Financial Statements and Supplemental Schedules

Utah Associated Municipal Power Systems
Years Ended March 31, 2004 and 2003
with Report of Independent Auditors

Utah Associated Municipal Power Systems

Financial Statements and Supplemental Schedules

Years Ended March 31, 2004 and 2003

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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, 2004 and 2003.

Description of Business

UAMPS is a political subdivision of the state of Utah (the State). Its 45 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, 2004 and 2003 of $3.6 million and $1.9 million, respectively. A portion of the 2004 excess of revenues over expenses could be refunded to the Members in early fiscal year 2005, depending on the Members' elections. A portion of the 2003 excess of revenues over expenses was refunded to Members in early fiscal year 2004. The balance of the excess will be utilized to service the cost recovery change (CRC) obligations in accordance with Board policy established in December 2001.

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.

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, 2004 and 2003 were $47.8 million and $103.3 million, respectively. The $55.5 million decrease between March 31, 2003 and 2004 resulted primarily from the use of bond proceeds to construct the Payson Power Project. The $87.5 million increase between March 31, 2002 and 2003 resulted primarily from the issuance of the $101.0 million Payson Power Revenue Series Bonds.

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

	2004	**2003**
Category 1	**18.0%**	5.3%
Utah Public Treasurer's Investment Fund	**82.0**	94.7
	100.0%	100.0%

At March 31, 2004 and 2003, accounts receivable totaled $18.1 million and $21.8 million, respectively. The decrease of $3.7 million between March 31, 2004 and 2003 and the $1.7 million increase between March 31, 2003 and 2002 were due to normal timing fluctuations for cash receipts.

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

	2004	2003
	(In thousands)	
Total current assets	**$ 26,684**	$ 25,569
Total long-term assets	**271,774**	285,239
Total assets	**$298,458**	$310,808
Total current liabilities	**$ 26,064**	$ 22,314
Total long-term liabilities	**267,062**	284,777
Total liabilities	**293,126**	307,091
Net assets:		
Invested in plant, net of debt	**(57,689)**	(76,113)
Restricted net assets	**20,256**	22,654
Unrestricted net assets	**42,765**	57,176
	5,332	3,717
Total liabilities and net assets	**$298,458**	$310,808

Financial Analysis of Operations

Operating revenue for the years ended March 31, 2004 and 2003 was $150.9 million and $156.4 million, respectively. The March 31, 2004 amount represents a decrease of $5.5 million from 2003. The decrease was primarily due to reductions in off-system sales of $21.0 million. The decrease in off-system sales was offset with an increase of operating revenues from the Members of $15.5 million, resulting from increased sales to the Members. Operating revenue decreased $55.5 million between March 31, 2002 and 2003 primarily due to a reduction in the related costs of energy.

Interest income for 2004 and 2003 was $260,000 and $266,000, respectively, essentially unchanged despite decreases in interest rates, but offset with higher average daily-invested balances. Investment earnings in the Payson Power Project construction fund were netted against the related interest expense. The net Payson Power Project revenue bonds' interest expense was then capitalized in construction work-in-progress.

The table below summarizes UAMPS' total revenues and expenses for fiscal year 2004 and 2003.

	Year Ended March 31	
	2004	**2003**
	(In thousands)	
Revenues:		
Power sales	**$ 150,910**	$156,361
Interest income	**260**	266
Other income	**2,073**	1,420
	153,243	158,047
Expenses:		
Cost of power	**114,301**	135,662
Other expenses	**22,271**	21,362
	136,572	157,024
Excess of revenues over expenses before net costs to be recovered from future billings to Members	**16,671**	1,023
Increase (decrease) in net costs to be recovered from future billings to Members	**(13,025)**	834
Excess of revenues over expenses	**3,646**	1,857
Net assets at beginning of year	**3,717**	3,883
Distributions	**(2,031)**	(2,023)
Net assets at end of year	**$ 5,332**	$ 3,717

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 $553,000 in 2003 to $239,000 in 2004 primarily due to timing of the transfer from the revolving line of credit. At March 31, 2004 and 2003, the balance on the revolving line of credit (used for cash management) was $0 and $900,000, respectively, of the $3.0 million available. UAMPS anticipates that future revenue collections will be adequate to fund current period expenditures for operating expenses and debt service.

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 updated as necessary.

Significant Capital Assets and Long-Term Debt Activity

In fiscal 2003, UAMPS committed to construct the Payson Power Project. The Payson Power Project is a 143 megawatts 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. To date, $103.0 million has been expended of the $116.1 million obligated. The project was completed in June 2004.

UAMPS issued revenue refunding bonds in September 2003 to refund $18.8 million of its series 1993 Central St. George Project Revenue Refunding Bonds callable on December 1, 2003. UAMPS also issued revenue refunding bonds in January 2004 to refund $18.4 million of its series 1994 Hunter Project Revenue Refunding Bonds callable on July 1, 2004.

Economic Factors

Due to drought and lower hydrological conditions, Western Area Power Administration (WAPA) will lower the amount of resources available to customers by 23% for the period from October 2003 to September 2004. In addition, UAMPS' contract rate of delivery from WAPA will decrease 7% effective October 2004 due to a reallocation process for new customers. UAMPS has sufficient other resources to compensate for this reduced output, although at a higher incremental rate than the current WAPA rate.

Pursuant to a unanimous decision by the UAMPS Board in fiscal year 2002 an innovative finance plan labeled the CRC was developed. The success of the CRC continued in 2004, allowing UAMPS to return the pool to market-based pricing by funding cost of restructured energy contracts from fiscal year 2002 through the CRC. The CRC will fully recover the market impacts of fiscal year 2002 not covered in current energy rates by February 2007.

Providing 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 and monitor current political issues that will 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, helped to stabilize the power markets since 2002. Price volatility remains, however, and the liquidity in the market has diminished as the number of active participants has dwindled. Also, a significant issue is the uncertainty of what the regional market structure will be. Credit erosion impacting numerous electric industry participants, implementation of the FERC's standard market design, 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 projected Members' 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 purchase of this power. Commencing in June 2004, the 143 MW Payson Power Project became operational, supplying power to assist in meeting the Members' needs.

Requests for Information

This financial report is designed to provide a general overview of UAMPS' finances for all those with an interest in UAMPS' finances. 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.

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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, 2004 and 2003 and the related statements of revenues and expenses, change 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 *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. 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 Utah Associated Municipal Power Systems at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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 GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this 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 an opinion 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 financial statements. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we also have issued a report dated June 18, 2004 on our consideration of Utah Associated Municipal Power Systems' internal control over financial reporting and on our tests of its compliance with certain laws and regulations. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst & Young LLP

June 18, 2004

Utah Associated Municipal Power Systems

Balance Sheets

	March 31	
	2004	**2003**
Assets		
Current assets:		
Receivables	**$ 18,064,474**	$ 21,805,341
Prepaid expenses and deposits	**4,262,820**	2,722,557
Investments	**4,357,116**	1,041,306
	26,684,410	25,569,204
Restricted assets:		
Interest receivable	**187,480**	–
Investments	**43,434,086**	102,302,367
	43,621,566	102,302,367
Utility plant and equipment:		
Generation	**98,877,430**	97,579,096
Transmission	**51,259,530**	49,824,589
Furniture and equipment	**991,604**	891,381
	151,128,564	148,295,066
Less accumulated depreciation	**(71,733,293)**	(65,810,527)
	79,395,271	82,484,539
Construction work-in-progress	**87,665,427**	25,564,728
	167,060,698	108,049,267
Other assets:		
Unamortized bond issuance costs (net of accumulated amortization of $2,351,000 in 2004 and $2,449,000 in 2003)	**4,526,668**	5,297,254
Net costs to be recovered from future billings to Members	**56,564,457**	69,589,666
	61,091,125	74,886,920
Total assets	**$298,457,799**	$310,807,758

	March 31	
	2004	2003
Liabilities and net assets		
Current liabilities:		
Outstanding checks in excess of transfers	**$ 238,812**	$ 552,689
Accounts payable	**18,678,861**	14,793,286
Accrued liabilities	**3,424,947**	1,738,330
Members' advance billings	**2,157,263**	2,157,263
Notes payable	**–**	942,366
Current portion of deferred revenue	**1,563,801**	2,130,366
	26,063,684	22,314,300
Liabilities payable from restricted assets:		
Accrued interest payable	**3,883,337**	1,709,959
Current portion of long-term debt	**20,232,187**	20,671,684
	24,115,524	22,381,643
Long-term debt:		
Bonds payable, less current portion	**223,728,714**	243,120,901
Unamortized bond discount	**(2,418,566)**	(3,798,825)
Unamortized bond premium	**7,216,106**	7,404,065
	228,526,254	246,726,141
Deferred revenue, less current portion	**14,420,217**	15,669,049
Net assets:		
Invested in plant, net of debt	**(57,688,486)**	(76,112,762)
Restricted net assets	**20,255,640**	22,653,866
Unrestricted net assets	**42,764,966**	57,175,521
	5,332,120	3,716,625
Total liabilities and net assets	**$298,457,799**	$310,807,758

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Revenues and Expenses

	Year Ended March 31	
	2004	**2003**
Operating revenues:		
Power sales	**$150,910,402**	$156,360,930
Other	**2,072,652**	1,420,645
	152,983,054	157,781,575
Operating expenses:		
Cost of power	**114,300,940**	135,662,301
In lieu of ad valorem taxes	**607,569**	756,904
Depreciation	**6,027,986**	5,908,265
General and administrative	**6,918,341**	6,883,268
	127,854,836	149,210,738
Operating income	**25,128,218**	8,570,837
Nonoperating revenues (expenses):		
Interest income	**260,269**	265,840
Interest expense	**(8,293,885)**	(7,525,694)
Amortization of bond issuance costs	**(422,809)**	(288,096)
	(8,456,425)	(7,547,950)
Excess of revenues over expenses before net costs to be recovered from future billings to Members	**16,671,793**	1,022,887
Increase (decrease) in net costs to be recovered from future billings to Members	**(13,025,209)**	833,546
Excess of revenues over expenses	**$ 3,646,584**	$ 1,856,433

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Changes in Net Assets

	Net Assets
Balance as of April 1, 2002	$ 3,883,295
Distribution	(2,023,103)
Excess of revenues over expenses	1,856,433
Balance as of March 31, 2003	3,716,625
Distribution	**(2,031,089)**
Excess of revenues over expenses	**3,646,584**
Balance as of March 31, 2004	**$ 5,332,120**

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Cash Flows

	Year Ended March 31	
	2004	**2003**
Operating activities		
Cash received from customers	**$ 155,475,504**	$ 154,999,454
Cash payments to suppliers for good and services	**(116,035,285)**	(157,776,507)
Cash payments to employees for services	**(2,106,533)**	(1,898,050)
Cash payments for ad valorem taxes	**(595,468)**	(755,803)
Other operating receipts	**–**	408,666
Net cash provided by (used in) operating activities	**36,738,218**	(5,022,240)
Capital and related financing activities		
Additions to utility plant and equipment	**(65,227,376)**	(29,543,526)
Proceeds from issuance of long-term debt	**19,945,000**	134,166,708
Payments for bond refunding	**(18,830,000)**	–
Principal payments on refunding revenue bonds	**(10,710,161)**	(33,825,965)
Interest payments on refunding revenue bonds	**(2,735,202)**	(4,772,379)
Bond issuance costs	**(446,702)**	(2,708,258)
Deferred revenue	**(566,982)**	5,389,775
Distribution	**(2,031,089)**	(2,023,103)
Net cash (used in) provided by capital and related financing activities	**(80,602,512)**	66,683,252
Noncapital and related financing activities		
Proceeds from issuance of fixed line of credit	**39,428,361**	31,079,100
Payments for variable lines of credit refunding	**(49,664,884)**	(5,044,885)
Interest payments on special notes	**(1,210,566)**	(1,038,682)
Net cash (used in) provided by noncapital and related financing activities	**(11,447,089)**	24,995,533
Investing activities		
Increase in investments	**(3,315,810)**	(249,536)
Restricted assets:		
Net decrease (increase) in investments	**58,868,281**	(87,216,862)
Interest income received	**72,789**	265,840
Net cash provided by (used in) investing activities	**55,625,260**	(87,200,558)
Increase (decrease) in cash	**313,877**	(544,013)
Outstanding checks in excess of transfers at beginning of year	**(552,689)**	(8,676)
Outstanding checks in excess of transfers at end of year	**$ (238,812)**	$ (552,689)

Utah Associated Municipal Power Systems

Statements of Cash Flows (continued)

	Year Ended March 31	
	2004	**2003**
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	**$ 25,128,218**	$ 8,570,837
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	**6,027,986**	5,908,265
Amortization of deferred revenue	**(1,248,416)**	(1,027,565)
Decrease (increase) in current receivables	**3,740,867**	(1,754,556)
Decrease (increase) in prepaid expenses and deposits	**(1,540,263)**	2,157,207
Decrease in notes receivable	**–**	408,666
Decrease in notes payable	**(942,366)**	(6,302,337)
Increase (decrease) in accounts payable	**3,885,575**	(7,261,745)
Increase (decrease) in accrued liabilities	**1,686,617**	(5,721,012)
Net cash provided by (used in) operating activities	**$ 36,738,218**	$ (5,022,240)

See accompanying notes.

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 is organized under the Amended and Restated Utah Associated Municipal Power Systems Agreement for Joint Cooperative Action. UAMPS' membership consists of 39 municipalities, one joint action agency, one electric service district, one public utility district, three water conservancy districts and one non-profit corporation (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.

1. Summary of Significant Accounting Policies (continued)

Accounting Changes

During the 2003 fiscal year, UAMPS adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34); GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (Statement 37); and GASB Statement No. 38, *Certain Financial Statement Disclosures* (Statement 38). Statements 34, 37 and 38 established standards for external financial reporting and disclosure for all state and local government entities, which for UAMPS includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. The most significant change related to the implementation of Statement 34 for UAMPS is the requirement that net assets be classified into three components—invested in capital assets, net of related debt; restricted; and unrestricted, on a retroactive basis. Previously, UAMPS' net assets were reported as fund equity, as either retained earnings or contributions in aid of construction. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and 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 adoption of Statements 34, 37 and 38 had no effect on the financial statements except for the classification of net assets, changes in financial statement presentation and modification of certain financial statement note disclosures.

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 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 3 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.

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

1. Summary of Significant Accounting Policies (continued)

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 Transmission Project, the Payson Power 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Reclassifications

Certain reclassifications were made to the 2003 financial statement presentation to conform with the 2004 presentation.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

UAMPS adopted the provisions of SFAS No. 143 on April 1, 2003. The adoption of this Standard did not have a material impact on UAMPS' financial position or results of operations.

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, 1994 and 1998 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.

2. Power Sales and Transmission Service Contracts Relating to Bonds (continued)

UAMPS has contracted with 16 municipalities and one electric service district in the Payson Power 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 project was completed in June 2004.

The Contracts cannot be terminated nor 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.

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, 2004 and 2003 and the accumulated totals as of March 31, 2004 and 2003, consisted of the following:

	For the Years Ended March 31		Accumulated Totals as of March 31	
	2004	**2003**	**2004**	**2003**
Items in accordance with GAAP not currently billable to Members:				
Depreciation, accretion and amortization of bond issuance costs	**$ 7,831,053**	$ 7,840,606	**$ 110,785,955**	$ 102,954,902
Refunding charge on refunding/defeasance of revenue bonds	**1,495,781**	–	**39,016,195**	37,520,414
Principal collected from certain receivables	**–**	–	**8,151,148**	8,151,148
Excess bond proceeds	**–**	1,640,844	**10,342,221**	6,440,631
Principal amounts of notes	**408,667**	593,000	**1,750,000**	1,341,333
Cost recovery on off-system sales losses	**2,305,800**	5,065,915	**41,342,302**	39,036,501
Estimated future loss on contracts	**–**	5,677,199	**10,000,000**	10,000,000
Amortization of deferred revenue	**(1,248,416)**	(1,027,565)	**(12,213,275)**	(10,964,858)
Utility plant renewals and replacements	**(1,555,543)**	(3,595,917)	**(22,348,009)**	(16,890,875)
Principal amounts of debt service	**(20,834,280)**	(14,991,042)	**(128,220,579)**	(107,386,300)
Debt reserve payments	**(1,668,212)**	(369,494)	**(2,281,442)**	(613,230)
Accrued personal leave	**239,941**	–	**239,941**	–
Net costs to be recovered from future billings to Members	**$(13,025,209)**	**$ 833,546**	**$ 56,564,457**	**$ 69,589,666**

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.

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 the 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, approximately 16 miles of 69 kV transmission line, 11 MW of diesel fuel generation for voltage and system support and related facilities to provide service to four of its members in Washington County.

The Payson Power Project is a combined cycle, natural-gas-fired, electric generating facility with a nominal generating capacity of 140 MW located in Payson City, Utah, owned and operated by UAMPS. The Payson Power Project also includes gas pipelines, electric transmission lines and other properties, facilities and equipment necessary for the operation of the generating facility. Engineering, equipment acquisition and other pre-construction work on the project began in 2002 and was completed in June 2004 at a total estimated cost of approximately $116.1 million. At March 31, 2004, the construction work-in-progress balance is $87.7 million. UAMPS' contractual commitments for future construction costs relating to the remaining Payson Power Project facilities amounted to approximately $28.2 million at March 31, 2004.

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 & Equipment**	**Construction Work-in-progress**	**Total**
Balance, April 1, 2003	**$ 97,579,096**	**$ 49,824,589**	**$ 891,381**	**$25,564,728**	**$173,859,794**
Capital additions	**1,298,334**	**1,434,941**	**205,443**	**62,309,475**	**65,248,193**
Sales, retirements	**–**	**–**	**(105,220)**	**(208,776)**	**(313,996)**
Balance, March 31, 2004	**$ 98,877,430**	**$ 51,259,530**	**$ 991,604**	**$87,665,427**	**$238,793,991**
Accumulated depreciation, April 1, 2003	**$(46,606,350)**	**$(18,652,883)**	**$(551,294)**	**n/a**	**$(65,810,527)**
Depreciation expense	**(3,759,178)**	**(2,089,562)**	**(179,246)**	**n/a**	**(6,027,986)**
Retirements	**–**	**–**	**105,220**	**–**	**105,220**
Accumulated depreciation, March 31, 2004	**$(50,365,528)**	**$(20,742,445)**	**$(625,320)**	**n/a**	**$(71,733,293)**
Average depreciation rate	**3.8%**	**4.1%**	**19.0%**	**n/a**	**2.9%**

	Generation	**Transmission**	**Furniture & Equipment**	**Construction Work-in-progress**	**Total**
Balance, April 1, 2002	$ 93,928,362	$ 49,664,749	$ 792,485	$ –	$144,385,596
Capital additions	3,650,734	159,840	168,225	25,564,728	29,543,527
Sales, retirements	–	–	(69,329)	–	(69,329)
Balance, March 31, 2003	$ 97,579,096	$ 49,824,589	$ 891,381	$25,564,728	$173,859,794
Accumulated depreciation, April 1, 2002	$(42,986,599)	$(16,555,322)	$(429,670)	n/a	$(59,971,591)
Depreciation expense	(3,619,751)	(2,097,561)	(190,953)	n/a	(5,908,265)
Retirements	–	–	69,329	n/a	69,329
Accumulated depreciation, March 31, 2003	$(46,606,350)	$(18,652,883)	$(551,294)	n/a	$(65,810,527)
Average depreciation rate	3.8%	4.2%	22.7%	n/a	3.7%

5. Investments

UAMPS' investments at March 31, 2004 and 2003 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.

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

	2004	2003
Restricted:		
U.S. government securities	**$ 5,123,811**	$ 5,120,457
Utah Public Treasurer's Investment Fund	**38,310,275**	97,181,910
Total	**$ 43,434,086**	$102,302,367
Current:		
Bank deposits	**$ 3,549,513**	$ 1,479
Utah Public Treasurer's Investment Fund	**807,603**	1,039,827
Total	**$ 4,357,116**	$ 1,041,306

The fair value of the debt securities at March 31, 2004, 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 consists of outstanding checks and deposits in transit in excess of bank balances of $800 and $1,400, at March 31, 2004 and 2003, 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.

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 (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 2004	Principal Outstanding – March 31 2003
Hunter II 1992:					
Capital appreciation	$24,786,129	5.50% – 6.45%	1998 – 2007	**$ 23,585,000**	$ 29,485,000
Hunter II 1994:					
Serial	$27,660,000	2.70% – 5.00%	1994 – 2010	**18,490,000**	18,620,000
Hunter 1998:					
Serial	$ 6,455,000	4.00% – 5.00%	2000 – 2012	**4,605,000**	5,005,000
San Juan 1994:					
Serial	$11,480,000	3.80% – 6.15%	1995 – 2009	**825,000**	1,605,000
San Juan 1998:					
Serial	$15,750,000	4.00% – 5.25%	2000 – 2015	**15,050,000**	15,200,000
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
	$30,615,000				
San Juan 2003:					
Note	$ 1,796,262	Variable	Quarterly	**1,209,103**	1,796,262

7. Debt (continued)

Series	Original Issue	Interest Rate	Original Maturity Date	Principal Outstanding – March 31 2004	2003
Craig Mona 1993:					
Serial	$ 8,315,000	2.80% – 5.25%	1994 – 2009	**$ 5,395,000**	$ 6,150,000
Central-St. George 1993:					
Serial	$ 5,930,000	2.50% – 5.25%	1993 – 2004	**–**	1,490,000
Term	3,495,000	5.60%	2008	**–**	3,495,000
Term	5,585,000	5.50%	2013	**–**	5,585,000
Term	8,985,000	5.375%	2019	**–**	8,985,000
	$ 23,995,000				
Central-St. George 1997B:					
Serial	$ 2,315,000	3.95% – 5.15%	1998 – 2012	**1,585,000**	1,725,000
Term	1,840,000	5.375%	2019	**1,840,000**	1,840,000
	$ 4,155,000				
Central-St. George 2000:					
Serial	$ 7,025,000	4.40% – 5.40%	2001 – 2019	**6,195,000**	6,450,000
Central-St. George 2003:					
Serial	$ 19,945,000	3.00% – 4.75%	2003 – 2019	**19,670,000**	–
Loan Project 2000:					
Note	$ 1,750,000	5.24%	2001 – 2003	**–**	613,000
Payson 2003:					
Serial	$100,850,000	3.00% – 5.25%	2006 – 2026	**100,850,000**	100,850,000
Market Stabilization:					
Note	$ 14,000,000	Variable	2007	**–**	11,512,463
Note	26,000,000	Variable	2007	**–**	18,878,849
Note	10,000,000	Variable	2007	**–**	9,642,011
Note	39,428,361	3.48%	2007	**29,796,798**	–
				243,960,901	263,792,585
		Less unamortized bond discount		**2,418,566**	3,798,825
		Plus unamortized bond premium		**7,216,106**	7,404,065
		Less current portion		**20,232,187**	20,671,684
				$228,526,254	$246,726,141

7. Debt (continued)

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 II 1994 Series Bonds (totaling $27,660,000) maturing on or after July 1, 2005 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, 2004, at redemption prices ranging from 100% to 102%, plus accrued interest to the date of redemption.

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 San Juan 1994 Series Bonds (totaling $34,495,000) maturing on or after June 1, 2005 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, 2004, at redemption prices ranging from 100% to 102%, plus accrued interest to the date of redemption. As of March 31, 2003, UAMPS had an escrow account balance of $28,976,142 related to these bonds.

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.

The San Juan Project Revenue Bonds, Series 2003 (totaling $1,796,262) are subject to redemption anytime prior to maturity.

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 the 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 the redemption price equal to 100%, plus accrued interest to the date of redemption.

7. Debt (continued)

In August 2003 UAMPS issued the 2003 Series Central-St. George Transmission Project Revenue Refunding Bonds. The proceeds from the sale of these bonds were issued to defease the 1993 Series Serial and Term Bonds maturing on or after December 1, 2004. UAMPS deposited U.S. government securities worth $19,494,644 into an escrow account, the principal and interest from which were sufficient to fund the remaining principal and interest payments on the defeased bonds. Debt service requirements under the defeased 1993 Series Bonds would have been $29,164,847. Debt service requirements under the 2003 Revenue Refunding Bonds is $27,903,946. The economic gain resulting from this refunding amounted to $917,000. All amounts related to the defeased bonds have been removed from the balance sheets and the $188,300 early payment penalty, the $794,481 write-off of unamortized issuance costs, and the $513,000 other loss on early retirement of debt (total $1,495,781), was deferred and is being amortized. 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

In December 2000, UAMPS issued the 2000 Loan Project bank note (totaling $1,750,000) on behalf of certain individual members. The proceeds of the note were for the purpose of providing funds to meet deficits in the municipal electric enterprise funds and to provide a source for payment of purchased power costs of these respective members. These members have agreed to make payments to UAMPS sufficient to provide for the timely payment of the principal and interest on the note payable. The note matured in December 2003.

In September 2002, the Board of Directors (Board) authorized the issuance of up to $30,000,000 in a Bond Anticipation Note to provide interim financing allowing UAMPS to initiate the construction phase of the Payson Power Project – Nebo Generating Station. Subsequently, in February 2003, the Board authorized the issuance and confirmed the sale of the Payson Power Project Revenue Bonds, Series 2003 for the purpose of financing the cost of acquisition and construction of the Payson Power Project as well as redeeming UAMPS' outstanding Payson Power Project Revenue Bond Anticipation Note Series 2002. 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 Series 2003 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 the redemption price equal to 100%, plus accrued interest to the date of redemption.

7. Debt (continued)

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 secured solely by certain sources described in the Resolutions.

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 a 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 ($14,000,000; $26,000,000 and $10,000,000) 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 has a fixed interest rate of 3.48%. The maturity date for this instrument is February 15, 2007. All amounts that may be owed to the financial institution associated with this line of credit have been secured by a pledge of the CRC.

7. Debt (continued)

The scheduled maturities and related interest, based on scheduled rates for fixed rate bonds and the existing rates at March 31, 2004 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
2005	**$ 20,035,594**	**$ 10,524,295**	**$ 30,559,889**
2006	**20,558,197**	**9,602,977**	**30,161,174**
2007	**22,467,110**	**8,756,982**	**31,224,092**
2008	**13,040,000**	**7,951,475**	**20,991,475**
2009	**13,000,000**	**7,313,846**	**20,313,846**
2010-2014	**49,235,000**	**28,478,390**	**77,713,390**
2015-2019	**43,010,000**	**17,399,201**	**60,409,201**
2020-2024	**41,130,000**	**7,592,346**	**48,722,346**
2025-2026	**21,485,000**	**1,015,331**	**22,500,331**
Total	**$ 243,960,901**	**$ 98,634,843**	**$ 342,595,744**

UAMPS has net capitalized interest of $3,953,355 for the year ended March 31, 2004 related to the construction of the Payson Power Project.

7. Debt (continued)

The table below shows the changes in net long-term debt balances that occurred during the years ended March 31, 2004 and 2003.

	March 31 2003	Additions	Reductions	March 31 2004	Amount Due Within One Year
Hunter II 1992	$ 29,485,000	$ –	**$ 5,900,000**	**$ 23,585,000**	**$ 5,895,000**
Hunter II 1994	18,620,000	–	**130,000**	**18,490,000**	**135,000**
Hunter 1998	5,005,000	–	**400,000**	**4,605,000**	**415,000**
San Juan 1994	1,605,000	–	**780,000**	**825,000**	**825,000**
San Juan 1998 – Serial	15,200,000	–	**150,000**	**15,050,000**	**160,000**
San Juan 1998 – Term	5,740,000	–	**–**	**5,740,000**	–
San Juan 1998 – Term	9,125,000	–	**–**	**9,125,000**	–
San Juan 2003	1,796,262	–	**587,159**	**1,209,103**	**597,890**
Craig Mona 1993	6,150,000	–	**755,000**	**5,395,000**	**795,000**
Central-St. George 1993 – Serial	1,490,000	–	**1,490,000**	**–**	–
Central-St. George 1993 – Term	3,495,000	–	**3,495,000**	**–**	–
Central-St. George 1993 – Term	5,585,000	–	**5,585,000**	**–**	–
Central-St. George 1993 – Term	8,985,000	–	**8,985,000**	**–**	–
Central-St. George 1997B – Serial	1,725,000	–	**140,000**	**1,585,000**	**145,000**
Central-St. George 1997B – Term	1,840,000	–	**–**	**1,840,000**	–
Central-St. George 2000	6,450,000	–	**255,000**	**6,195,000**	**265,000**
Central-St. George 2003	–	**19,945,000**	**275,000**	**19,670,000**	**925,000**
Payson 2003	100,850,000	–	**–**	**100,850,000**	**196,593**
Loan Project 2000	613,000	–	**613,000**	**–**	**–**
Market Stabilization	11,512,463	–	**11,512,463**	**–**	**–**
Market Stabilization	18,878,849	–	**18,878,849**	**–**	**–**
Market Stabilization	9,642,011	–	**9,642,011**	**–**	**–**
Market Stabilization – Fixed Rate	–	**39,428,361**	**9,631,563**	**29,796,798**	**9,877,704**
	263,792,585	**59,373,361**	**79,205,045**	**243,960,901**	**20,232,187**
Less unamortized discount	3,798,825	**–**	**1,380,259**	**2,418,566**	–
Plus unamortized premium	7,404,065	**–**	**187,959**	**7,216,106**	–
	$267,397,825	**$ 59,373,361**	**$78,012,745**	**$248,758,441**	**$20,232,187**

8. Notes Payable

In August 2001, UAMPS obtained a $3,000,000 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 $0 and $942,366 as of March 31, 2004 and 2003, respectively.

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:	
2005	**$ 266,332**
2006	**273,557**
2007	**280,782**
2008	**288,007**
2009	**295,232**
Thereafter	**533,814**
	$1,937,724

Rent expense for the years ended March 31, 2004 and 2003 was $190,713 and $236,623, 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, 2004 Price Per Ton	UAMPS' Estimated Portion of the Commitment
2005	**5,600,000**	**$ 217,448,000**	**$4,715,000**
2006	**5,600,000**	**217,448,000**	**4,715,000**
2007	**5,600,000**	**217,448,000**	**4,715,000**
2008	**5,600,000**	**217,448,000**	**4,715,000**
2009	**5,600,000**	**217,448,000**	**4,715,000**

During fiscal years 2004 and 2003, UAMPS incurred minimum coal costs of $4,579,032 and $4,778,302, respectively, and incremental coal costs of $185,491 and $324,789, 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. The Company's covered payroll amounted to approximately $1,520,000 and $1,380,000 in 2004 and 2003, respectively. Contributions, which are approximately 25% of total payroll, totaled approximately $345,000 and $345,000 in 2004 and 2003, 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 Events

On January 14, 2004 UAMPS issued its $17,425,000 Hunter Project Revenue Refunding Bonds Series 2004 to refund the eligible Hunter Project Revenue Refunding Bonds Series 1994. The Series 2004 bonds were issued with a forward closing of April 6, 2004. The above transaction will result in a present value savings in excess of 6.85% on the debt service requirement of the Series 1994 Bonds.

On May 25, 2004 UAMPS entered into a settlement agreement with a power marketer to settle a dispute arising from the termination of a purchase agreement dated August 10, 2001. The settlement terms included withdrawal of all legal proceedings and payment of $6.6 million to the marketer. In fiscal year 2003, UAMPS paid $10.0 million which was recorded as cost of power. UAMPS then entered into litigation to recover this payment. The $3.4 million recovered will be recorded as a reduction in cost of power in 2005.

Supplemental Schedules

Utah Associated Municipal Power Systems

Supplemental Schedules of Changes in Funds Required
by the Revenue Bond Resolutions

	Revenue Fund	Operations and Maintenance Fund	Construction Fund	Debt Service Fund: Debt Service Account	Debt Service Fund: Debt Service Reserve Account	Reserve and Contingency Fund	Total
Balance at March 31, 2002	$ 808,729	$ (18,539)	$ 5,207,098	$ 7,838,993	$ 2,027,209	$ 5,109	$ 15,868,599
Additions:							
Investment earnings receipts	49,255	(94,604)	162,361	101,295	43,613	3,920	265,840
Debt proceeds	–	31,079,100	134,166,708	–	–	–	165,245,808
Power sales receipts	154,999,454	–	–	–	–	–	154,999,454
Transfers from irrevocable trust	–	–	–	1,754,664	–	–	1,754,664
Transfers (to) from other funds	(154,817,291)	134,646,608	(8,754,894)	20,626,509	8,028,478	270,590	–
	231,418	165,631,104	125,574,175	22,482,468	8,072,091	274,510	322,265,766
Deductions:							
Purchase of capital additions	–	5,118,326	24,425,200	–	–	–	29,543,526
Payments on debt	–	5,044,885	24,102,968	9,723,000	–	–	38,870,853
Interest payments	–	961,142	–	6,604,580	–	–	7,565,722
Cost of issuance	–	427,413	2,280,845	–	–	–	2,708,258
Operating expenses	–	154,612,328	2,033,718	8,975	–	–	156,655,021
		166,164,094	52,842,731	16,336,555	–	–	235,343,380
Balance at March 31, 2003	1,040,147	(551,529)	77,938,542	13,984,906	10,099,300	279,619	102,790,985
Additions:							
Investment earnings receipts	**17,875**	**(1,180,357)**	**771,984**	**187,410**	**237,843**	**38,034**	**72,789**
Debt proceeds	**–**	**37,154,224**	**450,356**	**19,494,644**	**–**	**2,879,100**	**59,978,324**
Power sales receipts	**156,723,921**	**–**	**–**	**–**	**–**	**–**	**156,723,921**
Transfers from irrevocable trust	**–**	**–**	**–**	**1,754,664**	**–**	**–**	**1,754,664**
Transfers (to) from other funds	**(153,426,005)**	**140,816,549**	**(85,061)**	**11,449,177**	**(237,391)**	**1,482,731**	**–**
	3,315,791	**176,790,416**	**1,137,279**	**32,885,895**	**452**	**4,399,865**	**218,529,698**
Deductions:							
Purchase of capital additions	**–**	**6,039,082**	**59,188,294**	**–**	**–**	**–**	**65,227,376**
Payments on debt	**–**	**50,269,848**	**–**	**30,241,461**	**–**	**–**	**80,511,309**
Interest payments	**–**	**46,604**	**–**	**4,952,527**	**–**	**–**	**4,999,131**
Cost of issuance	**–**	**41,764**	**404,938**	**–**	**–**	**–**	**446,702**
Operating expenses	**–**	**120,079,223**	**–**	**198,752**	**–**	**2,305,800**	**122,583,775**
	–	**176,476,521**	**59,593,232**	**35,392,740**	**–**	**2,305,800**	**273,768,293**
Balance at March 31, 2004	**$ 4,355,938**	**$ (237,634)**	**$ 19,482,589**	**$ 11,478,061**	**$10,099,752**	**$ 2,373,684**	**$ 47,552,390**

Utah Associated Municipal Power Systems

Supplemental Schedules of Projects
Balance Sheet

March 31, 2004

	CRSP	**Hunter II**	**San Juan Unit 4**	**IPP**	**Firm Power**	**Craig Mona**	**Member Generation**	**Central – St. George**	**UAMPS Pool**	**Payson**	**Resource**	**Government and Public Affairs**	**Member Services**	**Total**
Assets														
Current assets:														
Receivables	$2,185,342	$ 2,775,700	$ 1,494,527	$ 4,738	$2,318,050	$ 211,168	$ 1,641	$ 371,945	$ 7,753,742	$ 477,293	$390,018	$ 79,930	$ 380	**$ 18,064,474**
Prepaid expenses and deposits	3,078	2,372,154	1,800,470	57,446	2,766	9,760	5,661	948	4,450	2,070	2,393	1,624	–	**4,262,820**
Investments	303,482	553,240	282,368	80,201	22,130	86,062	37,071	222,448	2,726,465	–	–	40,325	3,324	**4,357,116**
	2,491,902	5,701,094	3,577,365	142,385	2,342,946	306,990	44,373	595,341	10,484,657	479,363	392,411	121,879	3,704	**26,684,410**
Restricted assets:														
Interest receivable	–	–	292	–	–	–	–	–	–	187,188	–	–	–	**187,480**
Investments	–	6,247,437	2,325,758	–	–	1,779,658	5,444	5,303,296	596,340	27,176,153	–	–	–	**43,434,086**
	–	6,247,437	2,326,050	–	–	1,779,658	5,444	5,303,296	596,340	27,363,341	–	–	–	**43,621,566**
Utility plant and equipment:														
Generation	–	54,246,000	44,133,644	–	–	–	497,786	–	–	–	–	–	–	**98,877,430**
Transmission	–	–	–	–	–	17,492,388	–	33,767,142	–	–	–	–	–	**51,259,530**
Furniture and equipment	134,203	134,016	89,101	78,539	107,719	29,045	58,809	46,884	146,447	25,868	36,650	92,807	11,516	**991,604**
	134,203	54,380,016	44,222,745	78,539	107,719	17,521,433	556,595	33,814,026	146,447	25,868	36,650	92,807	11,516	**151,128,564**
Less accumulated depreciation	(80,727)	(34,914,781)	(15,059,085)	(45,806)	(69,916)	(8,041,557)	(526,601)	(12,746,432)	(132,414)	(14,877)	(22,188)	(66,487)	(12,422)	**(71,733,293)**
	53,476	19,465,235	29,163,660	32,733	37,803	9,479,876	29,994	21,067,594	14,033	10,991	14,462	26,320	(906)	**79,395,271**
Construction work-in-progress	–	–	–	–	–	–	–	–	–	87,665,427	–	–	–	**87,665,427**
	53,476	19,465,235	29,163,660	32,733	37,803	9,479,876	29,994	21,067,594	14,033	87,676,418	14,462	26,320	(906)	**167,060,698**
Other assets:														
Unamortized bond issuance costs	–	2,379,766	833,618	–	–	238,494	–	763,009	–	2,662,325	–	–	–	**6,877,212**
Accumulated amortization of bond issuance costs	–	(1,586,189)	(397,613)	–	–	(154,898)	–	(91,486)	–	(120,358)	–	–	–	**(2,350,544)**
Net costs to be recovered from (refunded to) Members in future billings	(15,507)	12,322,970	6,480,534	(15,423)	(2,255)	(4,034,638)	13,170	5,826,163	36,102,712	(116,333)	(8,272)	12,818	(1,482)	**56,564,457**
	(15,507)	13,116,547	6,916,539	(15,423)	(2,255)	(3,951,042)	13,170	6,497,686	36,102,712	2,425,634	(8,272)	12,818	(1,482)	**61,091,125**
Total assets	$2,529,871	$44,530,313	$ 41,983,614	$159,695	$2,378,494	$ 7,615,482	$ 92,981	$ 33,463,917	$47,197,742	$117,944,756	$398,601	$161,017	$1,316	**$298,457,799**

Utah Associated Municipal Power Systems

Supplemental Schedules of Projects
Balance Sheet (continued)

March 31, 2004

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig Mona	Member Generation	Central – St. George	UAMPS Pool	Payson	Resource	Government and Public Affairs	Member Services	Total
Membership capital and liabilities														
Current liabilities:														
Outstanding checks in excess of transfers	$ 525,748	$ (4,461,456)	$ 213,546	$(1,114,921)	$ (2,357,586)	$(934,941)	$ (121,261)	$ 1,873,004	$ 6,586,785	$ 1,068,504	$(758,857)	$(276,252)	$ (3,501)	**$ 238,812**
Accounts payable	1,605,451	1,249,840	1,348,344	490,581	3,016,500	741,938	–	31,927	8,222,499	1,850,080	101,344	20,357	–	**18,678,861**
Accrued liabilities	51,686	1,611,431	1,294,181	72,198	37,283	10,426	5,661	39,767	220,315	27,887	32,233	21,879	–	**3,424,947**
Members’ advance billings	150,258	273,916	139,804	39,709	10,957	42,610	18,354	110,137	1,349,907	–	–	19,965	1,646	**2,157,263**
Notes payable	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Current portion of deferred revenue	–	20,801	350,409	–	–	530,326	–	116,445	315,385	230,435	–	–	–	**1,563,801**
	2,333,143	(1,305,468)	3,346,284	(512,433)	707,154	390,359	(97,246)	2,171,280	16,694,891	3,176,906	(625,280)	(214,051)	(1,855)	**26,063,684**
Liabilities payable from restricted assets:														
Accrued interest payable	–	287,773	529,347	–	–	91,468	–	426,575	43,205	2,504,969	–	–	–	**3,883,337**
Current portion of long-term debt	–	6,445,000	1,582,890	–	–	795,000	–	1,335,000	9,877,704	196,593	–	–	–	**20,232,187**
	–	6,732,773	2,112,237	–	–	886,468	–	1,761,575	9,920,909	2,701,562	–	–	–	**24,115,524**
Long-term debt:														
Bonds payable, less current portion	–	40,235,000	30,366,213	–	–	4,600,000	–	27,955,000	19,919,094	100,653,407	–	–	–	**223,728,714**
Less: unamortized bond discount	–	(2,418,566)	–	–	–	–	–	–	–	–	–	–	–	**(2,418,566)**
Plus: unamortized bond premium	–	–	–	–	–	–	–	–	–	7,216,106	–	–	–	**7,216,106**
	–	37,816,434	30,366,213	–	–	4,600,000	–	27,955,000	19,919,094	107,869,513	–	–	–	**228,526,254**
Deferred revenue, less current portion	–	268,676	9,458,833	–	–	9,015,537	–	2,800,269	–	5,069,565	–	–	–	**26,612,880**
Accumulated amortization of deferred revenue	–	(117,872)	(3,443,477)	–	–	(7,291,982)	–	(1,099,313)	–	(240,019)	–	–	–	**(12,192,663)**
Net deferred revenue	–	150,804	6,015,356	–	–	1,723,555	–	1,700,956	–	4,829,546	–	–	–	**14,420,217**
Unrestricted net assets	196,728	1,135,770	143,524	672,128	1,671,340	15,100	190,227	(124,894)	662,848	(632,771)	1,023,881	375,068	3,171	**5,332,120**
	$2,529,871	$44,530,313	$41,983,614	$ 159,695	$2,378,494	$ 7,615,482	$ 92,981	$33,463,917	$47,197,742	$117,944,756	$ 398,601	$ 161,017	$ 1,316	**$298,457,799**

Utah Associated Municipal Power Systems

Supplemental Schedules of Projects
Statement of Revenues and Expenses

Year Ended March 31, 2004

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig Mona	Member Generation	Central – St. George	UAMPS Pool	Payson	Resource	Government and Public Affairs	Member Services	Total
Operating revenues:														
Power sales to Members	$15,286,784	$17,583,903	$ 13,775,573	$4,006,115	$24,957,160	$ 2,457,329	$ 15,591	$ 3,269,592	$68,242,780	$ 639,359	$ 6,814	$ 650,263	$ 19,139	**$150,910,402**
Other	1,253	900	605	957	1,291	41,071	–	128	974,987	128	1,051,231	101	–	**2,072,652**
	15,288,037	17,584,803	13,776,178	4,007,072	24,958,451	2,498,400	15,591	3,269,720	69,217,767	639,487	1,058,045	650,364	19,139	**152,983,054**
Operating expenses:														
Cost of power	14,555,258	7,229,649	8,230,015	3,518,775	23,637,057	710,986	–	192,106	56,056,628	–	–	167,766	2,700	**114,300,940**
In lieu of ad valorem taxes	–	236,740	264,419	37,603	–	68,807	–	–	–	–	–	–	–	**607,569**
Depreciation	19,475	2,181,481	1,606,206	16,049	19,205	597,573	6,212	1,505,014	39,138	9,244	9,696	17,419	1,274	**6,027,986**
General and administrative	709,119	527,548	384,081	283,883	651,486	126,913	7,712	353,677	1,657,023	961,180	887,645	353,199	14,875	**6,918,341**
	15,283,852	10,175,418	10,484,721	3,856,310	24,307,748	1,504,279	13,924	2,050,797	57,752,789	970,424	897,341	538,384	18,849	**127,854,836**
Operating income	4,185	7,409,385	3,291,457	150,762	650,703	994,121	1,667	1,218,923	11,464,978	(330,937)	160,704	111,980	290	**25,128,218**
Nonoperating revenues (expenses):														
Interest income	5,345	32,371	18,581	3,283	31	29,121	52	130,379	41,044	–	–	57	5	**260,269**
Interest expense	(22,565)	(2,539,212)	(1,604,317)	(304)	(84)	(298,640)	(141)	(2,617,805)	(1,210,651)	–	–	(153)	(13)	**(8,293,885)**
Amortization of bond issuance costs	–	(152,202)	(76,234)	–	–	(14,752)	–	(64,076)	–	(115,545)	–	–	–	**(422,809)**
	(17,220)	(2,659,043)	(1,661,970)	2,979	(53)	(284,271)	(89)	(2,551,502)	(1,169,607)	(115,545)	–	(96)	(8)	**(8,456,425)**
Excess (deficiency) of revenues over expenses before net costs to be recovered from future billings to Members	(13,035)	4,750,342	1,629,487	153,741	650,650	709,850	1,578	(1,332,579)	10,295,371	(446,482)	160,704	111,884	282	**16,671,793**
Increase (decrease) in net costs to be recovered from future billings to Members	75,106	(4,500,859)	(1,435,594)	17,796	23,293	(685,191)	2,125	1,483,160	(7,885,013)	(154,355)	13,231	19,818	1,274	**(13,025,209)**
Excess (deficiency) of revenues over expenses	$ 62,071	$ 249,483	$ 193,893	$ 171,537	$ 673,943	$ 24,659	$ 3,703	$ 150,581	$ 2,410,358	$ (600,837)	$ 173,935	$ 131,702	$ 1,556	**$ 3,646,584**

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Report on Compliance and on Internal Control over Financial Reporting 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, 2004 and have issued our report thereon dated June 18, 2004. 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.

<u>Compliance</u>

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

<u>Internal Control over Financial Reporting</u>

In planning and performing our audits, 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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

This report is intended solely for the information 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

June 18, 2004

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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, 2004 and have issued our report thereon dated June 18, 2004. 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, 2004.

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, 2004.

Ernst + Young LLP

June 18, 2004