

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Utah Associated Municipal Power Systems
Years Ended March 31, 2006 and 2005

Utah Associated Municipal Power Systems
Financial Statements and Supplemental Schedules

Years Ended March 31, 2006 and 2005

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Report of Independent Auditors

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the accompanying balance sheets of Utah Associated Municipal Power Systems as of March 31, 2006 and 2005 and the related statements of revenues and expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Utah Associated Municipal Power Systems' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 respective financial position of Utah Associated Municipal Power Systems as of March 31, 2006 and 2005, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2006 on our consideration of Utah Associated Municipal Power Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis, as listed in the table of contents, 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.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental schedules of changes in funds required by the revenue bond resolutions and project financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



July 5, 2006

Utah Associated Municipal Power Systems

Management's Discussion and Analysis

Introduction

The following is a discussion and analysis of Utah Associated Municipal Power Systems' (UAMPS) financial performance and position, providing an overview of UAMPS' activities for the years ended March 31, 2006 and 2005.

Description of Business

UAMPS is a political subdivision of the state of Utah (Utah or the State). Its 49 members (the Members) include public power utilities in Utah, Arizona, California, Idaho, Nevada, and New Mexico. UAMPS' purposes include the planning, financing, development, acquisition, construction, operation, and maintenance of various projects for the generation, supply, transmission, and management of electric energy for the benefit of the Members. UAMPS is governed by its Board of Directors (the Board). The Board consists of directors representing Members that have entitlement shares in the various projects undertaken by UAMPS. UAMPS is a project-based organization and presently operates 13 separate projects that provide a variety of power supply, transmission, and other services to the Members that participate in them. The Members make their own elections to participate in UAMPS' projects and are not obligated to participate in any particular project. In general, UAMPS and its Members that elect to participate in a project enter into a contract that specifies the services or product to be provided by UAMPS from the project, the payments to be made by participating Members in respect of the costs of the project, and other matters relating to the project.

UAMPS' Board has ultimate control of UAMPS, maintaining managerial, financial, and operational responsibility. UAMPS functions as an autonomous company supported solely from its own revenues. All assets, debts, and obligations of UAMPS are separate and distinct from the assets, debts, and obligations of the State. Upon dissolution of UAMPS, any monies not needed to liquidate UAMPS' obligations would be returned to its Members.

Highlights

UAMPS posted an excess of revenues over expenses for the years ended March 31, 2006 and 2005 of \$11.5 million and \$1.6 million, respectively. The increase in 2006 was due to the \$10 million sale of the sulfur dioxide allowances associated with the San Juan and Hunter plants. A portion of the 2006 excess of revenues over expenses could be refunded to the Members in early fiscal year 2007, depending on the Members' elections.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

Pursuant to a unanimous decision by the UAMPS Board in fiscal year 2002, an innovative finance plan labeled the Market Stabilization Cost Recovery Charge (CRC) was implemented. The success of the CRC continued in 2005, allowing UAMPS to return the Power Pool to market-based pricing by funding the cost of restructured energy contracts from fiscal year 2002 through the CRC. UAMPS obligation on the CRC note was paid in full in fiscal 2006, one year ahead of schedule.

Overview of the Financial Statements

This report includes UAMPS' audited financial statements presented in accordance with accounting principles generally accepted in the United States. The audited financial statements include five components: balance sheets, statements of revenues and expenses, statements of changes in net assets, statements of cash flows, and notes to the financial statements. The balance sheets provide information at a particular point in time; the statements of revenues and expenses show the results of the organization for the fiscal period. The changes in net assets allow a look at the changes in equity over the period, including additions due to the excess of revenues over expenses and decreases due to distributions. The statements of cash flows illustrate the cash that is received from and expended on various activities over the period.

UAMPS' financial statements were audited in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* issued by the Comptroller General of the United States.

All statements are prepared on the accrual basis of accounting. All revenues and expenses are recognized when earned or incurred regardless of when cash is received or spent.

Notes to the financial statements provide additional schedules and information that are essential to a complete understanding of the financial statements.

Financial Analysis

Total cash and invested assets at March 31, 2006 and 2005 were \$38.2 million and \$33.3 million, respectively. The \$4.9 million increase between March 31, 2005 and 2006 resulted from the build up in the major maintenance overhaul reserve account balances, as well as additional debt service collection for a project that included principal and interest as opposed to interest only in 2005.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

The components of cash and investments at March 31 consisted of the following:

	2006	2005
Category 1	16.0%	21.0%
Utah Public Treasurer's Investment Fund	84.0	79.0
	100.0%	100.0%

At March 31, 2006 and 2005, accounts receivable totaled \$19.4 million and \$16.6 million, respectively. The increase of \$2.8 million between March 31, 2006 and 2005 was due to normal timing fluctuations for cash receipts.

The table below summarizes UAMPS' total assets and total liabilities at March 31:

	2006	2005
	<i>(In Thousands)</i>	
Total current assets	\$ 35,458	\$ 27,467
Total long-term assets	219,893	241,212
Total assets	\$ 255,351	\$ 268,679
Total current liabilities	\$ 34,982	\$ 28,099
Total long-term liabilities	216,006	238,102
Total liabilities	250,988	266,201
Net assets:		
Invested in plant, net of debt	(17,628)	(24,186)
Restricted net assets	21,476	6,828
Unrestricted net assets	515	19,836
	4,363	2,478
Total liabilities and net assets	\$ 255,351	\$ 268,679

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

Financial Analysis of Operations

Operating revenue from power sales for the years ended March 31, 2006 and 2005 was \$172.8 million and \$148.0 million, respectively. The amount at March 31, 2006 represents an increase of \$24.8 million from March 31, 2005. There are several reasons for the increase. UAMPS sold sulfur dioxide allowances associated with the San Juan and Hunter plants for \$10 million. UAMPS had \$6 million in higher fuel costs in fiscal year 2006 as compared to fiscal year 2005, which are subsequently collected from members. The remaining fluctuation can be attributed to other business needs for various projects.

The March 31, 2005 amount represents a decrease of \$2.9 million from 2004. The decrease was primarily due to increases in billings to members for collection of debt service for the Payson Project of \$8.5 million, offset by reductions of billings to members for fixed cost revenue and production revenue of \$11.9 million. Additionally, transmission revenue increased by \$0.5 million as a result of a new contractual arrangement related to the Craig Mona Project.

Operating revenue decreased \$5.5 million between March 31, 2003 and 2004 primarily due to reductions in off-system sales of \$21.0 million, offset by increased operating revenues from the Members of \$15.5 million.

Interest income for 2006, 2005, and 2004 was \$1,287,000, \$732,000, and \$260,000, respectively. The increase from 2005 to 2006 relates primarily to the increase in interest rates as well as higher balances in the major maintenance overhaul reserve accounts. The increase from 2004 to 2005 relates to the Payson Project, which was completed and placed in service in June 2004. As a result, the interest from the date of commercial operation forward was no longer capitalized, but was recognized on the income statement.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

The table below summarizes UAMPS' total revenues and expenses for fiscal years 2006 and 2005.

	Year Ended March 31	
	2006	2005
	<i>(In Thousands)</i>	
Revenues:		
Power sales	\$ 172,810	\$ 147,982
Interest income	1,287	732
Other income	213	1,345
	174,310	150,059
Expenses:		
Cost of power	114,047	98,519
Other expenses	27,053	26,955
	141,100	125,474
Excess of revenues over expenses before net costs to be recovered from future billings to Members	33,210	24,585
Decrease in net costs to be recovered from future billings to Members	(21,710)	(22,945)
Excess of revenues over expenses	11,500	1,640
Net assets at beginning of year	2,478	5,332
Distributions	(9,615)	(4,494)
Net assets at end of year	\$ 4,363	\$ 2,478

Cash Flow and Liquidity

UAMPS' sources of cash include power sales, services, issuance of debt, and investment income. Outstanding checks in excess of transfers at year-end decreased from \$281,000 in 2005 to \$215,000 in 2006 primarily due to the timing of the transfer from the revolving line of credit.

At March 31, 2006 and 2005, the balance on the revolving line of credit (used for cash management) was \$463,252 and \$1,038,882, respectively, of the \$3.0 million available.

In October 2004, UAMPS obtained an \$8.0 million revolving line of credit at a variable rate in relation to LIBOR. In January 2005, UAMPS obtained an additional \$3.0 million revolving line of credit from the same financial institution upon substantially the same terms and conditions as those contained in the initial \$8.0 million revolving line of credit. At March 31, 2006 and 2005, the balance on the combined revolving line of credit was \$10.5 million and \$3.2 million, respectively, of the \$11.0 million available.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

Budgets and Billing

The UAMPS Board is presented a budget for its approval prior to the start of each fiscal year and power billings are based on that budget. Monthly reports are presented to the Board describing the operating costs compared to the budget and the revenues derived from the billing process. Any deviations are explained and the budgets are amended as necessary.

Significant Capital Assets and Long-Term Debt Activity

In fiscal year 2003, UAMPS committed to construct the Payson Project. The Payson Project is a 143 megawatt combined-cycle natural-gas-fired generating, transmission, and natural gas delivery facility in central Utah. UAMPS issued \$101.0 million Payson Power Project series 2003 revenue bonds in March 2003 to partially fund the commitment. The project was completed and placed in service in June 2004. UAMPS' contractual commitments for future construction costs relating to the remaining Payson Project facilities amounted to approximately \$342,400, \$716,000 and \$116,100,000 at March 31, 2006, 2005 and 2004, respectively. The decrease has resulted from the completion of various stages of the plant.

In order to meet the Member's growing load needs, UAMPS, along with the City of Glendale, California, PacifiCorp Energy, and Southern Nevada Water Authority (collectively, the Owners), is beginning the engineering and construction of IPP Unit 3. IPP Unit 3 will be located at the Unit 1 and 2 site near Delta, Utah.

On March 31, 2006, the construction work-in-progress balance is \$1,743,000, which relates to prepaid materials costs associated with a planned outage for repairs in the spring of 2006 at the Hunter plant. The balance at March 31, 2005 and 2004 was \$150,000 and \$87,853,385, respectively, relating to the Payson plant.

The San Juan Project Revenue Bonds, Series 2003 fully matured during fiscal year 2006.

Subsequent to the close of the fiscal year, on April 19, 2006, UAMPS issued \$1,250,000 Central-St. George Transmission Project Revenue Bond Anticipation Notes, Series 2006, to provide funds necessary to pay the cost of additions and improvements to the Central-St. George Transmission Project and the costs of issuance and sale of the related bonds.

Economic Factors

The amount of energy from Western Area Power Administration (WAPA) and the contract rate of delivery have remained stable from fiscal 2005 into fiscal 2006.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

Providing the Members with better methods to share resources and information about electric power issues is an important role for UAMPS. Through the Government and Public Affairs (GPA) Project the Members are able to participate in the political process at the state and federal levels and to monitor current political issues that could directly impact the future of the electric industry.

Western Electric Energy Markets

The energy markets in the western United States have calmed from the dysfunctional condition they were in during the 2000–2001 period when energy prices increased from between \$20–\$50/megawatt hour (MWh) to regularly exceeding \$300/MWh. A series of orders by the Federal Energy Regulatory Commission (FERC), including a West-wide power mitigation program, which imposed bid caps and numerous regulatory actions in California, have helped to stabilize the power markets since 2002. Price volatility remains, however, and the power supply liquidity in the market has disappeared as the number of active participants has dwindled. During fiscal year 2006, the market price for energy was slightly higher than during fiscal year 2005 as a result of normal market price fluctuations.

Since the electric energy market disruption of 2000–2001, interest in electric utility restructuring has waned. The states that allowed customer choice had higher electricity prices and shorter supplies than those that elected not to restructure the electric utilities due to market control by energy providers. Thus, the utility restructuring had the opposite effect restructuring was expected to accomplish. Therefore, it is unlikely Utah will consider electric restructuring in the foreseeable future.

Credit erosion impacting numerous electric industry participants and continued load growth are factors that create less certainty about market stability. To protect its Members from this market volatility, UAMPS has acquired sufficient resources to meet the Members' projected needs for the near term through its production facilities and fixed price power purchase contracts. The produced and purchased power is committed to the Members that have obligated themselves to the purchase of this power.

Requests for Information

This financial report is designed to provide a general overview of UAMPS' finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Controller, UAMPS, 2825 East Cottonwood Parkway, Suite 200, Salt Lake City, Utah 84121.

Utah Associated Municipal Power Systems

Balance Sheets

	March 31	
	2006	2005
Assets		
Current assets:		
Receivables	\$ 19,411,915	\$ 16,575,949
Prepaid expenses and deposits	12,503,455	7,712,284
Investments	3,542,164	3,178,238
	<u>35,457,534</u>	<u>27,466,471</u>
Restricted assets:		
Investments	34,625,758	30,102,208
	<u>34,625,758</u>	<u>30,102,208</u>
Utility plant and equipment:		
Generation	193,771,254	190,504,620
Transmission	62,903,172	60,970,642
Furniture and equipment	1,155,450	969,813
	<u>257,829,876</u>	<u>252,445,075</u>
Less accumulated depreciation	<u>(89,938,857)</u>	<u>(79,169,276)</u>
	167,891,019	173,275,799
Construction work-in-progress	1,743,132	150,000
	<u>169,634,151</u>	<u>173,425,799</u>
Other assets:		
Unamortized bond issuance costs (net of accumulated amortization of \$2,086,000 in 2006 and \$2,005,000 in 2005)	3,724,405	4,064,988
Net costs to be recovered from future billings to Members	11,909,208	33,619,244
	<u>15,633,613</u>	<u>37,684,232</u>
Total assets	<u><u>\$ 255,351,056</u></u>	<u><u>\$ 268,678,710</u></u>

	March 31	
	2006	2005
Liabilities and net assets		
Current liabilities:		
Outstanding checks in excess of transfers	\$ 214,886	\$ 280,820
Accounts payable	10,286,510	14,848,970
Accrued liabilities	11,274,332	6,498,318
Members' advance billings	657,496	657,496
Notes payable	10,963,252	4,238,882
Current portion of deferred revenue	1,585,747	1,574,275
	34,982,223	28,098,761
Liabilities payable from restricted assets:		
Accrued interest payable	3,744,484	3,791,830
Current portion of long-term debt	13,228,613	16,307,893
	16,973,097	20,099,723
Long-term debt:		
Bonds payable, less current portion	179,581,387	197,467,415
Unamortized bond discount	(541,073)	(1,324,537)
Unamortized bond premium	8,123,247	8,708,224
	187,163,561	204,851,102
Deferred revenue, less current portion	11,869,019	13,150,853
Net assets:		
Invested in plant, net of debt	(17,628,092)	(24,185,619)
Restricted net assets	21,475,747	6,827,789
Unrestricted net assets	515,501	19,836,101
	4,363,156	2,478,271
Total liabilities and net assets	\$ 255,351,056	\$ 268,678,710

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Revenues and Expenses

	Years Ended March 31	
	2006	2005
Operating revenues:		
Power sales	\$ 172,809,490	\$ 147,982,089
Other	213,360	1,345,234
	173,022,850	149,327,323
Operating expenses:		
Cost of power	114,047,215	98,519,211
In lieu of ad valorem taxes	586,551	554,124
Depreciation	10,886,380	9,531,498
General and administrative	5,618,608	6,065,013
	131,138,754	114,669,846
Operating income	41,884,096	34,657,477
Nonoperating revenues (expenses):		
Interest income	1,287,041	732,009
Interest expense	(9,620,728)	(10,421,687)
Amortization of bond issuance costs	(340,586)	(382,973)
	(8,674,273)	(10,072,651)
Excess of revenues over expenses before net costs to be recovered from future billings to Members	33,209,823	24,584,826
Decrease in net costs to be recovered from future billings to Members	(21,710,036)	(22,945,213)
Excess of revenues over expenses	\$ 11,499,787	\$ 1,639,613

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Changes in Net Assets

	<u>Net Assets</u>
Balance as of April 1, 2004	\$ 5,332,120
Distribution	(4,493,462)
Excess of revenues over expenses	1,639,613
Balance as of March 31, 2005	<u>2,478,271</u>
Distribution	(9,614,902)
Excess of revenues over expenses	11,499,787
Balance as of March 31, 2006	<u>\$ 4,363,156</u>

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Cash Flows

	Years Ended March 31	
	2006	2005
Operating activities		
Cash received from customers	\$ 175,640,892	\$ 152,064,412
Cash payments to suppliers for goods and services	(121,860,914)	(106,420,407)
Cash payments to employees for services	(2,474,123)	(2,369,802)
Cash payments for ad valorem taxes	(494,954)	(554,124)
Net cash provided by operating activities	<u>50,810,901</u>	42,720,079
Capital and related financing activities		
Additions to utility plant and equipment	(7,094,734)	(16,991,411)
Proceeds from sale of asset	–	1,285,000
Proceeds from issuance of long-term debt	–	19,478,631
Payments for bond refunding	–	(18,355,000)
Principal payments on refunding revenue bonds	(10,191,214)	(10,232,889)
Interest payments on refunding revenue bonds	(9,298,701)	(8,758,664)
Bond issuance costs	–	(347,505)
Distribution	(9,614,902)	(4,493,462)
Net cash used in capital and related financing activities	<u>(36,199,551)</u>	(38,415,300)
Noncapital and related financing activities		
Payments for variable lines of credit refunding	(10,774,095)	(19,022,704)
Interest payments on special notes	(170,886)	(754,328)
Net cash used in noncapital and related financing activities	<u>(10,944,981)</u>	(19,777,032)
Investing activities		
Decrease (increase) in current investments	(363,926)	1,178,878
Restricted assets:		
Net (increase) decrease in investments	(4,523,550)	13,331,878
Interest income received	1,287,041	919,489
Net cash provided by (used in) investing activities	<u>(3,600,435)</u>	15,430,245
Increase (decrease) in cash	65,934	(42,008)
Outstanding checks in excess of transfers at beginning of year	(280,820)	(238,812)
Outstanding checks in excess of transfers at end of year	<u>\$ (214,886)</u>	<u>\$ (280,820)</u>

Utah Associated Municipal Power Systems

Statements of Cash Flows (continued)

	Years Ended March 31	
	2006	2005
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,884,096	\$ 34,657,477
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,886,380	9,531,498
Amortization of deferred revenue	(1,270,362)	(1,258,890)
Gain on sale of asset	-	(231,662)
Increase (decrease) in current receivables	(2,835,966)	1,488,525
Increase in prepaid expenses and deposits	(4,791,171)	(3,449,464)
Decrease in members' advance billings	-	(1,499,767)
Increase in notes payable	6,724,370	4,238,882
Decrease in accounts payable	(4,562,460)	(3,829,891)
Increase in accrued liabilities	4,776,014	3,073,371
Net cash provided by operating activities	\$ 50,810,901	\$ 42,720,079

See accompanying notes.

Utah Associated Municipal Power Systems

Notes to Financial Statements

March 31, 2006

1. Summary of Significant Accounting Policies

Organization and Purpose

Utah Associated Municipal Power Systems (UAMPS), a separate political subdivision of the state of Utah, was established pursuant to the provisions of the Utah Interlocal Co-operation Act of November 1980 and was organized under the Amended and Restated Utah Associated Municipal Power Systems Agreement for Joint Cooperative Action. UAMPS' membership consists of 38 municipalities, one joint action agency, one electric service district, three public utility districts, three water conservancy districts, two co-ops, and one non profit corporation (collectively, the Members). The Members are located in Utah, Arizona, Idaho, Nevada, New Mexico, and California.

UAMPS is a separate legal entity that possesses the ability to establish its own budget, incur debt, sue and be sued, and own and lease property. No other governmental units in Utah exercise significant control over UAMPS. As such, UAMPS is not a component unit as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, *The Financial Reporting Entity*. Further, as defined in this Statement, UAMPS has no component units that should be included in the accompanying financial statements.

UAMPS' purposes include planning, financing, developing, acquiring, constructing, improving, bettering, operating, and maintaining projects or ownership interests or capacity rights therein for the generation, transmission, and distribution of electric energy for the benefit of its Members.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The accounting and reporting policies of UAMPS conform with the accounting rules prescribed by the GASB. UAMPS has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, except for those that conflict with or contradict with GASB pronouncements.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments

All investments, except for the Utah Public Treasurer's Investment Fund, are recorded at fair value. Investments' estimated fair values are obtained from the last reported sales price on the last business day of the year using market quotes from independent pricing agencies. The Utah Public Treasurer's Investment Fund is a "2a-7-like" pool and is recorded at amortized cost.

Receivables

Receivables consist primarily of current power billings to Members.

Utility Plant and Equipment

Generation assets, transmission assets, furniture, and equipment are stated at cost, less accumulated depreciation. Interest incurred in the construction and implementation of fixed assets is capitalized into the cost of the fixed assets. Expenditures that increase values or extend useful lives are capitalized and routine maintenance and repairs are charged to expense in the period incurred. Leasehold improvements are capitalized and amortized over the lesser of the asset life or lease term. Depreciation is calculated using the straight-line method at rates that are designed to depreciate the cost of the assets over estimated useful lives ranging from three to 26 years.

Unamortized Bond Issuance Costs

Unamortized bond issuance costs related to the issuance of the Hunter II Project Revenue and Refunding Bonds, the Central-St. George Transmission Project Revenue and Refunding Bonds, the Craig-Mona Transmission Project Revenue and Refunding Bonds, the San Juan Project Revenue and Refunding Bonds, and the Payson Power Project Revenue Bonds are being amortized using the respective effective-interest rates over the terms of the bonds.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Costs to Be Recovered from Future Billings to Members

Billings to Members are designed to recover “power costs” as defined by the power sales contracts, which principally include current operating expenses, scheduled debt principal, and interest and deposits into certain funds. Expenses determined in accordance with accounting principles generally accepted in the United States (GAAP), which are not currently billable as “power costs,” are deferred and classified as other assets in the accompanying balance sheets until those future periods in which they will become “power costs” and be recovered through billings to Members.

Income Taxes

UAMPS is not subject to federal or state income taxes under provisions of Section 115 of the Internal Revenue Code.

Members’ Advance Billings

The power sales contracts between UAMPS and its participants require UAMPS to bill Members in advance based upon estimates of power cost and usage. Members’ advance billings at year-end are recorded as a liability.

Deferred Revenue

Certain participants of the Craig-Mona Project, the Payson Project, and the San Juan Project elected to prepay their share of certain future fees for the projects. The participants of the Hunter II Project and the Central-St. George Project have elected to prepay certain costs of acquisition and debt service during refinancing and/or construction of the projects. These payments have been treated as deferred revenue and will be amortized to revenue over the life of the respective bond issues.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets are classified into three components:

- Invested in capital assets, net of related debt: This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other long-term 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. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted: This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws 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.”

The accounting policies and practices of UAMPS conform to the accounting principles generally accepted in the United States applicable to an enterprise fund of a government unit.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that could affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

2. Power Sales and Transmission Service Contracts Relating to Bonds

UAMPS has entered into power sales and/or transmission service contracts (the Contracts) with various participants (the Purchasers). The Contracts are as follows:

UAMPS has contracted with 22 municipalities and one joint-action agency in the Hunter II Project to supply power from the generating unit. Each contract term extends at a minimum to the date all principal and interest on the 1992, 1998, and 2004 Series Bonds have been paid.

UAMPS has contracted with five municipalities to provide transmission capabilities from the Central-St. George Project to deliver electric power to the participants. Each contract term extends, at a minimum, to the date all principal and interest on the 2000 and 2003 Series Bonds have been paid.

UAMPS has contracted with nine municipalities and one joint-action agency to provide transmission capabilities from the Craig-Mona Transmission Project to secure electric transmission interconnections with eastern utilities for the participants. Each contract term extends, at a minimum, to the date all principal and interest on the 1993 Series Bonds have been paid.

UAMPS has contracted with 15 municipalities and one electric service district in the San Juan Project to supply power from the generating unit. Each contract term extends, at a minimum, to the date all principal and interest on the 1994, 1998, and 2003 Series Bonds have been paid.

UAMPS has contracted with 16 municipalities and one electric service district in the Payson Project to supply power from the generating unit. Each contract term extends, at a minimum, to the date all principal and interest on the 2003 Series Bonds have been paid. The Payson Project was completed in June 2004.

The Contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders.

Under the terms of the Contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses, debt service on the revenue bonds, and any other costs incurred by UAMPS. The Purchasers are obligated to pay whether or not these projects, or any parts thereof, are operating or operable or output is suspended, interrupted, curtailed, interfered with, reduced, or terminated.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

3. Net Costs to Be Recovered from Future Billings to Members

Net costs to be recovered from future billings to Members for the years ended March 31, 2006 and 2005 and the accumulated totals as of March 31, 2006 and 2005, consisted of the following:

	For the Years Ended		Accumulated Totals as of	
	2006	2005	2006	2005
Items in accordance with GAAP not currently billable to Members				
Depreciation, accretion, and amortization of bond issuance costs	\$ 12,010,430	\$ 11,008,501	\$ 133,804,886	\$ 121,794,456
Refunding charge on refunding/defeasance of revenue bonds	–	1,024,431	40,040,626	40,040,626
Principal collected from certain receivables	–	–	8,151,148	8,151,148
Excess bond proceeds (used to pay interest/CWIP)	61,150	–	10,403,371	10,342,221
Principal amounts of notes	–	–	1,750,000	1,750,000
Cost recovery on off-system sales losses	(1,140,043)	(62,478)	40,139,781	41,279,824
Estimated future loss on contracts	–	384,038	10,384,038	10,384,038
Amortization of deferred revenue	(1,270,362)	(1,258,890)	(14,742,527)	(13,472,165)
Utility plant renewals and replacements	(5,293,196)	(1,364,152)	(29,005,357)	(23,712,161)
Principal amounts of debt service	(23,804,480)	(29,234,164)	(181,259,223)	(157,454,743)
Amortization of bond premium	(584,977)	(520,040)	(1,105,017)	(520,040)
Major overhaul reserve payments	(1,729,905)	(2,897,876)	(6,909,223)	(5,179,318)
Accrued personal leave	41,347	(24,583)	256,705	215,358
Net costs to be recovered from future billings to Members	\$ (21,710,036)	\$(22,945,213)	\$ 11,909,208	\$ 33,619,244

4. Utility Plant and Equipment

UAMPS' interest in two generating units represents a 14.582% and a 7.028% undivided interest in the PacifiCorp Hunter II and the Public Service Company of New Mexico San Juan Unit IV electric generating units (the Generating Units), respectively. The interest is recorded based on UAMPS' acquisition cost. On March 31, 2006, the construction work-in-progress balance was \$1,743,132, which relates to repair and materials costs associated with a planned outage for repairs in spring of 2006 for the Hunter plant.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

4. Utility Plant and Equipment (continued)

UAMPS acquired a 15% entitlement share in the transmission capability of a 105-mile 345 kilovolts (kV) transmission line constructed between Craig, Colorado and the Bonanza Generation Station in Uintah County, Utah. UAMPS is responsible for a like percentage of the costs of acquisition, construction, operation, and maintenance of the line. UAMPS has also purchased an entitlement share of 54 megawatt (MW) of transmission capability on the Bonanza line, which extends from the Bonanza Generation Station to the Mona, Utah Substation.

The Central-St. George Project, located in Washington County, Utah, owned and operated by UAMPS, consists of 138 kV transmission facilities, including a 345/138 kV electric substation, approximately 25 miles of 138 kV transmission line, a 138 kV switching yard, a 138/69 kV electric substation, and approximately 16 miles of 69 kV transmission line to provide service to four of its members in Washington County. During fiscal year 2005, the 11 MW diesel fuel generators were sold for \$1,285,000.

The Payson Project is a combined cycle, natural-gas-fired, electric generating facility with a nominal generating capacity of 143 MW located in Payson City, Utah, owned and operated by UAMPS. The Payson Project also includes gas pipelines, electric transmission lines, and other properties, and facilities and equipment necessary for the operation of the generating facility. Engineering, equipment acquisition, and other pre-construction work on the Payson Project began in 2002 and was completed in June 2004 at a total estimated cost of approximately \$114.1 million. UAMPS' contractual commitments for future construction costs relating to the remaining Payson Project facilities amounted to approximately \$342,400 at March 31, 2006.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

4. Utility Plant and Equipment (continued)

A summary of utility, plant and equipment, changes in accumulated depreciation and related depreciation provisions expressed as an average depreciation rate follows:

	Generation	Transmission	Furniture and Equipment	Construction Work-in- Progress	Total
Balance, April 1, 2005	\$ 190,504,619	\$ 60,970,643	\$ 969,812	\$ 150,000	\$ 252,595,074
Capital additions	3,266,635	1,932,529	302,437	6,644,983	12,146,584
Sales, retirements	—	—	(116,799)	(5,051,851)	(5,168,650)
Balance, March 31, 2006	<u>\$ 193,771,254</u>	<u>\$ 62,903,172</u>	<u>\$ 1,155,450</u>	<u>\$ 1,743,132</u>	<u>\$ 259,573,008</u>
Accumulated depreciation, April 1, 2005	\$ (57,492,766)	\$ (21,205,657)	(470,853)	—	\$ (79,169,276)
Depreciation expense	(8,612,695)	(2,047,054)	(226,631)	—	(10,886,380)
Retirements	—	—	116,799	—	116,799
Accumulated depreciation, March 31, 2006	<u>\$ (66,105,461)</u>	<u>\$ (23,252,711)</u>	<u>\$ (580,685)</u>	<u>\$ —</u>	<u>\$ (89,938,857)</u>
Average depreciation rate	4.5%	3.3%	21.3%	—	4.3%
Balance, April 1, 2004	\$ 98,877,430	\$ 51,259,530	\$ 991,604	\$ 87,665,427	\$ 238,793,991
Capital additions	91,627,190	12,520,018	318,158	13,707,422	118,172,787
Sales, retirements	—	(2,808,905)	(339,949)	(101,222,849)	(104,371,703)
Balance, March 31, 2005	<u>\$ 190,504,620</u>	<u>\$ 60,970,643</u>	<u>\$ 969,813</u>	<u>\$ 150,000</u>	<u>\$ 252,595,075</u>
Accumulated depreciation, April 1, 2004	\$ (50,365,528)	\$ (20,742,445)	(625,320)	—	\$ (71,733,293)
Depreciation expense	(7,127,238)	(2,218,777)	(185,483)	—	(9,531,498)
Retirements	—	1,755,566	339,949	—	2,095,515
Accumulated depreciation, March 31, 2005	<u>\$ (57,492,766)</u>	<u>\$ (21,205,656)</u>	<u>\$ (470,854)</u>	<u>\$ —</u>	<u>\$ (79,169,276)</u>
Average depreciation rate	4.9%	4.0%	18.9%	—	3.9%

5. Investments

UAMPS' investments are classified as Category 1, other than the funds held in the Utah Public Treasurer's Investment Fund for purposes of assessing the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by UAMPS or its agent in UAMPS' name.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

5. Investments (continued)

The fair value of investments at March 31, are as follows:

	<u>2006</u>	<u>2005</u>
Restricted:		
U.S. government securities	\$ 5,045,506	\$ 5,041,674
Utah Public Treasurer's Investment Fund	<u>29,580,252</u>	<u>25,060,534</u>
Total	<u>\$ 34,625,758</u>	<u>\$ 30,102,208</u>
Current:		
Bank deposits	\$ 903,927	\$ 1,869,084
Utah Public Treasurer's Investment Fund	<u>2,638,237</u>	<u>1,309,154</u>
Total	<u>\$ 3,542,164</u>	<u>\$ 3,178,238</u>

The fair value of the debt securities at March 31, 2006, by contractual maturity, are due in one year or less. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Bond covenants allow UAMPS to invest in U.S. government securities, obligations of any state including the state treasurer's investment fund, certificates of deposit and banker's acceptances of banks meeting certain minimum requirements and repurchase agreements.

6. Outstanding Checks in Excess of Transfers

Cash consists of deposits with banks. Outstanding checks in excess of transfers consist of outstanding checks and deposits in transit in excess of bank balances of \$800 and \$900, at March 31, 2006 and 2005, respectively. Outstanding checks in excess of transfers balances were \$214,886 and \$280,820 at March 31, 2006 and 2005, respectively. The entire bank account balances are covered by federal depository insurance, which insures bank balances up to \$100,000. State statutes do not require such accounts to be collateralized.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt

Pursuant to the Hunter II Project Revenue Bond Resolution, the San Juan Project Revenue Bond Resolution, the Craig-Mona Transmission Project Revenue Bond Resolution, the Central-St. George Transmission Project Revenue Bond Resolution, and the Payson Power Project Bond Resolution (collectively, the Resolutions), all supplemented from time to time, UAMPS has issued the following revenue and refunding revenue bonds and notes payable:

Series	Original Issue	Interest Rate	Original Maturity Date	Principal Outstanding – March 31	
				2006	2005
Hunter II 1992					
Capital appreciation	\$ 24,786,129	5.50%–6.45%	1998–2007	\$ 11,790,000	\$ 17,690,000
Hunter II 1998					
Serial	6,455,000	4.00%–5.00%	2000–2012	3,755,000	4,190,000
Hunter II 2004					
Serial	17,425,000	1.50–5.00%	2004–2010	17,350,000	17,350,000
San Juan 1998					
Serial	15,750,000	4.00%–5.25%	2000–2015	13,860,000	14,890,000
Term	5,740,000	5.00%	2018	5,740,000	5,740,000
Term	9,125,000	5.00%	2022	9,125,000	9,125,000
	<u>30,615,000</u>				
San Juan 2003					
Note	1,796,262	Variable	Quarterly	–	611,213
Craig-Mona 1993					
Serial	8,315,000	2.80%–5.25%	1994–2009	3,765,000	4,600,000
Central-St. George					
1997 B Serial	2,315,000	3.95%–5.15%	1998–2012	1,285,000	1,440,000
Term	1,840,000	5.375%	2019	1,840,000	1,840,000
	<u>4,155,000</u>				

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

Series	Original Issue	Interest Rate	Original Maturity Date	Principal Outstanding – March 31	
				2006	2005
Central-St. George 2000 Serial	\$ 7,025,000	4.40%–5.40%	2001–2019	\$ 5,655,000	\$ 5,930,000
Central-St. George 2003 Serial	19,945,000	3.00%–4.75%	2003–2019	17,795,000	18,745,000
Payson 2003 Serial	100,850,000	3.00%–5.25%	2006–2026	100,850,000	100,850,000
Market Stabilization Note	39,428,361	3.48%	2007	–	10,774,095
				192,810,000	213,775,308
		Less unamortized bond discount		541,073	1,324,537
		Plus unamortized bond premium		8,123,247	8,708,224
		Less current portion		13,228,613	16,307,893
				\$ 187,163,561	\$ 204,851,102

The Hunter II Project 1992 Series Bonds (totaling \$32,011,129) are not subject to redemption prior to maturity. The discount associated with these bonds has an effective interest rate of 6.14%.

The Hunter 1998 Series Bonds (totaling \$6,455,000) maturing on or after July 1, 2009 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after July 1, 2008, at redemption prices ranging from 100% to 101%, plus accrued interest to the date of redemption.

The 2004 Hunter II Series Bonds (totaling \$17,425,000) are not subject to redemption prior to maturity.

The San Juan 1998 Series Bonds (totaling \$30,615,000) maturing on or after June 1, 2009 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after June 1, 2008, at redemption prices ranging from 100% to 101%, plus accrued interest to the date of redemption.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

The San Juan Project Revenue Bonds, Series 2003 (totaling \$1,796,262) fully matured in December 2005.

The Craig-Mona 1993 Series Bonds (totaling \$8,315,000) are not subject to redemption prior to maturity.

The Central-St. George 1997B Series Bonds (totaling \$4,155,000), maturing after December 1, 2008, are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after December 1, 2007, at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Central-St. George 2000 Series Bonds (totaling \$7,025,000), maturing on or after December 1, 2011, are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after December 1, 2010, at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Central-St. George 2003 Series Bonds (totaling \$19,945,000), maturing on or after December 1, 2012, are subject to redemption prior to maturity at the option of UAMPS on and after June 1, 2012, in whole or in part on any date, at a redemption price equal to 100% of the principal amount, plus accrued interest to the date of redemption.

The Payson Project Revenue 2003 Series Bonds (totaling \$100,850,000), were issued on March 18, 2003 at a premium of \$7,417,478, with effective interest rates of 2.48% to 4.73%. The 2003 Series Bonds maturing on or after April 1, 2014 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after April 1, 2013 at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Resolutions for bond issues with term bonds require mandatory sinking fund payments be made beginning in 2005 and beyond. Such sinking fund requirements have been scheduled so that UAMPS will have approximately the same debt service requirement each year over the life of the bonds.

The Resolutions provide that the Revenue and Refunding Revenue Bonds shall be direct and special obligations of UAMPS, payable solely from and solely secured by certain sources described in the Resolutions.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

Restricted cash and investments are restricted only for the purposes stipulated in the Resolutions.

During fiscal year 2003, the Board adopted resolutions authorizing borrowings to support the operations of the Power Pool and to provide necessary working capital for its operations. In order to secure such borrowings, the Board established the Market Stabilization CRC as a separate charge and component of the administrative and general expenses of UAMPS, payable under the Pooling Agreements by the Members.

Pursuant to the authority contained in the Resolutions, on April 9, 2003, UAMPS consolidated three lines of credit (\$14.0 million, \$26.0 million, and \$10.0 million) with unpaid balances (\$11,512,463, \$18,878,849, and \$9,642,011, respectively) at March 31, 2003 with variable rates of interest into one line of credit with a beginning principal balance of \$39,428,361. The credit instrument had a fixed interest rate of 3.48%, and was paid in full on February 15, 2006.

The scheduled maturities and related interest, based on scheduled rates for fixed rate bonds and the existing rates at March 31, 2006 for variable rate bonds, of long-term debt are as follows:

Year Ending March 31	Revenue and Refunding Revenue Bonds	Interest	Total Debt Service Requirements
2007	\$ 12,625,000	\$ 7,307,854	\$ 19,932,854
2008	12,885,000	6,654,962	19,539,962
2009	12,820,000	6,323,625	19,143,625
2010	15,220,000	6,107,529	21,327,529
2011	12,470,000	5,906,741	18,376,741
2012-2016	37,110,000	24,374,725	61,484,725
2017-2021	44,840,000	12,675,245	57,515,245
2022-2026	44,840,000	4,741,863	49,581,863
Total	\$ 192,810,000	\$ 74,092,544	\$ 266,902,544

UAMPS has interest expense of \$9,620,728 and \$10,421,687 for the years ended March 31, 2006 and 2005, respectively.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

The table below shows the changes in net long-term debt balances that occurred during the years ended March 31, 2006 and 2005.

	<u>March 31, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>March 31, 2006</u>	<u>Amount Due Within One Year</u>
Hunter II 1992	\$ 17,690,000	\$ —	\$ 5,900,000	\$ 11,790,000	\$ 5,895,000
Hunter II 1998	4,190,000	—	435,000	3,755,000	460,000
Hunter II 2004	17,350,000	—	—	17,350,000	—
San Juan 1998–Serial	14,890,000	—	1,030,000	13,860,000	1,085,000
San Juan 1998–Term	5,740,000	—	—	5,740,000	—
San Juan 1998–Term	9,125,000	—	—	9,125,000	—
San Juan 2003	611,213	—	611,213	—	—
Craig Mona 1993	4,600,000	—	835,000	3,765,000	875,000
Central-St. George 1997B–Serial	1,440,000	—	155,000	1,285,000	160,000
Central-St. George 1997B–Term	1,840,000	—	—	1,840,000	—
Central-St. George 2000	5,930,000	—	275,000	5,655,000	290,000
Central-St. George 2003	18,745,000	—	950,000	17,795,000	980,000
Payson 2003	100,850,000	—	—	100,850,000	2,880,000
Market Stabilization–Fixed Rate	10,774,095	—	10,774,095	—	—
	<u>213,775,308</u>	<u>—</u>	<u>20,965,308</u>	<u>192,810,000</u>	<u>12,625,000</u>
Less unamortized discount	1,324,537	—	783,464	541,073	—
Plus unamortized premium	8,708,224	—	584,977	8,123,247	603,613
	<u>\$ 221,158,995</u>	<u>\$ —</u>	<u>\$ 20,766,821</u>	<u>\$ 200,392,174</u>	<u>\$ 13,228,613</u>

8. Notes Payable

In August 2001, UAMPS obtained a \$3.0 million revolving line of credit at a rate of 75% of the financial institution's prime lending rate for cash flow purposes. This line of credit had an unpaid balance of \$463,252 and \$1,038,882 as of March 31, 2006 and 2005, respectively. In October 2004, UAMPS obtained an \$8.0 million revolving line of credit at a variable rate in relation to LIBOR. In January 2005, UAMPS obtained an additional \$3.0 million revolving line of credit from the same financial institution upon substantially the same terms and conditions as those contained in the initial \$8.0 million line of credit. The outstanding balance on the combined \$11.0 million available line of credit was \$10.5 million and \$3.2 million at March 31, 2006 and 2005, respectively. The additional revolving lines of credit were obtained to assist UAMPS with working capital requirements.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

9. Commitments and Contingencies

UAMPS leases office space under a seven-year operating lease expiring in fiscal year 2011. Future minimum payments under the operating lease obligation are:

Fiscal Year:		
2007	\$	280,782
2008		288,007
2009		295,232
2010		302,456
2011		231,358
		\$ 1,397,835

Rent expense for the years ended March 31, 2006 and 2005 was \$280,902 and \$273,046, respectively.

During the normal course of conducting its business, UAMPS becomes involved in litigation. It is not possible to determine the eventual outcome of presently unresolved litigation. However, management believes it will not have a material adverse effect on UAMPS' financial position or results of operations.

10. Take or Pay Contracts

UAMPS shares an ownership interest in the San Juan Generating Station, which has an agreement with the Public Service Company of New Mexico to purchase a minimum annual quantity of coal. Under the agreement currently in place, the San Juan Generating Station and UAMPS, as a part owner of generating unit number 4, have the following estimated commitments over the next five years:

Year	Tons	Total Commitment at the March 31, 2006 Price per Ton	UAMPS' Estimated Portion of the Commitment
2007	5,600,000	\$ 226,408,000	\$ 4,910,000
2008	5,600,000	226,408,000	4,910,000
2009	5,600,000	226,408,000	4,910,000
2010	5,600,000	226,408,000	4,910,000
2011	5,600,000	226,408,000	4,910,000

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

10. Take or Pay Contracts (continued)

During fiscal years 2006 and 2005, UAMPS incurred minimum coal costs of \$5,001,000 and \$4,875,000, respectively, and incremental coal costs of \$247,000 and \$415,000, respectively, as its portion of the existing San Juan Operating Agreement. Incremental coal costs are comprised of variable costs for the purchase of coal in excess of the minimum purchase requirement.

11. Retirement Plan

UAMPS has a noncontributory money purchase defined contribution pension plan, which covers all of its employees. Employees are eligible to participate from the date of employment. Contributions and earnings thereon are always fully vested upon participation in the plan. Contribution levels are established by the Board and are initially equal to 15.3%, increasing to a maximum of 25% of each covered employee's compensation. UAMPS' covered payroll amounted to approximately \$1,790,000 and \$1,670,000 in 2006 and 2005, respectively. Contributions, which are approximately 25% of total payroll, totaled approximately \$447,500 and \$417,500 in 2006 and 2005, respectively. All contributions are invested using an outside pension administrator, ICMA Retirement Corp. (ICMA). ICMA provides the participants with multiple options for their pension investments.

12. Subsequent Event

On April 19, 2006, UAMPS issued its \$1,250,000 Central-St. George Transmission Project Revenue Bond Anticipation Notes Series 2006 to provide funds necessary to pay the costs of additions and improvements to the Central-St. George Transmission Project and the costs of issuance and sale of the related bonds.

Supplemental Schedules

Utah Associated Municipal Power Systems

Schedules of Changes in Funds Required
by the Revenue Bond Resolutions

Year Ended March 31, 2006

	Revenue Fund	Operations and Maintenance Fund	Construction Fund	Debt Service Fund		Reserve and Contingency Fund	Total
				Debt Service Account	Debt Service Reserve Account		
Balance at March 31, 2004	\$ 4,355,939	\$ (237,632)	\$ 19,482,589	\$ 11,478,060	\$ 10,099,752	\$ 2,373,684	\$ 47,552,392
Additions:							
Investment earnings receipts	88,654	(146,327)	123,758	131,826	617,782	103,989	919,682
Debt proceeds	–	–	332,124	19,146,507	–	–	19,478,631
Sale of fixed asset proceeds	–	–	1,285,000	–	–	–	1,285,000
Power sales receipts	152,064,412	–	–	–	–	–	152,064,412
Transfers from irrevocable trust	–	–	–	19,180,871	–	–	19,180,871
Transfers (to) from other funds	(153,330,767)	151,848,496	(104,378)	(2,659,311)	(240,987)	4,486,947	–
	(1,177,701)	151,702,169	1,636,504	35,799,893	376,795	4,590,936	192,928,596
Deductions:							
Purchase of capital additions	–	(462,522)	17,453,933	–	–	–	16,991,411
Payments on debt	–	19,022,703	–	28,587,890	–	–	47,610,593
Interest payments	–	754,329	–	8,758,663	–	–	9,512,992
Cost of issuance	–	28,752	318,753	–	–	–	347,505
Distribution	–	4,493,462	–	–	–	–	4,493,462
Operating expenses	–	127,908,633	65	4,300	–	612,401	128,525,399
	–	151,745,357	17,772,751	37,350,853	–	612,401	207,481,362
Balance at March 31, 2005	3,178,238	(280,820)	3,346,342	9,927,100	10,476,547	6,352,219	32,999,626
Additions:							
Investment earnings receipts	140,563	(67,027)	90,630	259,829	460,266	402,780	1,287,041
Power sales receipts	175,640,892	–	–	–	–	–	175,640,892
Transfers (to) from other funds	(175,417,529)	148,897,525	677,639	21,761,044	(631,314)	4,712,635	–
	363,926	148,830,498	768,269	22,020,873	(171,048)	5,115,415	176,927,933
Deductions:							
Purchase of capital additions	–	3,140,842	2,255,369	–	–	1,698,523	7,094,734
Payments on debt	–	10,774,095	–	10,191,214	–	–	20,965,309
Interest payments	–	426,545	–	9,043,042	–	–	9,469,587
Distribution	–	9,614,902	–	–	–	–	9,614,902
Operating expenses	–	124,808,180	–	3,750	–	18,061	124,829,991
	–	148,764,564	2,255,369	19,238,006	–	1,716,584	171,974,523
Balance at March 31, 2006	\$ 3,542,164	\$ (214,886)	\$ 1,859,242	\$ 12,709,967	\$ 10,305,499	\$ 9,751,050	\$ 37,953,036

Utah Associated Municipal Power Systems

Schedules of Project Financial Statements

Balance Sheet

March 31, 2006

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona	Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
Assets															
Current assets:															
Receivables	\$ 1,970,856	\$ 2,671,940	\$ 2,043,586	\$ 2,306,814	\$ 2,664,878	\$ 352,862	\$ 1,688	\$ 476,621	\$ 4,571,990	\$ 2,242,474	\$ 4,988	\$ 6,669	\$ 90,592	\$ 5,957	\$ 19,411,915
Prepaid expenses and deposits	–	4,538,338	4,960,942	1,473,628	–	5,689	9,872	–	–	1,277,236	237,750	–	–	–	12,503,455
Investments	292,495	472,226	317,062	116,322	627,149	51,167	454	73,011	776,466	614,945	184,160	1,113	14,619	975	3,542,164
	2,263,351	7,682,504	7,321,590	3,896,764	3,292,027	409,718	12,014	549,632	5,348,456	4,134,655	426,898	7,782	105,211	6,932	35,457,534
Restricted assets:															
Investments	–	11,971,817	4,135,897	–	–	1,789,273	9,916	2,755,802	–	13,963,053	–	–	–	–	34,625,758
Utility plant and equipment:															
Generation	–	55,843,302	44,631,676	–	–	–	499,677	–	–	92,796,599	–	–	–	–	193,771,254
Transmission	–	–	–	–	–	17,492,388	–	34,925,432	–	10,485,352	–	–	–	–	62,903,172
Furniture and equipment	115,553	124,821	92,675	69,844	109,737	51,999	18,569	62,272	126,784	136,332	35,923	75,508	123,917	11,516	1,155,450
	115,553	55,968,123	44,724,351	69,844	109,737	17,544,387	518,246	34,987,704	126,784	103,418,283	35,923	75,508	123,917	11,516	257,829,876
Less accumulated depreciation	(59,725)	(39,343,427)	(18,302,351)	(32,172)	(62,767)	(9,229,204)	(494,407)	(13,691,775)	(126,784)	(8,465,036)	(6,304)	(50,399)	(62,990)	(11,516)	(89,938,857)
	55,828	16,624,696	26,422,000	37,672	46,970	8,315,183	23,839	21,295,929	–	94,953,247	29,619	25,109	60,927	–	167,891,019
Construction work-in-progress															
	–	1,743,132	–	–	–	–	–	–	–	–	–	–	–	–	1,743,132
	55,828	18,367,828	26,422,000	37,672	46,970	8,315,183	23,839	21,295,929	–	94,953,247	29,619	25,109	60,927	–	169,634,151
Other assets:															
Unamortized bond issuance costs	–	1,574,976	563,153	–	–	238,493	–	771,009	–	2,662,326	–	–	–	–	5,809,957
Accumulated amortization of bond issuance costs	–	(1,166,205)	(205,361)	–	–	(184,402)	–	(178,141)	–	(351,443)	–	–	–	–	(2,085,552)
Net bond issuance costs	–	408,771	357,792	–	–	54,091	–	592,868	–	2,310,883	–	–	–	–	3,724,405
Net costs to be recovered from (refunded to) Members in future billings															
	(19,765)	1,240,730	2,492,533	(21,607)	(13,610)	(5,559,322)	15,113	5,432,858	5,881,771	2,537,640	(29,475)	(22,521)	(25,211)	74	11,909,208
	(19,765)	1,649,501	2,850,325	(21,607)	(13,610)	(5,505,231)	15,113	6,025,726	5,881,771	4,848,523	(29,475)	(22,521)	(25,211)	74	15,633,613
Total assets	\$ 2,299,414	\$ 39,671,650	\$ 40,729,812	\$ 3,912,829	\$ 3,325,387	\$ 5,008,943	\$ 60,882	\$ 30,627,089	\$ 11,230,227	\$ 117,899,478	\$ 427,042	\$ 10,370	\$ 140,927	\$ 7,006	\$ 255,351,056

Utah Associated Municipal Power Systems
Schedules of Project Financial Statements (continued)

Balance Sheet (continued)

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona	Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
Membership capital and liabilities															
Current liabilities:															
Outstanding checks in excess of transfers	\$ (168,232)	\$ (4,413,648)	\$ (1,141,809)	\$ (173,214)	\$ (1,668,033)	\$ (69,753)	\$ (119,906)	\$ 1,645,806	\$ 7,780,378	\$ 360,864	\$ (990,545)	\$ (544,843)	\$ (281,394)	\$ (785)	\$ 214,886
Accounts payable	1,315,582	1,743,438	766,002	1,717,867	1,866,859	(240,512)	297	181,508	1,886,245	909,965	36,431	44,149	56,144	2,535	10,286,510
Accrued liabilities	40,052	4,404,788	4,579,366	1,500,018	35,634	50,796	9,872	29,299	–	294,062	276,862	–	53,583	–	11,274,332
Members' advance billings	54,293	87,655	58,853	21,592	116,411	9,498	84	13,552	144,126	114,146	34,184	207	2,714	181	657,496
Notes payable	905,294	1,461,573	981,330	360,025	1,941,070	158,365	1,406	225,973	2,403,217	1,903,298	569,989	3,446	45,247	3,019	10,963,252
Current portion of deferred revenue	–	20,801	350,409	–	–	530,326	–	116,445	315,385	252,381	–	–	–	–	1,585,747
	2,146,989	3,304,607	5,594,151	3,426,288	2,291,941	438,720	(108,247)	2,212,583	12,529,351	3,834,716	(73,079)	(497,041)	(123,706)	4,950	34,982,223
Liabilities payable from restricted assets:															
Accrued interest payable	2,459	267,783	488,662	978	5,273	65,269	4	395,701	6,528	2,510,139	1,548	9	123	8	3,744,484
Current portion of long-term debt	–	6,743,541	1,085,000	–	–	875,000	–	1,430,000	–	3,095,072	–	–	–	–	13,228,613
	2,459	7,011,324	1,573,662	978	5,273	940,269	4	1,825,701	6,528	5,605,211	1,548	9	123	8	16,973,097
Long-term debt:															
Bonds payable, less current portion	–	26,151,459	27,640,000	–	–	2,890,000	–	25,145,000	–	97,754,928	–	–	–	–	179,581,387
Less: unamortized bond discount	–	(541,073)	–	–	–	–	–	–	–	–	–	–	–	–	(541,073)
Plus: unamortized bond premium	–	1,309,358	–	–	–	–	–	–	–	6,813,889	–	–	–	–	8,123,247
	–	26,919,744	27,640,000	–	–	2,890,000	–	25,145,000	–	104,568,817	–	–	–	–	187,163,561
Deferred revenue, less current portion	–	268,676	9,458,833	–	–	9,015,537	–	2,800,269	–	5,047,619	–	–	–	–	26,590,934
Accumulated amortization of deferred revenue	–	(159,474)	(4,144,295)	–	–	(8,352,634)	–	(1,332,203)	–	(733,309)	–	–	–	–	(14,721,915)
Net deferred revenue	–	109,202	5,314,538	–	–	662,903	–	1,468,066	–	4,314,310	–	–	–	–	11,869,019
Net assets	149,966	2,326,773	607,461	485,563	1,028,173	77,051	169,125	(24,261)	(1,305,652)	(423,576)	498,573	507,402	264,510	2,048	4,363,156
	\$ 2,299,414	\$ 39,671,650	\$ 40,729,812	\$ 3,912,829	\$ 3,325,387	\$ 5,008,943	\$ 60,882	\$ 30,627,089	\$ 11,230,227	\$ 117,899,478	\$ 427,042	\$ 10,370	\$ 140,927	\$ 7,006	\$ 255,351,056

Utah Associated Municipal Power Systems
Schedules of Project Financial Statements (continued)

Statement of Revenues and Expenses

Year Ended March 31, 2006

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona	Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
Operating revenues:															
Power sales to Members	\$ 11,740,688	\$ 26,023,943	\$ 17,774,776	\$ 8,984,799	\$ 25,578,526	\$ 2,383,957	\$ 10,153	\$ 3,112,044	\$ 38,674,823	\$ 35,875,175	\$ 2,132,460	\$ -	\$ 479,070	\$ 39,076	\$ 172,809,490
Other	722	794	1,963	56,348	956	97	-	177	104,831	573	197	46,507	195	-	213,360
	11,741,410	26,024,737	17,776,739	9,041,147	25,579,482	2,384,054	10,153	3,112,221	38,779,654	35,875,748	2,132,657	46,507	479,265	39,076	173,022,850
Operating expenses:															
Cost of power	11,188,605	8,714,181	8,502,910	8,613,120	24,717,490	400,832	-	54,344	25,280,574	25,298,259	1,157,644	(125)	82,346	37,035	114,047,215
In lieu of ad valorem taxes	-	216,575	214,395	84,952	-	70,629	-	-	-	-	-	-	-	-	586,551
Depreciation	21,694	2,271,483	1,655,652	14,722	22,513	602,898	2,273	1,467,830	22,536	4,754,600	6,304	17,781	25,334	760	10,886,380
General and administrative	471,607	508,838	451,192	260,842	549,176	185,404	2,392	380,532	892,568	998,563	559,669	27,840	329,329	656	5,618,608
	11,681,906	11,711,077	10,824,149	8,973,636	25,289,179	1,259,763	4,665	1,902,706	26,195,678	31,051,422	1,723,617	45,496	437,009	38,451	131,138,754
Operating income	59,504	14,313,660	6,952,590	67,511	290,303	1,124,291	5,488	1,209,515	12,583,976	4,824,326	409,040	1,011	42,256	625	41,884,096
Nonoperating revenues (expenses):															
Interest income	-	374,439	144,636	14,206	-	69,453	318	132,000	20,162	531,827	-	-	-	-	1,287,041
Interest expense	(23,570)	(1,502,853)	(1,498,893)	(9,374)	(50,538)	(226,193)	(37)	(1,223,281)	(215,935)	(4,853,867)	(14,840)	(90)	(1,178)	(79)	(9,620,728)
Amortization of bond issuance costs	-	(137,319)	(29,644)	-	-	(14,752)	-	(43,327)	-	(115,544)	-	-	-	-	(340,586)
	(23,570)	(1,265,733)	(1,383,901)	4,832	(50,538)	(171,492)	281	(1,134,608)	(195,773)	(4,437,584)	(14,840)	(90)	(1,178)	(79)	(8,674,273)
Excess of revenues over expenses before net costs to be recovered from future billings to Members	35,934	13,047,927	5,568,689	72,343	239,765	952,799	5,769	74,907	12,388,203	386,742	394,200	921	41,078	546	33,209,823
Increase (decrease) in net costs to be recovered from future billings to Members	1,971	(6,792,028)	(2,000,459)	(2,730)	(1,050)	(778,464)	(751)	26,090	(11,909,117)	(232,470)	(29,475)	17,781	(10,094)	760	(21,710,036)
Excess of revenues over expenses	\$ 37,905	\$ 6,255,899	\$ 3,568,230	\$ 69,613	\$ 238,715	\$ 174,335	\$ 5,018	\$ 100,997	\$ 479,086	\$ 154,272	\$ 364,725	\$ 18,702	\$ 30,984	\$ 1,306	\$ 11,499,787

Other Reports

Report of Independent Auditors on State of Utah Legal Compliance

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the financial statements of Utah Associated Municipal Power Systems (UAMPS) for the year ended March 31, 2006, and have issued our report thereon dated July 5, 2006. Our audit included testwork on UAMPS' compliance with the following applicable general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Other General Issues

UAMPS did not receive any major or nonmajor state grants during the year ended March 31, 2006.

The management of UAMPS is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about UAMPS' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Utah Associated Municipal Power Systems complied, in all material respects, with the general compliance requirements identified above for the year ended March 31, 2006.



July 5, 2006

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the financial statements of Utah Associated Municipal Power Systems as of and for the year ended March 31, 2006, and have issued our report thereon dated July 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Utah Associated Municipal Power Systems' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Utah Associated Municipal Power Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management and the Utah State Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

July 5, 2006