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HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Utah Municipal Power Agency
Spanish Fork, Utah

We have audited the accompanying balance sheets of Utah Municipal Power Agency (UMPA) as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UMPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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. 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 the 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 UMPA at June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2011 on our consideration of Utah Municipal Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 10 to 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on Utah Municipal Power Agency's financial statements taken as a whole. The supplemental Schedule of Changes in Funds Established by the Bond Indenture for the year ended June 30, 2011 is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
October 25, 2011

TAH MUNICIPAL POWER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the financial performance and activities of Utah Municipal Power Agency (UMPA or the Agency) for the fiscal years ended June 30, 2011 and 2010. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the financial statements.

Financial Statements Overview

The Agency operates as a utility enterprise and substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The accompanying basic financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency's basic financial statements include the balance sheet, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

The balance sheet provides information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of the year. The statement of revenues, expenses, and changes in net assets reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Condensed Financial Statements and Analysis

The following comparative condensed balance sheets summarize the financial position of the Agency for the years ended June 30, 2011, 2010 and 2009:

Condensed Balance Sheets

	2011	2010	2009
Assets:			
Utility plant & equipment, net	$ 14,775,477	$ 15,734,786	$ 16,727,185
Current assets	26,952,367	27,909,443	38,211,105
Deferred charges & other assets	297,296	357,390	422,109
Total assets	$ 42,025,140	$ 44,001,619	$ 55,360,399
Liabilities:			
Long-term liabilities	$ 25,553,331	$ 29,194,317	$ 32,759,490
Current liabilities	8,268,977	8,562,915	7,965,642
Deferred credits	8,199,482	6,241,037	14,631,917
Total liabilities	42,021,790	43,998,269	55,357,049
Net assets:			
Invested in capital assets, net of related debt	(12,852,854)	(14,651,531)	(16,283,305)
Restricted for debt service	7,827,246	7,755,750	7,691,000
Designated for rate stabilization	1,803,767	3,297,864	12,866,376
Unrestricted	3,225,191	3,601,267	(4,270,721)
Total net assets	3,350	3,350	3,350
Total liabilities & net assets	$ 42,025,140	$ 44,001,619	$ 55,360,399

Condensed balance sheets highlights are as follows:

- Utility plant & equipment, net decreased by approximately $959,000 during 2011. This decrease is attributable to the difference of 2011 depreciation in excess of capital additions. Utility plant & equipment, net includes the Agency's 3.75% undivided ownership interest in the Bonanza Unit I, with a historical cost of $27.97 million, and the Agency's 6.25% undivided ownership interest in certain related transmission facilities, with a historical cost of $8.67 million. In 2010, utility plant & equipment decreased $992,000 due to depreciation in excess of capital additions.

- A decrease in current assets at year-end of $957,000 is the primary effect of a $2.02 million decrease in cash and investments, a $439,000 increase in receivables for member and non-member power sales, a $338,000 decrease in prepaid expenses for a dedicated resource and $977,000 higher inventory of coal tons stockpiled at the Bonanza Station. The decrease in cash and investments was due to Board authorized outlays from the Rate Stabilization Fund of $1.49 million for major maintenance and capital expenditures at the Hunter dedicated resource. Current assets decreased $10.30 million in 2010 due to a $10.97 million decrease in cash and investments, a $184,000 increase in receivables for member and non-member power sales, a $774,000 increase in prepaid expenses for a dedicated resource and $254,000 lower inventory valuation. The 2010 decrease in cash and investments was due to Board authorized outlays from the Rate Stabilization Fund of $5.77 million for member rate stabilization and $3.87 million for major maintenance and capital expenditures at the Hunter dedicated resource.

- Deferred Charges decreased $60,000 in 2011 from annual amortization. Deferred charges decreased $65,000 in 2010 from annual amortization.

- Long-term liabilities decreased $3.64 million in 2011. Long-term revenue bonds outstanding decreased $2.90 million due to classification of the current portion of long-term liabilities and the net effect of bond premium and cost of reacquired debt amortization. Member note payable decreased $743,000 due to classification of the current portion of principal payments due next year. Long-term liabilities decreased $3.57 million in 2010.

- Deferred credits increased $1.96 million in 2011. This is attributable to a net decrease of $1.49 million in the Rate Stabilization Fund and an increase of $3.45 million of the net revenues to be returned in future billings to members. The Rate Stabilization Fund decrease was a result of funds used for capital costs at a dedicated resource. The Agency's rate stabilization account may be used to meet unanticipated increases in revenue requirements in subsequent periods or achieve rate stability to members. Deferred credits decreased $8.39 million from 2009 to 2010, which represented a $9.57 million net decrease in the Rate Stabilization Fund and a $1.18 million increase in net revenues to be returned in future billings to members.

- Restricted net assets are comprised of the Bond and Rate Stabilization Funds. The unrestricted net assets are comprised of the Revenue and Repair & Replacement Funds. These funds were created under UMPA's General Indenture of Trust (Bond Indenture) for the Series 2003 Revenue Refunding Bonds. The Rate Stabilization Fund was created by UMPA Board resolution in 1999 and was subsequently incorporated by the Bond Indenture in 2003.

The comparative condensed Statements of Revenues, Expenses, and Changes in Net Assets summarize the changes in financial position of the Agency for the years ended June 30, 2011, 2010 and 2009:

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

	2011	2010	2009
Power sales	$ 66,799,494	$ 62,425,389	$ 71,893,605
Other revenues	2,338	3,147	355,380
Operating revenues	66,801,832	62,428,536	72,248,985
Operating expenses	63,833,628	69,532,515	70,041,087
Operating income (loss)	2,968,204	(7,103,979)	2,207,898
Interest income	336,586	373,840	863,056
Interest expense and amortization expenses	(1,346,345)	(1,660,741)	(1,848,656)
Other (revenues) expenses to be (returned) recovered in future periods	(1,958,445)	8,390,880	(1,222,298)
Net non-operating expenses (revenues)	(2,968,204)	7,103,979	(2,207,898)
Change in net assets	-	-	-
Beginning net assets	3,350	3,350	3,350
Ending net assets	$ 3,350	$ 3,350	$ 3,350

- Operating revenues from power sales increased by approximately $4.37 million between 2011 and 2010. Power sales consist principally of member power sales revenue and power sales to non-members. Revenue from power sales to members increased $8.87 million in 2011 as member capacity increased 2.4% and member energy increased 2.7%. Billed rate to members was 14.8% higher than the rate in 2010. Capacity and energy not needed for sales to members, in addition to power purchased on the market for resale, are sold to non-members. Energy sold to non-members in 2011 decreased 42% resulting in $4.50 million less revenue than in 2010. In 2010, operating revenues from power sales decreased by approximately $9.47 million from 2009 as revenue from power sales to members decreased $2.49 million and sales to non-members decreased $11.96 million due to lower market prices.

- Operating expenses decreased by approximately $5.70 million between 2011 and 2010. This difference is attributable primarily to dedicated resources, Western Area Power Administration, generation, and other power costs.

  Dedicated resource costs decreased $1.53 million in 2011 due primarily to a $2.23 million decrease for maintenance and capital upgrades associated with the 2010 major outage at the Hunter dedicated resource. Fuel costs increased $564,000 primarily as a result of an 18% increase in output. In 2010, dedicated resource costs increased $2.2 million for maintenance and capital upgrades associated with the outage.

  Western Area Power Administration expense increased $767,000 due to a 16% increase in hydroelectric energy received.

  Generation costs in 2011 decreased $958,000 primarily due to decreased fuel costs of $855,000. The decrease in fuel expense is the cumulative result of 11% less resource usage and a 30% increase in unit variable cost. Generation costs in 2010 were $535,000 higher than the previous year.

  Other power costs decreased $4.01 million in 2011. Other power costs consist of UMPA's long-term and firm contracts for power, supplemental power purchased on the market, and transmission. Other power costs also include power purchased for resale to non-members. Expenses associated with the cost-based Deseret Generation & Transmission (DG&T) contract decreased $2.8 million in 2011 due to less energy usage as a result of market prices lower than the incremental cost of the contract energy. Other purchased power costs decreased $1.28 million in 2011 from 13% fewer market energy purchases and lower market cost energy. In 2010, other power costs increased $3.67 million for similar market conditions.

- Interest income decreased $37,000 in 2011 due to declining market interest rates and lower cash balances.

Long Term Debt Activity

No long term debt activity occurred in fiscal years 2009 to 2011 other than scheduled debt service. In 2003, UMPA took advantage of low interest rates and current refunded the 1993 Series Revenue Refunding Bonds through the issuance of the 2003 Series Revenue Refunding Bonds.

Budgetary Highlights

UMPA's Board of Directors adopted a fiscal year 2011 budget with total expenditures of $73.69 million. Budgeted operating expenses of $69.43 million and debt service of $4.26 million. Actual operating expenses and debt service were $67.27 million, $6.42 million or 8.7% below budget, due primarily to lower market prices for energy and displacement of higher cost resources. Non-member sales were $9.31 million under budget.

Economic Factors

The Agency's electric loads have increased approximately 2.5% this year notwithstanding the current economic conditions. The western electric energy markets have stabilized at lower levels than recent previous years. The electric markets continue to exhibit a high level of sensitivity to domestic natural gas prices, transmission capacity, and available supply of surplus generating capacity. UMPA will continue to benefit from a surplus resource portfolio. Should the Agency suffer an extended loss of resources, it may be necessary to replace the lost capacity and energy at market wholesale rates which may be higher than the current blended cost-based resource mix. Environmental regulations are in a state of long-term uncertainty for current and new power generation resources. Changes from the current level of regulated greenhouse gases could have a significant impact on the cost of operating both existing and any new carbon-based generation resources for UMPA and for similar generation resources throughout the electric generation industry.

Contact Information

This financial report is designed to provide a general overview of the Agency's finances. Questions or requests for additional information should be addressed to the Accounting Manager, P.O. Box 818, Spanish Fork, UT 84660.

UTAH MUNICIPAL POWER AGENCY

BALANCE SHEETS

ASSETS

	June 30, 2011	June 30, 2010
Utility Plant and Equipment - Note 1 & 2		
Interest in generating plant	$ 29,384,855	$ 29,357,754
Interest in transmission system	8,665,899	8,592,207
Other utility assets	1,637,009	1,617,762
Less: accumulated depreciation	(24,912,286)	(23,832,937)
Utility Plant and Equipment - Net	14,775,477	15,734,786
Current Assets		
Cash and cash equivalents - Note 1 & 3	16,522,779	18,542,106
Accounts receivable		
Member power sales	6,413,277	5,941,948
Non-member power sales	634,601	667,363
Inventory - Note 1	2,889,086	1,912,192
Prepaid capacity purchase - Note 7	457,562	845,834
Prepaid Deseret expense - Note 6	35,062	-
Total Current Assets	26,952,367	27,909,443
Deferred Charges		
Capitalized bond issue costs (net of accumulated amortization of $493,359 in 2011 and $448,771 in 2010) - Note 1 & 5	165,498	210,086
Other deferred charges (net of accumulated amortization of $102,202 in 2011 and $86,696 in 2010) - Note 1	131,798	147,304
Total Deferred Charges	297,296	357,390
Total Assets	$ 42,025,140	$ 44,001,619

The accompanying notes are an integral part of these financial statements.

UTAH MUNICIPAL POWER AGENCY
BALANCE SHEETS

LIABILITIES AND NET ASSETS

	June 30, 2011	June 30, 2010
Long-Term Liabilities - Note 5		
Revenue bonds payable	$ 24,748,331	$ 27,646,317
Member payable	805,000	1,548,000
Total Long-Term Liabilities	25,553,331	29,194,317
Current Liabilities		
Accounts payable	3,958,481	4,198,815
Deseret expense payable - Note 6	-	57,100
Accrued bond interest payable	687,496	756,000
Current portion of revenue bonds payable - Note 5	2,880,000	2,740,000
Current portion of member payable - Note 5	743,000	811,000
Total Current Liabilities	8,268,977	8,562,915
Deferred Credits - Note 4	8,199,482	6,241,037
Net Assets		
Invested in capital assets, net of related debt	(12,852,854)	(14,651,531)
Restricted for debt service	7,827,246	7,755,750
Designated for rate stabilization	1,803,767	3,297,864
Unrestricted	3,225,191	3,601,267
Total Net Assets	3,350	3,350
Total Liabilities and Net Assets	$ 42,025,140	$ 44,001,619

The accompanying notes are an integral part of these financial statements.

UTAH MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Years Ended June 30, 2011	2010
Operating Revenues		
Power sales:		
Members	$ 58,402,408	$ 49,533,050
Non-members	8,397,086	12,892,339
Other operating revenue	2,338	3,147
Total Operating Revenues	66,801,832	62,428,536
Operating Expenses		
Dedicated resource costs	11,388,654	12,920,597
Western Area Power Administration	9,115,752	8,348,305
Generation costs	8,646,351	9,604,316
Other power costs	32,622,424	36,629,865
Depreciation	1,085,136	1,120,217
General and administrative	975,311	909,215
Total Operating Expenses	63,833,628	69,532,515
Income (Loss) from Operations	2,968,204	(7,103,979)
Non-Operating Revenues (Expenses)		
Interest income	336,586	373,840
Interest expense	(1,301,757)	(1,611,527)
Amortization	(44,588)	(49,214)
Total Non-Operating Expenses	(1,009,759)	(1,286,901)
Change in net assets before deferred credit adjustment	1,958,445	(8,390,880)
Deferred credit adjustment - Note 1 & 4	(1,958,445)	8,390,880
Change in Net Assets	-	-
Net Assets, Beginning of Year	3,350	3,350
Net Assets, End of Year	$ 3,350	$ 3,350

The accompanying notes are an integral part of these financial statements.

UTAH MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Receipts from members	$ 57,931,079	$ 49,204,526
Other operating receipts	8,432,186	13,039,630
Payments for dedicated resources	(10,881,833)	(13,811,431)
Payments for UMPA resources	(9,715,407)	(9,284,995)
Payments for purchased power	(42,081,553)	(44,540,115)
Payments for other operating expenses	(975,311)	(909,215)
Net Cash Provided (Used) by Operating Activities	2,709,161	(6,301,600)
Cash Flows from Capital Financing Activities		
Bond and member payable payments	(3,551,000)	(3,252,000)
Interest paid on bonds	(1,388,247)	(1,690,951)
Acquisition of utility and equipment	(125,827)	(127,818)
Net Cash Used by Capital Financing Activities	(5,065,074)	(5,070,769)
Cash Flows from Investing Activities		
Proceeds from sale/maturity of investments	-	1,000,000
Interest received on cash and investments	336,586	400,217
Net Cash Provided by Investing Activities	336,586	1,400,217
Net Decrease in Cash and Cash Equivalents	(2,019,327)	(9,972,152)
Cash and Cash Equivalents at Beginning of Year	18,542,106	28,514,258
Cash and Cash Equivalents at End of Year	$ 16,522,779	$ 18,542,106
Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities		
Income (loss) from operations	$ 2,968,204	$ (7,103,979)
Noncash operating activities adjustment:		
Depreciation	1,085,136	1,120,217
Changes in assets and liabilities:		
Accounts receivable	(438,567)	(184,380)
Prepaid expenses	368,716	(751,057)
Inventory	(976,894)	254,076
Accounts payable	(240,334)	306,423
Deseret expense payable	(57,100)	57,100
Net Cash Flows (Used) Provided by Operating Activities	$ 2,709,161	$ (6,301,600)

The accompanying notes are an integral part of these financial statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Utah Municipal Power Agency (UMPA or Agency) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

Organization and Purpose**—**UMPA, a separate legal entity and political subdivision of the State of Utah, was formed by an agreement dated September 17, 1980, pursuant to the provisions of the Utah Interlocal Co-Operation Act. UMPA's membership consists of six municipalities (the Members). UMPA's purposes include planning, financing, development, acquisition, construction, improvement, betterment, operation, or maintenance of projects for the generation, transmission and distribution of electric energy for the benefit of its Members. UMPA purchased from Deseret Generation and Transmission Co-Operative (DG&T) an undivided interest in the Bonanza Station on December 19, 1985, and began selling power to the Members at that time. The following governmental entities are UMPA Members:

Town of Levan
Manti City Corporation
Nephi City Corporation
Provo City Corporation
Salem City Corporation
Spanish Fork City Corporation

Basis of Accounting**—**The Agency follows the Federal Energy Regulatory Commission's Uniform System of Accounts and maintains accounting records on an accrual basis, in conformity with accounting principles generally accepted in the United States of America, including the application of FASB Accounting Standards Codification (ASC) 980, *Regulated Operations,* as the statement relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process. The Agency complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, the Agency has elected not to follow the guidance of Financial Accounting Standards Board (FASB) statements issued after November 30, 1989.

Cash Equivalents**—**For purposes of the Statements of Cash Flows, the Agency considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See also Note 3.

Investments**—**Investments consist of certificates of deposit, United States Government and government agency securities, and securities allowed according to the State of Utah Money Management Act which are stated at fair value. All investments other than unrestricted funds are restricted as to their use by the General Indenture of Trust, dated as of April 1, 2003, (the Bond Indenture) to Wells Fargo Bank Northwest.

Utility Plant and Equipment**—**The interest in generating plants consists of (i) a 3.75% undivided ownership interest (representing approximately 17 MW of capacity) in a 458 MW coal-fired generating unit (Bonanza Unit 1) located at the Bonanza Station in northeastern Utah, (ii) a 1.875% undivided ownership interest in certain common facilities constructed to serve both Bonanza Unit 1 and a similar sized unit which may be constructed adjacent thereto (Bonanza Unit 2), (iii) a 6.25% undivided ownership interest in certain related transmission facilities and miscellaneous related rights and interests, and (iv) inclusion of study costs for potential future resources.

The plant is stated at original cost, which represents the actual cost to DG&T of labor, materials, and indirect costs, such as engineering, supervision, transportation, and allowance for borrowed funds used during construction, plus capitalized interest on bonds until the Bonanza Unit 1 was placed in commercial operation.

Furniture and equipment purchased by UMPA are stated at cost.

UMPA uses the following useful lives in depreciating fixed assets under the straight-line method:

Office Building	30 Years
Furniture and Equipment	3 – 7 Years
Interest in Utility Plant	20 – 40 Years

Unamortized Bond Issuance Costs**—**Unamortized bond issuance costs related to the issuance of the UMPA Electric System Revenue Refunding Bonds 2003 Series A are amortized on the effective interest method over the term of the bonds.

Deferred Charges**—**Other deferred charges are costs incurred in conducting project feasibility studies.

Taxes**—**UMPA is not subject to federal or state taxes but has agreed to make payments in lieu of ad valorem taxes to Uintah County in respect of its interest in Bonanza Unit 1. UMPA paid $34,475 to Uintah County during the 2011 fiscal year and $33,559 in fiscal year 2010.

Inventory**—**Inventory consists of the following items:

1. Coal stockpiled at the Bonanza Station. The inventory is valued at lower of cost or market on the moving average basis, valued at $2,616,086 and $1,639,192 at June 30, 2011 and 2010, respectively.

2. Working capital inventory warehoused at Hunter #1 Plant. The inventory is valued at lower of cost or market on the moving average basis, valued at $273,000 and $273,000 at June 30, 2011 and 2010, respectively.

Rates**—**Utah State law provides that UMPA's Board of Directors (Board) has sole authority to establish power supply rates to its Members. In accordance with its Bond Indenture, the Agency shall establish rates which, together with other revenues, are reasonably expected to pay its operating costs (not including depreciation and amortization) and at least 1.00 times its aggregate debt service. Power supply services provided by the Agency are not subject to state or federal rate regulation.

Revenue**—**The Bond Indenture requires UMPA to fix and collect fees and charges sufficient to meet operating expenses and debt service. UMPA accomplishes this by estimating the current year operating expenses and debt service and then billing the member cities monthly at a rate sufficient to match the estimates plus Board directed charges (See Note 4). The estimates and billings are updated periodically to reflect the difference between the actual and the estimates.

Deferred Costs to be Recovered in Future Billings to Members**—**Costs in excess of the amounts currently billable to the Members are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service requirements. As allowed through the applications of the provisions of ASC 980, current costs in excess of funding are deferred and shown as deferred costs to be recovered in future periods on the accompanying balance sheets and as expenses to be recovered in future periods on the statements of revenues, expenses, and changes in net assets. These costs represent depreciation of utility and equipment, amortization of long-term debt issuance costs, amortization of long-term debt premium/discount, gain/loss on disposed assets, and amortization of cost of reacquired debt in excess of amounts currently billed to Members.

Deferred Credits**—**The Agency designs its electric service rates to recover costs, as defined above, of providing power supply services. In order to minimize possible future rate increases, the Board has adopted a rate stabilization formula whereby each month the Agency collects amounts which are the differences between budgeted results of operations and actual results of operations. The Rate Stabilization Funds may be used for major maintenance, capital outlay, environmental upgrades and other uses the Board may designate. The Board periodically reviews the amounts collected and may adjust the contribution as they deem prudent. For the year ended June 30, 2011 an outlay of $1,494,097 and for the year ended June 30, 2010 an outlay of $9,568,512, net of interest earned in the fund, were reflected in the Rate Stabilization Fund and reported in deferred credits on the balance sheets.

NOTE 2—UTILITY PLANT AND EQUIPMENT

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
Utility Plant and Equipment as of June 30, 2011				
Generation plant	$ 29,357,754	$ 27,101	$ -	$ 29,384,855
Transmission plant	8,592,207	73,692	-	8,665,899
Other utility assets	1,617,762	25,034	(5,787)	1,637,009
Less accumulated depreciation:				
Generation plant	(17,456,404)	(808,831)	-	(18,265,235)
Transmission plant	(5,133,830)	(230,445)	-	(5,364,275)
Other utility assets	(1,242,703)	(45,860)	5,787	(1,282,776)
Utility Plant and Equipment, net	$ 15,734,786	$ (959,309)	$ -	$ 14,775,477

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
Utility Plant and Equipment as of June 30, 2010				
Generation plant	$ 29,266,949	$ 90,805	$ -	$ 29,357,754
Transmission plant	8,575,140	17,067	-	8,592,207
Other utility assets	1,614,573	19,946	(16,757)	1,617,762
Less accumulated depreciation:				
Generation plant	(16,636,604)	(819,800)	-	(17,456,404)
Transmission plant	(4,905,654)	(228,176)	-	(5,133,830)
Other utility assets	(1,187,219)	(72,241)	16,757	(1,242,703)
Utility Plant and Equipment, net	$ 16,727,185	$ (992,399)	$ -	$ 15,734,786

NOTE 3—CASH AND CASH EQUIVALENTS INVESTMENTS

Cash and cash equivalents and investments as of June 30, 2011 and 2010 are detailed as follows:

	2011	2010
Cash and cash equivalents:		
Deposits	$ 1,604,495	$ 1,125,373
Investment in the Utah State PTIF	5,421,788	8,010,611
Money market accounts	5,146,496	5,056,122
Guaranteed investment contract	4,350,000	4,350,000
Total cash and equivalents	$ 16,522,779	$ 18,542,106

Deposits—It is the policy of UMPA to invest funds in compliance with state and local laws, regulations, and other policies governing the investment of public funds, specifically according to the terms and conditions of the State Money Management Act of 1974 and Rules of the State Money Management Council as currently amended (the "Act"), and the Agency's own written investment policy. UMPA's bank deposits are covered by federal depository insurance up to $250,000.

The Act requires the depositing of UMPA funds in a "Qualified Depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. All of the Agency's deposits during the years ended June 30, 2011 and 2010 were made with qualified Depositories.

Deposit Custodial Credit Risk**—**Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The State of Utah does not require collateral on deposits. As of June 30, 2011, $16,272,779 of the Agency's bank balance was uninsured and uncollateralized and therefore was exposed to some degree of custodial credit risk.

Investments**—**The Agency may place public money in investments authorized by the Money Management Act (U.C.A. 51-7-11). The Chief Financial Manager shall ensure that all purchases and sales of securities are settled within 15 days of the trade date. In general, these investments can be any of the following subject to restrictions specified in the Act: (1) Obligations of the U.S. Treasury and most Government-Sponsored Enterprises; (2) Commercial paper; (3) Bankers Acceptances; (4) Publicly traded, fixed rate corporate obligations; (5) Certain variable rate securities and deposits; (6) Deposits with the State Public Treasurer's Investment Pool; and (7) Certain fixed rate negotiable deposits with a certified depository. The Agency's investment policy does not allow an investment in a master repurchase agreement, a repurchase agreement, or a reverse-repurchase agreement. Further by policy, as measured by cost, no more than 50% of the Agency's portfolio may be invested in any one class of investment. This restriction does not apply to obligations of the U.S. Government and the Utah State Public Treasurer's Investment Fund.

Investment Interest Rate Risk**—**The Agency's formal investment policy limits investment maturities to a maximum of three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Forward Delivery Agreements**—**On July 16, 2003, UMPA entered into a forward delivery agreement for the purchase of Qualified Investments, as defined by the 2003 Series Bond Indenture, for the Series 2003 bond reserve funds. The Qualified Investments delivered under this agreement provide an investment rate of return of 4.33% through January 1, 2018, the term of the agreement.

On November 18, 2003, UMPA entered into a forward delivery agreement for the purchase of Qualified Investments, as defined by the 2003 Series Bond Indenture, for the Series 2003 bond service funds. The Qualified Investments delivered under this agreement provide an investment rate of return of 4.50% through June 29, 2018, the term of the agreement.

Arbitrage Rebate**—**Under U. S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. Interest income on bond proceeds which exceeds the cost of borrowing is payable to the federal government on every fifth anniversary of each bond issue. The estimated arbitrage liability is included in accrued liabilities on the balance sheet and the estimated arbitrage expense is recorded as a reduction of interest income. At June 30, 2011 and 2010, the estimated liability is $0 and $0, respectively.

NOTE 4—DEFERRED CREDITS/CHARGES TO BE RETURNED/RECOVERED IN BILLINGS TO MEMBERS

UMPA bills its Members at rates which will provide revenues sufficient to cover the costs of operating and maintaining UMPA and the costs of debt service plus any Board directed charges, but not items such as depreciation, amortization, gains/losses on sale and disposal of capital assets, and deferred credits. This amount represents the unbilled amount of such costs, other charges to Members, and unanticipated revenues which are to be recovered or returned in future billings and are classified as deferred costs or deferred credits in the accompanying financial statements.

UMPA's Board of Directors established a Rate Stabilization Fund (RSF) on September 22, 1999. The purpose of the fund is to set aside funds to assist in maintaining stable rates to Members in the event of unplanned or extraordinary operation, maintenance, or capital replacement costs. The fund can also be used for early retirement of debt. The monthly fund contribution, if any, is the difference between the budgeted results of operations and actual results of operations. During fiscal year 2011, the Board authorized outlays from the RSF of $1,512,684 for major maintenance and capital expenditures at a dedicated power resource.

Differences exist between the costs used in the determination of power rates and the revenues and expenses reportable under generally accepted accounting principles (GAAP). No net earnings are reported in the accompanying financial statements because differences described above have been deferred and will reverse when costs included in power rates exceed revenues and expenses reportable under GAAP. These timing differences consist mainly of debt service payments, depreciation, amortization, gains and losses for the sale of assets, unanticipated revenues, and RSF additions and uses. The following is a summary of those differences.

The balance sheet amounts at end of year June 30, 2011 and 2010 include the following classifications:

	2011	2010
Deferred Credits		
Designated for rate stabilization	$ (1,803,767)	$ (3,297,864)
Net revenues to be returned in future billings to members	(6,395,715)	(2,943,173)
Total deferred credits	$ (8,199,482)	$ (6,241,037)

NOTE 5—LONG TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2011 and 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities - June 30, 2011				
Long-term revenue bonds	$ 30,240,000	$ -	$ (2,740,000)	$ 27,500,000
Adjusted for:				
Current maturities	(2,740,000)	(2,880,000)	2,740,000	(2,880,000)
Unamortized premium, net	1,013,784	-	(202,093)	811,691
Unamortized reacquisition cost	(867,467)	-	184,107	(683,360)
Long-term revenue bonds, net	27,646,317	(2,880,000)	(17,986)	24,748,331
Long-term member payable	2,359,000	-	(811,000)	1,548,000
Less:				
Current maturities	(811,000)	(743,000)	811,000	(743,000)
Long-term member payable	1,548,000	(743,000)	-	805,000
Total long-term liabilities	$ 29,194,317	$ (3,623,000)	$ (17,986)	$ 25,553,331

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities - June 30, 2010				
Long-term revenue bonds	$ 32,850,000	$ -	$ (2,610,000)	$ 30,240,000
Adjusted for:				
Current maturities	(2,610,000)	(2,740,000)	2,610,000	(2,740,000)
Unamortized premium, net	1,231,168	-	(217,384)	1,013,784
Unamortized reacquisition cost	(1,070,678)	-	203,211	(867,467)
Long-term revenue bonds, net	30,400,490	(2,740,000)	(14,173)	27,646,317
Long-term member payable	3,001,000	-	(642,000)	2,359,000
Less:				
Current maturities	(642,000)	(811,000)	642,000	(811,000)
Long-term member payable	2,359,000	(811,000)	-	1,548,000
Total long-term liabilities	$ 32,759,490	$ (3,551,000)	$ (14,173)	$ 29,194,317

Revenue Revenue Bonds Payable—On April 3, 2003 UMPA issued $43,780,000 of 2003 Series Electric System Revenue Refunding Bonds (referred to as 2003 Bonds), with an average coupon rate of 4.96 percent to advance refund $45,560,000 of outstanding 1993 Series A Electric Revenue Bonds (referred to as 1993 Bonds). The 2003 Bonds, combined with the fiscal year 2003 annual debt service payments, retires 100 percent of the outstanding 1993 Bonds. The net proceeds of $45,810,894 (including premium of $2,703,218 and reduction for $658,857 cost of issuance) and additional UMPA funds of $547,839 were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2003 call of the 1993 Bonds.

The current refunding resulted in a difference between the reacquisition price and the net carry amount of the old debt of $2,720,490. This cost of reacquired debt, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective interest method.

The cash outflows without this refund were to be $67,360,038 and the cash outflows as a result of this refund are to be $63,823,939 for a reduction in total debt service payments over the life of the bonds of $3,536,099. The economic gain is $1,987,454 as a result of this refunding.

Maturities and coupon interest rates associated with the 2003 bonds are as follows:

	Due	Amount	Rate	
Remaining 2003 Bonds				
	2012	$ 2,880,000	5.00%	Serial Bonds
	2013	3,020,000	5.00%	Serial Bonds
	2014	3,175,000	5.00%	Serial Bonds
	2015	3,330,000	5.00%	Serial Bonds
	2016	3,500,000	5.00%	Serial Bonds
	2017	3,680,000	5.00%	Serial Bonds
	2018	3,860,000	5.00%	Serial Bonds
	2019	4,055,000	5.00%	Serial Bonds
Principal Amount		$ 27,500,000		
Unamortized premium		811,691		
Unamortized cost of reacquired debt		(683,360)		
Total Bonds Payable, Net		$ 27,628,331		
Less current portion		(2,880,000)		
Total Long-Term Liabilities		$ 24,748,331		

The Bond Indenture provides that UMPA is not obligated to make payment of the Revenue Bonds from funds other than Pledged Funds, generally defined as: (1) the proceeds from the sale of the Revenue Bonds; (2) revenues from UMPA's electric system and certain investment income; and (3) all funds established by the Indenture.

The following table shows revenue bond debt service requirements:

Year Ending June 30,	Principal	Interest	Total Debt Service
2012	$ 2,880,000	$ 1,303,000	$ 4,183,000
2013	3,020,000	1,155,500	4,175,500
2014	3,175,000	1,000,625	4,175,625
2015	3,330,000	838,000	4,168,000
2016	3,500,000	667,250	4,167,250
2017 - 2019	11,595,000	888,375	12,483,375
	$ 27,500,000	$ 5,852,750	$ 33,352,750

The Bond Indenture requires that certain funds be established to account for UMPA's receipts and disbursements. The cash and investments held in these funds are restricted for the purposes as stipulated in the Indenture.

Revenue Fund Held by UMPA—This fund receives revenue and pays all costs of operation and maintenance. Funds are transferred to other funds in the following order: Bond Fund, Repair and Replacement Fund, and Rate Stabilization Fund.

Bond Fund Held By Trustee—This fund pays all interest and principal related to the Revenue Bonds. At the end of each month, amounts required to be on deposit are the accrued interest payable, the accrued portion of the next principal installment due, and an amount equal to the largest future annual debt service requirement.

Repair and Replacement Fund Held by UMPA—This fund may be drawn on and used by the Agency for the purpose of (a) paying the cost of unusual or extraordinary maintenance or repairs of the system; (b) paying the costs of any renewals, renovation, improvements, expansion or replacements to the system; and (c) paying the cost of any replacement of buildings, lines, equipment and other related facilities, to the extent the same are not paid as part of the ordinary and normal expense of the operation of the system. The Bond Indenture, and First Supplemental Indenture dated April 1, 2003, do not establish a minimum repair and replacement fund requirement with respect to the 2003 Bonds. The amount in the Repair and Replacement Fund is determined annually by the Board.

Rate Stabilization Fund Held by UMPA—This fund may receive transfers from the net revenues of the Revenue Fund and may transfer amounts to the Revenue Fund to cover any insufficiency. The Board has adopted a formula whereby each month the Agency collects amounts which are differences between budgeted results of operations and actual results of operations. The Board periodically reviews the amounts collected and may adjust the contribution as they deem prudent. Amounts on deposit in the fund may be used for any lawful purpose.

Member Payable—The Agency and Provo City made a joint decision to sell their respective interests in the Cove Fort Geothermal Plant in fiscal year 2003. The sale of the plant provides an economic benefit by reduced costs and lower rates to Members. The plant was a resource dedicated to the Agency under the Capacity Purchase Agreement (CPA) between Provo City and UMPA. The Agency reimbursed Provo for actual costs of operating the plant, including Provo's associated debt service on the plant. These costs were operating expenses for dedicated resources on the Agency's financial statements. The sale of the plant removed the resource from the CPA and also the Agency's obligation to reimburse Provo for the remaining debt service. Because of the future economic benefit, UMPA agreed to continue to pay the remaining outstanding debt, less net sale proceeds. The effective interest rate on the payable is 4.86%. These agreed reimbursements are levelized over the remaining debt service life. The resulting loss on sale of the plant of $7,246,317 consisted of $1,270,317 attributed to disposed Agency plant assets and $5,976,000 remaining principal balance payable to Provo City.

The following table shows member payable requirements:

Year Ending June 30,	Principal	Interest	Total Payment
2012	$ 743,000	$ 12,045	$ 755,045
2013	805,000	(49,482)	755,518
	$ 1,548,000	$ (37,437)	$ 1,510,563

NOTE 6—DESERET EXPENSES

Related Party Transaction—DG&T, which is a joint owner with UMPA and operator of the Bonanza Plant, bills UMPA in advance under DG&T's operating budget for costs expected to be incurred for each month's power usage. The actual costs are finalized two months after the initial billing. At June 30, 2011 and 2010 UMPA had prepaid DG&T for May and June's power usage. Prepayment and actual expenses were as follows:

	2011	2010
Prepayment	$ 1,544,991	$ 1,613,538
Actual expenses	(1,509,929)	(1,670,638)
Prepaid/(Payable) to DG&T	$ 35,062	$ (57,100)

NOTE 7—CAPACITY PURCHASE AGREEMENT

Related Party Transaction—Provo City, a member of UMPA, bills UMPA in advance each month in accordance with a capacity purchase agreement. The actual costs are determined two months after the initial billing. Prepayment and actual expenses were as follows:

	2011	2010
Prepayment	$ 1,538,914	$ 2,721,226
Actual expenses	(1,081,352)	(1,875,392)
Prepaid under Capacity Purchase Agreement	$ 457,562	$ 845,834

NOTE 8—COMMITMENTS AND CONTINGENCIES

Power Sales Contracts—Power Sales Agreements between UMPA and each of the Members provide that UMPA shall sell and deliver and the Member shall purchase and receive all electric power and energy required by the Member to meet the loads on its electric system. The Power Sales Agreements shall remain in effect through December 21, 2025. The agreements do not specify any particular power supply resource as the source of UMPA's power.

Power Purchase Contracts—UMPA has entered into several power purchase contracts with various terms and conditions. The estimated minimum payments required are summarized below. The Western Area Power Administration (WAPA) contracts provide power and energy through September 30, 2024. UMPA has two contracts with DG&T. One contract is based on a fixed percentage share of the fixed costs of the Bonanza plant over the expected plant life and is estimated to end June 30, 2025. The other contract provides for a predetermined power amount and no associated minimum energy amount from various DG&T resources through December 31, 2019. UMPA has a firm contract with PacifiCorp that expires June 30, 2017, and provides for different minimum power and energy requirements. Contract pricing is fixed for each five-year period with a provision for UMPA to cancel at the end of such period if better pricing terms are found elsewhere and PacifiCorp elects not to offer a matching price. The next five-year pricing period ends June 30, 2012.

	Year Ending June 30,	WAPA	DG&T	PacifiCorp
Actual expenses:				
	2010	$ 8,645,337	$ 25,358,941	$ 9,239,904
	2011	9,407,133	22,264,101	9,163,421
Estimated minimum payments:				
	2012	8,796,239	13,675,872	7,521,000
	2013	8,801,483	13,169,793	7,521,000
	2014	8,806,833	13,226,021	7,521,000
	2015	8,812,289	13,283,373	7,521,000
	2016	8,817,854	13,341,873	7,521,000
	2017-2021	44,176,727	52,091,034	7,521,000
	2022-2024	26,580,298	13,848,087	-

Dedicated Resource Costs—UMPA has entered into Capacity Purchase Agreements with Levan, Manti, Nephi and Provo as to their existing electric generating capacity. These agreements have estimated remaining facility lives of 10-25 years. Under the Capacity Purchase Agreements, generation capacity and energy from the Members' resources are dedicated to UMPA to meet the load requirements of its Members. The agreements provide that UMPA pays to the Members actual fixed and variable costs associated with the resources. The contracts terms coincide with the Members Power Sale Contracts. Minimum payments are estimated to be:

	Year Ending June 30,	Dedicated Resource Costs
Actual expenses:		
	2010	$ 11,669,529
	2011	9,969,110
Estimated minimum payments:		
	2012	7,661,906
	2013	8,046,841
	2014	11,292,123
	2015	3,353,556
	2016	3,321,403
	2017-2021	20,503,469
	2022-2024	19,646,996

NOTE 9—EMPLOYEE PENSIONS

UMPA's Board of Directors has adopted a pension plan which provides for retirement contributions equal to 17.9% of all full-time employees' annual wages. For fiscal year ending June 30, 2011, a 13.37% contribution was made to Utah State Retirement Systems (USRS), a defined benefit plan, and the remaining 4.53% was contributed to the employees' 401(k), a defined contribution plan. The employees' 401(k) plan is administered by either the USRS or Evergreen Funds. Certain wages, such as annual sick leave payouts not earned in the current year and retirement benefit payouts, are not subject to USRS defined benefit plan contributions. In such instances, the full 17.9% retirement contribution is deposited in the employees' 401(k) plan.

The USRS, of which UMPA is a member, are multiple employer, cost sharing retirement systems providing refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. These benefits are based on years of service and highest average salaries. These systems cover substantially all eligible public employees of UMPA and educational employees, as well as participating local governmental entities.

UMPA is legally obligated to contribute to the retirement system as long as they have employees meeting membership requirements. The contribution rates are the actuarially determined rates. The contribution requirements of the USRS are authorized by statue and specified by its board. The contribution rates in effect from July 1, 2008 through June 30, 2011 applied to the qualified total salary for eligible employees are as follows:

	Contribution Rates		
	2011	2010	2009
USRS Non-contributory	13.37%	11.66%	11.62%
USRS or Evergreen Funds 401(k)	4.53%	6.24%	6.28%

All contributions by UMPA for the years ended June 30, 2011, 2010 and 2009 were paid by the due dates or within 30 days thereafter. The total salaries and the amount of employer's contributions paid during the year are as follows:

	2011	2010	2009
Total salaries	$ 1,477,046	$ 1,405,928	$ 1,519,237
Total salaries subject to USRS retirement contributions	1,411,508	1,405,928	1,480,793
Employer contributions - USRS	188,719	163,931	172,068
Employer contributions - 401(k)	75,672	87,730	99,875
Employee contributions - 401(k)	22,395	29,098	11,020

The USRS are established and governed by the respective sections of Chapter 49 of the Utah code, Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the USRS and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The USRS issued a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Firefighters Retirement System. A copy of the report may be obtained by writing to the Utah State Retirement Systems, 560 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

NOTE 10—RISK MANAGEMENT

The Agency is subject to various risks of loss related to general liability and property insurance. The Agency has purchased commercially available indemnity insurance to cover these risks. The deductible amounts for this insurance would be immaterial to the Agency. The amount of insurance settlements has not exceeded insurance coverage in the past three years.

UTAH MUNICIPAL POWER AGENCY
SCHEDULE OF CHANGES IN FUNDS
ESTABLISHED BY THE BOND INDENTURE
FOR THE YEAR ENDED JUNE 30, 2011

	Revenue Fund	Bond Fund	Repair & Replacement Fund	Rate Stabilization Fund	Total
Balance July 1, 2010	$ 6,288,492	$ 7,755,750	$ 1,200,000	$ 3,297,864	$ 18,542,106
Additions and Transfers					
Investment earnings	336,586	-	-	-	336,586
Power sales and other receipts	66,363,265	-	-	-	66,363,265
Transfers from (to) other funds	(2,705,646)	4,199,743	-	(1,494,097)	-
Total Additions and Transfers	63,994,205	4,199,743	-	(1,494,097)	66,699,851
Deductions					
Operation and maintenance expenses	63,654,104	-	-	-	63,654,104
Purchase of capital additions	125,827	-	-	-	125,827
Interest expense	-	1,388,247	-	-	1,388,247
Bond principal payments	-	2,740,000	-	-	2,740,000
Note principal payments	811,000	-	-	-	811,000
Total Deductions	64,590,931	4,128,247	-	-	68,719,178
Balance June 30, 2011	$ 5,691,766	$ 7,827,246	$ 1,200,000	$ 1,803,767	$ 16,522,779