP receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	\$7.91 per MMBtu	10/31/2023	The Commodity Swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. 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 Agreements. Payments under the Commodity Swap are based on nationally published gas indices at the gas delivery points.	Aa3 / A
Pay-fixed interest rate swaps - Project 2	CPEP entered into an interest rate swap (the "Interest Rate Swap") in connection with its Series 2009 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.	\$ 718,445,000	8/1/2039	The swap extends to the date of the final maturity of the Series 2009 revenue bonds. The notional amount corresponds to the scheduled outstanding principal amount on the bonds. The variable rate paid to CPEP by the counterparty is the same variable rate paid by CPEP to the bondholders. CPEP pays a fixed payment of 4.5198% on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2009 Bonds.	Aaa / AA-

Central Plains Energy Project
Notes to Financial Statements
June 30, 2010 and 2009

Note 6: Derivative Instruments – Continued

Objective and Terms of Hedging Derivative Instruments - Continued

Type	Objective	Notional Amount	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed commodity swaps - Project No. 2	CPEP has entered into a floating to fixed commodity swap in connection with the natural gas prepay transaction. The objective of the Commodity Swap is to correlate gas sales revenues CPEP receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	Commodity Reference Price	6/30/2039	The Commodity Swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. 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 Agreements. Payments under the Commodity Swap are based on nationally published gas indices at the gas delivery points.	Aa1 / A+
Pay-variable interest rate swaps - Project No. 2	CPEP entered into an interest rate swap agreement in connection with its Series 2009 Bonds, effective on or before the date of the initial issuance of such bonds. The objective of this interest rate swap agreement is to generate price discounts to the Monthly Index Price for the three gas purchases of Project No. 2.	\$ 718,445,000	8/1/2039	The swap extends to the date of the final maturity of the Series 2009 revenue bonds. The notional amount corresponds to the scheduled outstanding principal amount on the bonds. CPEP pays the rate actually borne by the Series 2009 Bonds and receives 85% of one month LIBOR plus a spread of 0.6554%.	Aaa / AA-

Commodity Swap Risks

Termination Risk: The Commodity Swaps terminate in the event of a “triggering event” under the related Prepaid Natural Gas Sales Agreements, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swaps no payment, in the amount of the fair value or otherwise, is to be made by the Swap Counterparty in connection with an early termination of such swap. However, if the Commodity Swaps are terminated as a result of CPEP’s default or as a result of the termination of the Prepaid Natural Gas Sales Agreements, 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.

Credit Risk: The Commodity Swaps are tied to related gas prepay transactions and terminate in the event such transactions terminate. Therefore, the only credit risk associated with the Commodity Swaps is for margins lost on future commodity deliveries associated with a termination of the related gas prepay transactions in the event of a counterparty’s inability to perform in accordance with the terms of the related Commodity Swaps. Generally, the only amounts due upon termination of the Commodity Swap would be previously accrued but unpaid

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

Note 6: Derivative Instruments – Continued

Commodity Swap Risks - Continued

amounts. 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 Risks

Termination Risk: The Interest Rate Swaps terminate in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreements, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Interest Rate Swaps, 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 Swaps terminate in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreements, 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 Swaps 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 Swaps. 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.

Interest Rate Risk: Under the pay-variable interest rate swap agreement entered into in connection with Project No. 2, CPEP is required to pay an amount equal to the notional amount times the rate actually borne by the Series 2009 Bonds, and is to receive an amount equal to the notional amount times 85% of USD-LIBOR-BBA plus a spread of 0.6554%. In the event the rate actually borne by the Series 2009 Bonds exceeds the rate paid by the Swap Counterparty, CPEP would be required to pay the Swap Counterparty an amount equal to the notional amount times the difference.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2010 and 2009

Note 7: 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 two national gas suppliers. 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's operations.

Current Economic Conditions

The current protracted economic decline continues to present energy companies with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to CPEP.

Although CPEP has not currently identified any specific circumstances which would cause the difficulties noted above, economic conditions could make it difficult for consumers to maintain demand and usage levels, which could have an adverse impact on the future operating results of CPEP.