

Central Plains Energy Project

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Central Plains Energy Project
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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, 2009 and 2008, 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, 2009 and 2008, and the changes in its financial position and cash flows for the years then ended, 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.

BKD, LLP

September 14, 2009

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, 2009, 2008 and 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 & Company. 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 years ended June 30, 2009, 2008 and 2007.

Condensed Balance Sheets

	June 30,			Variance	Variance
	2009	2008	2007	2009 to 2008	2008 to 2007
Assets					
Current assets	\$ 49,318,078	\$ 51,941,662	\$ 52,025,319	\$ (2,623,584)	\$ (83,657)
Restricted investments - noncurrent	37,960,000	37,960,000	37,960,000	-	-
Prepaid gas supply, long-term	409,538,062	434,867,224	461,376,429	(25,329,162)	(26,509,205)
Deferred bond issue costs	4,258,551	4,518,149	4,792,522	(259,598)	(274,373)
Costs recoverable from future billings	13,225,008	6,297,223	-	6,927,785	6,297,223
Total assets	<u>\$ 514,299,699</u>	<u>\$ 535,584,258</u>	<u>\$ 556,154,270</u>	<u>\$ (21,284,559)</u>	<u>\$ (20,570,012)</u>
Liabilities and Net Assets (Deficit)					
Current liabilities	\$ 20,280,274	\$ 21,862,969	\$ 21,245,904	\$ (1,582,695)	\$ 617,065
Costs refundable from future billings	-	-	259,730	-	(259,730)
Long-term debt, net	493,269,248	513,309,325	534,514,416	(20,040,077)	(21,205,091)
Other noncurrent liabilities	853,613	491,744	128,884	361,869	362,860
Total liabilities	<u>514,403,135</u>	<u>535,664,038</u>	<u>556,148,934</u>	<u>(21,260,903)</u>	<u>(20,484,896)</u>
Unrestricted net assets (deficit)	<u>(103,436)</u>	<u>(79,780)</u>	<u>5,336</u>	<u>(23,656)</u>	<u>(85,116)</u>
Total net assets (deficit)	<u>(103,436)</u>	<u>(79,780)</u>	<u>5,336</u>	<u>(23,656)</u>	<u>(85,116)</u>
Total liabilities and net assets (deficit)	<u>\$ 514,299,699</u>	<u>\$ 535,584,258</u>	<u>\$ 556,154,270</u>	<u>\$ (21,284,559)</u>	<u>\$ (20,570,012)</u>

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

	Period Ended June 30,			Variance 2009 to 2008	Variance 2008 to 2007
	2009	2008	2007		
Gas supply	\$ 40,063,464	\$ 42,343,590	\$ 22,843,212	\$ (2,280,126)	\$ 19,500,378
Other operating revenues	392,340	685,524	68,890	(293,184)	616,634
Total operating revenues	40,455,804	43,029,114	22,912,102	(2,573,310)	20,117,012
Cost of gas sold	26,509,205	28,017,920	15,114,904	(1,508,715)	12,903,016
Other operating expenses	375,468	831,315	128,620	(455,847)	702,695
Total operating expenses	26,884,673	28,849,235	15,243,524	(1,964,562)	13,605,711
Operating income	13,571,131	14,179,879	7,668,578	(608,748)	6,511,301
Nonoperating revenues (expenses)					
Investment income	2,955,517	3,018,536	966,361	(63,019)	2,052,175
Net costs to be recovered in					
future periods	6,927,785	6,556,954	(259,730)	370,831	6,816,684
Member rebates, net	(1,452,013)	(1,098,260)	-	(353,753)	(1,098,260)
Interest expense	(21,404,609)	(22,104,991)	(8,092,972)	700,382	(14,012,019)
Other	(621,467)	(637,234)	(276,901)	15,767	(360,333)
Net nonoperating expenses	(13,594,787)	(14,264,995)	(7,663,242)	670,208	(6,601,753)
Increase (decrease) in net assets (deficit)	\$ (23,656)	\$ (85,116)	\$ 5,336	\$ 61,460	\$ (90,452)

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.

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.

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

In the past year, the use of tax-exempt bonds to pre-pay for natural gas supplies has decreased substantially. This has been caused primarily by the economic events that occurred in the second half of 2008 which hurt the economic standing of many of the large financial institutions based in the U.S. Natural gas prices have also declined dramatically in the past year from record highs of \$11.00/Dth - \$12.00/Dth in July of 2008 to \$3.00/Dth in July of 2009. This has been caused by the increase in natural gas production in the U.S. as well as the recession which has reduced natural gas demand.

On August 3, 2009, CPEP closed a transaction with Goldman Sachs related to CPEP Project #1. As part of this transaction, \$138 million of CPEP Project #1 bonds that were purchased by Goldman Sachs were retired in exchange for a reduction in gas deliveries to CPEP from Project #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 #1 will decrease by three (3) 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 thirty (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.

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 deficit as of June 30, 2009 and 2008. The statements of revenues, expenses and changes in net assets (deficit) present CPEP's operating results and changes in net deficit for the years ended June 30, 2009 and 2008. The statements of cash flow provide information about the flow of cash within CPEP by activities for the years ended June 30, 2009 and 2008. 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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,325,305	\$ 595,736
Accounts receivable	1,440,180	1,912,320
Accrued interest receivable	10,747	5,373
Prepaid expenses and other	31,406	30,336
Restricted short-term investments	21,181,278	22,888,692
Prepaid gas supply, current	<u>25,329,162</u>	<u>26,509,205</u>
Total current assets	<u>49,318,078</u>	<u>51,941,662</u>
Noncurrent Assets		
Restricted investments	37,960,000	37,960,000
Prepaid gas supply, long-term	409,538,062	434,867,224
Deferred bond issue costs	4,258,551	4,518,149
Costs recoverable from future billings	<u>13,225,008</u>	<u>6,297,223</u>
Total noncurrent assets	<u>464,981,621</u>	<u>483,642,596</u>
Total assets	<u>\$ 514,299,699</u>	<u>\$ 535,584,258</u>
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable	\$ 21,084	\$ 482,900
Accrued interest payable	1,889,190	1,970,069
Current maturities of long-term debt	<u>18,370,000</u>	<u>19,410,000</u>
Total current liabilities	<u>20,280,274</u>	<u>21,862,969</u>
Noncurrent Liabilities		
Arbitrage rebate payable	853,613	491,744
Long-term Debt, net	<u>493,269,248</u>	<u>513,309,325</u>
Total noncurrent liabilities	<u>494,122,861</u>	<u>513,801,069</u>
Net Deficit		
Unrestricted	<u>(103,436)</u>	<u>(79,780)</u>
Total net deficit	<u>(103,436)</u>	<u>(79,780)</u>
Total liabilities and net deficit	<u>\$ 514,299,699</u>	<u>\$ 535,584,258</u>

Central Plains Energy Project
Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Gas supply	\$ 40,063,464	\$ 42,343,590
Administrative service fee	392,340	685,524
	<u>40,455,804</u>	<u>43,029,114</u>
Operating Expenses		
Cost of gas sold	26,509,205	28,017,920
Administrative and general	375,468	831,315
	<u>26,884,673</u>	<u>28,849,235</u>
Operating Income	<u>13,571,131</u>	<u>14,179,879</u>
Nonoperating Revenues (Expenses)		
Investment income	2,955,517	3,018,536
Net costs to be recovered in future periods	6,927,785	6,556,954
Member rebates, net	(1,452,013)	(1,098,260)
Interest expense	(21,404,609)	(22,104,991)
Amortization of debt issuance costs	(259,598)	(274,373)
Arbitrage rebates and bond fees	(361,869)	(362,861)
	<u>(13,594,787)</u>	<u>(14,264,995)</u>
Change in Net Assets (Deficit)	(23,656)	(85,116)
Net Assets (Deficit), Beginning of Year	<u>(79,780)</u>	<u>5,336</u>
Net Deficit, End of Year	<u>\$ (103,436)</u>	<u>\$ (79,780)</u>

Central Plains Energy Project
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Cash received from customers	\$ 40,927,944	\$ 42,673,186
Cash paid to swap provider and others	<u>(838,354)</u>	<u>(412,995)</u>
Net cash provided by operating activities	<u>40,089,590</u>	<u>42,260,191</u>
Noncapital Financing Activities		
Principal payments on long-term debt	(19,410,000)	(12,445,000)
Member rebates	(1,452,013)	(1,098,260)
Interest paid	<u>(23,155,565)</u>	<u>(30,691,674)</u>
Net cash used in noncapital financing activities	<u>(44,017,578)</u>	<u>(44,234,934)</u>
Investing Activities		
Interest received on investment securities	2,950,143	3,023,910
Proceeds from sales and maturities of investment securities	1,707,414	-
Purchases of investment securities	<u>-</u>	<u>(2,677,456)</u>
Net cash provided by investing activities	<u>4,657,557</u>	<u>346,454</u>
Increase (Decrease) in Cash and Cash Equivalents	729,569	(1,628,289)
Cash and Cash Equivalents, Beginning of Year	<u>595,736</u>	<u>2,224,025</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,325,305</u>	<u>\$ 595,736</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 13,571,131	\$ 14,179,879
Changes in operating assets and liabilities		
Accounts receivable	472,140	(355,928)
Prepaid expenses and other	(1,070)	(25,336)
Prepaid gas supply	26,509,205	28,017,920
Accounts payable	<u>(461,816)</u>	<u>443,656</u>
Net Cash Provided by Operating Activities	<u>\$ 40,089,590</u>	<u>\$ 42,260,191</u>

Central Plains Energy Project

Notes to Financial Statements

June 30, 2009 and 2008

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 has been supplying natural gas, secured through a long-term prepaid gas supply contract, to its member/customers since 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 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, 2009 and 2008

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, 2009 and 2008, cash equivalents consisted of money market mutual funds invested in government securities.

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, 2009 and 2008.

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, 2009 and 2008

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 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. 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, 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 reports a net deficit as total liabilities exceed total assets at June 30, 2009 and 2008.

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, 2009 and 2008

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 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Deposits and Investments

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, 2009 and 2008, CPEP's deposits did not exceed federally insured limits.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2009 and 2008

Note 2: Deposits, Investments and Investment Return – Continued

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.

At June 30, 2009 and 2008, 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, 2009				
Money market mutual funds - U.S. obligations	\$ 1,293,769	\$ 1,293,769	\$ -	Aaa/AAA
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>	
June 30, 2008				
Money market mutual funds - U.S. obligations	\$ 571,650	\$ 571,650	\$ -	Aaa/AAA
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>	

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, 2009 and 2008

Note 2: Deposits, Investments and Investment Return – Continued

Credit Risk - Continued

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, 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.

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, 2009 and 2008, 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,	
	2009	2008
Guaranteed investment contracts		
Transamerica Life Insurance Company	\$ 21,181,278	\$ 22,888,692
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, 2009 and 2008 as follows:

	2009	2008
Carrying Value		
Deposits	\$ 31,536	\$ 22,143
Investments	60,435,047	61,422,285
	<u>\$ 60,466,583</u>	<u>\$ 61,444,428</u>

Central Plains Energy Project
Notes to Financial Statements
June 30, 2009 and 2008

Note 2: Deposits, Investments and Investment Return – Continued

Summary of Carrying Values - Continued

Included in the following balance sheet captions:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,325,305	\$ 595,736
Restricted short-term investments	21,181,278	22,888,692
Restricted long-term investments	<u>37,960,000</u>	<u>37,960,000</u>
	<u>\$ 60,466,583</u>	<u>\$ 61,444,428</u>

Of the cash and cash equivalents balances reflected above, \$1,293,769 and \$573,593 were restricted for debt service at June 30, 2009 and 2008, respectively.

Note 3: Long-term Debt

Long-term debt at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</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	\$ 227,810,000
2007 Series B (Index Rate), Gas Project Revenue Bonds (Project No. 1), due December 1, 2010 to 2026	<u>288,875,000</u>	<u>288,875,000</u>
	497,275,000	516,685,000
Plus premium	14,364,248	16,034,325
Less current maturities of long-term debt	<u>(18,370,000)</u>	<u>(19,410,000)</u>
Long-term debt	<u>\$ 493,269,248</u>	<u>\$ 513,309,325</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. The revenue bonds are secured by a pledge of the gas supply revenues derived from the related prepay transaction.

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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 converts this issue to an effective fixed rate of approximately 3.78% to 4.25%.

Long term debt activity for 2009 and 2008 is summarized below:

	Series 2007A	Series 2007B	Total
Balance, July 1, 2007	\$ 240,255,000	\$ 288,875,000	\$ 529,130,000
Less scheduled principal payments on bonds	<u>(12,445,000)</u>	<u>-</u>	<u>(12,445,000)</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>(19,410,000)</u>
Balance, June 30, 2009	<u>\$ 208,400,000</u>	<u>\$ 288,875,000</u>	<u>\$ 497,275,000</u>

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at June 30, 2009, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	19,895,000	18,965,827	38,860,827
2015-2019	115,170,000	79,340,723	194,510,723
2020-2024	146,365,000	47,700,179	194,065,179
2025-2027	<u>142,980,000</u>	<u>10,811,553</u>	<u>153,791,553</u>
	<u>\$ 497,275,000</u>	<u>\$ 241,601,301</u>	<u>\$ 738,876,301</u>

The above debt service schedule represents payments due based on the bonds outstanding at June 30, 2009. See Note 7 regarding early retirement of a portion of these bonds.

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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, 2009 and 2008, all accounts receivable are due from members.

During 2009, CPEP's operating management was engaged under an administrative services contract with a member. During 2008, CPEP's operations were performed under an administrative services contract with a separate entity. Administrative fees incurred under these contracts totaled approximately \$99,000 and \$235,000 during 2009 and 2008, 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 Agreement

Objective of the Swap: 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.

Terms: 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.

Fair Value: As of June 30, 2009, the Commodity Swap had an approximate fair value of \$18,800,000. This 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 the LIBOR forward interest rate curve as a discount rate.

CPEP has recorded the long-term prepaid gas supply contract asset as 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 period gas contract has a negative fair value at June 30, 2009, that exceeds carrying value by an amount which approximates and offsets the fair value of the commodity swap. This valuation is based upon the same pricing methodology as discussed above for the Commodity Swap.

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Note 5: Derivative Instruments – Continued

Commodity Swap Agreement - 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 the Swap Counterparty in connection with an early termination of such swap. However, if the 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.

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

Objective of the Swap: 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, 2009, the Interest Rate Swap had an approximate negative fair value of \$27,600,000.

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

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June 30, 2009 and 2008

Note 5: Derivative Instruments – Continued

Interest Rate Swap Agreement - Continued

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 of a specific 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’s operations.

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Notes to Financial Statements

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Note 6: Significant Estimates and Concentrations – Continued

Current Economic Conditions

The current economic environment presents energy companies with unprecedented 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.

Note 7: Subsequent Events

Retirement of Project No. 1 2007 Series B (Index Rate) Gas Project Revenue Bonds

In August 2009, CPEP closed on a transaction with its bond underwriter for Project No. 1. As part of this transaction, approximately \$138 million of the 2007 Series B (Index Rate) Gas Project Revenue Bonds were surrendered and cancelled in exchange for a reduction in required gas deliveries. CPEP received a payment of approximately \$6,500,000 from its underwriter to compensate for the reduction in gas deliveries and the corresponding price discount. As a result of the transaction, the term of Project No. 1 will decrease by three years and will now terminate on October 31, 2023.

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

In August 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 July 31, 2039. The City of Hastings, Nebraska, together with CFU and MUD, 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 July 31, 2039.