THE ENERGY OF FORESIGHT

ARIZONA POWER AUTHORITY

44TH ANNUAL REPORT

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LETTER TO THE GOVERNOR

December 1, 2002

The Honorable
Jane D. Hull
Governor of Arizona
State Capitol
Ninth Floor, West Wing
Phoenix, Arizona 85007

Dear Governor:

This 44th Annual Report of the Arizona Power Authority details the Authority's operational and financial activities for the fiscal year ending June 30, 2002. This Annual Report also features the steps the Authority has taken to become a forward-looking power participant in the Southwest, as the industry shifts to an open, competitive marketplace.

Through its active role in Hoover Dam's engineering and operating functions, the Authority provides reliable energy to its customers at one of the lowest rates in the nation. In addition, the Authority is helping to define the role of public power within Arizona's new deregulated electric utility environment.

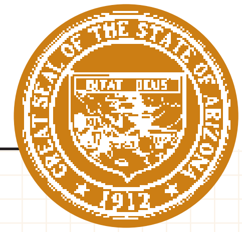
As the Authority assesses the future of open competition in power generation and distribution, it remains focused on its original mandate—to provide "the greatest public service and to encourage the widest practical use of electrical energy."

Sincerely,

Jewell M. Lewis

Jewell M. Lewis
Chairman

REPORT OF THE EXECUTIVE DIRECTOR



JOE MULHOLLAND

LOOKING FORWARD TO ON-GOING EXCELLENCE

Like the energy sector as a whole, the Arizona Power Authority is facing a period of unprecedented change. Challenges as well as opportunities are rapidly emerging as the industry continues to spiral toward deregulation. It's difficult to predict the actual impact deregulation will have on the Authority, but we know the new conditions will require new policies. While we are proud of our past accomplishments, the Authority is now looking ahead to new ways of ensuring our customers' access to reliable, affordable power.

Undoubtedly our strongest resource in preparing for the changes to come is our people. The Authority has recently augmented its team with additional aggressive, forward thinking staff members. Collectively, we now possess expertise covering the entire spectrum of the power business. This includes wholesale and retail marketing, as well as generation, transmission, distribution and ancillary services.

The Authority is also well positioned to influence future energy policy. For the first time, the Authority has a seat on the board of directors of the Western Electricity Coordinating Council (WECC), which defines policy for the western United States. One of only three directors' seats to the entire state of Arizona, this places the Authority at the forefront of new planning, trends and technologies.

The Authority is also chairing the High Voltage subcommittee of the Central Arizona Transmission Study Group (CATS). CATS is a peer review group that advises the industry on building transmission in the central part of the state. The Authority's position will help ensure transmission for rural areas located between super high voltage lines and distribution facilities.

With an eye to the future, we're maintaining our strong financial footing today. In addition, the Arizona Power Authority is investigating opportunities for greater interaction with power providers in Mexico and the Arizona-Mexico commission. The Authority is also exploring options in renewable energy sources through potential strategic partnerships.

We've delivered a 37% rate reduction to our customers and are committed to continued outstanding service. Becoming a major planning entity and participant in power development in the Southwest will help ensure the Authority fulfills its mandate into the future.

ANNUAL REPORT 2002

GREAT SEAL OF THE STATE OF ARIZONA
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REPORT OF THE COMMISSION

The Arizona Power Authority is advancing the role of public power in Arizona in the new era of deregulation. The Authority is also moving forward to assure an adequate supply of electric transmission capability for its customers and the state. To this end, the Authority is an active participant in the Western Electric Coordinating Council and the Central Arizona Transmission Study Group. The Authority has also retained three new staff members with over 90 years of combined experience in the power industry in the western United States.

Through the concerted effort of the Commissioners and staff, the Authority was able to lower its rates by 37%. The Commissioners played an important part in supporting staff to negotiate a new Scheduling Entity Agreement, which provides for efficient use of Arizona's hydroelectric power.

The Authority recognizes that transmission is fundamental to the success of open competition in the industry and is a consistent advocate for adequate and reliable service.

The Authority's Commissioners and staff continue to work closely with the Bureau of Reclamation and the Western Area Power Administration to maintain the Hoover Dam and associate power system as a valuable resource to the State of Arizona. The Authority will also keep working to protect the environment and endangered species to preserve the Colorado River as a water and power resource.

JEWELL M. LEWIS

Jewell Lewis was originally appointed to the Commission in 1986 and is now serving as Chair. Her present term expires in 2004. Dr. Lewis is also a member of the Arizona Prenatal Board of Trustees, the NAU Center for Excellence in Education Advisory Board and the Governor's Advisory Committee on Quality Education. Last year Dr. Lewis was named Valley Leadership Woman of the Year. Dr. Lewis has often been recognized for her leadership in business as well as her generous charitable work on behalf of medicine, education and the arts.

MICHAEL C. FRANCIS

Michael Francis began his tenure on the Commission in 1999, and his current term extends until 2008. Mr. Francis is now serving as the Commission's Vice Chair. He is also a partner in Santa Lucia Farms, which produces more than 3.7 million garden rose bushes annually. In addition to farming, Francis owns and operates Francis Insurance Agency, which writes insurance for Arizona and California farmers. A member of the American Rose Society, Mr. Francis currently serves on the Agricultural Employment Relations Board for the State of Arizona and is a member of the M&I Thunderbird Bank Board of Directors Arizona Region.

LIEUTENANT GENERAL
JOHN I. HUDSON
US MARINE CORPS (RETIRED)

John Hudson is Chairman of the Greater Yuma Port Authority and is a founding Director of the Foothills Bank in Yuma. General Hudson was first appointed to the Arizona Power Authority Commission in March 2000, and his current term runs to 2006. General Hudson served in the U.S. Marine Corps for 37 years. He was a founding member of the Foothills Optimist Club of Yuma, a member of the Yuma Rotary Club and past president of Yuma's 78-CRIME Board of Directors.

RICHARD S. WALDEN

Richard (Dick) Walden was appointed to the Commission in 1984 and has been re-appointed through his present term expiring in 2004. Mr. Walden is also a commissioner to the Arizona Water Banking Authority, and a member of the Advisory Council on Small Business and Agriculture of the Federal Reserve Bank of San Francisco.

Dick Walden is also President and CEO of Farmers Investment Company, a family-owned pecan growing and processing company headquartered in Sahuarita, Arizona.

DALTON H. COLE

Dalton Cole was appointed to the Commission in January 2002, for a term that expires in 2008. A retired businessman and farmer, Mr. Cole served as a member of the Central Arizona Water Conservation District. He also co-founded and chaired the HoHoKam Irrigation District and is a past chairman of the State Board of Directors for Community Colleges. Mr. Cole has also served on the Ground Water Management Committee for Pinal County and on committees to advise the Arizona Legislature regarding water matters throughout the state.

NEW FACES FOR THE FUTURE

In keeping with its focus on fresh developments and emerging issues, the Arizona Power Authority has hired three new staff members this year. Collectively, they bring over 90 years of combined experience in the power industry. Wise with experience, they are forward looking in attitude and charged with enthusiasm.

STEVE MENDOZA, P.E.

Steve Mendoza is the APA's Chief Engineer. With 37 years of utility industry experience, including planning, design, construction, operations and customer service, Steve brings extensive engineering management acumen as well as hands-on understanding. In addition, Steve is a member of the highly influential Board of Directors of the Western Electricity Coordinating Council, giving the Authority a significant voice in Western States power reliability and policy development. Mr. Mendoza is a Professional Engineer in Arizona, California and New Mexico.

HARVEY W. BOYCE

Harvey W. Boyce is Director of Finance and Rates. Harvey joins the Arizona Power Authority after thirty-four years with the Department of the Interior's Bureau of Reclamation and National Park Service, the Department of Energy's Western Area Power Administration and the United States Navy. Mr. Boyce also spent over three years as a power operations specialist with Nevada's Colorado River Commission. He has worked in various aspects of state and federal accounting, contract administration, and marketing and is recognized as an expert in federal power repayment studies, development and implementation.

AUDREY COLLETTI

Audrey Colletti is the Power and Computer Operations Manager. Audrey has over two decades of professional experience including such areas as process analysis, office organization and automation, presentation preparation and customer service. In addition, Audrey brings an excellent understanding of network administration, computer programming and hardware installation. Her technical expertise also covers database programming, system administration and end user training and support.

MODELING IMPROVED PERFORMANCE

Technology plays a central role in enabling the Arizona Power Authority to plan for the future. This year the Authority staff received extensive training in electric power software that enables them to model power transmission throughout the entire western U.S., as well as focusing on local areas such as particular regions of Arizona.

The Authority uses its modeling software to study anticipated conditions on the power system and determine how specific changes impact the overall system. By more clearly understanding the power we're purchasing, we can provide better service to our customers. In addition, as customer contracts come up for renewal, the Authority can model planned distribution to choose the most appropriate and efficient path.

In addition, this software also makes it easier to illustrate the power system to our customers. Simple to understand graphics provide a clear representation of the power system. As a result, our customers can better understand the power they receive and the factors that influence it.

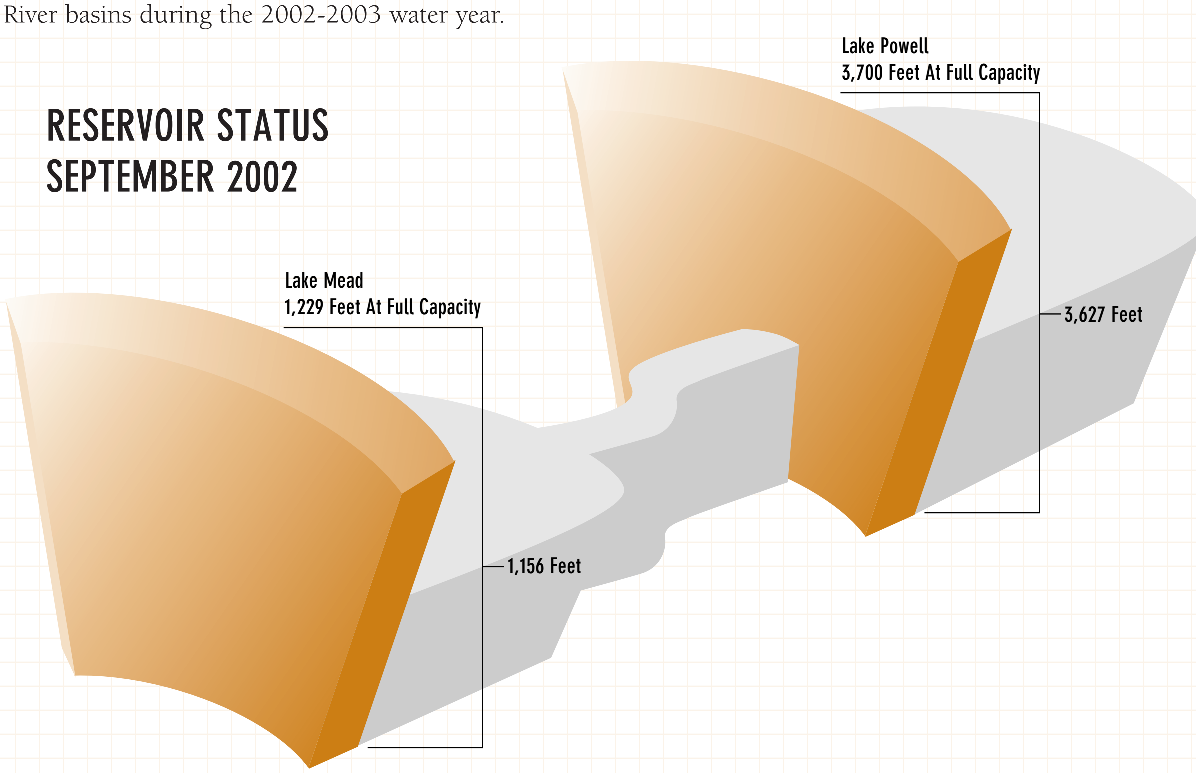
WATER YEAR 2002

OPERATIONS SUMMARY AND RESERVOIR STATUS

Drier than average conditions have prevailed for the past three years in the Colorado River basin. As a result precipitation has decreased from 87% of normal in September 2001 to 58% in September 2002. The Colorado Basin snowpack measured 74% of normal in January 2002. Total unregulated inflow into Lake Powell dropped from an already low 59% in 2001 to 25% in 2002, making it the driest year on record. In September 2002, the elevation of Lake Powell was 3,627 feet, a decrease of 38 feet for the year and 73 feet below full pool elevation. The National Weather Service continues to forecast drier than normal conditions.

The 25% inflow level in 2002 resulted in only 3.66 million acre-feet, the lowest unregulated inflow recorded since Glen Canyon Dam was completed in 1963. Subsequently, 2002 water storage for Lake Powell dropped to 14.5 million acre-feet, or 59% of capacity. By September 2002, the elevation of Lake Mead dropped to 1,156 feet, which is 73 feet below full pool elevation. Storage in Lake Mead dropped to 17.1 million acre-feet, or 66% of capacity. Because of the drawn down condition of Lake Powell, releases from that lake in water year 2003 are scheduled to meet the minimum objective release of 8.23 million acre-feet. This is consistent with requirements of the 1970 Criteria for Coordinated Long-Range Operation of Colorado River Reservoirs. Hydrologic conditions often change and the actual operation and condition of the Colorado River Storage System will depend on downstream requirements and the weather conditions in the Colorado River basins during the 2002-2003 water year.

RESERVOIR STATUS SEPTEMBER 2002



ENVIRONMENTAL ISSUES

The Bureau of Reclamation has issued its 2003 Water Year Annual Operating Plan for the Colorado River. The Plan reflects the assumed effects of the California water right holders executing a settlement agreement that would allow Reclamation to continue to declare a quantified surplus of water under its Interim Surplus Criteria Guidelines. This will allow California to take up to fifteen years (from 2002) to reduce its use of Colorado River water to its legal limit.

Activities such as water diversions and power production on the Lower Colorado River continue to be monitored for their impact on endangered and threatened species under the Multi-Species Conservation Program (MSCP). The MSCP will be implemented over a 50-year period, and will address future federal agency consultation needs under Section 7 and the incidental take authorizations under Section 10 of the Endangered Species Act. In lieu of funds from the Arizona Legislature, Arizona's share of costs for the MSCP process was covered by contributions from Arizona water and power interests.

A lawsuit brought by Defenders of Wildlife against Reclamation remains in litigation. The suit alleges violation of the Endangered Species Act in failing to evaluate and compensate for the impacts of Colorado River operations on listed species in the Mexican delta. If Defenders prevail, Reclamation may be required to take actions that will be costly to the water and power users in the Lower Colorado River Basin.

SCHEDULE OF CAPACITY AND ENERGY SALES

FOR PERIOD OF JULY 1, 2001 THROUGH JUNE 30, 2002

SALE OF HYDRO POWER Customers	AVERAGE BILLING DEMAND (KW)	ENERGY DELIVERED (KWH)	SALES ($)	MILLS PER KWH
Aguila Irrigation District	5,330	10,288,000	182,646	17.75
Avra Valley Irrigation & Drainage District	534	1,722,000	28,137	16.34
Buckeye Water Conservation District	2,525	8,185,000	142,112	17.36
Central Arizona Water Conservation District	136,945	385,469,000	5,917,303	15.35
Chandler Heights Citrus Irrigation District	788	3,744,000	47,178	12.60
Cortaro-Marana Irrigation District	5,457	16,500,000	212,620	12.89
Electrical District No. 1, Pinal	0	0	0	0.00
Electrical District No. 2, Pinal	16,484	93,064,000	1,308,722	14.06
Electrical District No. 3, Pinal	13,474	61,017,000	883,283	14.48
Electrical District No. 4, Pinal	16,483	62,076,000	863,148	13.90
Electrical District No. 5, Pinal	12,516	33,438,000	465,632	13.93
Electrical District No. 5, Maricopa	297	866,000	9,654	11.15
Electrical District No. 6, Pinal	6,788	16,244,000	221,919	13.66
Electrical District No. 7, Maricopa	8,897	14,677,000	277,222	18.89
Electrical District No. 8, Maricopa	20,508	59,250,000	1,006,239	16.98
Harquahala Valley Power District	2,110	10,098,000	177,258	17.55
Maricopa County Municipal Water District #1	7,491	17,652,000	317,483	17.99
McMullen Valley Water Conservation & Drainage District	7,704	15,757,000	271,697	17.24
Ocotillo Water Conservation District	2,026	10,664,000	134,893	12.65
Queen Creek Irrigation District	1,500	957,000	10,054	10.51
Roosevelt Irrigation District	2,729	13,186,000	221,022	16.76
Roosevelt Water Conservation District	5,730	34,731,000	394,855	11.37
Salt River Project	32,871	171,347,000	2,498,801	14.58
San Tan Irrigation District	442	4,118,000	50,554	12.28
Silverbell Irrigation & Drainage District	602	4,869,000	62,767	12.89
Tonopah Irrigation District	1,313	5,578,000	94,562	16.95
Wellton-Mohawk Irrigation & Drainage District	2,467	9,628,000	140,874	14.63
City of Page	882	2,453,000	37,369	15.23
City of Safford	1,763	11,768,000	161,118	13.69
Town of Thatcher	889	5,442,000	73,777	13.56
Town of Wickenburg	1,941	12,920,000	161,952	12.53
Ak-Chin Indian Community	0	0	0	0.00
Arizona Electric Power Cooperative	0	0	0	0.00
Arizona Public Service Co.	0	0	0	0.00
Citizens Utilities Co.	0	0	0	0.00
City of Mesa	0	0	0	0.00
Tohono O'odham Utilities Authority	0	0	0	0.00
San Carlos Project	0	0	0	0.00
Tucson Electric Power Co.	0	0	0	0.00
TOTAL HYDRO POWER SALES	319,486	1,097,708,000	$ 16,374,851	14.92
TOTAL SUPPLEMENTAL POWER SALES	194,381		$ 661,409	
OTHER ELECTRIC SALES		0	$ 33,947	
TOTAL SALES			$17,070,206.77*	

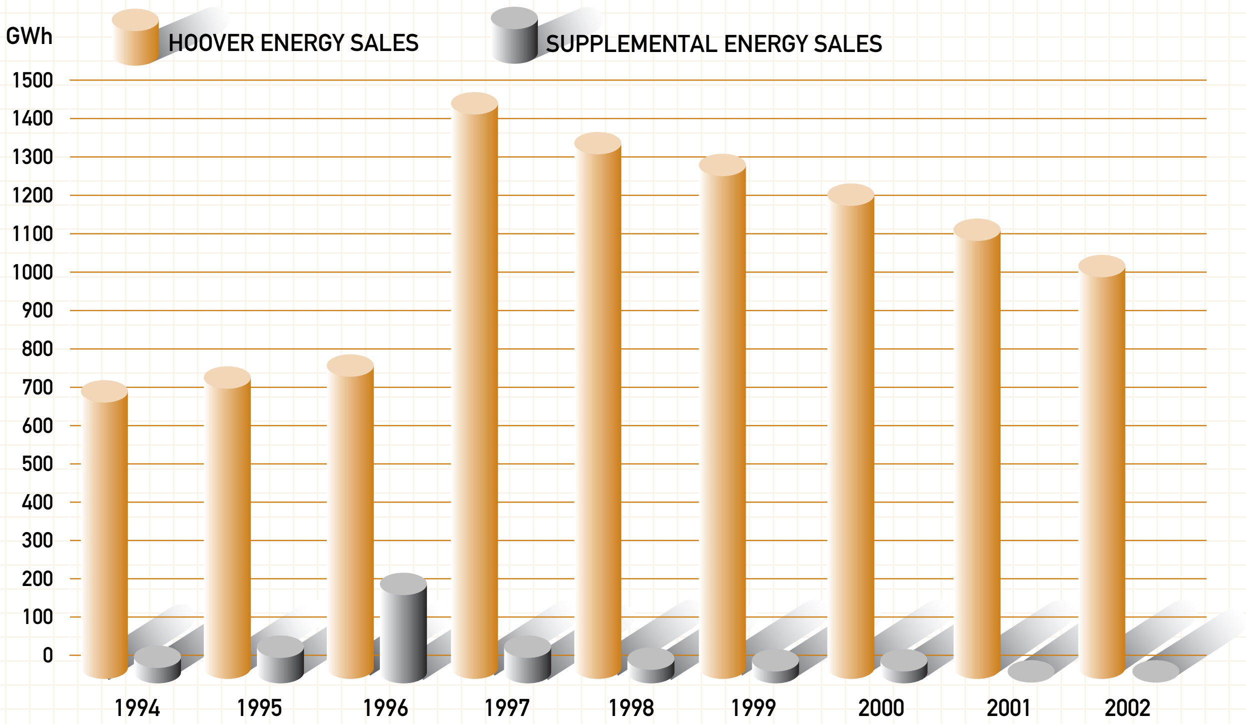
*Difference between Total Electric Sales and Operating Revenue is due to post-closing reconcilliation of estimate to actual deliveries between the Authority and Western Area Power Administration

HISTORICAL ENERGY SALES

The following graph illustrates the Authority's historical energy sales (GWh) since 1994 for power obtained from the Hoover Powerplant and for supplemental sales.

Supplemental power is obtained by the Authority for sale to customers on an "as requested" basis. This energy augments the customers' allocation from the Authority.

FISCAL YEAR	1994	1995	1996	1997	1998	1999	2000	2001	2002
HOOVER	734	773	792	1,485	1,389	1,318	1,205	1,103	1,098
SUPPLEMENTAL	25	65	224	79	3	2	4	0	0
TOTAL	759	838	1,016	1,564	1,392	1,320	1,209	1,103	1,098



FINANCIALS 2002

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Arizona Power Authority Commission

In our opinion, the accompanying statement of net assets and the related statement of revenues, expenses, and changes in net assets, and statement of cash flows present fairly, in all material respects, the financial position of the Arizona Power Authority (A Body, Corporate and Politic, of the State of Arizona) at June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Authority adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments:* Omnibus - an Amendment of GASB Statements No. 21 and No. 34 and GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* as of July 1, 2001.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The supplemental schedules on pages 34 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Pricewaterhouse Cooper L.L.P.

August 2, 2002
Phoenix, Arizona

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Arizona Power Authority's (the "Authority") financial performance for the fiscal year ended June 30, 2002 and is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position.

Since the Management's Discussion and Analysis ("MD&A") is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements beginning on page 22.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by $400,516 or 11%.
- The Authority's revenue increased by $2,284,061 or 11% and the net results from operations reduced the operating loss by $343,685 or 46% producing a decrease in net assets of $400,516.

AUTHORITY HIGHLIGHTS

Revised Scheduling Entity Agreement - On June 1, 1987, the Authority and the Salt River Project entered into a Scheduling Entity Agreement that provided for the Salt River Project to be the entity that dynamically schedules the Hoover generation allocated to the Authority by the Western Area Power Administration. The Agreement had been amended twice through September 30, 2001.

The Authority and the Salt River Project executed a third Amendment to the Scheduling Entity Agreement effective October 1, 2001. This Amendment provides for the Salt River Project to pay the Authority $8.4 million each year in return for allowing the Salt River Project to continue to be the Scheduling Entity of the Hoover generation in Arizona through September 30, 2004. The amount of revenue paid by the Salt River Project for the year ending June 30, 2002 covered only nine months; consequently, the contribution to revenue pursuant to the Scheduling Entity Agreement was $6.3 million, not $8.4 million. Negotiations are currently under way to extend the Scheduling Entity Agreement and the $8.4 million annual payment by the Salt River Project for at least an additional two years.

Other Changes That Will Improve or Provide Future Benefit to the Arizona Power Authority -
No new agreements or new customers were added during the current period. However, the Authority added three new staff members in recent months that bring substantial experience and knowledge regarding the operations of power systems in the southwest.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Net Assets, Revenues, Expenses and Changes in Net Assets and the Statement 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 engaged only in business-type activities. Accordingly, the financial statements presented in this Annual Report 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.*

There are six basic or normal transactions that will affect the comparability of the Statement of Net Assets summary presentation:

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

Borrowing for Capital – which will increase assets and long-term debt.

Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase capital assets. There is a second impact, an increase in invested capital assets and an increase in related net debt which will not change the investment in capital assets, net of debt.

Spending of Non-borrowed Current Assets on New Capital – which will (a) reduce current assets and increase capital assets and (b) will reduce undesignated net assets and increase investment in capital assets, net of debt.

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 capital assets, net of debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Discussion and Analysis is an introduction to the Authority's basic financial statements, which are comprised of two components:

(1) Fund Financial Statements.

(2) Notes to the Financial Statements.

Fund Financial Statements (Reporting on all of the Authority's Funds.)

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 enterprise in nature. 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.

CONDENSED STATEMENT OF NET ASSETS
BUSINESS TYPE ACTIVITIES
(THOUSANDS OF DOLLARS)

	JUNE 30, 2002	JUNE 30, 2001	DIFF $	DIFF %
Current assets	13,102,938	14,673,921	-1,570,983	-11%
Long-term assets	51,832,754	52,948,182	-1,115,428	-2%
Capital assets	181,499	190,987	-9,488	-5%
	65,117,191	67,813,090	-2,695,899	-4%
Current liabilities	5,476,945	4,622,973	853,972	18%
Long-term (Bonds pay, net)	56,516,086	59,665,441	-3,149,355	-5%
	61,993,031	64,288,414	-2,295,383	-4%
Net Assets:				
Capital Assets	181,499	190,987	-9,488	-5%
Unrestricted	2,942,661	3,333,689	-391,028	-12%
Net Assets, End of Year	3,124,160	3,524,676	-400,516	-11%

The largest component of the Authority's net assets is unrestricted reserves (property replacement, designated and undesignated).

CONDENSED STATEMENT OF NET ASSETS DISCUSSION

Current Assets changed because the Authority's customers accounts receivable decreased due to having less power available for sale, interest receivable on investments decreased due to much lower interest rates and prepaid purchased power (banked power) decreased due to having less power available for banking.

Long Term Assets (Advances for the Hoover Uprating Program) changed because of the reduction in the cost of the current year Uprating Program and more of the prior year charges being amortized.

Current Liabilities changed primarily due to the establishment of a bonds payable accrual, a decreased power contracts payable and the elimination of the Authority's customer credits accrual.

Long Term Liabilities changed because of a decrease in bonds payable due to reclassification to a current liability, a decrease in the discount on bonds payable due to amortization and an increase in the investments held by Trustee due to an accrual for the payment of bond principal.

Net Assets changed because of decreases in capital assets, property replacement and undesignated assets.

There are six basic or normal transactions that will affect the comparability of the Statement of Changes in Net Assets summary presentation.

REVENUES:

Economic Condition – which can reflect a declining, stable or growing economic environment and has a substantial impact on rates and volumes of consumption.

Increase/Decrease in Commission Approved Rates – while certain aspects of rates are set by statute, the Authority has the ability to impose and periodically increase/decrease rates.

Market Impacts on Investment Income – market conditions may cause investment income to fluctuate more in the long-term than alternative shorter-term options.

EXPENSES:

Introduction of New Programs – individual programs may be added or deleted to meet changing Authority needs.

Increase/Decrease in Authorized Personnel – changes in service demand may cause the Authority to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent 2.5% of the Authority's operating costs.

Salary Increases (cost of living, merit and market adjustment) – the ability to attract and retain human and intellectual resources requires the Authority to strive to approach a competitive salary range position in the marketplace.

CHANGES IN NET ASSETS
BUSINESS TYPE ACTIVITIES
(THOUSANDS OF DOLLARS)

	JUNE 30, 2002	JUNE 30, 2001	DIFF $	DIFF %
Revenues:				
Operating Revenues	$ 23,018,463	$ 20,734,402	$ 2,284,061	11%
Expenses:				
Operating Expenses				
Purchase Power	16,075,797	15,077,567	998,230	7%
Western Credits	-4,623,123	-2,955,153	-1,667,970	56%
Amortization of Hoover Uprating Program Costs	4,623,123	2,955,153	1,667,970	56%
Trans & Dist	5,205,863	5,215,104	-9,241	0%
Administrative and general	1,215,200	1,028,848	186,352	18%
Depreciation	28,855	37,473	-8,618	-23%
Other	889,985	116,332	773,653	665%
Total Operating Expenses	23,415,700	21,475,324	1,940,376	9%
Operating Income (loss)	-397,237	-740,922	343,685	-46%
Other (deductions) income:				
Interest Expense	-3,729,166	-3,729,166	0	0%
Deferred Interest Expense	2,977,031	2,727,681	249,350	9%
Interest Income	746,533	1,207,760	-461,227	-38%
Other Net	2,323	18,030	-15,707	-87%
Total Other Income (loss)	-3,279	224,305	-227,584	-101%
Change in Net Assets	-400,516	-516,617	116,101	-22%
Net Assets, Beginning of Year	3,524,676	4,041,293	-516,617	-13%
Net Assets, End of Year	$ 3,124,160	$ 3,524,676	$ -400,516	-11%

CHANGES IN NET ASSETS DISCUSSION

Operating revenues changed because of increased power sales. Operating expenses changed because of increased purchased power costs; Western credits were increased because of the accrual of bonds payable principal and other costs related to the Uprating Program; amortization of Uprating Program costs increased because of the additional credits received; Administrative and general increased because of the hiring of additional employees and increased legal costs; depreciation decreased because less existing capital assets were available to depreciate and few new capital assets were purchased; and other costs increased because of the expensing of certain deferred assets. Operating loss changed due to a decrease in the loss compared to the prior year.

Other items effecting a change in “Net Assets” were an increase in deferred interest expense because of less interest income and decreased late charges received from customers.

CAPITAL ASSETS

As of fiscal year end, the Authority had $181,499 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of $9,488 or 5% from the end of last year.

	JUNE 30, 2002	JUNE 30, 2001
Distribution Plant	$ 40,341	$ 49,038
General Plant - Office	141,158	141,949
	$ 181,499	$ 190,987

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 28 of the Notes to the Financial Statements

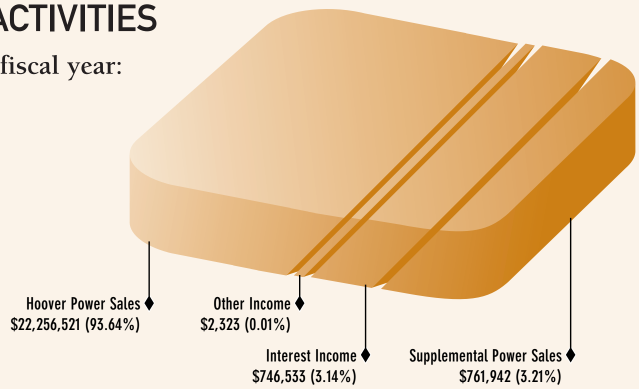
	JUNE 30, 2002
Beginning Balance	$ 190,987
Additions	19,367
Depreciation	(28,855)
Ending Balance	$ 181,499

DEBT OUTSTANDING

As of fiscal year-end, the Authority had $68,945,000 in debt outstanding, no change compared to last year. Also see page 28 of the Notes to the Financial Statements for a detailed summary of debt activity during the year.

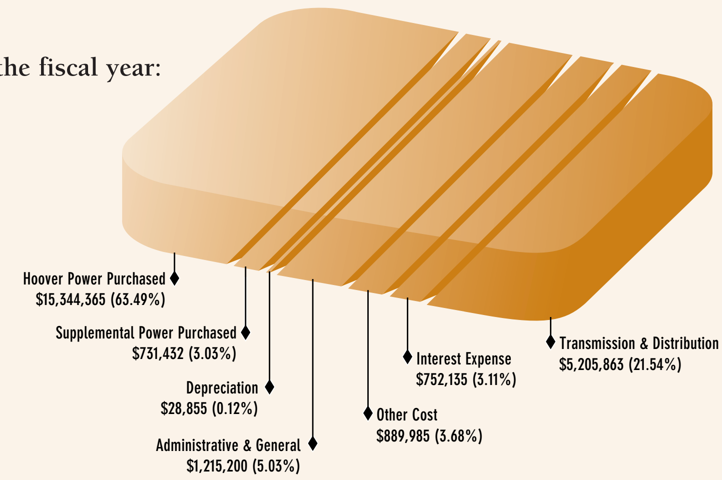
BUSINESS TYPE ACTIVITIES

The following chart depicts the sources of revenues for the fiscal year:



The Authority's revenues may decrease in the coming year(s) due to drought conditions. Insufficient rain and snow pack results in less water to be processed through the turbines at Hoover Dam thereby producing less hydroelectric power available for sale. Additional wet years, and other factors, could help stabilize revenues.

The following chart depicts the types of expenses for the fiscal year:



For further information and/or questions on this report, please call the Power Authority Office at 602-542-4263.

STATEMENT OF NET ASSETS

JUNE 30, 2002		APA GENERAL FUND		HOOVER UPRATING FUND		TOTAL
ASSETS						
Current assets:						
Cash and cash equivalents	$	4,329,510	$	2,532,576	$	6,862,086
Cash with fiscal agent		-		2,694,576		2,694,576
Accounts receivable, customers power purchases		215,369		1,648,972		1,864,341
Interest receivable		17,768		134,857		152,625
Prepaid purchased power and other		-		1,529,310		1,529,310
Total current assets		4,562,647		8,540,291		13,102,938
Property, plant and equipment, net (Note 3)		181,499		-		181,499
Advances for Hoover Uprating Program, net (Notes 2 &5)		-		51,832,754		51,832,754
Total assets	$	4,744,146	$	60,373,045	$	65,117,191
LIABILITIES						
Current liabilities:						
Accounts payable and other	$	7,688	$	86,653	$	94,341
Power contracts payable		212,743		2,808,280		3,021,023
Accrued interest payable		-		911,581		911,581
Bonds payable		-		1,450,000		1,450,000
Total current liabilities		220,431		5,256,514		5,476,945
Bonds payable (Note 6)		-		67,495,000		67,495,000
Discounts on bonds payable		-		(1,263,341)		(1,263,341)
Less investments held by trustee, including unamortized net discount on investments of $3,566 (Note 7)		-		(9,715,573)		(9,715,573)
Bonds payable, net		-		56,516,086		56,516,086
Total liabilities	$	220,431	$	61,772,600	$	61,993,031
NET ASSETS						
Net assets:						
Invested in capital assets	$	181,499	$	-	$	181,499
Unrestricted:						
Property placement		1,030,150		-		1,030,150
Designated		4,000,000		-		4,000,000
Undesignated		(687,934)		(1,399,555)		(2,087,489)
Total net assets	$	4,523,715	$	(1,399,555)	$	3,124,160

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

JUNE 30, 2002

	APA GENERAL FUND	HOOVER UPRATING FUND	TOTAL
OPERATING REVENUES	$ 761,942	$ 22,256,521	$ 23,018,463
Operating expenses:			
Purchased power	731,432	15,344,365	16,075,797
Western credits (Note 5)	-	(4,623,123)	(4,623,123)
Amortization of Hoover Uprating Project costs	-	4,623,123	4,623,123
Transmission and distribution	1,715	5,204,148	5,205,863
Administrative and general	116,602	1,098,598	1,215,200
Depreciation	28,855	-	28,855
Other	871,843	18,142	889,985
Total operating expenses	1,750,447	21,665,253	23,415,700
Operating income (loss)	(988,505)	591,268	(397,237)
Other (deductions) income:			
Interest expense (Note 6)	-	(3,729,166)	(3,729,166)
Deferred interest expense (Note 5)	-	2,977,031	2,977,031
Interest income	114,455	632,078	746,533
Other, net	-	2,323	2,323
Total other income (loss)	114,455	(117,734)	(3,279)
Increase (decrease) in net assets	(874,050)	473,534	(400,516)
Net assets, beginning of the year	5,397,765	(1,873,089)	3,524,676
Net assets, end of the year	$ 4,523,715	$ (1,399,555)	$ 3,124,160

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

STATEMENT OF CASH FLOWS

JUNE 30, 2002	APA GENERAL FUND	HOOVER UPRATING FUND	TOTAL
Cash flows from operating activities:			
Cash received from customers	$ 548,602	$ 22,928,051	$ 23,476,653
Cash payments to suppliers for goods or services	(884,184)	(21,366,600)	(22,250,784)
Cash payments to employees for services	-	(521,521)	(521,521)
Net cash (used in) provided by operating activities	(335,582)	1,039,930	704,348
Cash flows from capital and related financing activities:			
Interest payments on obligations	-	(3,646,323)	(3,646,323)
Acquisition of capital assets	(19,367)	-	(19,367)
Change in advances for Hoover Uprating Program	-	4,094,782	4,094,782
Net cash (used in) provided by capital and related financing activities	(19,367)	448,459	429,092
Cash flows from investing activities:			
Interest on investments	132,970	669,860	802,830
Purchase of investment securities	-	(10,176,793)	(10,176,793)
Proceeds from sale and maturities of investment securities	-	8,394,596	8,394,596
Net cash (used in) provided by investing activities	132,970	(1,112,337)	(979,367)
Net increase (decrease) in cash and cash equivalents	(221,979)	376,052	154,073
Cash and cash equivalents, beginning of year	4,551,489	4,851,100	9,402,589
Cash and cash equivalents, end of year	$ 4,329,510	$ 5,227,152	$ 9,556,662

(Continued)

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

JUNE 30, 2002

	APA GENERAL FUND	HOOVER UPRATING FUND	TOTAL
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$ (988,505)	$ 591,268	$ (397,237)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	28,855	-	28,855
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(213,340)	671,530	458,190
Decrease in prepaid purchase power and other	624,954	585,614	1,210,568
(Decrease) in accounts payable	(289)	(15,646)	(15,935)
Increase (decrease) in power payable	212,743	(591,413)	(378,670)
Increase in accrued annual leave	-	48,577	48,577
Decrease in accounts payable customer credits	-	(250,000)	(250,000)
Total adjustments	652,923	448,662	1,101,585
Net cash (used in) provided by operating activities	$ (335,582)	$ 1,039,930	$ 704,348
Supplemental schedule of non-cash capital and related financing activities:			
Deferred interest on obligations	$ -	$ 2,977,031	$ 2,977,031
Supplemental schedule of cash paid for interest	$ -	$ 3,729,166	$ 3,729,166

(Concluded)

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

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND 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 Senate. 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 special meetings, before implementing changes in electric price schedules.

Change in Accounting Policy

Effective July 1, 2001, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended by GASB Statement No. 37, ***Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*** - an Amendment of GASB Statements No. 21 and No. 34 and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* These statements established a new financial reporting model for state and local governments consisting of both the government-wide and fund financial statements (within the basic financial statements) and primary activities are categorized as either governmental or business type. The Authority is only engaged in business activities. In accordance with the provisions of paragraph 138 of GASB No. 34, this audit report presents the required basic financial statements for special-purpose governments engaged only in business-type activities. Accordingly, no significant change or impact resulted from the adoption of GASB No. 34, as amended by GASB No. 37 and No. 38.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

The Authority's Funds are accounted for on a *flow of economic resources* measurement focus. All assets and liabilities (whether current or non-current) associated with their activity are included in the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. The Authority's reported total net assets are segregated into invested capital assets and unrestricted components.

Basis of Accounting

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.

Basis of Presentation

GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* requires that governments' proprietary activities apply all GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Authority has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

Revenue Recognition

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

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.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

Advances for Hoover Uprating Program

Proceeds from bonds payable were advanced by the Authority 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 are 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.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Authority has classified its marketable securities as held-to-maturity. Held-to-maturity securities represent those securities that the Authority has both the intent and ability to hold to maturity and are carried at amortized cost.

Schedule C Energy

Under its Electric Service Contract with Western, the Authority has preferential rights to excess energy ("Schedule C energy") generated at the Hoover Power Plant. The Authority buys Schedule C energy when available from Western during an operating year (October 1 to September 30). The Authority's financial statements are prepared on a fiscal year (July 1 to June 30) basis. When excess energy is available, the Authority bills its customers as Schedule C energy is delivered and receives payment during a given operating year, but Western does not bill for the cost of such Schedule C energy until the following operating year. An estimate of such amounts is accrued for at the end of the fiscal year.

Operating and Non-Operating Revenues

Operating revenues are revenues derived from the sale of power to customers or from other contractual agreements. Operating revenues include $6,300,000 received from Salt River Project for scheduling entity services. The revenue is the result of a recent agreement between the Authority and the Salt River Project which will yield $8,400,000 annual revenues to the Authority thereby reducing the overall revenue requirements to be paid by the Authority's customers through power rates. The agreement expires September 30, 2004 unless renewed. Non-operating revenues are from sources other than the sale of power to customers and primarily consist of income earned on investments.

Application of Net Assets to Expenses Incurred

The Authority applies unrestricted, undesignated net assets to expenses incurred. To the extent undesignated net assets are unavailable, unrestricted, designated net assets 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, for any revenues in excess of expenses after the close of the operating year. Likewise, the Authority bills it's customers for any deficit in revenues versus expenses incurred during the operating year.

As of June 30, 2002, there were no accrued credits to be applied to customers' power bills based upon rates from Western's operating year ending September 30, 2002.

Income Taxes

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

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make 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 these estimates.

Geographic and Product Concentration

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

2. FUND ACCOUNTING

Hoover Uprating Fund

The Hoover Power Plant Act of 1984 ("Hoover Act") authorized the U.S. government to increase the capacity i.e., "uprate," of existing generating equipment at the Hoover Dam Power Plant ("Uprating Program"). Instead of appropriating further federal funds for the Uprating Program, Congress implemented an advancement of funds procedure whereby prospective non-federal purchasers of the uprated Hoover capacity and associated energy contribute to the financing of the Uprating Program. The Uprating Program was determined to be complete in September 1995.

The Authority financed a portion of the total Uprating Program by issuing bonds. The Hoover Uprating Fund accounts for advances by the Authority in connectio n with the Uprating 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 Uprating Fund.

APA General Fund

The Authority's operations other than those applicable to the Hoover Uprating 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.

3. CASH

All cash balances maintained by the State of Arizona Treasurer are for pooled investment purposes. Statutes require the State Treasurer to invest these pooled funds in obligations of the U.S. government. All investments are carried at cost.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment of the APA General Fund at June 30, 2002 were as follows:

	2002
Transmission and distribution plant	$ 508,683
General plant	702,966
Total	1,211,649
Less accumulated depreciation	(1,030,150)
Property, plant and equipment, net	$ 181,499

	JUNE 30, 2001	ADDITIONS	DISPOSALS	JUNE 30, 2002
Property, plant and equipment:				
Transmission plant	$ 289,049	$ -	$ -	$ 289,049
Distribution plant	219,634	-	-	219,634
General plant - office	683,599	19,367	-	702,966
Total property, plant and equipment	1,192,282	19,367	-	1,211,649
Accumulated depreciation:				
Transmission plant	(289,049)	-	-	(289,049)
Distribution plant	(170,596)	(8,697)	-	(179,293)
General plant - office	(541,650)	(20,158)	-	(561,808)
Total accumulated depreciation	(1,001,295)	(28,855)	-	(1,030,150)
Property, plant and equipment, net	$ 190,987	$ (9,488)	$ -	$ 181,499

The transmission and distribution plant is comprised of a substation and related equipment. Purchased power is delivered over transmission facilities owned by Western. Depreciation is provided on the straight-line composite method based on the estimated useful lives of the property items, which range from 5 to 44 years.

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 $4,623,123 for the year ended June 30, 2002. Credits were received for the upraters portion of principal and interest expense on the bonds and other costs associated with the Hoover Uprating Program.

During the year ended June 30, 2002, principal amortization, interest expense and other related costs on the bonds issued to finance the Uprating Program exceeded interest income by $4,559,365. Any variation between credits received and costs incurred are reconciled the following year.

6. BONDS PAYABLE

Bonds payable consists of the following:

	JUNE 30, 2001	INCREASES	REDUCTIONS	TRANSFERS	JUNE 30, 2002
Bond payable current	$ -	$ -	$ -	$ 1,450,000	$ 1,450,000
Bond payable long-term	68,945,000	-	-	(1,450,000)	67,495,000
Total bonds payable	$ 68,945,000	$ -	$ -	$ -	$ 68,945,000

6. **BONDS PAYABLE (CONTINUED)**

In prior years, the Authority defeased various issues of bonds by purchasing U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for future debt service until the call dates. As a result, those bonds are considered to be defeased and the liability for these bonds has been removed from the Hoover Uprating Fund. Accordingly, these trust account asset and related liabilities are not included in the Authority's financial statements.

The remaining bonds, totaling $68,945,000, bear interest ranging from 4.9 percent to 5.4 percent, are due from 2003 through 2017, 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 discount using the straight-line method, which approximates the effective interest method. Principal amounts due over the next five years ended June 30 and thereafter are as follow: $1,450,000 in 2003, $2,320,000 in 2004, $2,545,000 in 2005, $2,790,000 in 2006, $3,070,000 in 2007, $20,820,000 in 2008 through 2012, $29,160,000 in 2013 through 2017, and $6,790,000 in 2018.

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's contribution by the Authority will be held in an escrow trust account invested in government securities until October 1, 2003 (the "Crossover Date") when, if certain conditions are met, the crossover refunding is scheduled to take place and $62,630,000 of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005 will be defeased. If these conditions are not met, the assets in the escrow trust account will be used to retire the Special Obligation Crossover Bonds on the Crossover Date. The crossover is subject to the condition that on the Crossover Date balances held in the Debt Service Reserve Account at least equal the Debt Service Reserve Requirement and an appropriate legal opinion regarding the validity of the Authority's 2001 Series Power Resource Revenue Refunding Bonds has been received.

The proceeds in the government securities escrow trust account, together with the income realized from investment of trust assets, serve as collateral for the Special Obligation Crossover Bonds and are paying the debt service on those bonds until the Crossover Date. The Special Obligation Crossover Bonds are payable solely from the amounts in the escrow trust account and are not payable from any other source. Because they are not payable from revenues derived by the Authority or secured by any assets held by the Authority, neither the Special Obligation Crossover Bonds nor the assets held in the escrow trust account are reflected on the Authority's statement of net assets at June 30, 2002. However, in conjunction with the issuance of the Crossover Bonds, the Authority deposited $2,694,576 with the crossover bond trustee; this amount is reflected as "Cash with fiscal agent" in the Authority's Statement of Net Assets at June 30, 2002.

If the crossover occurs on the Crossover Date, the outstanding Special Obligation Crossover Bonds will be exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principal amount, maturity date, and interest rate as the crossover bonds. The proceeds in the escrow trust account will be used to refund that portion of the 1993 Series Bonds maturing on and after October 1, 2005. The 2001 Series Bonds will be reflected as obligations on the Authority's books, and any gain or loss on extinguishment will be reflected in the Authority's records as of the Crossover Date. On and after the Crossover Date, the refunded portion of the 1993 Series Bonds will no longer be outstanding and will 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 refunded portion of the 1993 Series Bonds will "cross over" to pay debt service on the 2001 Series Bonds. The Crossover Bonds and 2001 Series Bonds bear interest at a rate of 5% and 5.25%, payable on April 1 and October 1 of each year, commencing April 1, 2004 and maturing in 2017.

7. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2002, investments are collateralized with securities held by the Authority's trustee. The amortized cost, which approximates fair value due to the short-term nature of the held-to-maturity investments, of the investment securities at June 30 is as follows:

	2002
Repurchase agreement	$ 7,146,663
U.S. government securities	2,568,910
Total held-to-maturity investments	$ 9,715,573

On September 19, 1996, the Authority entered into a repurchase and custody agreement with MBIA Investment Management Corporation ("IMC") wherein the Authority agreed to effect a series of repurchase transactions with IMC, in investments allowable under the bond resolution agreements and state law, with a fixed earnings rate of 6.95 percent. The securities are held in trust by Bank One of Arizona, N.A. If at any time the aggregate market value of all purchased securities is less than the amount required under the repurchase and custody agreement (calculated using a percentage of 104%), the Authority may require IMC to transfer additional securities so the aggregate market value of all securities will equal or exceed such requirement.

8. NET ASSETS

Allocations of net assets for specified purposes are authorized and designated by the Commission, under provision of the Arizona Power Authority Act of 1944, as amended. The designated reserves shown on the accompanying statement of net assets are comprised of the following at June 30, 2002:

	2002
Resource development	$ 3,500,000
Operations fund	200,000
Power contracts	100,000
System improvement and repairs	200,000
Total	$ 4,000,000

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. A report may be obtained by writing or calling the plan at 1020 East Missouri Avenue, Phoenix, Arizona 85014, (602) 255-5575. The Plan was established by the State of Arizona to provide benefits for employees of the state and employees of participating political subdivisions and school districts. The Plan became effective on July 1, 1971. By actuarial computation, employee member and Authority contributions to the Plan were fixed at 2.49 percent (2.00 percent retirement and .49 percent long-term disability) of their compensation for the year ended June 30, 2002, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the year ended June 30, 2002 by the Authority's covered employees were $12,728.

9. **RETIREMENT PLAN (CONTINUED)**

Matching employer member contributions were actuarially determined and fixed at the same rate as employee member contributions for the year ended June 30, 2002. In the event the Plan's actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer 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 June 30, 2002 was $521,521. 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.

10. **ADDITIONAL BENEFITS**

In addition to the pension benefits described above, ASRS offers health care benefits to retired and disabled members that 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. The following chart illustrates the maximum amount of the monthly available benefit for eligible members and their dependents:

		MEMBER		DEPENDENT(S)	
Years of Credited Service	Percent of Premium Benefit	Not Medicare Eligible	Medicare Eligible	Not Medicare Eligible	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

11. **PURCHASED POWER, SALES AND TRANSMISSION COMMITMENTS**

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 percent of Western's revenue requirements each operating year until the contract expires. During the year ended June 30, 2002, the Authority paid $15,344,365 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. During the year ended June 30, 2002, the Authority paid $5,204,148 for related transmission costs to Western.

The Authority has sales contracts with all customers. Under these contracts, customers are obligated to pay for their percentage allocation if any Hoover power is 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 also has contracts with Salt River Project for 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.

SUPPLEMENTAL SCHEDULE - STATEMENT OF OPERATIONS OF THE HOOVER UPRATING

JUNE 30, 2002	REVENUE FUND	OPERATING ACCOUNT	MONTHLY PAYMENT RESERVE ACCOUNT
OPERATING REVENUES	$ 22,256,521	$ -	$ -
Operating expenses:			
Purchased power	-	15,344,365	-
Western credits	-	(4,623,123)	-
Amortization of Hoover Uprating Program costs	-	4,623,123	-
Transmission and distribution	-	5,204,148	-
Administrative and general	-	1,098,598	-
Other	-	18,142	-
Total operating expenses	-	21,665,253	-
Operating income (loss)	22,256,521	(21,665,253)	-
Other income (deductions):			
Interest expense	-	-	-
Deferred interest expenses	-	-	-
Interest income	-	76,296	25,180
Other, net	-	2,323	-
Total other income (deductions)	-	78,619	25,180
Change in net assets	$ 22,256,521	$ (21,586,634)	$ 25,180

FUND - INDIVIDUAL FUNDS AND ACCOUNTS

CONSTRUCTION FUND	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	RESOURCE DEVELOPMENT FUND	GENERAL RESERVES FUND	TOTAL
$ -	$ -	$ -	$ -	$ -	$ 22,256,521
-	-	-	-	-	15,344,365
-	-	-	-	-	(4,623,123)
-	-	-	-	-	4,623,123
-	-	-	-	-	5,204,148
-	-	-	-	-	1,098,598
-	-	-	-	-	18,142
-	-	-	-	-	21,665,253
-	-	-	-	-	591,268
(82,842)	(3,646,324)	-	-	-	(3,729,166)
-	2,977,031	-	-	-	2,977,031
-	34,471	496,131	-	-	632,078
-	-	-	-	-	2,323
(82,842)	(634,822)	496,131	-	-	(117,734)
$ (82,842)	$ (634,822)	$ 496,131	$ -	$ -	$ 473,534

NOTE: The above supplemental schedule includes all funds and accounts, as defined by the APA Power Resource Revenue Bond Resolution.

SUPPLEMENTAL SCHEDULE - STATEMENT OF INCOME AS DEFINED UNDER THE POWER RESOURCE REVENUE

JUNE 30, 2002

	REVENUE FUND	OPERATING ACCOUNT	MONTHLY PAYMENT RESERVE ACCOUNT
CHANGE IN NET ASSETS	$ 22,256,521	$ (21,586,634)	$ 25,180
Adjustments to net income (loss) under the power resource revenue bond resolution:			
Changes in assets and liabilities:			
Accounts receivable	667,262	4,268	-
Interest receivable	-	6,700	23,938
Prepaid purchased power	-	585,614	-
Accounts payable	-	32,931	-
Power contracts payable	-	(591,413)	-
Other adjustments:			
Amortization of premiums and discounts on investments	-	-	-
Cash from trustee funds	-	-	-
Amortization of discount on bonds payable	-	-	-
Change in advances for Hoover Uprating Program	-	-	-
Income (loss) as defined under the power resource revenue bond resolution	$ 22,923,783	$ (21,548,534)	$ 49,118
June 30, 2002 cash and investment balance	$ -	$ 2,532,576	$ -

(LOSS) OF THE HOOVER UPRATING FUND -
BOND RESOLUTION

CONSTRUCTION FUND	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	POWER RESOURCE DEVELOPMENT FUND	GENERAL RESERVES FUND	TOTAL
$ (82,842)	$ (634,822)	$ 496,131	$ -	$ -	$ 473,534
-	-	-	-	-	671,530
-	7,144	-	-	-	37,782
-	-	-	-	-	585,614
-	-	-	-	-	32,931
-	-	-	-	-	(591,413)
-	3,909	3,167	-	-	7,076
-	(1,383,614)	(405,659)	-	-	(1,789,273)
82,842	-	-	-	-	82,842
1,115,428	-	-	-	-	1,115,428
$ 1,115,428	$ (2,007,383)	$ 93,639	$ -	$ -	$ 626,051
$ -	$ 2,316,931	$ 7,398,642	$ -	$ -	$ 12,248,149

NOTE: The above supplemental schedule includes all funds and accounts, as defined by the APA Power Resource Revenue Bond Resolution.

DEBT SERVICE COVERAGE RATIO OF THE HOOVER UPRATING FUND

YEAR ENDED JUNE 30, 2002
(UNAUDITED)

NET INCOME	$ 473,534
Add:	
Interest Expense (1)	3,646,324
Amortization (1)	82,842
Depreciation (1)	18,142
Western Credits	4,623,123
Credits to Customers for Prior Year	419,818
Total Additions	8,790,248
Deduct:	
Deferred Interest Expense	(2,977,031)
Total Deductions	(2,977,031)
Income available for debt service	$ 6,286,751
Debt service (2)	$ 4,733,824
Debt service coverage ratio	1.33

(1) Interest expense, depreciation expense and amortization of Uprating Costs are not expenses under the Bond Resolution.

(2) Debt Service is the total of Principal and Interest Expense accrued between July 1, 2001 and June 30, 2002.

ARIZONA POWER AUTHORITY

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