

# **Central Plains Energy Project**

Accountants' Report and Financial Statements

June 30, 2011 and 2010



# Central Plains Energy Project

## June 30, 2011 and 2010

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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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets 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, 2011 and 2010, 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.

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 9, 2011

## 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, 2011, 2010 and 2009. 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 August and October of 2009, CPEP closed two transactions with Goldman Sachs related to CPEP Project No. 1. As part of these two (2) transactions, \$138 million and \$16.5 million of CPEP Project No. 1 bonds that were previously 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 (3) years and will now end in October of 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, 2011, 2010 and 2009.

### **Condensed Balance Sheets**

	<b>June 30,</b>			<b>Change</b>	<b>Change</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011 to 2010</b>	<b>2010 to 2009</b>
<b>Assets</b>					
Current assets	\$ 98,905,645	\$ 100,634,289	\$ 49,318,078	\$ (1,728,644)	\$ 51,316,211
Restricted investments - noncurrent	37,960,000	37,960,000	37,960,000	-	-
Prepaid gas supply, long-term	811,597,789	855,281,009	409,538,062	(43,683,220)	445,742,947
Deferred bond issue costs	10,774,830	11,416,348	4,258,551	(641,518)	7,157,797
Costs recoverable from future billings	75,533,524	53,713,900	13,225,008	21,819,624	40,488,892
Fair value of derivative instruments	189,396,678	140,766,061	18,786,903	48,630,617	121,979,158
Deferred outflow from derivative instruments	138,601,438	154,563,396	27,605,254	(15,961,958)	126,958,142
	<u>\$ 1,362,769,904</u>	<u>\$1,354,335,003</u>	<u>\$ 560,691,856</u>	<u>\$ 8,434,901</u>	<u>\$ 793,643,147</u>
Total assets					

## Condensed Balance Sheets – Continued

	June 30,			Change 2011 to 2010	Change 2010 to 2009
	2011	2010	2009		
<b>Liabilities</b>					
Current liabilities	\$ 25,482,347	\$ 25,575,124	\$ 20,280,274	\$ (92,777)	\$ 5,294,850
Long-term debt, net	1,008,895,994	1,031,891,148	493,269,248	(22,995,154)	538,621,900
Fair value of derivatives instruments	138,601,438	154,563,396	27,605,254	(15,961,958)	126,958,142
Deferred inflow from derivative instruments	189,396,678	140,766,061	18,786,903	48,630,617	121,979,158
Other noncurrent liabilities	91,211	1,215,481	853,613	(1,124,270)	361,868
Total liabilities	<u>1,362,467,668</u>	<u>1,354,011,210</u>	<u>560,795,292</u>	<u>8,456,458</u>	<u>793,215,918</u>
Net assets (deficit), unrestricted	<u>302,236</u>	<u>323,793</u>	<u>(103,436)</u>	<u>(21,557)</u>	<u>427,229</u>
Total liabilities and net assets (deficit)	<u>\$ 1,362,769,904</u>	<u>\$ 1,354,335,003</u>	<u>\$ 560,691,856</u>	<u>\$ 8,434,901</u>	<u>\$ 793,643,147</u>

## Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,			Change 2011 to 2010	Change 2010 to 2009
	2011	2010	2009		
Gas supply	\$ 71,025,769	\$ 63,184,898	\$ 40,063,464	\$ 7,840,871	\$ 23,121,434
Payment for reduction in gas deliveries	-	6,854,420	-	(6,854,420)	6,854,420
Other operating revenues	133,101	416,427	392,340	(283,326)	24,087
Total operating revenues	<u>71,158,870</u>	<u>70,455,745</u>	<u>40,455,804</u>	<u>703,125</u>	<u>29,999,941</u>
Cost of gas sold	47,478,366	49,155,050	26,509,205	(1,676,684)	22,645,845
Other operating expenses	311,839	151,520	375,468	160,319	(223,948)
Total operating expenses	<u>47,790,205</u>	<u>49,306,570</u>	<u>26,884,673</u>	<u>(1,516,365)</u>	<u>22,421,897</u>
Operating income	<u>23,368,665</u>	<u>21,149,175</u>	<u>13,571,131</u>	<u>2,219,490</u>	<u>7,578,044</u>
Nonoperating revenues (expenses)					
Investment income	7,159,262	6,691,934	2,955,517	467,328	3,736,417
Net costs to be recovered in future periods	21,819,624	28,848,441	6,927,785	(7,028,817)	21,920,656
Member rebates, net	(2,167,896)	(8,909,378)	(1,452,013)	6,741,482	(7,457,365)
Interest expense	(45,615,796)	(43,309,467)	(21,404,609)	(2,306,329)	(21,904,858)
Other	(4,585,416)	(4,043,476)	(621,467)	(541,940)	(3,422,009)
Net nonoperating expenses	<u>(23,390,222)</u>	<u>(20,721,946)</u>	<u>(13,594,787)</u>	<u>(2,668,276)</u>	<u>(7,127,159)</u>
Change in net assets	<u>\$ (21,557)</u>	<u>\$ 427,229</u>	<u>\$ (23,656)</u>	<u>\$ (448,786)</u>	<u>\$ 450,885</u>

## 2011 Financial Highlights

### Balance Sheet:

- Prepaid gas supply decreased due to gas deliveries made from CPEP Projects No.1 and No. 2 during the year.
- Long-term debt decreased due to scheduled debt service payments on the Series 2007A Bonds and Series 2009 Bonds.

### **Operating Revenues:**

- Gas supply revenues increased as the fixed price paid to CPEP under the Project No. 2 Commodity Swap increased from 2010.
- Other operating revenues decreased due to a reduction in the administrative fee charged to CPEP's members.

### **Non-Operating Revenues:**

- Member rebates decreased, from 2010, back to levels that can be reasonably expected going forward from CPEP Project No. 1 and No. 2. Member rebates in 2010 were much higher due to the early retirement of CPEP Project No.1 bonds.

## **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
- Operating revenues included a large payment for reduction in future gas deliveries.

### **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.

## ***General Trends and Significant Events***

On September 30, 2010 the CPEP Board of Directors approved Resolution 10-001 which authorized the creation of CPEP Project No. 3 for a 30 year Prepay transaction. CPEP is currently working with Goldman Sachs to draft the contract documents necessary for the transaction. Market conditions do not support the issuance of CPEP Project No. 3 bonds at this time. We plan to be ready with this transaction when market conditions improve.

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 as of June 30, 2011 and 2010. The statements of revenues, expenses and changes in net assets present CPEP's operating results and changes in net assets for the years ended June 30, 2011 and 2010. The statements of cash flow provide information about the flow of cash within CPEP by activities for the years ended June 30, 2011 and 2010. 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 79,806	\$ 235,151
Accounts receivable	2,363,896	3,647,241
Accrued interest receivable	407,598	386,403
Prepaid expenses and other	51,537	45,781
Restricted cash and cash equivalents	33,486,710	30,337,535
Restricted short-term investments	18,832,878	18,503,813
Prepaid gas supply, current	43,683,220	47,478,365
Total current assets	<u>98,905,645</u>	<u>100,634,289</u>
<b>Noncurrent Assets</b>		
Restricted investments	37,960,000	37,960,000
Prepaid gas supply, long-term	811,597,789	855,281,009
Deferred bond issue costs	10,774,830	11,416,348
Deferred costs to be recovered in future periods	75,533,524	53,713,900
Fair value of derivative instruments	189,396,678	140,766,061
Deferred outflow from derivative instruments	138,601,438	154,563,396
Total noncurrent assets	<u>1,263,864,259</u>	<u>1,253,700,714</u>
Total assets	<u>\$1,362,769,904</u>	<u>\$1,354,335,003</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 288,960	\$ 528,802
Accrued interest payable	3,913,387	3,991,322
Current maturities of long-term debt	21,280,000	21,055,000
Total current liabilities	<u>25,482,347</u>	<u>25,575,124</u>
<b>Noncurrent Liabilities</b>		
Arbitrage rebate payable	91,211	1,215,481
Long-term debt, net	1,008,895,994	1,031,891,148
Fair value of derivative instruments	138,601,438	154,563,396
Deferred inflow from derivative instruments	189,396,678	140,766,061
Total noncurrent liabilities	<u>1,336,985,321</u>	<u>1,328,436,086</u>
<b>Net Assets, Unrestricted</b>	<u>302,236</u>	<u>323,793</u>
Total liabilities and net assets	<u>\$1,362,769,904</u>	<u>\$1,354,335,003</u>

**Central Plains Energy Project**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Gas supply	\$ 71,025,769	\$ 63,184,898
Payment for reduction in gas deliveries	-	6,854,420
Administrative service fee	<u>133,101</u>	<u>416,427</u>
Total operating revenues	<u>71,158,870</u>	<u>70,455,745</u>
<b>Operating Expenses</b>		
Cost of gas sold	47,478,366	49,155,050
Administrative and general	<u>311,839</u>	<u>151,520</u>
Total operating expenses	<u>47,790,205</u>	<u>49,306,570</u>
<b>Operating Income</b>	<u>23,368,665</u>	<u>21,149,175</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	7,159,262	6,691,934
Net revenue to be recovered in future periods	21,819,624	28,848,441
Member rebates, net	(2,167,896)	(8,909,378)
Interest expense	(45,615,796)	(43,309,467)
Amortization of debt issuance costs	(641,518)	(641,917)
Arbitrage rebates and bond fees	<u>(3,943,898)</u>	<u>(3,401,559)</u>
Net nonoperating expenses	<u>(23,390,222)</u>	<u>(20,721,946)</u>
<b>Increase (Decrease) in Net Assets</b>	(21,557)	427,229
<b>Net Assets (Deficit), Beginning of Year</b>	<u>323,793</u>	<u>(103,436)</u>
<b>Net Assets, End of Year</b>	<u>\$ 302,236</u>	<u>\$ 323,793</u>

**Central Plains Energy Project**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Cash received from customers	\$ 72,442,215	\$ 61,394,264
Cash paid to swap provider and others	(557,438)	341,823
Payment for reduction in gas deliveries	-	6,854,420
Payment to gas supplier	-	(685,062,140)
	<u>71,884,777</u>	<u>(616,471,633)</u>
Net cash provided by (used in) operating activities		
<b>Noncapital Financing Activities</b>		
Principal payments on long-term debt	(21,065,000)	(20,850,000)
Proceeds from issuance of long-term debt	-	718,445,000
Payment of bond issuance costs	-	(7,713,355)
Member rebates	(2,167,896)	(8,909,378)
Interest paid	(47,398,885)	(41,207,305)
Arbitrage rebate payment	(1,565,770)	-
Other	(3,502,398)	(3,039,691)
	<u>(75,699,949)</u>	<u>636,725,271</u>
Net cash provided by (used in) noncapital financing activities		
<b>Investing Activities</b>		
Interest received on investment securities	7,138,067	6,316,278
Proceeds from sales and maturities of investment securities	-	2,677,465
Purchases of investment securities	(329,065)	-
	<u>6,809,002</u>	<u>8,993,743</u>
Net cash provided by investing activities		
<b>Increase in Cash and Cash Equivalents</b>	2,993,830	29,247,381
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>30,572,686</u>	<u>1,325,305</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 33,566,516</u>	<u>\$ 30,572,686</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</b>		
Operating income	\$ 23,368,665	\$ 21,149,175
Changes in operating assets and liabilities		
Accounts receivable	1,283,345	(2,207,061)
Prepaid expenses and other	(5,756)	(14,375)
Prepaid gas supply	47,478,365	(635,907,090)
Accounts payable	(239,842)	507,718
	<u>71,884,777</u>	<u>(616,471,633)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 71,884,777</u>	<u>\$ (616,471,633)</u>

# Central Plains Energy Project

## Notes to Financial Statements

### June 30, 2011 and 2010

#### **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, 2011 and 2010

### 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, 2011 and 2010, cash equivalents consisted of money market mutual funds, invested in U.S. Treasuries, and U.S. Treasury bills.

#### ***Investments and Investment Income***

Guaranteed investment contracts with financial services companies are carried at contract value. Short-term investments are reported at cost, which approximates fair 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, 2011 and 2010.

#### ***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, 2011 and 2010

### 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.

#### ***Deferred Costs to be Recoverable in Future Periods***

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, 2011 and 2010, the fair value and negative fair value of CPEP's derivative instruments are offset by a deferred credit and debit, respectively.

#### ***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.

# Central Plains Energy Project

## Notes to Financial Statements

June 30, 2011 and 2010

### 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 an 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.

#### ***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no effect on the change in net assets.

# Central Plains Energy Project

## Notes to Financial Statements

June 30, 2011 and 2010

### 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, 2011 and 2010, 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. 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, 2011 and 2010, 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	
<b>June 30, 2011</b>				
Cash held at trustee	\$ 79,639	\$ 79,639	\$ -	N/A
Money market mutual funds - U.S. Treasuries	33,407,071	33,407,071	-	Aaa/AAAm
Guaranteed investment contracts	56,792,878	-	56,792,878	Unrated
	<u>\$ 90,279,588</u>	<u>\$ 33,486,710</u>	<u>\$56,792,878</u>	
<b>June 30, 2010</b>				
U.S. Treasury obligations	\$ 24,037,875	\$ 24,037,875	\$ -	N/A
Money market mutual funds - U.S. Treasuries	6,299,660	6,299,660	-	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>	

# Central Plains Energy Project

## Notes to Financial Statements

June 30, 2011 and 2010

### 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.

Under the trust indenture for Project No. 1 and in accordance with the investment agreement between CPEP and the counterparties to the guaranteed investment contracts, the issuer delivered and granted to the Trustee, as custodian, 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 as of June 30, 2011 and 2010.

#### **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, 2011 and 2010, 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.

	<b>Portfolio Composition</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Guaranteed investment contracts		
Transamerica Life Insurance Company	\$ 18,832,878	\$ 18,503,813
MBIA, Inc.	37,960,000	37,960,000
Money market mutual funds - U.S. Treasuries	33,407,071	6,299,660

**Central Plains Energy Project**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Carrying Value		
Deposits	\$ 79,806	\$ 235,151
Investments	<u>90,279,588</u>	<u>86,801,348</u>
	<u>\$ 90,359,394</u>	<u>\$ 87,036,499</u>

Included in the following balance sheet captions:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 79,806	\$ 235,151
Restricted cash and cash equivalents	33,486,710	30,337,535
Restricted short-term investments	18,832,878	18,503,813
Restricted long-term investments	<u>37,960,000</u>	<u>37,960,000</u>
	<u>\$ 90,359,394</u>	<u>\$ 87,036,499</u>

Restricted cash and cash equivalents and investments are amounts held in various accounts established by the trust indentures of the revenue bonds.

***Investment Income***

Investment income for the years ended June 30, 2011 and 2010 consisted of interest income of \$2,774,803 and \$2,831,498, respectively and Project 2 investment derivative income of \$4,384,459 and \$3,860,436, respectively.

**Central Plains Energy Project**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 3: Long-term Debt**

Long-term debt at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</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	98,505,000	115,855,000
2009 Series A (Index Rate), Gas Project Revenue Bonds (Project No. 2) due June 1, 2010 to August 2039	<u>712,250,000</u>	<u>715,965,000</u>
	1,019,155,000	1,040,220,000
Plus premium	11,020,994	12,726,148
Less current maturities of long-term debt	<u>(21,280,000)</u>	<u>(21,055,000)</u>
Long-term debt	<u><u>\$ 1,008,895,994</u></u>	<u><u>\$ 1,031,891,148</u></u>

Long term debt activity for 2011 and 2010 is summarized below:

	<u>Series 2007A</u>	<u>Series 2007B</u>	<u>Series 2009</u>	<u>Total</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, July 1, 2010	208,400,000	115,855,000	715,965,000	1,040,220,000
Less scheduled principal payments on bonds	<u>-</u>	<u>(17,350,000)</u>	<u>(3,715,000)</u>	<u>(21,065,000)</u>
Balance, June 30, 2011	<u><u>\$ 208,400,000</u></u>	<u><u>\$ 98,505,000</u></u>	<u><u>\$ 712,250,000</u></u>	<u><u>\$ 1,019,155,000</u></u>

**Central Plains Energy Project**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	29,385,000	41,587,188	70,972,188
2017-2021	183,470,000	185,083,445	368,553,445
2022-2026	175,590,000	139,078,651	314,668,651
2027-2031	142,015,000	107,207,848	249,222,848
2032-2036	200,545,000	69,402,659	269,947,659
2037-2040	191,390,000	17,725,676	209,115,676
	<u>\$1,019,155,000</u>	<u>\$ 739,115,022</u>	<u>\$1,758,270,022</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, 2011 and 2010, accounts receivable due from members was \$1,493,295 and \$2,396,393, respectively.

CPEP's operating management is engaged under an administrative services contract with a member. 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 reinstatement of the administrative fees effective July 1, 2010. Administrative fees incurred under this contract totaled approximately \$50,000 during 2011.

**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 \$855,281,009 and \$902,759,000 are reflected in both current and noncurrent asset categories at June 30, 2011 and 2010, respectively. Long-term sales agreements also exist with members, to take delivery of the natural gas over a period continuing through 2039. The sales price to the members 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, 2011 and 2010**

**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 in 2010 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 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, Nebraska 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, 2011 and 2010**

**Note 6: Derivative Instruments**

***Composition of Derivative Instruments***

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011 and 2010, classified by type, are as follows:

<b>June 30, 2011</b>	<b>Notional Amount</b>	<b>Fair Value</b>	<b>Counterparty Credit Rating</b>
Positive cash flow hedges:			
Pay-variable, receive fixed commodity swap - Project No. 1	45,153,715 mmbtu	\$ 69,979,248	Aa3 / A
Pay-variable, receive fixed commodity swap - Project No. 2	153,170,500 mmbtu	58,994,756	Aa1 / A+
Investment derivative instrument:			
Pay-variable interest rate swap - Project No. 2	\$ 712,250,000	<u>60,422,674</u>	Aaa / AA-
		<u>\$ 189,396,678</u>	
Negative cash flow hedges:			
Pay-fixed, receive variable interest rate swap - Project No. 1	\$ 98,505,000	\$ (12,366,372)	Aaa / A
Pay-fixed, receive variable interest rate swap - Project No. 2	\$ 712,250,000	<u>(126,235,066)</u>	Aaa / AA-
		<u>\$ (138,601,438)</u>	
<b>June 30, 2010</b>			
Positive cash flow hedges:			
Pay-variable, receive fixed commodity swap - Project No. 1	49,355,507 mmbtu	\$ 52,144,701	Aa3 / A
Pay-variable, receive fixed commodity swap - Project No. 2	159,616,800 mmbtu	43,093,930	Aa1 / A+
Investment derivative instrument:			
Pay-variable interest rate swap - Project No. 2	\$ 715,965,000	<u>45,527,430</u>	Aaa / AA-
		<u>\$ 140,766,061</u>	
Negative cash flow hedges:			
Pay-fixed, receive variable interest rate swap - Project No. 1	\$ 115,855,000	\$ (14,286,307)	Aaa / A
Pay-fixed, receive variable interest rate swap - Project No. 2	\$ 715,965,000	<u>(140,277,089)</u>	Aaa / AA-
		<u>\$ (154,563,396)</u>	

All fair values are classified as derivative instruments on the Balance Sheets. The increase and decrease in fair values of these derivatives instruments were \$64,592,575 and \$4,978,984 for 2011 and 2010, respectively. As these commodity and interest rate swaps are considered hedging derivatives instruments, the increase in fair value is reflected within deferred outflows and inflows on the Balance Sheets. The positive and negative fair values of the commodity and interest rate swaps were not netted as the swaps were entered into with different counterparties. The fair

# Central Plains Energy Project

## Notes to Financial Statements

### June 30, 2011 and 2010

#### Note 6: Derivative Instruments – Continued

##### *Composition of Derivative Instruments – Continued*

values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established interest rate indexes. The fair values of the interest rate swaps are based on the future yield curve for tax-exempt bonds and discounted using established interest rate indexes.

##### *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, 2011:

Type	Objective	Maturity Date	Terms
Pay-fixed receive variable interest rate swap - Project No. 1	CPEP entered into an 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.	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% (varies by Tranche) on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2007B Bonds.
Pay-variable, receive fixed commodity swap - Project No. 1	CPEP has entered into a fixed to floating 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.	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.

**Central Plains Energy Project**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Derivative Instruments – Continued**

***Objective and Terms of Hedging Derivative Instruments - Continued***

Type	Objective	Maturity Date	Terms
Pay-fixed, receive variable interest rate swap - Project 2	CPEP entered into an 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.	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.
Pay-variable, receive fixed commodity swap - Project No. 2	CPEP has entered into a fixed to floating 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.	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.
Pay-variable interest rate swap - 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 purchasers of Project No. 2.	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%.

# Central Plains Energy Project

## Notes to Financial Statements

### June 30, 2011 and 2010

#### Note 6: Derivative Instruments – Continued

##### **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 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.

# Central Plains Energy Project

## Notes to Financial Statements

### June 30, 2011 and 2010

#### **Note 6: Derivative Instruments – Continued**

##### ***Interest Rate Swap Risks - Continued***

***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.

#### **Note 7: Risk Management**

CPEP is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. CPEP carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

#### **Note 8: 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.

# Central Plains Energy Project

## Notes to Financial Statements

June 30, 2011 and 2010

### **Note 8: Significant Estimates and Concentrations – Continued**

#### ***Current Economic Conditions - Continued***

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.