

Working Together to Achieve Exceptional Results



55TH ANNUAL REPORT
ARIZONA POWER AUTHORITY - 2013

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Letter to the Governor

COMMISSION

John I. Hudson
Chairman

Stephen M. Brophy
Vice Chairman

Joe A. Albo
Dalton H. Cole
Richard S. Walden



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STAFF

Michael A. Gazda
Interim Acting
Executive Director

Susan E. Angulo
Executive Secretary

January 15, 2014

On behalf of the Arizona Power Authority's Commissioners and staff, I present the Operating Year 2013 Annual Report. This report details the Authority's operational and financial activities for the operating year ending September 30, 2013. The Authority's efforts in administering Arizona's hydroelectric power entitlement generated at Hoover Dam are also highlighted in this annual report.

As a state organization, the Authority has a fiscal year-end date of June 30 and prepares its official audit as of that date. The Hoover resource, however, is scheduled and managed according to the federal fiscal year, which ends on September 30. This federal fiscal year more completely reflects the organizational flow of the Authority's operations in managing Arizona's entitlement to Hoover Power. Therefore, the financial statements included in this report reflect the financial position of the Authority as of September 30, 2013.

Periodic drought cycles continue to impact the Colorado River system. These drought cycles are to be expected in an arid region, such as the southwest. During operating year 2013, the region once again experienced below normal rainfall amounts, which contributed to the ongoing drought conditions. The Authority continues to be actively involved in federal and state efforts to mitigate any drought impacts on Arizona, in order to safeguard Arizona's entitlement to this vital resource.

Sincerely,

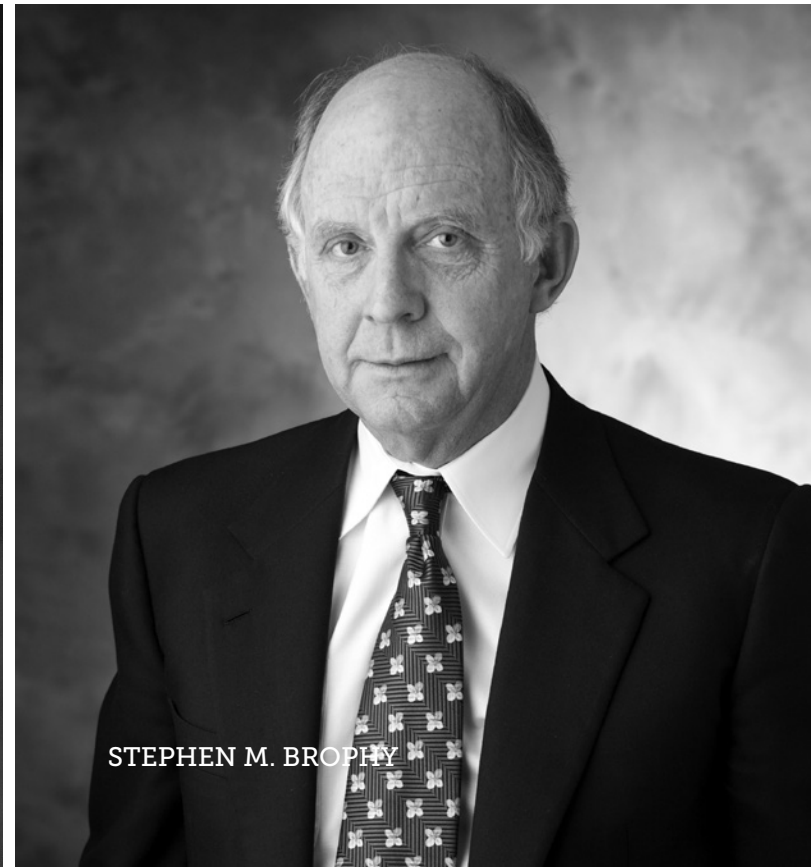
Chairman John I. Hudson
Lieutenant General
U.S. Marine Corps (retired)

Coming together is a beginning; keeping together is progress; working together is success.

– Henry Ford



LT. GEN. JOHN I. HUDSON, USMC (RET.)



STEPHEN M. BROPHY



JOE A. ALBO



DALTON H. COLE



RICHARD S. WALDEN

Report of the Commission

LT. GEN. JOHN I. HUDSON, USMC (RET.) CHAIRMAN

First appointed to the Arizona Power Authority Commission in March 2000, John I. Hudson was elected Chairman in January 2012 with his current term expiring in 2018. A retired Lieutenant General in the U.S. Marine Corps where he served for 37 years, John Hudson is a past-member and past-Chairman of the Board of Directors of the Yuma Regional Medical Center. In addition, he is a past-member and past-chairman of the Greater Yuma Port Authority Board of Directors, a founding Director of the Foothills Bank of Yuma, past member and past-president of Yuma's 78-CRIME Board of Directors. He was a member of the Arizona State Transportation Board from 1994-2000 and served as Chairman in 1999.

STEPHEN M. BROPHY VICE-CHAIRMAN

Stephen M. Brophy, appointed to the Commission in 2009 for a term to expire in 2014, is president of Page Land & Cattle Co. and Aztec Land and Cattle Company, Limited, and a partner in Santa Lucia Farms. Among his affiliations, he is a member of the boards of the Arizona Cattle Growers Association and Mountain States Legal Foundation and the National Cowboy Museum and former member of the Economic Advisory Council of the Federal Reserve Bank of San Francisco. He received a bachelor's degree from the University of Arizona and an M.B.A. from Stanford University.

JOE A. ALBO

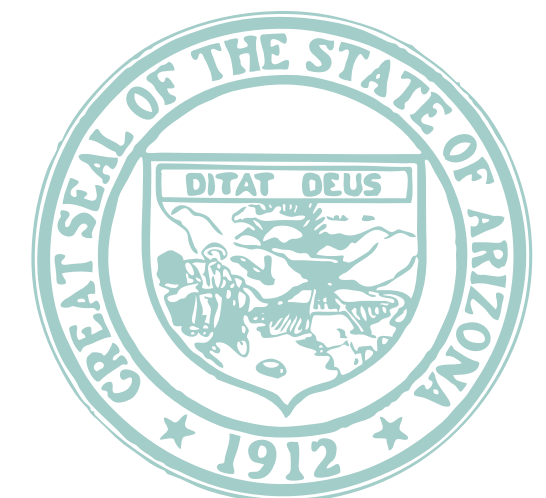
Joe Albo was appointed to the Commission in 2010 for a term to run until 2016, having served an earlier partial term as Commissioner on the Arizona Power Authority Commission from 1983 to 1984. He is a fourth generation native Arizonan. Joe Albo is a career public sector attorney. Mr. Albo is a graduate of Northern Arizona University and of the University of Arizona College of Law.

DALTON H. COLE

Appointed to the Commission in January 2002 and re-appointed through his present term expiring in 2014, Dalton Cole is a retired businessman and farmer. A past member of the Central Arizona Water Conservation District Board, Mr. Cole co-founded and chaired the HoHoKam Irrigation District. He also served on the board of Electrical District No. 2 in Pinal County for 18 years and is a past chairman. In addition, Mr. Cole is a past chairman of the State Board of Directors for Community Colleges. He has served on the Ground Water Management Committee for Pinal County, as well as advisory committees to the Arizona Legislature regarding water and power issues.

RICHARD S. WALDEN

Appointed to the Commission in 1984 and re-appointed through his present term expiring in 2016, Richard Walden is the President and CEO of Farmers Investment Co., a family-owned, pecan growing and processing company headquartered in Sahuarita, Arizona. He is a member of the Board of the International Tree Nut Council and in that capacity serves as the chairman of the Committee for Nutrition Research and Education associated with the Nutrition Research and Education Foundation. He is also a former member of the Advisory Council on Small Business and Agriculture for the Federal Reserve Bank of San Francisco and a past member of the Board of the National Pecan Shellers Association.



Welcome to the New Members of Arizona Power Authority Family



Susan E. Angulo

Susan was hired in October 2010 as Executive Secretary for the Commission. She brings 30 plus years of experience in administrative, office management, and computer skills. She is a native of Phoenix, Arizona and attended Phoenix Union High School. Susan has also worked in the Savings and Loan and Financial Investment industries. Over the past year and a half, Susan has served as a volunteer with Hospice of the Valley.

Gary Kern

Gary is the Arizona Power Authority's Senior Administrative Manager. With over 25 years accounting, finance, and human resources experience across Governmental, Insurance, Manufacturing, Service, and Utilities industries, he provides a broad depth of knowledge and expertise to the Authority. A native of Minnesota and a graduate of the University of Minnesota, Gary worked with Northern States Power (currently Excel Energy). Prior to joining the Authority, Gary worked for the Arizona Department of Administration for six years, including four years with the Governmental Accounting Office. Gary has been a Phoenix resident since 1988.

Report of the Executive Director



"The strength of the team is each individual member. The strength of each member is the team."

– Phil Jackson

Dam convene to review the Bureau of Reclamation and Western Transmission's 10-year plan. Together, we determine where to spend money, discuss and debate varying perspectives, identify solutions and align our goals to balance both engineering and business needs.

This year the Committee unanimously agreed to fund an upgrade of turbines. This decision will improve the operational efficiency of the dam's power-generating functions, particularly with lower lake levels. Over the next few years, three additional new turbines will be installed, to further improve power output capabilities.

The project at Mead Substation to replace two transformers is another example of working together to balance engineering with the bottom-line business priorities. Instead of replacing one older transformer with two new transformers, the APA recommended to inspect the transformer to determine its remaining life and change only the bushings, as needed. As a result, only one new transformer may be needed, which saves about \$5 million.

In addition, preliminary analysis has begun concerning the new Hoover power allocation process and continues to move forward. Progress has been made to date, utilizing a newly contracted independent consultant to analyze allocation scenarios and help manage the process.

Finally, in terms of our own APA team, we are very pleased to welcome two new staff members. Susan Angulo joined us as Executive Assistant to the Commission and brings a high aptitude for organization and productivity. Gary Kern, our new Senior Administrative Manager, is a seasoned accountant who has long served the state of Arizona with distinction. Both of these individuals will add to our collective expertise and help support our ongoing success as a team. As we look to the future, the APA will continue to uphold the spirit of collaboration with our many partners, sharing ideas in the interest of progress and the greater good for all Arizona.

Michael A. Gazda,
Interim Acting Executive Director

The Power of Collaboration

Today, we operate in a new economic paradigm where our future success depends on exercising a strategically collaborative spirit in pursuit of the greatest good. Just as the Hoover Dam harnesses power from a single river that is shared among three western states – Arizona, California and Nevada – so too, the APA shares a common mission with our fellow agencies and customers.

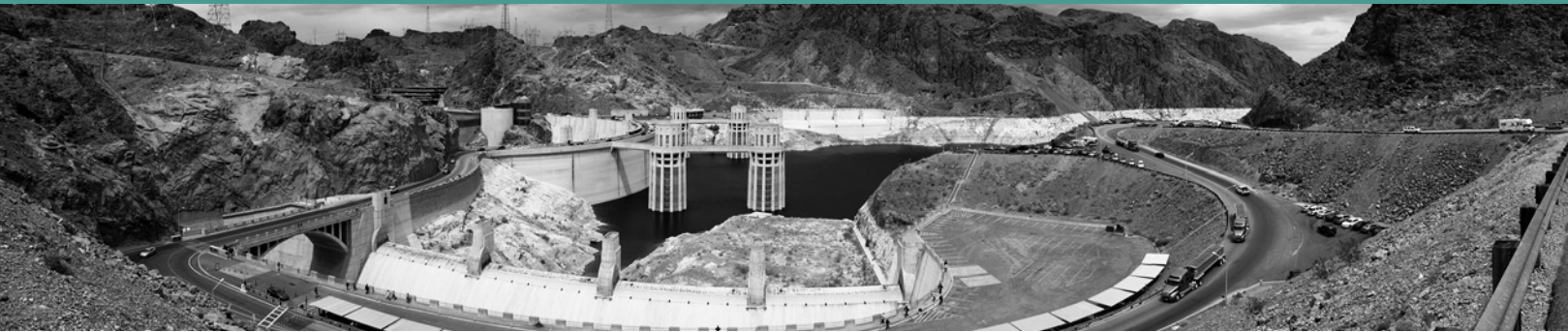
An example of the power of collaboration is the project to refinance the Visitor Center at Hoover Dam. The Center serves as a welcoming gateway for all who come to learn about its inspiring past and promising future. APA recently spearheaded an effort to refinance our investment in the Visitor Center with lower-interest bonds, identifying a reduction of \$10 million per year in revenues required.

The bond offering was a project of challenging scope and complexity involving fifteen different agencies from three states – Arizona, California, and Nevada. The effort entailed amending contracts and obtaining legislative approval from both Arizona and Nevada. As a final result, we are now in the process of paying off the existing high-interest debt and instituting a bond at a much lower interest rate. This will only serve to benefit our customers with the lowest rates possible.

Another example of effective partnership is our participation on the Engineering and Operations Committee. Through this forum, all fifteen agencies that purchase power from Hoover

Operations and Environments

“Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results.” – Andrew Carnegie



Operations

In 2013, the Colorado River Basin experienced below-average stream flows in a continuation of a severe drought cycle. Snowpack conditions throughout the 2012-2013 winter season were 85% of normal. Dry antecedent soil moisture conditions, reduced snowpack in most areas and warmer than average temperatures contributed to lower stream flows.

The overall precipitation accumulated through September 30, 2013 was 90% of average based on the 30-year average. As a result of these elements, Lake Powell experienced approximately 46% of its average inflow for the year. As of September 2013, Lake Mead was down 9 feet compared to the water level in September 2012.

In response to lower water levels, on-going maintenance on the Hoover plant continues to focus on efficiency. The new N8 wide head range turbine runner is designed for more stability and higher efficiency while operating at lower lake levels.

The Technical Review Committee, of which APA is a member, reported a 3% improvement in efficiency for the new turbine installed in 2013, and is anticipating further improvements through the installation of two new turbines in 2014. Also, implementing Unit Controls Modernization (UCM) allows the units to be dispatched more efficiently and has the plant-wide overall effect of an additional 7 MW of capacity.

Environment

The Arizona Power Authority continues to participate in the Lower Colorado River Multi Species Conservation Plan (MSCP). The MSCP is moving forward with studies of native species to better understand their habitats and the factors impacting their survival, in compliance with the Endangered Species Act (ESA).

“Alone we can do so little; together we can do so much.”

– Helen Keller

The long-term (50-year) plan calls for the conservation of at least 26 species along the Lower Colorado River from Lake Mead to the Southerly International Boundary with Mexico through implementation of a Habitat Conservation Plan (HCP). Implementing the MSCP will create at least 8,132 acres of new habitat (5,940 acres of cottonwood-willow, 1,320 acres of honey mesquite, 512 acres of marsh, and 360 acres of backwater) and produce 660,000 subadult razorback suckers (RASU) and 620,000 bonytails (BONY) to augment the existing populations of these fish in the Lower Colorado River.

Acreage established through 2012 is 2,447 acres, which is expected to reach 4,200 acres by the end of 2015. To date, positively impacted areas include Hart Mine Marsh, Big Bend Conservation Area, Yuma East Wetlands, Laguna Division Conservation Area and Pretty Water Conservation Area.

Management’s Discussion & Analysis

Introduction

The following is a discussion and analysis of the Arizona Power Authority’s (“Authority”) financial performance for the operating years ended September 30, 2013 and 2012. This discussion is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority’s financial activity, and (c) identify changes in the Authority’s financial position.

The Management’s Discussion and Analysis (“MD&A”) focuses on the 2013 and 2012 operating years’ activities, resulting changes and known facts, and should be read in conjunction with the Authority’s basic financial statements as of and for the years ended September 30, 2013 and 2012.

This MD&A is an introduction to the basic financial statements of the Authority, which are comprised of two components.

- (1) Fund Financial Statements
- (2) Notes to the Financial Statements

The Fund Financial Statements begin on page 20 and provide detailed information about the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of revenues and disbursements for specific purposes. The Authority’s funds are treated as proprietary and are independent of each other. Most of the Authority’s financial dealings are with contracts outside of state government. A separate fund is not maintained for government activities. The Authority does not act as a fiduciary.

Using This Financial Report

This financial report consists of a series of financial statements. The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows (on pages 20-23) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority’s finances. The Authority is a body, corporate and politic, of the State of Arizona and is a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements presented are the required basic financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*.

Authority Highlights

Transmission Agreement - On January 24, 2003, the Authority and the Western Area Power Administration (“Western”) entered into an agreement for the Advancement of Funds for Transmission Services. The Authority had an existing agreement with Western that provided for the delivery of power and energy. The agreement provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western’s transmission services. For the years ended September 30, 2013 and 2012, the Authority advanced a net prepaid deposit of \$589,509 and \$527,507, respectively, which is included in the Statements of Net Position. This contract gives Western greater flexibility and allows them to work more effectively with the Authority and other customers.

Contributions - During operating year 2012, the Authority contributed \$60,000 to Arizona State schools, via the Arizona Power Authority Scholarship Program.

Effects of Drought on Hoover Energy - The Colorado River Basin has been experiencing severe drought conditions for the past thirteen years. This has resulted in a reduction in Lake Mead’s storage and the power production at Hoover Dam. In response to customer requests, the Authority continues to purchase supplemental power to offset the reduced energy production at Hoover. The supplemental power costs are significantly higher than Hoover rates, and are passed directly to the requesting customers. These supplemental revenues and costs are reflected on the Authority’s records, resulting in higher revenue and purchased power costs.

Arizona State Treasurer-Held Investment Write-off - The Authority is statutorily required to invest funds through the Arizona State Treasurer (“Treasurer”), who has sole investment decision-making authority. In November 2002, the Authority was advised that one of the Treasurer’s chosen investments managed by National Century Financial Enterprises was under investigation for fraud. In December 2002, the Authority was informed that the Treasurer was vitiating the investment in question, thereby reducing the value to zero. Since that time, litigation was initiated and continues. There is no guarantee that the litigation will result in the recovery of the Authority’s funds, which total \$227,224. Therefore, the Authority wrote off the lost investment amount as of September 30, 2003. As of September 30, 2013, a total of \$173,330 (including interest) has been recovered.

Management's Discussion & Analysis



Revenues

Increase/Decrease in Commission Approved Power Rates – State statute requires the rates be set at levels to recover the cost of supplying services. In addition, contracts between the Authority and its customers provide specific details regarding rate determination. The Arizona Power Authority Commission is solely responsible for periodically adjusting rates, as appropriate.

Market Impacts on Investment Income – During operating year 2013 market conditions resulted in a slight decrease in investment income over the previous year.

Drought Condition Impact – Although the drought condition in the Colorado River Basin continues, increased efficiency improvements at Hoover Dam have helped to offset the decreases resulting from reduced water levels.

Expenses

Introduction of New Programs – There were no changes during this operating year; however, individual programs may be added or deleted to meet changing Authority needs.

Increase/Decrease in Authorized Personnel – Changes in the Authority's staffing level impacts an increase or decrease in total staffing costs. Operating year 2013 staffing costs (salary and related benefits) represent 3.14% of the Authority's operating costs. For operating year 2012, staffing costs represent 3.54% of the Authority's operating costs.

Salary Structure – The ability to attract and retain competent personnel requires the Authority to provide a competitive salary structure, which is reviewed annually, and is within State guideline.

Financial Highlights

- The Authority's 2013 net position increased by \$253,851. This increase is the result of:
 - > A reduction in operating expenses related to purchased power.
 - > An increase in other income, due to recovered funds from the NCFE prior year write-off.
- The Authority's 2013 operating revenues decreased by \$(4,130,562) due largely to a reduction in supplemental power sales.
- The Authority's 2012 net position increased by \$37,643 due primarily to reduced expenses.
- The Authority's 2012 operating revenues increased by \$3,058,185 due primarily to increased revenues resulting from a small increase in energy available for sale and increased Hoover Dam operating costs, which necessitated increased power rates.

Statements of Net Position

There are three normal transactions that will affect the comparability of the Statements of Net Position summary presentation:

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.

Principal Payment on Debt – which will reduce current assets and reduce long-term debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and investment in capital assets, net of related debt.



Management's Discussion & Analysis

Condensed Statements of Net Position Business Type Activities

	September 30		Difference	%
	2013	2012		
CURRENT ASSETS	\$ 15,344,856	\$ 14,940,065	\$ 404,791	2.7
LONG-TERM ASSETS	20,990,615	25,823,531	(4,832,916)	(18.7)
CAPITAL ASSETS, NET	103,212	115,725	(12,513)	(10.8)
TOTAL ASSETS	36,438,683	40,879,321	(4,440,638)	(10.9)
CURRENT LIABILITIES	8,582,188	8,149,625	432,563	5.3
LONG-TERM BONDS PAYABLE, NET	23,200,459	28,327,511	(5,127,052)	(18.1)
TOTAL LIABILITIES	31,782,647	36,477,136	(4,694,489)	(12.9)
INVESTED IN CAPITAL ASSETS	103,212	115,725	(12,513)	(10.8)
UNRESTRICTED	4,552,824	4,286,460	266,364	6.2
TOTAL NET POSITION	4,656,036	4,402,185	253,851	5.8
TOTAL LIABILITIES AND NET POSITION	\$ 36,438,683	\$ 40,879,321	\$ (4,440,638)	(10.9)

Operating Year 2013 Condensed Statements of Net Position Discussion

Current Assets increased due to an expense normally paid within the operating year, which was not paid during Operating Year 2013, due to a delay in receipt of the invoice. The expense was accrued in the Operating Year 2013.

Long-Term Assets decreased because of the application of credits for the payment of principal for the current year debt service for the Upgrading Program (a reclassification of long-term debt to current debt).

Capital Assets, net decreased because of normal depreciation/attrition of capital assets.

Current Liabilities increased due to an expense normally paid within the operating year, which was not paid during Operating Year 2013, due to a delay in receipt of the invoice. The expense was accrued as a liability in the Operating Year 2013.

Long-Term Liabilities decreased due to a pay down of the bond principal. See further explanation on page 12.

Net Position is explained on page 15.

Condensed Statements of Net Position Business Type Activities

	September 30		Difference	%
	2012	2011		
CURRENT ASSETS	\$ 14,940,065	\$ 15,198,078	\$ (258,013)	(1.7)
LONG-TERM ASSETS	25,823,531	30,404,676	(4,581,145)	(15.1)
CAPITAL ASSETS, NET	115,725	119,001	(3,276)	(2.8)
TOTAL ASSETS	40,879,321	45,721,755	(4,842,434)	(10.6)
CURRENT LIABILITIES	8,149,625	8,147,042	2,583	0.0
LONG-TERM BONDS PAYABLE, NET	28,327,511	33,210,171	(4,882,660)	(14.7)
TOTAL LIABILITIES	36,477,136	41,357,213	(4,880,077)	(11.8)
INVESTED IN CAPITAL ASSETS	115,725	119,001	(3,276)	(2.8)
UNRESTRICTED	4,286,460	4,245,541	40,919	1.0
TOTAL NET POSITION	4,402,185	4,364,542	37,643	0.9
TOTAL LIABILITIES AND NET POSITION	\$ 40,879,321	\$ 45,721,755	\$ (4,842,434)	(10.6)

Operating Year 2012 Condensed Statements of Net Position Discussion

Current Assets decreased due primarily to a decrease in accounts receivable.

Long-Term Assets decreased because of the application of credits for the payment of principal for the current year debt service for the Upgrading Program.

Capital Assets, net decreased because of normal depreciation/attrition of capital assets.

Current Liabilities increased due mainly to an increased short-term Bonds Payable (which is in keeping with the schedule established by the Bond Covenant), and an increase in Power Contracts payable.

Long-Term Liabilities decreased due to a pay down of the bond principal. See further explanation on page 12.

Net Position is explained on page 17.

Management's Discussion & Analysis

Capital Assets

As of September 30, 2013, the Authority had \$103,212 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$(12,513) during operating year 2013, and a net decrease of \$(3,276) during operating year 2012.

	September 30	
	2013	2012
TRANSMISSION PLANT	\$ 5,340	\$ 8,392
DISTRIBUTION PLANT	8,637	10,941
GENERAL PLANT - OFFICE	89,235	96,392
INVESTED IN CAPITAL ASSETS, END OF YEAR	\$ 103,212	\$ 115,725

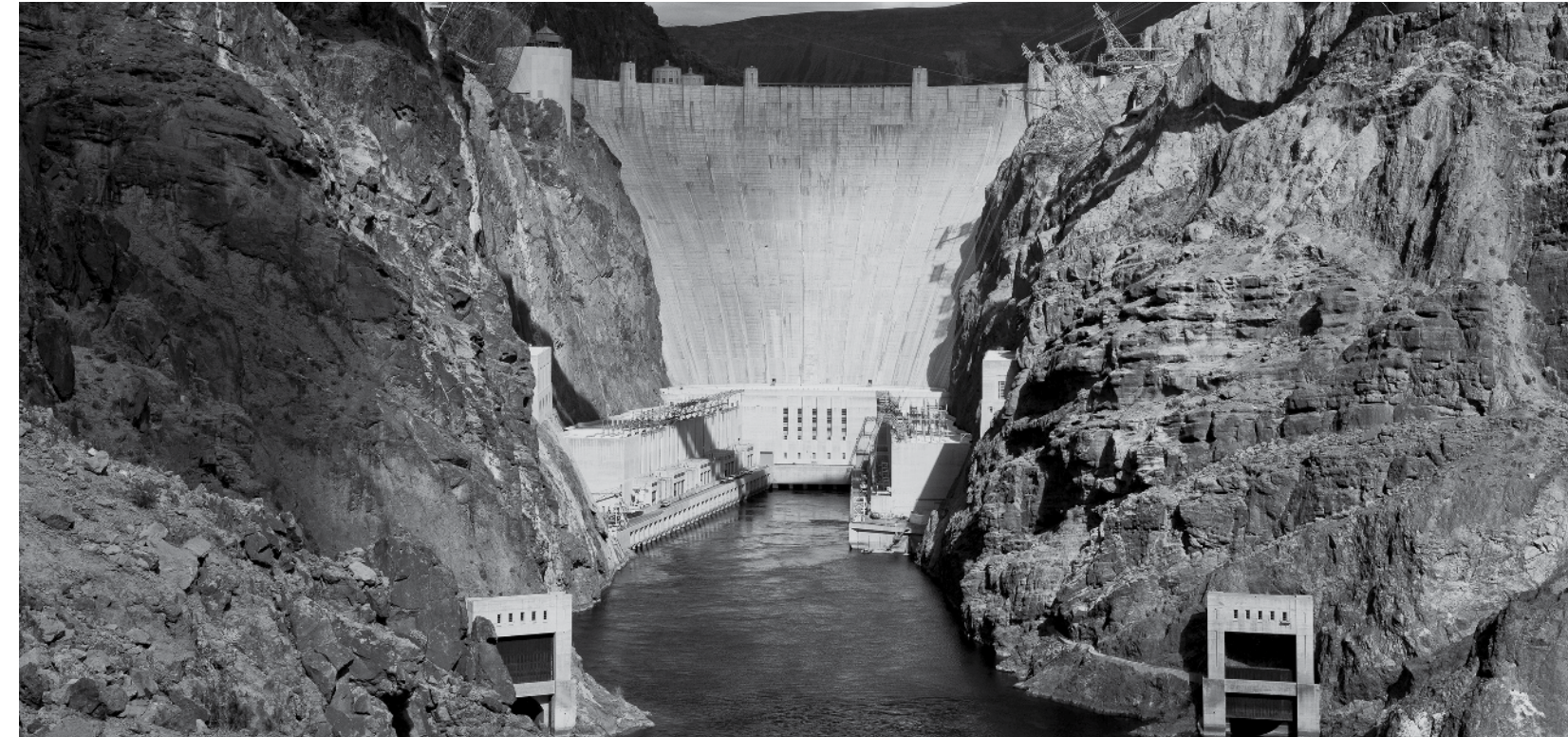
The following reconciliation summarizes the change in Capital Assets for the years ended September 30, 2013 and 2012, which is presented in detail in Note 4:

	September 30	
	2013	2012
BEGINNING BALANCE	\$ 115,725	\$ 119,001
ADDITIONS	7,758	14,845
DEPRECIATION	(20,271)	(18,121)
ENDING BALANCE	\$ 103,212	\$ 115,725

Debt Outstanding

As of September 30, 2013, the Authority had \$28,135,000 in debt outstanding, compared to \$32,945,000 in the prior year, as a result of a principal payment of \$4,810,000, which was paid on October 1, 2012.

As of September 30, 2012, the Authority had \$32,945,000 in debt outstanding, compared to \$37,530,000 in the prior year, as a result of a principal payment of \$4,585,000, which was paid on October 1, 2011. These payments were scheduled principal payments during the year. Also see Note 6 to the Financial Statements for a detailed summary of debt activity during the year. There was no new long-term debt added in fiscal 2013 or 2012.



Liquidity

Pursuant to Arizona Revised Statutes (A.R.S.) Section 30-124, the Commission of the Authority shall establish electric rates to include such price components as are necessary to maintain the Authority, to provide and maintain reasonable working capital and depreciation and other necessary and proper reserves. Components that are necessary to maintain the Authority include employee payroll, occupancy costs, cost of purchases or construction of generation and transmission services, and any cost factors chargeable to the cost of providing service as the Commission deems necessary or advisable to establish and maintain the financial integrity

of the Authority. Contracts for sale of electric power to the Authority's customers include rates which may be modified upon 24-hour notice when such action is necessary in the sole judgment of the Commission in order to achieve the purposes of A.R.S. Section 30-124. The Commission, on a monthly basis, reviews the financial status of the Authority, including expenses and revenues and the adequacy of the rates to maintain the Authority's financial integrity. During operating year 2013, the Commission lowered rates by 2.33% in October 2012 and increased rates in July 2013 by 1.37%. During operating year 2012, the Commission did not raise rates.

Statements of Revenues, Expenses, and Changes in Net Position

There are normal transactions that will affect the comparability of the Statements of Revenues, Expenses and Changes in Net Position summary presentation:

Operating Revenues – which increase/decrease as a result of economic conditions and power usage.

Operating Expenses – which increase/decrease as a result of purchased power costs, transmission costs, and operating costs.

Other Income (Deductions) – which increase/decrease as a result of investment market conditions.

Management's Discussion & Analysis

Statements of Revenue, Expenses, and Changes in Net Position Business type activities

	September 30		Difference	%
	2013	2012		
OPERATING REVENUES	\$ 28,763,233	\$ 32,893,795	\$ (4,130,562)	(12.6)
OPERATING EXPENSES				
Purchased power	19,989,421	24,861,520	(4,872,099)	(19.6)
Western credits	(6,579,145)	(6,559,715)	(19,430)	0.3
Amortization of Hoover Uprating program costs	6,579,145	6,559,715	19,430	0.3
Transmission and distribution	6,871,637	6,299,538	572,099	9.1
Administrative and general	1,658,010	1,632,612	25,398	1.6
Depreciation	20,271	18,121	2,150	11.9
Other	34,992	60,002	(25,010)	(41.7)
TOTAL OPERATING EXPENSES	28,574,331	32,871,793	(4,297,462)	(13.1)
OPERATING INCOME	188,902	22,002	(166,900)	758.6
OTHER INCOME (EXPENSES)				
Interest expense	(1,477,088)	(1,729,613)	252,525	(14.6)
Deferred interest expense	1,415,723	1,657,185	(241,462)	(14.6)
Amortization	62,052	72,660	(10,608)	(14.6)
Interest income	12,521	14,756	(2,235)	(15.1)
Other, net	51,741	653	51,088	
TOTAL OTHER INCOME	64,949	15,641	49,308	315.2
CHANGE IN NET POSITION	253,851	37,643	216,208	574.4
NET POSITION, BEGINNING OF YEAR	4,402,185	4,364,542	37,643	0.9
NET POSITION, END OF YEAR	\$ 4,656,036	\$ 4,402,185	\$ 253,851	5.8

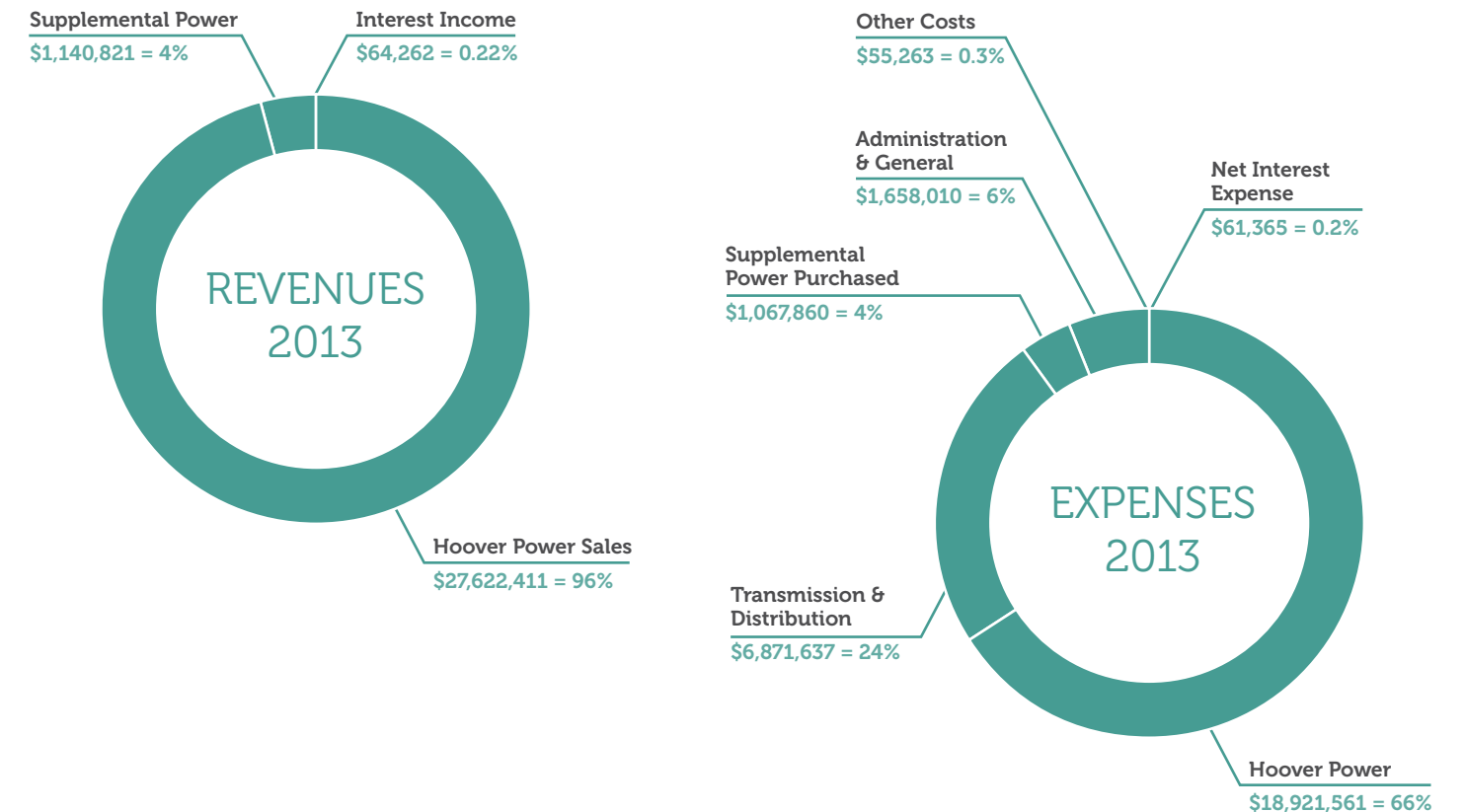
Operating Year 2013 Changes in Net Position Discussion

Net Position increased overall because of the following:

- Operating Revenues decreased primarily due to a reduction in supplemental power purchases.
- Total Operating Expenses decreased due to a reduction in purchased power expenses.
- Amortization of the Uprating Program costs changed because of the principal and interest payments related to the Uprating Program.
- Western Credits decreased because of expected scheduled debt payments and associated costs related to the Uprating Program.
- Administrative and General Expenses slightly increased due to increased 2017 Allocation Process expenses, which were partly offset by the decrease in staff expenses.
- Depreciation increased due to acquisition of capital assets.
- Other Expenses decreased during Operating Year 2013 due largely to the elimination of the annual Scholarship Fund contribution.

Business Type Activities

The following chart depicts the sources of revenues for the operating year 2013:



Management's Discussion & Analysis

Statements of Revenue, Expenses, and Changes in Net Position Business type activities

	September 30		Difference	%
	2012	2011		
OPERATING REVENUES	\$ 32,893,795	\$ 29,835,610	\$ 3,058,185	10.3
OPERATING EXPENSES				
Purchased power	24,861,520	21,844,486	3,017,034	13.8
Western credits	(6,559,715)	(6,507,651)	(52,064)	0.8
Amortization of Hoover Uprating program costs	6,559,715	6,507,651	52,064	0.8
Transmission and distribution	6,299,538	6,045,260	254,278	4.2
Administrative and general	1,632,612	1,671,821	(39,209)	(2.3)
Depreciation	18,121	22,493	(4,372)	(19.4)
Other	60,002	60,000	2	-
TOTAL OPERATING EXPENSES	32,871,793	29,644,060	3,227,733	10.9
OPERATING INCOME	22,002	191,550	(169,548)	(88.5)
OTHER INCOME (EXPENSES)				
Interest expense	(1,729,613)	(1,958,861)	229,248	(11.7)
Deferred interest expense	1,657,185	1,878,817	(221,632)	(11.8)
Amortization	72,660	82,296	(9,636)	(11.7)
Interest income	14,756	13,690	1,066	7.8
Other, net	653	-	653	-
TOTAL OTHER INCOME	15,641	15,942	(301)	(1.9)
CHANGE IN NET POSITION	37,643	207,492	(169,849)	(81.9)
NET POSITION, BEGINNING OF YEAR	4,364,542	4,157,050	207,492	5.0
NET POSITION, END OF YEAR	\$ 4,402,185	\$ 4,364,542	\$ 37,643	0.9

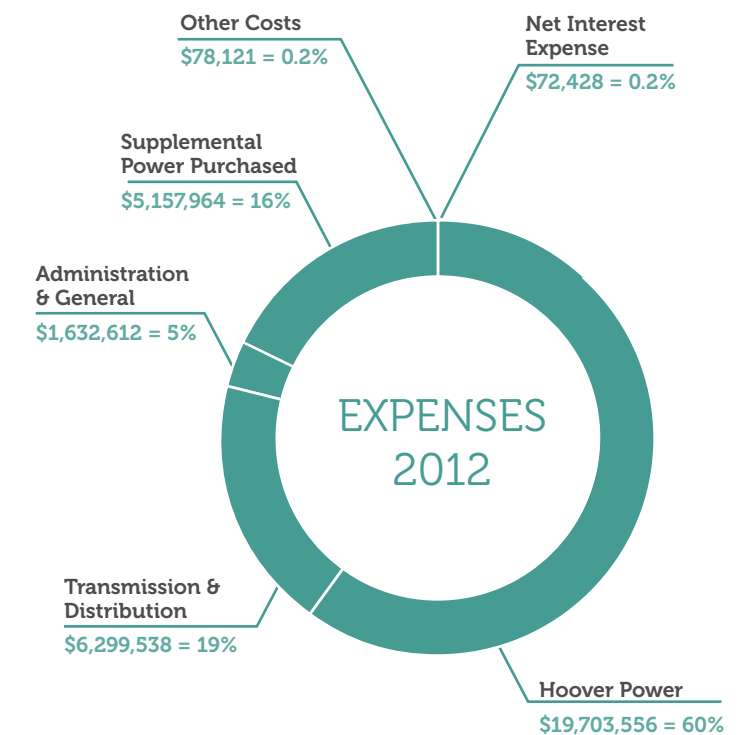
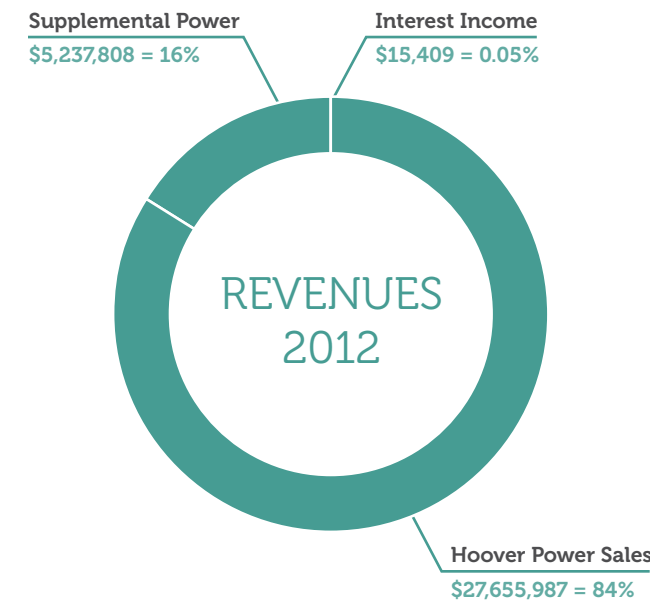
Operating Year 2012 Changes in Net Position Discussion

Net Position increased overall because of the following:

- Operating Revenues increased due mainly to an increase in rates and an increase in supplemental power sales.
- Total Operating Expenses increased due primarily to an increase in purchased power expenses.
- Western Credits change each year, due to changes in scheduled debt payments and associated costs related to the Uprating Program.
- Amortization of the Uprating Program costs decreased because of changes in debt payments and associated costs related to the Uprating Program.
- Administrative and General expenses decreased by \$(39,209), or (2.3%) due to a decrease in outside professional expenses.
- Depreciation decreased due to normal attrition in the carrying value of property, plant, and equipment.
- Other Expenses remained the same in Operating Year 2012.

Business Type Activities

The following chart depicts the sources of revenues for the operating year 2012:



Management's Discussion & Analysis

Request for Financial Information

The information contained in the Management's Discussion and Analysis is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

Accounting Department, Arizona Power Authority, 1810 West Adams Street, Phoenix, Arizona, 85007



Report of Independent Auditors



CliftonLarsonAllen

Board of Directors
Arizona Power Authority Commission
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Power Authority (A Body, Corporate and Politic of the State of Arizona) (Authority), which comprise the statements of net position, as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Power Authority as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 7 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

CliftonLarsonAllen LLP

Phoenix, Arizona
December 10, 2013

Financial Highlights

Statements of Net Position

	APA General Fund		Hoover Uprating Fund		TOTAL	
	2013	2012	2013	2012	2013	2012
CURRENT ASSETS						
Cash and cash equivalents	\$ 3,066,074	\$ 3,102,031	\$ 3,705,351	\$ 3,353,709	\$ 6,771,425	\$ 6,455,740
Investments - short term	-	-	6,180,827	6,014,986	6,180,827	6,014,986
Accounts Receivable, customer power purchases	175,303	3,722	2,217,301	2,465,617	2,392,604	2,469,339
Prepaid purchased power	-	-	-	-	-	-
Total current assets	3,241,377	3,105,753	12,103,479	11,834,312	15,344,856	14,940,065
CAPITAL ASSETS, NET	103,212	115,725	-	-	103,212	115,725
INVESTMENTS - LONG-TERM	-	-	6,559,658	6,553,949	6,559,658	6,553,949
ADVANCES FOR HOOVER UPRATING PROGRAM, NET	-	-	13,841,448	18,742,075	13,841,448	18,742,075
PREPAID TRANSMISSION	527,507	527,507	62,002	-	589,509	527,507
TOTAL ASSETS	\$ 3,872,096	\$ 3,748,985	\$ 32,566,587	\$ 37,130,336	\$ 36,438,683	\$ 40,879,321
CURRENT LIABILITIES						
Accounts payable and other	\$ 162,149	\$ 21,682	\$ 103,236	\$ 172,002	\$ 265,385	\$ 193,684
Customer refunds	-	-	738,477	680,114	738,477	680,114
Power contracts payable	-	-	1,774,781	1,601,020	1,774,781	1,601,020
Accrued interest payable	-	-	738,545	864,807	738,545	864,807
Bonds payable - short-term	-	-	5,065,000	4,810,000	5,065,000	4,810,000
Total current liabilities	162,149	21,682	8,420,039	8,127,943	8,582,188	8,149,625
LONG-TERM LIABILITIES						
Bonds payable - long-term	-	-	23,070,000	28,135,000	23,070,000	28,135,000
Premium on bonds payable, net	-	-	130,459	192,511	130,459	192,511
Total long-term liabilities	-	-	23,200,459	28,327,511	23,200,459	28,327,511
TOTAL LIABILITIES	162,149	21,682	31,620,498	36,455,454	31,782,647	36,477,136
NET POSITION						
Invested in capital assets	103,212	115,725	-	-	103,212	115,725
Unrestricted	3,606,735	3,611,578	946,089	674,882	4,552,824	4,286,460
TOTAL NET POSITION	3,709,947	3,727,303	946,089	674,882	4,656,036	4,402,185
TOTAL LIABILITIES & NET POSITION	\$ 3,872,096	\$ 3,748,985	\$ 32,566,587	\$ 37,130,336	\$ 36,438,683	\$ 40,879,321

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

Statements of Revenues, Expenses and Changes in Net Position Years ended September 30, 2013 and 2012

	APA General Fund		Hoover Uprating Fund		TOTAL	
	2013	2012	2013	2012	2013	2012
OPERATING REVENUES	\$ 1,140,822	\$ 5,237,808	\$ 27,622,411	\$ 27,655,987	\$ 28,763,233	\$ 32,893,795
OPERATING EXPENSES						
Purchased power	1,067,860	5,157,964	18,921,561	19,703,556	19,989,421	24,861,520
Western credits	-	-	(6,579,145)	(6,559,715)	(6,579,145)	(6,559,715)
Amortization of Hoover Uprating Program costs	-	-	6,579,145	6,559,715	6,579,145	6,559,715
Transmission and distribution	83,821	161,218	6,787,816	6,138,320	6,871,637	6,299,538
Administrative and general	-	-	1,658,010	1,632,612	1,658,010	1,632,612
Depreciation	20,271	18,121	-	-	20,271	18,121
Other	20,076	47,234	14,916	12,768	34,992	60,002
TOTAL OPERATING EXPENSES	1,192,028	5,384,537	27,382,303	27,487,256	28,574,331	32,871,793
OPERATING INCOME (LOSS)	(51,206)	(146,729)	240,108	168,731	188,902	22,002
OTHER INCOME (EXPENSES)						
Interest expense	-	-	(1,477,088)	(1,729,613)	(1,477,088)	(1,729,613)
Deferred interest expense	-	-	1,415,723	1,657,185	1,415,723	1,657,185
Amortization	-	-	62,052	72,660	62,052	72,660
Interest income	2,553	2,556	9,968	12,200	12,521	14,756
Other, net	31,297	395	20,444	258	51,741	653
TOTAL OTHER INCOME	33,850	2,951	31,099	12,690	64,949	15,641
CHANGES IN NET POSITION	(17,356)	(143,778)	271,207	181,421	253,851	37,643
NET POSITION, BEGINNING OF YEAR	3,727,303	3,871,081	674,882	493,461	4,402,185	4,364,542
NET POSITION, END OF YEAR	\$ 3,709,947	\$ 3,727,303	\$ 946,089	\$ 674,882	\$ 4,656,036	\$ 4,402,185

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

Financial Highlights

Statements of Cash Flow Years ended September 30, 2013 and 2012

	APA General Fund		Hoover Uprating Fund		TOTAL	
	2013	2012	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 969,241	\$ 5,336,724	\$ 27,870,727	\$ 27,781,119	\$ 28,839,968	\$ 33,117,843
Cash payments to suppliers for goods or services	(1,031,290)	(5,482,144)	(26,630,562)	(26,775,719)	(27,661,852)	(32,257,863)
Cash payments to employees for services	-	-	(650,385)	(746,103)	(650,385)	(746,103)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(62,049)	(145,420)	589,780	259,297	527,731	113,877
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest on investments	2,553	2,556	9,968	12,200	12,521	14,756
Loss on investments recovered	31,297	395	20,444	258	51,741	653
Purchase of investments	-	-	(171,551)	(138,994)	(171,551)	(138,994)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	33,850	2,951	(141,139)	(126,536)	(107,289)	(123,585)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Interest payments on bonds payable	-	-	(1,603,350)	(1,844,237)	(1,603,350)	(1,844,237)
Payments on bonds payable	-	-	(4,810,000)	(4,585,000)	(4,810,000)	(4,585,000)
Acquisition of capital assets	(7,758)	(14,845)	-	-	(7,758)	(14,845)
Other costs relating to Hoover Uprating Program	-	-	(262,794)	(271,624)	(262,794)	(271,624)
Western credits received for Hoover Uprating Program	-	-	6,579,145	6,559,715	6,579,145	6,559,715
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(7,758)	(14,845)	(96,999)	(141,146)	(104,757)	(155,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(35,957)	(157,314)	351,642	(8,385)	315,685	(165,699)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,102,031	3,259,345	3,353,709	3,362,094	6,455,740	6,621,439
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,066,074	\$ 3,102,031	\$ 3,705,351	\$ 3,353,709	\$ 6,771,425	\$ 6,455,740

Statements of Cash Flow (continued) Years ended September 30, 2013 and 2012

	APA General Fund		Hoover Uprating Fund		TOTAL	
	2013	2012	2013	2012	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (51,206)	\$ (146,729)	\$ 240,108	\$ 168,731	\$ 188,902	\$ 22,002
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Depreciation	20,271	18,121	-	-	20,271	18,121
Increase (decrease) in cash resulting from changes in:						
Accounts Receivable	(171,581)	98,916	248,316	125,132	76,735	224,048
Prepaid purchased power	-	-	-	-	-	-
Prepaid transmission	-	(42,502)	(62,002)	-	(62,002)	(42,502)
Accounts Payable and other	140,467	(73,226)	(68,766)	67,984	71,701	(5,242)
Customer refunds	-	-	58,363	(331,692)	58,363	(331,692)
Power contracts payable	-	-	173,761	229,142	173,761	229,142
Total adjustments	(10,843)	1,309	349,672	90,566	338,829	91,875
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (62,049)	\$ (145,420)	\$ 589,780	\$ 259,297	\$ 527,731	\$ 113,877
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATING FINANCING ACTIVITIES						
DEFERRED INTEREST EXPENSE	\$ -	\$ -	\$ 1,415,723	\$ 1,657,185	\$ 1,415,723	\$ 1,657,185

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

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Description of Business

The Arizona Power Authority (the "Authority") is a body, corporate and politic, without taxing power, established by the Arizona Legislature on May 27, 1944 by the Power Authority Act. Under the Power Authority Act, the Authority is directed to obtain electric power developed from the mainstream of the Colorado River and sell such power to certain qualified purchasers. The Power Authority Act provides that the Authority must be a self-supporting agency and prohibits the Authority from incurring any obligation, which would be binding upon the State of Arizona.

The Authority supplies capacity and energy on a wholesale basis to certain power purchasers in the State of Arizona. The Authority's primary source of power and energy is the Hoover Power Plant at Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. Hoover power is produced by the Boulder Canyon Project hydropower plant owned by the Bureau of Reclamation. Hoover Dam is the highest and third largest concrete dam in the United States of America. Hoover Dam was dedicated in 1935 and the first generator of the Hoover Power Plant was in full operation in October 1936 and has been in continuous operation since. Power and energy from the Hoover Power Plant is transmitted to load centers in Arizona, California and Nevada. The Authority first contracted for Arizona's share of Hoover power in 1952 and has continuously provided power and energy to its customers since that time.

The Authority is governed by a commission of five members appointed by the Governor and approved by the State Senate (the "Commission"). The term of office for each member is six years and the members select a chairman and vice-chairman from among its membership for two-year terms.

Pursuant to Arizona law, the Commission serves as the Authority's regulatory body with the exclusive authority to establish electric prices. The Authority is required to follow certain procedures, pertaining to public notice requirements and public meetings, before implementing changes in electric price schedules.

Measurement Focus

The Authority's funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities (whether current or noncurrent) associated with their activity are included in the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. The Authority's reported total net position is segregated into net investment in capital assets and unrestricted components.

Basis of Accounting

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to a governmental entity. Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accrual basis of accounting is used by the Authority whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Accounting Standards

The Authority implemented Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* contained in Pre-November 30, 1989 FASB and AICPA pronouncements. The adoption of this guidance did not have a material effect on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Authority recognizes revenue when power is delivered to the customers.

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Authority treats short-term temporary cash investments with original maturities, when purchased, of three months or less as cash equivalents.

Capital Assets and Depreciation

Capital assets are initially stated at original cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the property items, which range from 3 to 20 years. The costs of additions and replacements are capitalized. Repairs and maintenance are charged to expense as incurred. Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in Other within the Statements of Revenues, Expenses and Changes in Net Position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Advances for Hoover Uprating Program

Proceeds from bonds payable were advanced by the Authority to Western for uprating the Hoover Power Plant and are recorded as advances. Such advances, including debt issue costs, plus net interest expense incurred by the Authority are reimbursed in the form of credits on the monthly power bills rendered by the Western Area Power Administration of the Department of Energy ("Western"). These credits will be issued over the 30-year life of the bonds. Substantially all advances, net interest expense and other related costs on the bonds are charged to the Uprating Program as amounts to be recovered from future credits. These amounts are included in the Amortization of Hoover Uprating Program Costs in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

Operating revenues are derived from the sale of power to customers or from other contractual agreements. Operating revenues include funds received as a result of an agreement between the Authority and the Salt River Project. These revenues amounted to \$5,452,000 during the year ended September 30, 2013, and \$5,452,000 during the year ended September 30, 2012. These scheduling entity revenues reduce the overall revenue requirements to be paid by the Authority's

customers through power rates. The current Scheduling Entity Agreement was approved and implemented as of October 1, 2012, and that Agreement will expire on September 30, 2017.

Application of Net Position to Expenses Incurred

The Authority applies unrestricted, undesignated net position to expenses incurred. To the extent undesignated net position is unavailable, unrestricted, designated net position will be applied to expenses incurred.

Customer Credits

The Authority operates on a non-profit basis and reduces charges to its customers through credits on power bills or checks to customers, for any revenues in excess of expenses after the close of the operating year. Likewise, the Authority bills its customers for any deficit in revenues versus expenses incurred during the operating year.

Refunds of \$680,114 and \$1,001,863 were paid to the customers during the years ended September 30, 2013 and 2012, respectively.

Income Taxes

The Authority is exempt from federal and Arizona state corporate income taxes. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Geographic and Product Concentration

The Authority's revenues are derived from the sale of electrical power and services to water districts, electrical and irrigation districts, and cities, which represent contracted customers in the state of Arizona. The Hoover Uprating Fund is used to purchase electric power solely from Western. The Authority's APA General Fund is used to purchase electric power from various providers.

Notes to Financial Statements

Note 2 – Fund Accounting

Hoover Upgrading Fund

The Hoover Power Plant Act of 1984 (“Hoover Act”) authorized the U.S. government to increase the capacity of existing generating equipment at the Hoover Dam Power Plant (“Upgrading Program”). Instead of appropriating further federal funds for the Upgrading Program, Congress implemented an advancement of funds procedure whereby prospective nonfederal purchasers of the upgraded Hoover capacity and associated energy contribute to the financing of the Upgrading Program. The Upgrading Program was determined to be complete in September 1995. The Authority financed a portion of the total Upgrading Program by issuing bonds.

The Hoover Upgrading Fund accounts for advances by the Authority in connection with the Upgrading Program. Effective

June 1, 1987, the Authority executed new power contracts with Western and its customers which expire in 2017. The revenues and expenditures applicable to the sale and transmission of power and energy received by the Authority from Western under these contracts are accounted for in the Hoover Upgrading Fund.

APA General Fund

The Authority’s operations other than those applicable to the Hoover Upgrading Fund are accounted for in the APA General Fund. The purchase of supplemental power and the sale and transmission of such power to the Authority’s customers comprise the majority of this fund’s activity.

Note 3 – Cash And Cash Equivalents

All cash and cash equivalent balances are maintained by the State of Arizona Treasurer within the Local Government Investment Pool (“LGIP”). The LGIP is not registered with the Securities and Exchange Commission and investments are not subject to custodial credit risk. The State Board of Investment conducts monthly reviews of investment activity and performance. LGIP amounts are carried at fair value. Participant

shares are purchased and sold based on the Net Asset Value (“NAV”) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding.

The Authority’s LGIP investment balance represents its cash and cash equivalents as of September 30, 2013 and 2012.

Note 4 – Capital Assets

Capital assets of the Authority at September 30, 2013 and 2012 were as follows:

	Balances September 30		ADDITIONS	DELETIONS	Balances September 30	
	2012				2013	
Transmission plant	\$ 319,565	\$ -	\$ -	\$ -	\$ 319,565	
Distribution plant	227,518	-	-	-	227,518	
General plant - office	782,664	7,758	(10,299)		780,123	
TOTAL DEPRECIABLE ASSETS	1,329,747	7,758	(10,299)		1,327,206	
LESS ACCUMULATED DEPRECIATION FOR:						
Transmission plant	311,173	3,052	-	-	314,225	
Distribution plant	216,577	2,304	-	-	218,881	
General plant - office	686,272	14,915	(10,299)		690,888	
Total accumulated depreciation	1,214,022	20,271	(10,299)		1,223,994	
CAPITAL ASSETS, NET	\$ 115,725	\$ (12,513)	\$ -		\$ 103,212	

Capital assets of the Authority at September 30, 2012 and 2011 were as follows:

	Balances September 30		ADDITIONS	DELETIONS	Balances September 30	
	2011				2012	
Transmission plant	\$ 319,565	\$ -	\$ -	\$ -	\$ 319,565	
Distribution plant	227,518	-	-	-	227,518	
General plant - office	767,819	14,845	-		782,664	
TOTAL DEPRECIABLE ASSETS	1,314,902	14,845	-		1,329,747	
LESS ACCUMULATED DEPRECIATION FOR:						
Transmission plant	308,121	3,052	-	-	311,173	
Distribution plant	214,274	2,303	-	-	216,577	
General plant - office	673,506	12,766	-		686,272	
Total accumulated depreciation	1,195,901	18,121	-		1,214,022	
CAPITAL ASSETS, NET	\$ 119,001	\$ (3,276)	\$ -		\$ 115,725	

The Authority’s depreciation expense was \$20,271 and \$18,121 for the years ended September 30, 2013 and 2012, respectively.

The Transmission and distribution plants are comprised of a substation and related equipment. Purchased power is delivered over transmission facilities owned by Western.



Notes to Financial Statements

Note 5 – Advances for Hoover Uprating Program

Advances for the Hoover Uprating Program were reimbursed by Western through credits on the Authority's power bills in the amount of \$6,579,145 and \$6,559,715 for the years ended September 30, 2013 and 2012, respectively. Credits were

received for the upraters' portion of principal and interest expense on the bonds and other costs associated with the Hoover Uprating Program.

Note 6 – Bonds Payable

Bonds Payable Consists of the Following:

	Balances September 30		Increases	Reductions	Transfers	Balances September 30	
	2012					2013	
Bonds payable short-term	\$ 4,810,000	\$ -	\$ (4,810,000)	\$ 5,065,000	\$ 5,065,000		
Bonds payable long-term	28,135,000	-	-	(5,065,000)	23,070,000		
TOTAL BONDS PAYABLE	\$ 32,945,000	\$ -	\$ (4,810,000)	\$ -	\$ 28,135,000		

	Balances September 30		Increases	Reductions	Transfers	Balances September 30	
	2011					2012	
Bonds payable short-term	\$ 4,585,000	\$ -	\$ (4,585,000)	\$ 4,810,000	\$ 4,810,000		
Bonds payable long-term	32,945,000	-	-	(4,810,000)	28,135,000		
TOTAL BONDS PAYABLE	\$ 37,530,000	\$ -	\$ (4,585,000)	\$ -	\$ 32,945,000		

Note 6 – Bonds Payable (continued)

The Authority's outstanding bonds, totaling \$28,135,000, bear interest ranging from 5.00% to 5.25%, are due through 2018, and are secured by the pledged property, as defined by the Resolution, which includes the proceeds from the sale of the bonds, rights and interest in various contracts and revenues. The Authority amortizes the bond premium (discount) using the interest method. Principal and interest amounts due over the next five operating years ending September 30 are as follows:

Fiscal Year	Principal	Interest
2014	\$ 5,065,000	\$ 1,477,088
2015	5,330,000	1,211,175
2016	5,615,000	931,350
2017	5,905,000	636,563
2018	6,220,000	326,550
TOTAL	\$ 28,135,000	\$ 4,582,726

Crossover Refunding

On September 12, 2001, the Authority issued \$57,520,000 of Special Obligation Crossover Refunding Bonds. Proceeds from the sale of the bonds along with a fund contribution by the Authority were held in an escrow trust account invested in government securities until October 1, 2003 (the "Crossover Date") when a crossover refunding took place. The crossover refunding resulted in \$57,520,000 of Special Obligation Crossover Refunding Bonds being exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principal amount, maturity date and interest rates as the crossover bonds. The Authority called the \$62,630,000 of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005.

The proceeds in the government securities escrow trust account, together with the income realized from investment of trust assets, served as collateral for the Special Obligation Crossover Bonds and paid the debt service on those bonds until the Crossover Date. The Special Obligation Crossover Bonds were payable solely from the amounts in the escrow trust account and were not payable from any other source.

As a result of the crossover refunding transaction on October 1, 2003, the 2001 Series Bonds are reflected as obligations of the Authority at June 30, 2013 and 2012, and the called portion of the 1993 Series Bonds are no longer outstanding and cease to be entitled to any lien on the revenues pledged to payment of those bonds. Instead, the revenue stream originally pledged to secure the called portion of the 1993 Series Bonds "crossed over" to pay debt service on the 2001 Series Bonds on October 1, 2003. The 2001 Series Bonds bear interest at a rate of 5.00% and 5.25% payable on April 1 and October 1, respectively, of each year, commencing April 1, 2004 and maturing in 2017. In addition, the Authority recognized an economic gain (difference between the present value of the old and new debt service payments) of \$2,095,648. The crossover refunding also resulted in the recognition of a deferred amount of \$2,411,956 that has been reflected as a decrease in bonds payable and which will be amortized using the interest method as a component of interest expense over the life of the refunded bonds. The Authority amortized \$133,080 and \$155,832 for the years ended September 30, 2013 and 2012, respectively, resulting in a net deferred amount of \$279,817 and \$412,897 in the Statements of Net Position, respectively. The Authority also recognized a premium of \$3,536,652 on the crossover refunding which has been reflected as an increase in bonds payable and which will be amortized using the interest method. The Authority amortized \$195,132 and \$228,492 for the years ended September 30, 2013 and 2012, respectively, resulting in a net premium of bonds payable of \$410,276 and \$605,408 in the Statements of Net Position, respectively.



Notes to Financial Statements

Note 7 – Commitments and Contingencies

The Lower Colorado Multi-Species Conservation Program (“MSCP”) is a cooperative effort between Federal and non-federal entities that will create more than 8,100 acres of riparian, marsh and backwater habitat for 31 species of fish, birds, mammals and plants. The program became effective on April 4, 2005 and expires April 30, 2055. As a party to this Agreement, the Arizona Power Authority’s financial obligation is approximately \$119,000 per year (in 2003 dollars, adjusted annually for inflation). For the years ended September 30, 2013

and 2012, the Authority paid \$149,613 and \$145,210 respectively, for the MSCP.

The Authority is involved in various claims arising in the ordinary course of business, none of which, in the opinion of management, if determined adversely against the Authority, will have a material adverse effect on the financial condition or results of operations of the Authority.

NOTE 8 – INVESTMENTS HELD BY TRUSTEE

As of September 30, 2013 and 2012, investments are collateralized with securities held by the Authority’s trustee. The fair value of the investment securities at September 30 is as follows:

	2013		2012	
U.S. TREASURY OBLIGATIONS	\$	6,559,658	\$	6,553,949
U.S. GOVERNMENT SECURITIES	\$	6,180,827	\$	6,014,986
TOTAL	\$	12,740,485	\$	12,568,935

a series of repurchase transactions with IMC, in investments allowable under the bond resolution agreements and state law, with a fixed earnings rate of 5.00%. The securities were held in trust by The Bank of New York. In response to financial market conditions, on November 7, 2008, the Authority terminated its Debt Service Reserve Fund Investment Agreement with IMC and received the par value and accrued interest of such investment, totaling \$6,584,738. These funds are invested in direct U.S. Treasury obligations, which mature on dates coinciding with the principal and interest payment dates for the Authority’s outstanding bonds.

As of September 30, 2013, the investments held by the trustee consists of U.S. Treasury obligations, which are direct obligations of the United States of America, as required by the Bond Resolution. The U.S. Treasury obligations are rated AA+ by the rating agencies. There is minimal interest rate risk.

On October 2, 1996, the Authority entered into a repurchase and custody agreement with MBIA Investment Management Corporation (“IMC”) wherein the Authority agreed to effect

Note 9 – Retirement Plan

The Authority contributes to the retirement plan described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The Arizona State Retirement System (the “Plan” or “ASRS”) administers a cost-sharing multiple-employer defined benefit pension plan that covers permanent, full-time employees of the Authority. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. The ASRS issues a publicly available

financial report that includes its financial statements and required supplementary information. By actuarial computation, employee member and Authority contributions to the Plan were fixed at 11.54% (11.30% retirement and 0.24% long-term disability) and 11.14% (10.90% retirement and 0.24% long-term disability) of their compensation for the years ended September 30, 2013 and 2012, respectively, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the years ended September 30, 2013, 2012 and 2011, by the Authority’s employees were \$71,476, \$77,346 and \$75,909, respectively.

Note 9 – Retirement Plan (continued)

Matching employer member contributions were actuarially determined and fixed at the same rate as employee/member contributions for the years ended September 30, 2013 and 2012. In the event the Plan’s actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer and member will be required to contribute the revised contribution percentage which is established by the Arizona State Legislature.

All full-time employees of the Authority are required to become members of the Plan. The Authority’s total payroll for employees covered by this Plan for the years ended September 30, 2013 and 2012 was \$650,385 and \$746,103, respectively. Contributions to the Plan by the Authority for its covered employees vest over five years. All required employer contributions are made to the Plan by the end of each month.

	Employee	Employer
RETIREMENT PENSION AND HEALTH INSURANCE BENEFIT	11.30 %	11.30 %
LONG-TERM DISABILITY INCOME PLAN	0.24 %	0.24 %
TOTAL	11.54 %	11.54 %

Note 10 – Additional Benefits

In addition to the pension benefits described above, ASRS offers health care benefits to retired and disabled members who are no longer eligible for health care benefits through their former member employer’s group health plan. Retired is defined as actively receiving an annuity benefit and disabled is defined

as receiving a long-term disability (“LTD”) benefit through the LTD program administered by ASRS. A premium benefit is applied to the member’s health insurance cost. The following chart illustrates the maximum amount of the monthly available benefit supplement for eligible members and their dependents:

Years of Credited Service	Percent of Premium Benefit	Member			
		Not Medicare Eligible	Member	Member & Dependent(s)	Medicare Eligible
5.0 - 5.9	50%	\$ 75.00	\$ 50.00	\$ 130.00	\$ 85.00
6.0 - 6.9	60%	90.00	60.00	156.00	102.00
7.0 - 7.9	70%	105.00	70.00	182.00	119.00
8.0 - 8.9	80%	120.00	80.00	208.00	136.00
9.0 - 9.9	90%	135.00	90.00	234.00	153.00
10.0 +	100%	150.00	100.00	260.00	170.00

Notes to Financial Statements

Note 11 – Purchased Power, Sales and Transmission Commitments

The Authority has sales contracts with its customers. Under these contracts, customers are obligated to pay for their proportionate share of Hoover power and transmission costs if delivered or made available for delivery. These sales contracts expire September 30, 2017, but some can be terminated by the Authority on June 1, 2007 or thereafter.

The Authority is party to Firm Electric Service and Transmission Service Contracts with terms expiring September 30, 2017. This requires the Authority to pay approximately 19% of Western's revenue requirements each operating year until the contract expires. During the years ended September 30, 2013 and 2012, the Authority paid \$18,921,561 and \$19,703,556, respectively, for purchased power under this contract. The Authority is obligated to pay these costs under the contract even in the unlikely event that no power is supplied.

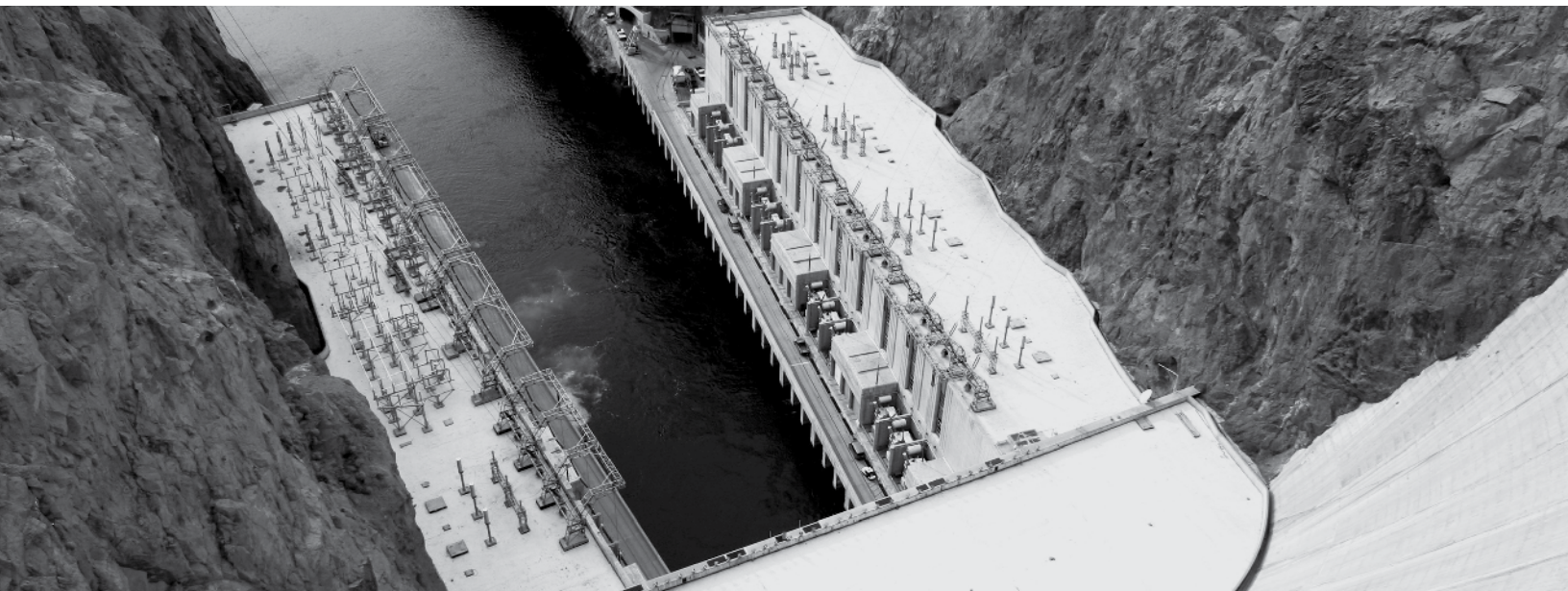
The Authority also has a contract with Western for transmission services. During the years ended September 30, 2013 and 2012, the Authority paid \$6,703,995 and \$6,138,320, respectively, for transmission costs to Western. On January 24, 2003, the Authority entered into the Advancement of Funds for Transmission Services contract with Western. The contract

provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. The advanced funds are then applied to the subsequent month's transmission invoice. As of September 30, 2013 and 2012, the Authority recognized a prepayment of \$589,509 and \$527,507, respectively, that applies to the last payment upon termination of the contract.

The Authority also has contracts with Salt River Project for the purchase and transmission of power to the Authority's customers. Under the transmission contract, the Authority must pay an annual transmission fee of \$63,898 until September 30, 2017. The Authority has a power contract with SRP in which supplemental power purchases can be made by the Authority on behalf of its customers. There are no minimum quantities that the Authority is required to purchase. This agreement is applicable when supplemental power is necessary, during such times of low production of Hoover energy, and during summer months when customers require higher levels of energy. During the years ended September 30, 2013 and 2012, the Authority paid \$1,067,860 and \$5,157,964, respectively, for purchased power under this contract for its customers.

Note 12 – Subsequent Events

Management evaluated subsequent events through December 10, 2013, the date the financial statements were available to be issued.



Debt Service Coverage Ratio

	OY 13
CHANGE IN NET POSITION	\$ 271,207
Add:	
Interest Expense	1,477,088
Amortization	133,081
Depreciation	14,916
Western Credits	6,579,145
Credits to Customers for Prior Years	738,477
Total Additions	9,213,914
Deduct:	
Deferred Interest Expenses	(1,415,723)
Premium Amortization	(195,133)
Total Deductions	\$ (1,610,856)
Income available for Debt Service	\$ 7,603,058
Debt Service	\$ 6,542,088
DEBT SERVICE COVERAGE RATIO	1.16





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