American Public Energy Agency

Accountants' Report and Financial Statements

March 31, 2009 and 2008

BKD LLP
CPAs & Advisors

American Public Energy Agency
March 31, 2009 and 2008

Contents

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CPAs & Advisors

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
American Public Energy Agency
Lincoln, Nebraska

We have audited the accompanying balance sheets of American Public Energy Agency as of March 31, 2009 and 2008, 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 American Public Energy Agency'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 American Public Energy Agency as of March 31, 2009 and 2008, and its changes in 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

June 4, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of American Public Energy Agency's (APEA) financial performance provides an overview of APEA's financial activities for the years ended March 31, 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.

Financial Analysis

The following comparative condensed financial statements summarize APEA's financial position and operating results for the years ended March 31, 2009, 2008 and 2007.

Condensed Balance Sheets

	March 31,			Variance	Variance
	2009	2008	2007	2009 to 2008	2008 to 2007
Assets					
Current assets	$ 64,480,416	$ 63,854,664	$ 64,001,271	$ 625,752	$ (146,607)
Prepaid gas supply, long-term	413,889,274	462,386,716	502,400,971	(48,497,442)	(40,014,255)
Capital assets, net	9,969	17,512	62,468	(7,543)	(44,956)
Deferred costs to be recovered in future periods	54,588,600	44,044,657	33,861,600	10,543,943	10,183,057
Other long-term assets	23,080,991	22,930,645	25,719,941	150,346	(2,789,296)
Total assets	$556,049,250	$593,234,194	$ 626,046,251	$ (37,184,944)	$(32,812,057)
Liabilities and Net Assets					
Current liabilities	$ 37,281,061	$ 40,665,927	$ 39,672,317	$ (3,384,866)	$ 993,610
Long-term debt	514,536,707	549,474,103	582,543,536	(34,937,396)	(33,069,433)
Total liabilities	551,817,768	590,140,030	622,215,853	(38,322,262)	(32,075,823)
Invested in capital assets	9,969	17,512	62,468	(7,543)	(44,956)
Unrestricted	4,221,513	3,076,652	3,767,930	1,144,861	(691,278)
Total net assets	4,231,482	3,094,164	3,830,398	1,137,318	(736,234)
Total liabilities and net assets	$556,049,250	$593,234,194	$ 626,046,251	$ (37,184,944)	$(32,812,057)

<u>2009 Financial Highlights</u>

- The increase in current assets is primarily due to the settlement discussed in the Significant Events section.
- Prepaid gas supply decreased due to the deliveries of natural gas.

2008 Financial Highlights

- The decrease in current assets and other long-term assets was primarily due to distributions to members and a decrease in the current portion of the prepaid gas commodity.
- Prepaid gas supply decreased due to the deliveries of natural gas.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	March 31,			Variance	Variance
	2009	2008	2007	2009 to 2008	2008 to 2007
Operating revenues	$ 52,027,334	$ 57,828,814	$ 57,612,619	$ (5,801,480)	$ 216,195
Operating expenses	(41,332,623)	(45,251,307)	(44,744,124)	3,918,684	(507,183)
Operating income	10,694,711	12,577,507	12,868,495	(1,882,796)	(290,988)
Net nonoperating expenses	(9,357,393)	(13,313,741)	(31,610,411)	3,956,348	18,296,670
Distribution to members	(200,000)	-	-	(200,000)	-
Increase (decrease) in net assets	$ 1,137,318	$ (736,234)	$ (18,741,916)	$ 1,873,552	$ 18,005,682

2009 Financial Highlights

Operating Revenues and Expense

Operating revenues and expenses decreased due to the 1998 Bonds maturing in early 2009.

Nonoperating Revenues (Expenses)

Pursuant to the termination agreement between APEA, Municipal Energy Agency of Nebraska (MEAN) and National Public Gas Agency (NPGA), distributions to MEAN and NPGA totaled $537,312 and $658,744 during 2009 and 2008, respectively. Also included in the other nonoperating revenues in 2009 is the settlement proceeds discussed in the Significant Events Section.

Interest expense decreased due to lower debt requirements during 2009.

2008 Financial Highlights

Operating Income

Operating expenses increased due to increased legal fees for litigation during the year.

Nonoperating Revenues (Expenses)

Pursuant to the termination agreement between APEA, Municipal Energy Agency of Nebraska (MEAN) and National Public Gas Agency (NPGA), distributions to MEAN and NPGA totaled $658,744 and $19,901,397 during 2008 and 2007, respectively.

Interest expense decreased due to lower debt requirements during 2008.

General Trends and Significant Events

Status of the Energy Sector: Throughout the fiscal year, APEA joined other businesses in the United States in dealing with the operational struggles caused by a failing world economy and unstable financial markets. Natural gas prices and market volatility played a significant role in the operation and planning strategies of all parties involved in the acquisition, sale, production or use of natural gas, power, or other fuels throughout the year. The global economic downturn severely impacted with supply and demand components that added additional external pressure on energy pricing. The existing recession and poor general health of the economy may continue to play a significant role within the financial markets in addition to affecting the energy related areas in the near future.

Prepaid Gas Supply: As of March 31, 2009, APEA had two outstanding prepaid natural gas transactions with more than $500 million in total performing revenue bonds (the "2003 Bonds" and the "2005 Bonds"). Significant benefit has been delivered to the APEA members and other qualified utilities over the past twelve years from nine different APEA prepaid transactions that purchased more than 875 million MMBtu of natural gas.

Several qualified utilities were fairly far along with new natural gas prepaid transactions last year, but they were unable to close due to financial market conditions. APEA is among many potential issuers of prepaid natural gas revenue bonds that are waiting for improvement in the economy and financial markets so that the participating parties can achieve their required economic goals. Utilization of the prepayment method of purchasing some of the natural gas needs of a qualified utility continues to be a beneficial strategy and effective risk management tool.

Significant Events: The negative effects of the dismal economy and failing financial markets hindered the operating plans of APEA to complete multiple prepay transactions during the fiscal year. APEA has completed significant portions of the required documentation to close two separate prepay transactions. There are two other potential energy transactions pending that are waiting for additional clarification as to structure and details supporting participant benefits.

APEA received notice again this year to remarket a portion of the winter volumes of natural gas to be delivered under the 2003 prepay transaction. The remarketing efforts were successful and the volumes were sold to qualified utilities.

In October 2008, APEA was notified that there would be a significant price increase for retaining the liquidity facility provider for the 2003 Bonds. APEA selected a new highly rated liquidity facility provider. All of the 2003 Bonds were successfully remarketed after a mandatory tender of the 2003 Bonds.

APEA was notified in February 2009 that Moody's Investors Services, Inc. ("Moody's") had lowered the credit rating of a guaranteed interest contract ("GIC") provider. The provisions of the GIC remain in full force and effect pending a successful resolution to this downgrade action. The downgrade did not affect the ratings or outlook on APEA bonds. All of the parties involved with the transactions are working to coordinate a positive solution.

Subsequent to the fiscal year end, APEA was notified that Standard and Poor's Ratings Services ("S&P") had lowered the short-term rating of the counterparty for the commodity swaps and interest rate swaps for the outstanding APEA transactions. S & P informed APEA that the downgrade did not affect the rating or outlook on the 2003 Bonds, but that the short-term rating on the 2005 Bonds would drop from A-1+ to A-1. APEA is in the process of taking remedial action to recover the original rating on the 2005 Bonds. The long-term rating on both the 2003 and 2005 APEA Bonds remains at AA/Aa2 by S&P and Moody's respectively.

In February 2009, APEA, intervenor-plaintiff in a pending litigation matter, reached settlement in a lawsuit filed by a municipality associated with Nebraska Municipal Power Pool ("POOL"). The lawsuit was filed against POOL and several of its senior employees. The District Court in Lincoln, Nebraska entered an order and judgment in favor of APEA. A settlement and mutual release and resolution of disputes agreement was executed between the parties effective February 23, 2009. APEA received $2,250,000 in settlement proceeds as of March 31, 2009.

Also in February 2009, National Public Gas Agency ("NPGA") requested that the remaining volumes of natural gas that NPGA purchased with proceeds of the 2003 Bonds transaction be remarketed to APEA under the terms of the APEA Gas Remarketing Agreement. APEA accepted the request to remarket the volumes under the terms of the agreements, and is in the process of selling the natural gas to qualified municipal utilities.

<u>Looking into the Future</u>: APEA will make every effort to complete multiple prepay transactions in 2009 and 2010. APEA remains committed to its members to meet the goals and objectives as set by the APEA Board of Directors. APEA staff is concentrating on the development of new natural gas prepay structures, financing opportunities for projects pertaining to electric capacity, energy, transmission, and green and renewable energy related areas. APEA staff will continue to think creatively and collaborate with members of the APEA project team and others to accomplish the APEA mission. The Board of Directors and staff will also focus on the development of a membership growth strategy that will strengthen and enhance APEA as an organization.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about APEA's financial position and activities. The balance sheets present APEA's assets, liabilities and net assets as of March 31, 2009 and 2008. The statements of revenues, expenses and changes in net assets present APEA's operating results and changes in net assets for the years ended March 31, 2009 and 2008. The statements of cash flows provide information about the flow of cash within APEA by activities for the years ended March 31, 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

APEA 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 APEA'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 APEA in conformity with accounting principles generally accepted in the United States of America. This Annual Financial Report is also available via the Internet at www.apea.org.

Roger W. Mock
President and
Chief Executive Officer

American Public Energy Agency

Balance Sheets

March 31, 2009 and 2008

Assets

	2009	2008
Current Assets		
Cash and cash equivalents	$ 8,441,551	$ 9,489,486
Short-term investments	1,305,000	-
Restricted investments	-	2,778,922
Accounts receivable	6,144,138	11,465,970
Accrued interest receivable	37,183	49,219
Prepaid expenses	55,099	56,808
Prepaid gas supply, current	48,497,445	40,014,259
Total current assets	64,480,416	63,854,664
Noncurrent Assets		
Restricted investments	22,328,368	22,042,653
Prepaid gas supply, long-term	413,889,274	462,386,716
Capital assets, net	9,969	17,512
Deferred bond issue costs	752,623	887,992
Deferred costs to be recovered in future periods	54,588,600	44,044,657
Total noncurrent assets	491,568,834	529,379,530
Total assets	$ 556,049,250	$ 593,234,194

Liabilities and Net Assets

	2009	2008
Current Liabilities		
Current maturities of long-term debt	$ 35,304,000	$ 33,453,538
Accounts payable	275,955	5,339,915
Accrued interest payable	1,701,106	1,788,956
Distributions payable	-	83,518
Total current liabilities	37,281,061	40,665,927
Long-term Debt	514,536,707	549,474,103
Net Assets		
Invested in capital assets	9,969	17,512
Unrestricted	4,221,513	3,076,652
Total net assets	4,231,482	3,094,164
Total liabilities and net assets	$ 556,049,250	$ 593,234,194

American Public Energy Agency

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended March 31, 2009 and 2008

	2009	2008
Operating Revenues		
Gas supply	$ 52,006,864	$ 57,827,041
Other	20,470	1,773
Total operating revenues	52,027,334	57,828,814
Operating Expenses		
Cost of gas sold	40,014,256	43,973,858
Administrative and general	1,318,367	1,277,449
Total operating expenses	41,332,623	45,251,307
Operating Income	10,694,711	12,577,507
Nonoperating Revenues (Expenses)		
Investment income	921,348	1,287,457
Net costs to be recovered in future periods	10,543,943	10,183,057
Interest expense	(20,474,692)	(21,960,431)
Amortization of debt issuance costs	(135,369)	(148,999)
Arbitrage rebates and bond fees	(1,925,311)	(2,016,051)
Settlement of litigation	2,250,000	-
Distributions under contract	(537,312)	(658,774)
Net nonoperating expenses	(9,357,393)	(13,313,741)
Income (Loss) Before Distributions to Members	1,337,318	(736,234)
Distributions to Members	200,000	-
Increase (Decrease) in Net Assets	1,137,318	(736,234)
Net Assets, Beginning of Year	3,094,164	3,830,398
Net Assets, End of Year	$ 4,231,482	$ 3,094,164

American Public Energy Agency

Statements of Cash Flows

Years Ended March 31, 2009 and 2008

	2009	2008
Operating Activities		
Cash received from customers	$ 59,530,192	$ 76,056,093
Cash paid to swap provider and others	(8,554,101)	(19,190,898)
Net cash provided by operating activities	50,976,091	56,865,195
Capital and Related Financing Activities		
Purchase of capital assets	-	(6,579)
Proceeds from sale of capital assets	-	3,500
Net cash used in capital and related financing activities	-	(3,079)
Noncapital Financing Activities		
Principal payments on long-term debt	(33,453,538)	(34,259,314)
Distributions to members and others	(820,830)	(876,653)
Fiscal payments	(1,925,311)	(2,016,051)
Proceeds from litigation settlement	2,250,000	-
Interest paid	(20,195,938)	(21,690,322)
Net cash used in noncapital financing activities	(54,145,617)	(58,842,340)
Investing Activities		
Interest received on investment securities	933,384	1,316,991
Proceeds from sales and maturities of investment securities	2,778,922	2,000,000
Purchases of investment securities	(1,590,715)	(138,623)
Net cash provided by investing activities	2,121,591	3,178,368
Increase (Decrease) in Cash and Cash Equivalents	(1,047,935)	1,198,144
Cash and Cash Equivalents, Beginning of Year	9,489,486	8,291,342
Cash and Cash Equivalents, End of Year	$ 8,441,551	$ 9,489,486
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 10,694,711	$ 12,577,507
Amortization of prepaid gas supply	40,014,256	43,973,858
Depreciation	7,543	47,595
Loss on disposal of capital assets	-	440
Changes in operating assets and liabilities		
Accounts receivable	5,321,832	(1,848,840)
Prepaid expenses	1,709	(16,624)
Accounts payable	(5,063,960)	2,131,259
Net Cash Provided by Operating Activities	$ 50,976,091	$ 56,865,195

American Public Energy Agency

Notes to Financial Statements

March 31, 2009 and 2008

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

Nature of Operations

American Public Energy Agency (APEA) is an interlocal agency, being a body corporate and politic organized under the laws of the State of Nebraska, specifically the Interlocal Cooperation Act of the State, Section 13-801, et seq., Reissue Revised Statutes of Nebraska, 1997, as amended, and Section 18 of Article XV of the Constitution of the State (the "Act"). APEA provides energy acquisition programs and related services to public agencies in any state as defined in the Act. Energy acquisitions are accomplished primarily through long-term special obligation financing transactions.

Reporting Entity

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

Accounting Method

APEA's funds are accounted for on the accrual basis of accounting. APEA'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). APEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, APEA 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.

Under the provisions of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, APEA 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.

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

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 and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

APEA considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2009 and 2008, cash equivalents consisted of money market mutual funds invested in government securities.

Investments

Investments in money market funds are carried at fair value and investment agreements with insurance and other financial services companies are carried at contract value.

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

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent after best efforts in collection. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary at March 31, 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 effective interest method.

Prepaid Gas Supply

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

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

Capital Assets

Capital assets are recorded at cost at date of acquisition. Furniture and equipment are depreciated over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the improvements. Annual depreciation is computed using the straight-line method.

Deferred Costs to be Recovered in Future Periods

Rates for natural gas billings are designed to provide, over the life of each project, full recovery of all project costs as defined in the respective bond resolutions and as prescribed by the Board of Directors. In accordance with SFAS No. 71, certain income and expense items which would be recognized during the current period are deferred and not included in the determination of net income until such costs are recoverable. Under SFAS No. 71, the costs to be recovered consist primarily of the difference between amortization of prepaid gas supplies and debt service requirements included in rates. As of March 31, 2009 and 2008, this difference in timing has resulted in an amount of $54,588,600 and $44,044,657 respectively, recorded as costs to be recovered in future periods in the accompanying balance sheets.

Net Asset Classification

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

Invested in capital assets - This component of net assets consists of capital assets, net of accumulated depreciation. There is no debt related to capital assets.

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. There are no restricted net assets at March 31, 2009 or 2008.

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".

Classification of Revenues

Operating revenues include revenues resulting from delivery of gas supplies to customers. Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities.

American Public Energy Agency

Notes to Financial Statements

March 31, 2009 and 2008

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

Classification of Revenues - Continued

In February 2009 APEA, executed a settlement and mutual release and resolution of disputes agreement in connection with a pending litigation matter in which APEA was the intervenor-plaintiff against former members of APEA. The amount received by APEA from this settlement of $2,250,000 is included in nonoperating revenues.

Derivative Instruments

Derivative instruments are utilized by APEA to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas. 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 change APEA'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 financial position. Gas supply revenues in each operating period include the netting adjustments of the commodity swap agreements. 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 of Nebraska and related governing laws and regulations, APEA is exempt from federal and state income taxes.

Reclassifications

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.

Future Accounting Pronouncements

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53). This statement is intended to improve how governmental entities report information about derivative instruments, financial arrangements used by governmental entities to manage specific risks or make investments, in their financial statements. The statement specifically requires governmental entities to measure most derivative instruments at fair value in their financial statements. The guidance in this statement also addresses hedge accounting requirements and is effective for APEA's year ending March 31, 2011. The impact of applying the new standard has not yet been determined.

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. APEA'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 March 31, 2009 and 2008, APEA's deposits did not exceed federally insured limits and thus no custodial credit risk exists.

Investments

APEA's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. APEA may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, and banker's acceptances, commercial paper, money market funds, repurchase agreements, municipal bonds, and investment contracts. APEA has specific investments in guaranteed investment contracts with an insurance company as provided in bond documents. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of the Board of Directors.

At March 31, 2009 and 2008, APEA had the following investments, maturities and credit ratings:

		Maturities in Years			
	Fair Value	Less Than 1	1 - 5	6 - 10	Credit Rating Moody's S/P
March 31, 2009					
Cash held at trustee	$ 93,998	$ 93,998	$ -	$ -	N/A
Money market mutual funds - US agencies	8,295,784	8,295,784	-	-	Not rated
Investment contracts	22,328,368	-	11,022,541	11,305,826	Not rated
	$ 30,718,150	$ 8,389,782	$ 11,022,541	$ 11,305,826	

Note 2: Deposits, Investments and Investment Return - Continued

	Fair Value	Maturities in Years: Less Than 1	1 - 5	6 - 10	Credit Rating Moody's S/P
March 31, 2008					
Money market mutual funds - US treasury	$ 158,563	$ 158,563	$ -	$ -	N/A
Money market mutual funds - US agencies	9,264,013	9,264,013	-	-	Not rated
Investment contracts	24,821,575	2,778,922	-	22,042,653	Not rated
	$ 34,244,151	$12,201,498	$ -	$ 22,042,653	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. APEA's investment policy does not place a limit on the amount that may be invested in any one maturity category. 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 investment contracts are reflected consistent with the contract maturity, the funds are available for specific uses as identified in the bond indentures.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. APEA's investment policy establishes requirements for certain investment securities or issuers of securities to be rated at certain rates or higher. The following investment types must be rated at the minimum rates by Moody's and S&P as noted below:

U.S. agency securities	Aaa/AAA
Commercial paper	P-1/A-1
Municipal bonds	AA

Note 2: Deposits, Investments and Investment Return - Continued

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, APEA would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for APEA's investment contracts at March 31, 2009 and 2008, are held by the counterparties in other than APEA's name.

During 2009, one of APEA's investment contract providers experienced an issuer downgrade to A1/Negative from Aa3/Negative as rated by Moody's Investors Service. In accordance with the investment agreement, established under the trust indenture, APEA can require the provider to perform certain actions to remedy the situation, including posting collateral equal to 104% of the contract value. APEA is currently evaluating a remedy with the provider, which is within the terms of the contract.

Concentration of Credit Risk

APEA places no limit on the amount that may be invested in any one issuer.

	Portfolio Composition March 31,	
	2009	2008
Investment contracts		
Transamerica Occidental Life Insurance Company	35.88 %	40.14 %
Transamerica Life Insurance and Annuity Company	36.81	32.34

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2009 and 2008 as follows:

	2009	2008
Carrying Value		
Deposits	$ 1,356,769	$ 66,910
Investments	30,718,150	34,244,151
	$ 32,074,919	$ 34,311,061

Note 2: Deposits, Investments and Investment Return - Continued

Included in the following balance sheet captions:

	2009	2008
Current Assets		
Cash and cash equivalents	$ 8,441,551	$ 9,489,486
Short-term investments	1,305,000	-
Restricted investments	-	2,778,922
Noncurrent Assets		
Restricted investments	22,328,368	22,042,653
	$ 32,074,919	$ 34,311,061

Of the cash and cash equivalents amounts shown above, $5,753,651 and $6,312,428 were restricted for debt service at March 31, 2009 and 2008, respectively.

Investment Return

Investment return for the years ended March 31, 2009 and 2008 consisted of interest income of $921,348 and $1,287,457, respectively.

Note 3: Capital Assets

Capital asset activity for 2009 and 2008 is summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
March 31, 2009				
Leasehold improvements	$ 5,809	$ -	$ -	$ 5,809
Furniture and equipment	32,262	-	-	32,262
	38,071	-	-	38,071
Less accumulated depreciation	(20,559)	(7,543)	-	(28,102)
Capital assets, net	$ 17,512	$ (7,543)	$ -	$ 9,969

Note 3: Capital Assets - Continued

March 31, 2008	Beginning Balance	Additions	Disposals	Ending Balance
Leasehold improvements	$ 102,153	$ 5,809	$ (102,153)	$ 5,809
Furniture and equipment	38,957	770	(7,465)	32,262
	141,110	6,579	(109,618)	38,071
Less accumulated depreciation	(78,642)	(47,595)	105,678	(20,559)
Capital assets, net	$ 62,468	$ (41,016)	$ (3,940)	$ 17,512

Note 4: Long-term Debt

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	2009	2008
Revenue bonds		
2005 Series A, Gas Supply Variable Rate Revenue Bonds, due June 1, 2006 to December 1, 2015	$ 299,778,000	$ 317,153,000
2003 Series A, Gas Supply Variable Rate Revenue Bonds, due August 1, 2004 to February 1, 2014	126,022,500	132,355,000
2003 Series B, Gas Supply Variable Rate Revenue Bonds, due August 1, 2004 to February 1, 2014	126,022,500	132,355,000
Series 1998B, Gas Supply Revenue Bonds, 5.10% - 5.45%, due April 15, 2003 to 2008	-	3,413,538
Total long-term debt	551,823,000	585,276,538
Less current maturities of long-term debt	(35,304,000)	(33,453,538)
Less unamortized discount	(1,982,293)	(2,348,897)
Long-term debt	$ 514,536,707	$ 549,474,103

APEA has issued revenue bonds to finance prepayments for natural gas supplies meeting a portion of the long-term gas requirements of various public agencies. The bonds are secured by a pledge of the gas supply revenues derived from the related prepay transactions. A summary description of each gas supply project financing transaction is detailed in Note 7. The series 1998B revenue bonds were fully paid in April 2008.

Note 4: Long-term Debt - Continued

Long-term debt activity for 2009 and 2008 is summarized as follows:

	Series 2005A	Series 2003A	Series 2003B	Series 1998B	Total
Balance, March 31, 2007	$ 333,783,000	$ 138,455,000	$ 138,455,000	$ 8,842,852	$ 619,535,852
Less principal payments on bonds	(16,630,000)	(6,100,000)	(6,100,000)	(5,429,314)	(34,259,314)
Balance, March 31, 2008	317,153,000	132,355,000	132,355,000	3,413,538	585,276,538
Less principal payments on bonds	(17,375,000)	(6,332,500)	(6,332,500)	(3,413,538)	(33,453,538)
Balance, March 31, 2009	$ 299,778,000	$ 126,022,500	$ 126,022,500	$ -	$ 551,823,000

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at March 31, 2009, are as follows:

Year Ending March 31,	Principal	Interest	Total
2010	$ 35,304,000	$ 19,368,081	$ 54,672,081
2011	58,945,000	17,709,797	76,654,797
2012	95,580,000	14,873,507	110,453,507
2013	122,360,000	10,913,722	133,273,722
2014	127,761,000	6,444,413	134,205,413
2015-2016	111,873,000	3,714,142	115,587,142
	$ 551,823,000	$ 73,023,662	$ 624,846,662

The interest payments reflected in the table above for the Series 2005 and 2003 variable rate bonds, were calculated based on the interest rate swap agreements (See Note 8) which convert these issues to an effective fixed rate of approximately 3.65%.

Note 5: Membership

During fiscal 2009 and 2008, two municipalities comprise the membership of APEA, with other governmental entities being considered for membership. In 2009, the Board of Directors approved a distribution of surplus net revenues to the existing members in the amount of $200,000. No distributions were made to these members in 2008.

In February 2007, a termination and settlement agreement ("the "Termination Agreement") was executed between APEA and two former members. The Termination Agreement set forth current distributions and provided for certain future contingent distributions to the former members. Distributions under this agreement were $537,312 and $658,774 during 2009 and 2008, respectively, of which $0 and $83,518 were payable at March 31, 2009 and 2008, respectively. Additional distributions to the former members may be payable pursuant to the Termination Agreement to the extent of excess cash flows from the remaining gas supply prepayment transactions set forth in Note 7. As these future distributions are contingent on excess cash flows, they will be recorded as a reduction to net assets on an annual basis when they are determinable.

Note 6: Risk Management

APEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and others; and natural disasters. APEA 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 7: Gas Purchase and Sales Agreements

APEA has entered into long-term gas purchase and supply contracts for which prepayments have been made and amounts remaining of $462,386,719 and $502,400,975 are reflected in both current and noncurrent asset categories at March 31, 2009 and 2008, respectively. Long-term sales agreements also exist with customers, to take delivery of the natural gas over a period continuing through 2010. The sales price to the customer for these contracts is at specified index prices less a discount. As discussed above, swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

Gas Supply Variable Rate Revenue Bonds, Series 2005A

In August 2005, APEA issued $349,783,000 of gas supply revenue bonds to fund the prepayment of 65,277,000 Mmbtus of gas from BP Canada Energy Marketing Corp. with deliveries beginning November 1, 2005 and ending October 31, 2015. Metropolitan Utilities District (MUD) will purchase the scheduled monthly gas at a specified index less a discount from such index price for the initial term of November 1, 2005 through October 31, 2010.

Note 7: Gas Purchase and Sales Agreements - Continued

Gas Supply Revenue Bonds (National Public Gas Agency Project), Series 2003A and Series 2003B

In December 2003, APEA issued $305,960,000 of gas supply revenue bonds to fund the prepayment of 83,246,000 Mmbtus of gas from BP Canada Energy Marketing Corp. National Public Gas Agency (NPGA) was contracted to purchase the scheduled gas monthly at a specified index less a discount from such index price per the gas sales contract. Daily gas deliveries to NPGA began on January 1, 2004 and were scheduled to continue until December 31, 2013.

APEA accepted the request from NPGA to remarket 100% of the remaining natural gas from the Series 2003A and Series 2003B transactions, under the terms of the Gas Remarketing Agreement dated December 1, 2003. Effective April 1, 2009, APEA is remarketing the gas to other municipal utilities. In accordance with the terms of the applicable bond documents, NPGA still has the ability to accept gas if deemed necessary at a later date.

Gas Supply Revenue Bonds (Nebraska Public Gas Agency Project), Series 1998B

In March 1998, APEA issued $27,789,223 gas supply revenue bonds to fund prepayment of 14,419,850 Mmbtus of gas from Aquila Energy Marketing and UtiliCorp United Inc. (collectively "Aquila"). Gas deliveries from this prepay arrangement ended March 31, 2008 and the bonds were paid in full in April 2008.

Note 8: Derivative Instruments

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

Commodity Swap Agreements

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

Note 8: Derivative Instruments - Continued

Commodity Swap Agreements - Continued

Terms: Each Commodity Swap extends to the date of the final maturity of the related Series of Bonds. Each of the Commodity Swaps requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas purchased pursuant to the related gas purchase agreement. Payments under the Commodity Swaps are based on published natural gas indices at the gas delivery points.

Fair Value: As of March 31, 2009, the Commodity Swaps had an approximate negative fair value of $56,000,000. This negative value represents the present value of the differences of the monthly fixed prices in the related Commodity Swap, less the NYMEX forward price curve, adjusted for basis differential and multiplied by the corresponding monthly gas volume using the LIBOR forward interest rate curve as a discount rate.

APEA has recorded the long term prepaid gas supply contract asset at cost. Notwithstanding the fact that both the swap agreements and prepaid gas contracts are controlled by terms of the bond resolutions, on a stand-alone basis the long-term prepaid gas contracts have a fair value at March 31, 2009, that exceeds carrying value by a positive amount which approximates and offsets the negative value of the commodity swaps. This valuation is based upon the same pricing methodology as discussed above for the Commodity Swaps.

Termination Risk: Each of the Commodity Swaps terminate in the event of a "triggering event" under the related gas purchase agreement, in the event of APEA or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swap entered into in connection with the Series 2005A, 2003A and B Bonds, no payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit Risk: Each of the Commodity Swaps is tied to a related gas prepay transaction and terminates in the event such transaction terminates. Therefore, the only credit risk associated with a 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. To mitigate such credit risks, one or more of the Commodity Swaps contain downgrade provisions that establish and allow for collateral posting or counterparty substitution.

Note 8: Derivative Instruments - Continued

Interest Rate Swap Agreements

Objective of the Swaps: APEA entered into interest rate swaps (the "Interest Rate Swaps") in connection with its Series 2005 Bonds and Series 2003 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 Swaps with its variable rate debt service payment on these bonds.

Terms: The Interest Rate Swaps extend to the date of the final maturity of these bonds and requires monthly payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the Interest Rate Swaps, APEA pays the counterparty a fixed payment of 3.705% and 3.540% on the notional amount and receives a variable payment equal to the rate actually borne by the 2005 Series Bonds and Series 2003 Bonds, respectively.

Fair Value: As of March 31, 2009, the Interest Rate Swaps had an approximate negative fair value of $34,000,000. This negative value represents the present value of the monthly notional values multiplied by the differences in the current SIFMA fixed rate less the fixed interest rate in the Interest Rate Swaps using the LIBOR forward interest rate curve as the discount rate.

Termination Risk: The Interest Rate Swaps terminate in the event of a "triggering event" under the related gas purchase agreement, in the event of APEA 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 are tied to the natural gas prepay transactions associated with the Series 2005 Bonds and Series 2003 Bonds and terminate in the event such transaction terminates. Therefore, the only credit risk associated with the Interest Rate Swaps is for margins lost on future commodity deliveries associated with a termination of the related gas prepay transaction in the event of the counterparty's inability to perform in accordance with the terms of such swaps. To mitigate such risk, the Interest Rate Swaps contain downgrade provisions which provide that the counterparty shall be rated at least Aa3/AA- by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group and for collateral posting or counterparty substitution in the event of such a downgrade.

Note 9: Employee Benefit Plan

APEA contributes to a defined contribution profit sharing plan covering all employees with 1,000 hours of service and having attained the age of 20 ½ years. Employees may contribute a minimum of six percent of their salary on a before income tax basis. APEA contributes 150 percent of each employee's contribution up to six percent of each employee's salary. Contributions actually made by plan members and APEA aggregated $19,859 and $29,789 during 2009 and $15,316 and $22,874 during 2008, respectively.

Note 10: 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 Customers

In 2008 APEA sold substantially all of its natural gas supply under prepaid contracts to NPGA and MUD. In 2009, APEA sold more that half of its natural gas supply under prepaid gas supply contracts to MUD.

Major Suppliers

APEA purchased all of its natural gas supply under prepaid gas supply contracts from one major national gas supplier. There are a limited number of national gas suppliers, and any disruption of deliveries under the supply contracts could have an impact on APEA operations.

Current Economic Conditions

The current economic environment presents agencies 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 the Agency.

Although the Agency 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 the Agency.