

*The lights begin to twinkle from the rocks;
The long day wanes; the slow moon climbs; the deep
Moans round with many voices. Come, my friends,
'T is not too late to seek a newer world.*

*...strong in will
To strive, to seek, to find and not to yield.*

- Alfred, Lord Tennyson



ARIZONA POWER AUTHORITY

ANNUAL REPORT

2010



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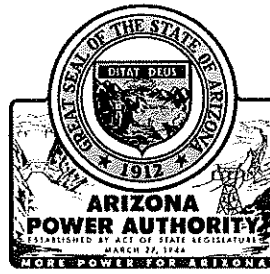
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COMMISSION

RICHARD S. WALDEN
CHAIRMAN

JOHN I. HUDSON
VICE-CHAIRMAN

JOE A. ALBO
STEPHEN M. BROPHY
DALTON H. COLE



ARIZONA POWER AUTHORITY
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STAFF

JOSEPH W. MULHOLLAND
EXECUTIVE DIRECTOR

MICHAEL A. GAZDA
DEPUTY DIRECTOR

SUSAN E. ANGULO
EXECUTIVE SECRETARY

June 7, 2011

On behalf of the Arizona Power Authority's Commissioners and staff, I present our Operating Year 2010 Annual Report. This report details the Authority's operational and financial activities for the operating year ending September 30, 2010. It also highlights the Authority's efforts in administering Arizona's hydroelectric power entitlement generated at Hoover Dam and Powerplant.

The Authority, as do other instrumentalities of Arizona State Government, has a fiscal year-end date of June 30, and prepares its official audit as of that date. In addition, the Authority has prepared the accompanying financial statements to coincide with the Authority's operating year end, reflecting its primary operations with the Western Area Power Administration and the Bureau of Reclamation, which have a Federal fiscal year-end reporting date of September 30.

The Colorado River system continues to be impacted by a severe drought cycle, which has yielded the lowest average water flows in 100 years of record keeping. These drought cycles are to be expected in an arid region such as the southwest. However, recent water snow equivalent precipitation has been above average, and hopefully we can anticipate better water years in the future. In the meantime, the Authority will continue to be actively involved in federal and state efforts to mitigate the drought's impact on Arizona, and continue safeguarding Arizona's entitlement to Hoover power.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard S. Walden', is written over a large, faint circular watermark or seal.

Richard S. Walden
Chairman

report of the
commission.



**RICHARD S. WALDEN
CHAIRMAN**

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.



**LT. GEN JOHN I.
HUDSON USMC (RET.)
VICE-CHAIRMAN**

First appointed to the Arizona Power Authority Commission in March 2000, John I. Hudson was elected Vice-Chairman in January 2010 with his current term expiring in 2012. A retired Lieutenant General in the U.S. Marine Corps where he served for 37 years, John Hudson is 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, and past president of Yuma's 78-CRIME Board of Directors.



JOE ALBO

Joe Albo was appointed to the Commission in 2010 for a term to run until 2016, having served his first term as Commissioner on the Arizona Power Authority Commission from 1983 to 1984. Joe Albo is a Principal Civil Deputy County Attorney in Pinal County. He is a graduate of Northern Arizona University, and has served on the Alumni Association Board of Directors from 1978 through 1986. He received the Northern Arizona University Distinguished Citizen Alumni Award in 1995.



STEPHEN M. BROPHY

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 president of the Arizona Cattle Growers Association, and chairman of Mountain States Legal Foundation. He is past chairman 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.



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.

report of the executive director.

BRIDGING FROM A CHALLENGING PAST TO A MORE SECURE ENERGY FUTURE

With the Hoover Dam bypass now open, affording the Dam greater security and more fluid transit for travellers, the Arizona Power Authority, in this same spirit, continues to work to bridge towards a more secure energy future for Arizona.

With this in mind, the Authority is currently working with counterparts in California and Nevada to gain Congressional approval for Hoover power allocation for the next 50 years, with the option of renewal for an additional 25 years. The agreement reached with California and Nevada will ensure that the amount of power Arizona receives will remain consistent for the decades to come.



Given the considerable economic and environmental pressures in the marketplace, securing this source of renewable, pollution-free energy for our state is a significant achievement that will provide stability for years to come. Upon successful passage of the Congressional legislation confirming this agreement, the Arizona Power Authority will proceed to allocate power to qualified Arizona entities in a fair and transparent manner consistent with legal precedent and policy.

The Authority is also working to ensure the dynamic use of Hoover power to help address load demands in the state on an ongoing basis. This will be achieved through the implementation of a new scheduling entity agreement which utilizes Hoover power to reduce pollution as well as operating expenses, and optimizes the generation process.

The Authority is further securing steady future performance by maintaining its strong AA bond rating. Maintaining our confident standing in the bond market remains a central component of our business strategy, in order to be assured of consistent funding sources to meet upcoming needs. Future projects that could be addressed through bond offerings, including transmission and generation improvements, would significantly benefit our Arizona customers and the state as a whole.

The Authority also continues to support the exploration of energy alternatives for our state, studying the feasibility of various options, in order to determine the most effective steps that can be taken to empower Arizona with greater energy and growth sustainability. In addition, we are exploring innovative opportunities for future arrangements with other power suppliers that could benefit our state and our national energy markets.

The Authority is preparing for transitions within our organization as well. As key staff members approach retirement, we are taking the necessary steps now to identify new talent and train them to assume greater roles of responsibility. In this way, we gain the insight of a new generation of energy professionals, while retaining the knowledge and expertise realized over years of effectively managing the Hoover power resource on behalf of Arizona.

So as the future opens ahead of us, the Authority is taking strategic steps to address emerging market complexities. We are building a bridge between today's energy problems and tomorrow's solutions. This will ensure that the transition is a smooth one for our customers, and that the state's overall position in the energy marketplace is strengthened as a result of our efforts. We face many challenges that require expertise, strong partnerships, persistence and determined effort. If I may borrow the words of Tennyson, "Come my friends, 'tis not too late to seek a newer world. Strong in will, to strive, to seek, to find ..." and accomplish more.

operations and environments.

2010 saw below average stream-flows for the Colorado River Basin, extending the drought cycle through its eleventh year. Snowpack conditions during the 2009-2010 winter season remained below average. This was further exacerbated by an early snowmelt and lack of rainfall. Overall precipitation accumulated through September 30, 2010 was 13% under the 30-year annual average. As a result, as of September 2010, Lake Mead was down seven feet in comparison to water levels for September 2009.

During this same period, significant maintenance projects were completed at the Hoover power plant. A major overhaul on Unit A6 was conducted during 2009-2010 scheduled maintenance. In addition, new stainless steel wicket gates were installed, increasing the stroke on the Unit A5 gate opening. This will maximize water flow through the turbines and has added 11 megawatts of capacity at lake levels below 1145 feet.

Moving forward, new wicket gates will be installed on Unit N3 in 2010-2011, with an anticipated increase in capacity of nine megawatts. Unit N8's wicket gates are scheduled to be replaced as well, yielding an expected two additional megawatts. In 2012, the N8 turbine runner will be replaced with a "Wide Head" turbine, which allows more efficient operations through a wider range of water levels. These changes are expected to achieve an increase of eleven megawatts of capacity at lake levels below 1145 feet.



75th anniversary of Hoover Dam.

On September 30, 2010, the Bureau of Reclamation commemorated Hoover Dam's 75th anniversary with a ceremony held in the precise spot where President Franklin Roosevelt delivered his dedication speech. Anne Castle, the Department of the Interior's Assistant Secretary for Water and Science, and Michael Connor, Commissioner of Reclamation, were the keynote speakers.



management's discussion and analysis.

Introduction

The following is a discussion and analysis of the Arizona Power Authority's ("Authority") financial performance for the operating year ended September 30, 2010. 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 2010 operating year's activities, resulting changes and known facts.

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 16 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 Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows (on pages 17, 18, and 19 respectively) provide information about the activities of the Authority as a whole and present a long-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 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, as amended.

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, 2010 and 2009, the Authority advanced a net prepaid deposit of \$485,005 each year which is included in the Statements of Net Assets. This contract gives Western greater flexibility and allows them to work more effectively with the Authority and other customers.

Contributions - During operating years 2010 and 2009, the Authority contributed \$60,000 to Arizona universities 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 eleven 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 books, 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 decisionmaking 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 June 30, 2003. As of September 30, 2010, a total of \$120,934 has been recovered.

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 - Market conditions during operating year 2010 resulted in a decrease in interest rates, yielding less investment income for the year than was anticipated.

Economic Drought Condition - 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 services may result in increasing/decreasing authorized staffing. Operating year 2010 staffing costs (salary and related benefits) represent 3.80% of the Authority's operating costs. For Operating Year 2009, staffing costs represent 3.80% 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 guidelines.

Financial Highlights

- The Authority's Operating Year 2010 net assets decreased by \$(235,659) due primarily to a write-off of an asset and a decrease in Accounts Receivable due to the reduction in supplemental sales.
- The Authority's Operating Year 2010 operating revenues decreased by \$(1,786,965) due primarily to the reduction in supplemental sales.
- The Authority's Operating Year 2009 net assets increased by \$726,561, due primarily to an increase of rates.
- The Authority's Operating Year 2009 operating revenues increased by \$5,572,764, due to the increase in supplemental power sales and an increase in rates.

Statements of Net Assets

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

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

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.



condensed statements of net assets.

	SEPTEMBER 30			
	2010	2009	DIFF	%
CURRENT ASSETS	\$ 14,331,196	\$ 15,188,239	\$ (857,043)	(5.6)
LONG-TERM ASSETS	34,779,074	39,173,351	(4,394,277)	(11.2)
CAPITAL ASSETS, NET	133,045	163,337	(30,292)	(18.5)
TOTAL ASSETS	\$ 49,243,315	\$ 54,524,927	\$ (5,281,612)	(9.7)
CURRENT LIABILITIES	\$ 7,208,798	\$ 7,943,587	\$ (734,789)	(9.3)
LONG-TERM (BONDS PAYABLE, NET)	37,877,467	42,188,631	(4,311,164)	(10.2)
TOTAL LIABILITIES	45,086,265	50,132,218	(5,045,953)	(10.1)
INVESTED IN CAPITAL ASSETS	133,045	163,337	(30,292)	(18.5)
UNRESTRICTED	4,024,005	4,229,372	(205,367)	(4.9)
TOTAL NET ASSETS	4,157,050	4,392,709	(235,659)	(5.4)
TOTAL LIABILITIES/NET ASSETS	\$ 49,243,315	\$ 54,524,927	\$ (5,281,612)	(9.7)

Operating Year 2010 Condensed Statements of Net Assets Discussion

Current assets decreased due to a write-off of a current asset and a reduction in supplemental power receivables.

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 decreased due to mainly to a reduction in customer refunds owed for the previous Operating Year.

Long-term liabilities decreased due to a pay down of the bond principal. See further explanation on page 11.

Net assets are explained on page 13.

condensed statements of net assets.

	SEPTEMBER 30			
	2009	2008	DIFF	%
CURRENT ASSETS	\$ 15,188,239	\$ 14,317,080	\$ 871,159	6.1
LONG-TERM ASSETS	39,173,351	42,272,236	(3,098,885)	(6.9)
CAPITAL ASSETS, NET	163,337	185,382	(22,045)	(11.9)
TOTAL ASSETS	\$ 54,524,927	\$ 56,774,698	\$ (2,249,771)	(4.0)
CURRENT LIABILITIES	\$ 7,943,587	\$ 7,005,739	\$ 937,848	13.5
LONG-TERM (BONDS PAYABLE, NET)	42,188,631	46,102,811	(3,914,180)	(8.5)
TOTAL LIABILITIES	50,132,218	53,108,550	(2,976,332)	(5.6)
INVESTED IN CAPITAL ASSETS UNRESTRICTED	163,337	185,382	(22,045)	(11.9)
TOTAL NET ASSETS	4,392,709	3,666,148	726,561	19.8
TOTAL LIABILITIES/NET ASSETS	\$ 54,524,927	\$ 56,774,698	\$ (2,249,771)	(4.0)



Operating Year 2009 Condensed Statements of Net Assets Discussion

Current assets increased due to increased rates, an increase in the amount of Upgrading Credits received and invested, and an increase in the accounts receivable for supplemental power.

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 to increases in supplemental power payable, customer refunds and bonds payable.

Long-term liabilities decreased due to a pay down of the bond principal. See further explanation on page 11.

Net assets are explained on page 15.

capital assets.

As of operating year end, the Authority had \$133,045 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$(30,292) or (18.6)% during operating year 2010.

	SEPTEMBER 30	
	2010	2009
TRANSMISSION PLANT	\$ 14,495	\$ 17,547
DISTRIBUTION PLANT	15,547	17,850
GENERAL PLANT – OFFICE	103,003	127,940
INVESTED IN CAPITAL ASSETS, END OF YEAR	\$ 133,045	\$ 163,337

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2010 and 2009, which is presented in detail in Note 4:

	SEPTEMBER 30	
	2010	2009
BEGINNING BALANCE	\$ 163,337	\$ 185,382
ADDITIONS	–	10,130
DEPRECIATION	(30,292)	(32,175)
ENDING BALANCE	\$ 133,045	\$ 163,337

debt outstanding.

As of September 30, 2010, the Authority had \$41,750,000 in debt outstanding, compared to \$45,565,000 in the prior year, as a result of a principal payment of \$3,815,000, which was paid on October 1, 2009. This payment was the scheduled principal payment during the year. Also see Note 6 to the Financial Statements for a detailed summary of debt activity during the year.

As of September 30, 2009, the Authority had \$45,565,000 in debt outstanding, compared to \$49,015,000 in the prior year, as a result of a principal payment of \$3,450,000, which was paid on October 1, 2008. This payment was the scheduled principal payment during the year.

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 2010, the Commission raised rates 7.2% effective May 2010. During operating year 2009, the Commission raised rates 6.9%, effective February 2009.

statements of revenues, expenses, and changes in net assets.

There are normal transactions that will affect the comparability of the Statements of Revenues, Expenses and Changes in the Net Assets 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.

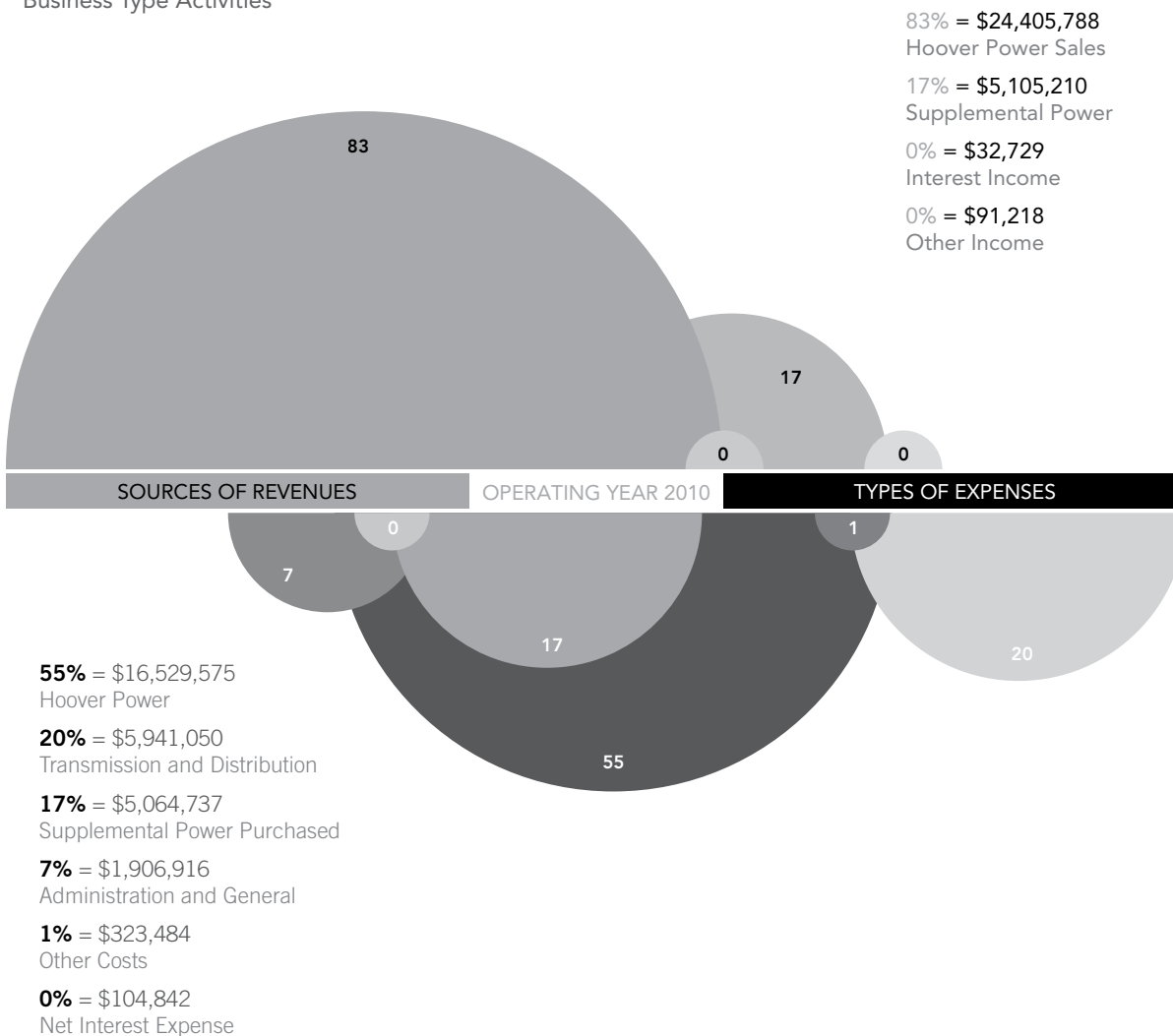
	YEAR ENDED SEPTEMBER 30			
	2010	2009	DIFF	%
OPERATING REVENUES	\$ 29,510,998	\$ 31,297,963	\$ (1,786,965)	(5.7)
OPERATING EXPENSES				
PURCHASED POWER	21,594,312	22,877,210	(1,282,898)	(5.6)
WESTERN CREDITS	(6,649,521)	(5,842,790)	(806,731)	(13.8)
AMORTIZATION OF HOOVER	6,649,521	5,842,790	806,731	13.8
UPRATING PROGRAM COSTS				
TRANSMISSION AND DISTRIBUTION	5,941,050	6,156,461	(215,411)	(3.5)
ADMINISTRATIVE AND GENERAL	1,906,916	1,478,892	428,024	28.9
DEPRECIATION	30,292	32,175	(1,884)	(5.9)
OTHER	293,192	60,000	233,193	388.7
TOTAL OPERATING EXPENSES	29,765,762	30,604,738	(838,977)	(2.7)
OPERATING INCOME (LOSS)	(254,764)	693,225	(947,991)	(136.8)
OTHER (DEDUCTIONS) INCOME				
INTEREST EXPENSE	(2,169,863)	(2,360,613)	190,750	(8.1)
DEFERRED INTEREST EXPENSE	2,065,021	2,222,465	(157,444)	(7.1)
AMORTIZATION	91,164	99,180	(8,016)	(8.1)
INTEREST INCOME	32,729	72,304	(39,575)	(54.7)
OTHER, NET	54	-	54	0.0
NET OTHER (DEDUCTIONS) INCOME	19,105	33,336	(14,231)	(42.7)
CHANGES IN NET ASSETS	(235,659)	726,561	(962,220)	(132.4)
NET ASSETS, BEGINNING OF YEAR	4,392,709	3,666,148	726,561	19.8
NET ASSETS, END OF YEAR	\$ 4,157,050	\$ 4,392,709	\$ (235,659)	(5.4)

operating year 2010 changes in net assets discussion.

Net Assets decreased overall because of the following:

- Operating revenues decreased due mainly to a decrease in supplemental power sales.
- Total operating expenses decreased due mainly to reduced expenses resulting from reduced supplemental power purchases.
- Western Credits change each year, due to changes in debt payments and associated costs related to the Upgrading Program.
- Amortization of the Upgrading Program decreased because of changes in debt payments and associated costs related to the Upgrading Program.
- Administrative and general expenses increased by \$428,024, or 28.9% due to increased expenses resulting from federal legislation related to the allocation of Hoover power, and industry studies requiring the engagement of outside professional services.
- Depreciation decreased due to normal attrition in the carrying value of property, plant, & equipment.
- Other expenses increased due to the reclassification of an asset.

Business Type Activities



statements of revenue, expenses, and changes in net assets.

	YEAR ENDED SEPTEMBER 30			
	2009	2008	DIFF	%
OPERATING REVENUES	\$ 31,297,963	\$ 25,725,199	\$ 5,572,764	21.66
OPERATING EXPENSES				
PURCHASED POWER	22,877,210	18,183,942	4,693,268	25.81
WESTERN CREDITS	(5,842,790)	(5,883,053)	40,263	(0.78)
AMORTIZATION OF HOOVER	5,842,790	5,883,053	(40,263)	(0.78)
UPRATING PROGRAM COSTS				
TRANSMISSION AND DISTRIBUTION	6,156,461	6,115,557	40,904	0.67
ADMINISTRATIVE AND GENERAL	1,478,892	1,486,707	(7,815)	(0.53)
DEPRECIATION	32,175	30,590	1,585	5.12
OTHER	60,000	61,007	(1,007)	(1.67)
TOTAL OPERATING EXPENSES	30,604,738	25,877,803	4,726,935	18.27
OPERATING INCOME (LOSS)	693,225	(152,604)	845,829	554.26
OTHER (DEDUCTIONS) INCOME				
INTEREST EXPENSE	(2,360,613)	(2,533,111)	172,498	(6.81)
DEFERRED INTEREST INCOME	2,222,465	2,122,323	100,142	4.72
AMORTIZATION	99,180	106,416	(7,236)	(6.80)
INTEREST INCOME	72,304	548,952	(476,648)	(86.83)
OTHER, NET	-	2,513	(2,513)	(100.00)
NET OTHER (DEDUCTIONS) INCOME	33,336	247,093	(213,757)	(86.51)
CHANGES IN NET ASSETS	726,561	94,489	632,072	668.94
NET ASSETS, BEGINNING OF YEAR	3,666,148	3,571,659	94,489	2.67
NET ASSETS, END OF YEAR	\$ 4,392,709	\$ 3,666,148	\$ 726,561	19.82

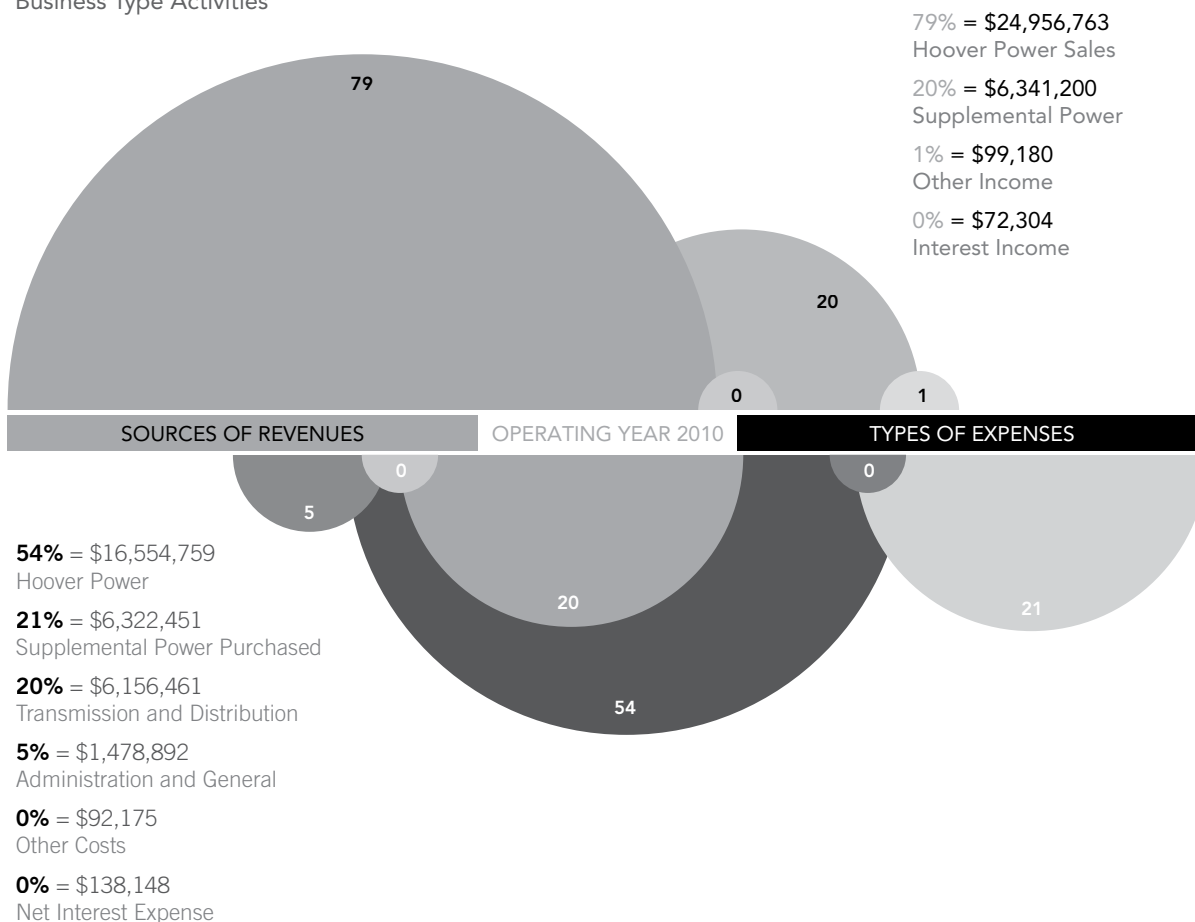


operating year 2009 changes in net assets discussion.

Net Assets increased overall because of the following:

- Operating revenues increased due to an increase in supplemental power sales and rates.
- Total operating expenses increased due to an increase in supplemental power purchases.
- Western credits change each year, due to changes in debt payments and associated costs related to the Upgrading Program.
- Amortization of the Upgrading Program decreased because of changes in debt payments and associated costs related to the Upgrading Program.
- Administrative and general expenses decreased by \$(7,816), or (0.53)% due to normal cost-saving measures.
- Depreciation increased due to the purchase of capital assets.
- Other expenses decreased due to a reduction in special project expenses.

Business Type Activities



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

Independent Auditor's Report

To the Arizona Power Authority Commission
Phoenix, Arizona

We have audited the accompanying statements of net assets of Arizona Power Authority (A Body, Corporate and Politic of the State of Arizona) (Authority) as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Power Authority as of September 30, 2010 and 2009 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Phoenix, Arizona
February 9, 2011

statements of net assets.

YEARS ENDED SEPTEMBER 30

	APA GENERAL FUND		HOOVER UPRATING FUND		TOTAL	TOTAL
	2010	2009	2010	2009	2010	2009
CURRENT ASSETS						
CASH AND CASH EQUIVALENTS	\$ 3,290,837	\$ 3,317,884	\$ 2,580,748	\$ 3,448,212	\$ 5,871,585	\$ 6,766,096
INVESTMENTS – SHORT-TERM	-	-	5,641,758	5,081,028	5,641,758	5,081,028
ACCOUNTS RECEIVABLE, CUSTOMER	149,393	409,738	2,666,392	2,698,184	2,815,785	3,107,922
POWER PURCHASES						
OTHER ASSETS	-	223,193	-	-	-	233,193
PREPAID PURCHASED POWER	-	-	2,068	-	2,068	-
TOTAL CURRENT ASSETS	3,440,230	3,960,815	10,890,966	11,227,424	14,331,196	15,188,239
CAPITAL ASSETS, NET						
INVESTMENTS – LONG-TERM	-	-	6,556,001	6,597,300	6,556,001	6,597,300
ADVANCES FOR HOOVER UPRATING PROGRAM, NET	-	-	27,738,068	32,091,046	27,738,068	32,091,046
PREPAID TRANSMISSION	485,005	485,005	-	-	485,005	485,005
TOTAL ASSETS	\$ 4,058,280	\$ 4,609,157	\$ 45,185,035	\$ 49,915,770	\$ 49,243,315	\$ 54,524,927
CURRENT LIABILITIES						
ACCOUNTS PAYABLE AND OTHER	\$ -	\$ -	\$ 110,584	\$ 128,895	\$ 110,584	\$ 128,895
CUSTOMER REFUNDS	-	-	368,171	1,080,940	368,171	1,080,940
POWER CONTRACTS PAYABLE	141,112	408,002	1,284,000	1,330,443	1,425,112	1,738,445
ACCRUED INTEREST PAYABLE	-	-	1,084,931	1,180,307	1,084,931	1,180,307
BONDS PAYABLE – SHORT-TERM	-	-	4,220,000	3,815,000	4,220,000	3,815,000
TOTAL CURRENT LIABILITIES	141,112	408,002	7,067,686	7,535,585	7,208,798	7,943,587
LONG-TERM LIABILITIES						
BONDS PAYABLE – LONG-TERM	-	-	37,530,000	41,750,000	37,530,000	41,750,000
PREMIUM ON BONDS PAYABLE, NET	-	-	347,467	438,631	347,467	438,631
TOTAL LONG-TERM LIABILITIES	-	-	37,877,467	42,188,631	37,877,467	42,188,631
TOTAL LIABILITIES	141,112	408,002	44,945,153	49,724,216	45,086,265	50,132,218
NET ASSETS						
INVESTED IN CAPITAL ASSETS	133,045	163,337	-	-	133,045	163,337
UNRESTRICTED	3,784,123	4,037,818	239,882	191,554	4,024,005	4,229,372
TOTAL NET ASSETS	3,917,168	4,201,155	239,882	191,554	4,157,050	4,392,709
TOTAL LIABILITIES AND NET ASSETS	\$ 4,058,280	\$ 4,609,157	\$ 45,185,035	\$ 49,915,770	\$ 49,243,315	\$ 54,524,927

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

statements of revenues, expenses, and changes in net assets.

YEARS ENDED SEPTEMBER 30

	APA GENERAL FUND		HOOVER UPATING FUND		TOTAL	TOTAL
	2010	2009	2010	2009	2010	2009
OPERATING REVENUES	\$ 5,105,210	\$ 6,341,200	\$ 24,405,788	\$ 24,956,763	\$ 29,510,998	\$ 31,297,963
OPERATING EXPENSES						
PURCHASED POWER	5,064,737	6,322,451	16,529,575	16,554,759	21,594,312	22,877,210
WESTERN CREDITS	-	-	(6,649,521)	(5,842,790)	(6,649,521)	(5,842,790)
AMORTIZATION OF HOOVER UPATING PROGRAM COSTS	-	-	6,649,521	5,842,790	6,649,521	5,842,790
TRANSMISSION AND DISTRIBUTION	29,145	9,547	5,911,905	6,146,914	5,941,050	6,156,461
ADMINISTRATIVE AND GENERAL	-	-	1,906,916	1,478,892	1,906,916	1,478,892
DEPRECIATION	30,292	32,175	-	-	30,292	32,175
OTHER	268,256	33,335	24,936	26,665	293,192	60,000
TOTAL OPERATING EXPENSES	5,392,430	6,397,508	24,373,332	24,207,230	29,765,762	30,604,738
OPERATING INCOME (LOSS)	(287,220)	(56,308)	32,456	749,533	(254,764)	693,225
OTHER INCOME (DEDUCTIONS)						
INTEREST EXPENSE	-	-	(2,169,863)	(2,360,613)	(2,169,863)	(2,360,613)
DEFERRED INTEREST EXPENSE	-	-	2,065,021	2,222,465	2,065,021	2,222,465
AMORTIZATION	-	-	91,164	99,180	91,164	99,180
INTEREST INCOME	3,179	9,455	29,550	62,849	32,729	72,304
OTHER	54	-	-	-	54	-
NET OTHER INCOME	3,233	9,455	15,872	23,881	19,105	33,336
CHANGES IN NET ASSETS	(283,987)	(46,853)	48,328	773,414	(235,659)	726,561
NET ASSETS (DEFICIT), BEGINNING OF YEAR	4,201,155	4,248,008	191,554	(581,860)	4,392,709	3,666,148
NET ASSETS, END OF YEAR	\$ 3,917,168	\$ 4,201,155	\$ 239,882	\$ 191,554	\$ 4,157,050	\$ 4,392,709

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

statements of cash flows.

YEARS ENDED SEPTEMBER 30

	APA GENERAL FUND		HOOVER UPRATING FUND		TOTAL	TOTAL
	2010	2009	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES						
CASH RECEIVED FROM CUSTOMERS	\$ 5,598,747	\$ 5,932,966	\$ 24,437,580	\$ 24,966,457	\$ 30,036,327	\$ 30,899,423
CASH PAYMENTS TO SUPPLIERS FOR GOODS OF SERVICES	(5,629,027)	(6,210,739)	(24,428,840)	(23,238,936)	(30,057,867)	(29,449,675)
CASH PAYMENTS TO EMPLOYEES FOR SERVICES	-	-	(724,083)	(717,199)	(724,083)	(717,199)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(30,280)	(277,773)	(715,343)	1,010,322	(745,623)	732,549
CASH FLOWS FROM INVESTING ACTIVITIES						
INTEREST ON INVESTMENTS	3,179	19,575	29,550	233,129	32,729	252,704
PURCHASE OF INVESTMENTS	-	-	(519,432)	(397,723)	(519,432)	(397,723)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,179	19,575	(489,882)	(164,594)	(486,703)	(145,019)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
INTEREST PAYMENTS ON BONDS PAYABLE	-	-	(2,265,239)	(2,446,862)	(2,265,239)	(2,446,862)
PAYMENTS ON BONDS PAYABLE	-	-	(3,815,000)	(3,450,000)	(3,815,000)	(3,450,000)
ACQUISITION OF CAPITAL ASSETS	-	(10,130)	-	-	-	(10,130)
PROCEEDS ON SALE OF ASSETS	54	-	-	-	54	-
OTHER COSTS RELATING TO HOOVER UPRATING PROGRAM	-	-	(231,521)	(217,290)	(231,521)	(217,290)
WESTERN CREDITS RECEIVED FOR HOOVER UPRATING PROGRAM	-	-	6,649,521	5,842,790	6,649,521	5,842,790
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	54	(10,130)	337,761	(271,362)	337,815	(281,492)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,047)	(268,328)	(867,464)	574,366	(894,511)	306,038
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,317,884	3,586,212	3,448,212	2,873,846	6,766,096	6,460,058
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,290,837	\$ 3,317,884	\$ 2,580,748	\$ 3,448,212	\$ 5,871,585	\$ 6,766,096
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
OPERATING INCOME (LOSS)	\$ (287,220)	\$ (56,308)	\$ 32,456	\$ 749,533	\$ (254,764)	\$ 693,225
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
DEPRECIATION	30,292	32,175	-	-	30,292	32,175
INCREASE (DECREASE) IN CASH RESULTING FROM CHANGES IN:						
ACCOUNTS RECEIVABLE	260,345	(408,234)	31,792	9,693	292,137	(398,541)
OTHER ASSETS	233,193	-	-	-	233,193	-
PREPAID PURCHASED POWER	-	-	(2,068)	-	(2,068)	-
PREPAID TRANSMISSION	-	(253,408)	-	-	-	(253,408)
ACCOUNTS PAYABLE AND OTHER	-	-	(18,311)	22,187	(18,311)	22,187
CUSTOMER REFUNDS	-	-	(712,769)	224,323	(712,769)	224,323
POWER CONTRACTS PAYABLE	(266,890)	408,002	(46,443)	4,586	(313,333)	412,588
TOTAL ADJUSTMENTS	256,940	(253,640)	(747,799)	260,789	(490,859)	7,149
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (30,280)	\$ (277,773)	\$ (715,343)	\$ 1,010,322	\$ (745,623)	\$ 732,549
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATING FINANCING ACTIVITIES						
DEFERRED INTEREST EXPENSE	\$ -	\$ -	\$ 2,065,021	\$ 2,222,465	\$ 2,065,021	\$ 2,222,465

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.

The Authority's fiscal year-end is June 30th. However, the Authority has prepared the accompanying financial statements as of and for the year ended September 30th, to coincide with the Authority's operating year-end.

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 Assets. The Statements 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 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 has elected, in accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

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.

Cash and Cash Equivalents

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

Capital Assets and Depreciation

Capital assets are initially recorded at 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 income or expense within the Statements of Revenues, Expenses and Changes in Net Assets. 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 Upgrading Program

Proceeds from bonds payable were advanced by the Authority for upgrading 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 U.S. 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 Upgrading Program as amounts to be recovered from future credits. These amounts are included in the Amortization of Hoover Upgrading Program Costs in the Statements of Revenues, Expenses and Changes in Net Assets.

Operating Revenues

Operating revenues are derived from the sale of power to customers or from other contractual agreements. Operating revenues include \$5,400,000 received from Salt River Project for scheduling entity services during the operating years ended September 30, 2010 and 2009. The revenues are the result of an agreement between the Authority and the Salt River Project which will yield \$5,400,000 annual revenues to the Authority thereby reducing the overall revenue requirements to be paid by the Authority's customers through power rates. The agreement will expire on September 30, 2011.

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 nonprofit 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 \$1,078,079 and \$853,438 were paid to the customers during the operating years ended September 30, 2010 and 2009, respectively.

The accrued amount to be refunded to the customers was \$368,171 and \$1,080,940 at September 30, 2010 and 2009, 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 Upgrading Fund is used to purchase electric power solely from Western. The Authority's APA General Fund is used to purchase supplemental electric power from various providers.

note 2 - fund accounting.

The Authority utilizes two proprietary-type funds to conduct its business activities.

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 non-federal 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 expenses 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"). By investing in the LGIP, participants are able to benefit from the substantial aggregate buying power of the state portfolio as well as a pool of monies from other participants. Therefore, the Authority has no individual investments in excess of 5% of the total investments as of September 30, 2010 and 2009. The Authority does not have a credit risk policy for pooled investments.

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, 2010 and 2009.

note 4 - capital assets.

Capital assets of the Authority at September 30, 2010 and 2009 were as follows:

	BALANCES SEPTEMBER 30		BALANCES SEPTEMBER 30	
	2009	ADDITIONS	DELETIONS	2010
TRANSMISSION PLANT	\$ 319,565	\$ -	\$ -	\$ 319,565
DISTRIBUTION PLANT	227,518	-	-	227,518
GENERAL PLANT – OFFICE	781,264	-	6,123	775,141
TOTAL DEPRECIABLE ASSETS	1,328,347	-	6,123	1,322,224
LESS ACCUMULATED DEPRECIATION FOR:				
TRANSMISSION PLANT	302,018	3,052	-	305,070
DISTRIBUTION PLANT	209,668	2,303	-	211,971
GENERAL PLANT – OFFICE	653,324	24,937	6,123	672,138
TOTAL ACCUMULATED DEPRECIATION	1,165,010	30,292	6,123	1,189,179
CAPITAL ASSETS, NET	\$ 163,337	\$ (30,292)	\$ -	\$ 133,045

	BALANCES SEPTEMBER 30		BALANCES SEPTEMBER 30	
	2008	ADDITIONS	DELETIONS	2009
TRANSMISSION PLANT	\$ 319,565	\$ -	\$ -	\$ 319,565
DISTRIBUTION PLANT	227,518	-	-	227,518
GENERAL PLANT – OFFICE	791,608	10,130	20,474	781,264
TOTAL DEPRECIABLE ASSETS	1,338,691	10,130	20,474	1,328,347
LESS ACCUMULATED DEPRECIATION FOR:				
TRANSMISSION PLANT	298,967	3,051	-	302,018
DISTRIBUTION PLANT	207,365	2,303	-	209,668
GENERAL PLANT – OFFICE	646,977	26,822	20,474	653,324
TOTAL ACCUMULATED DEPRECIATION	1,153,309	32,175	20,474	1,165,010
CAPITAL ASSETS, NET	\$ 185,382	\$ (22,045)	\$ -	\$ 163,337

The Authority's depreciation expense was \$30,292 and \$32,175 for the years ended September 30, 2010 and 2009, respectively.

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

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 \$6,649,521 and \$5,842,790 for the years ended September 30, 2010 and 2009, 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:

	SEPTEMBER 30 2009	INCREASES	REDUCTIONS	TRANSFERS	SEPTEMBER 30 2010
BONDS PAYABLE	\$ 3,815,000	\$ -	\$ (3,815,000)	\$ 4,220,000	\$ 4,220,000
SHORT-TERM					
BONDS PAYABLE	41,750,000	-	-	(4,220,000)	37,530,000
LONG-TERM					
TOTAL BONDS PAYABLE	\$ 45,565,000	\$ -	\$ (3,815,000)	\$ -	\$ 41,750,000

	SEPTEMBER 30 2008	INCREASES	REDUCTIONS	TRANSFERS	SEPTEMBER 30 2009
BONDS PAYABLE	\$ 3,450,000	\$ -	\$ (3,450,000)	\$ 3,815,000	\$ 3,815,000
SHORT-TERM					
BONDS PAYABLE	45,565,000	-	-	(3,815,000)	41,750,000
LONG-TERM					
TOTAL BONDS PAYABLE	\$ 49,015,000	\$ -	\$ (3,450,000)	\$ -	\$ 45,565,000

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 corresponding liability has been removed from the Hoover Upgrading Fund. Accordingly, the trust account assets and related liabilities are not included in the Authority's financial statements.

	PRINCIPAL	INTEREST
2011	\$ 4,220,000	\$ 2,064,363
2012	4,585,000	1,844,238
2013	4,810,000	1,603,351
2014	5,065,000	1,344,132
2015	5,330,000	1,071,263
2016-2018	17,740,000	1,428,788
TOTAL	\$ 41,750,000	\$ 9,356,135

The Authority's outstanding bonds, totaling \$41,750,000, 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 amounts due over the next five operating years ending September 30 and thereafter are as above.

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 September 30, 2010 and 2009 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 \$195,496 and \$212,676 for the years ended September 30, 2010 and 2009, respectively, resulting in a net deferred amount of \$745,209 and \$940,705 in the Statements of Net Assets, 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 \$286,660 and \$311,856 for the years ended September 30, 2010 and 2009, respectively, resulting in a net premium of bonds payable of \$1,092,676 and \$1,379,336 in the Statements of Net Assets.

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, 2010 and 2009, the Authority paid \$150,922 and \$146,489, 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, 2010 and 2009, investments were collateralized with securities held by the Authority's trustee. The fair value of the investment securities at September 30 is as follows:

	2010	2009
U.S. TREASURY OBLIGATIONS	\$ 6,556,001	\$ 6,597,300
U.S. GOVERNMENT SECURITIES	5,641,758	5,081,028
TOTAL INVESTMENTS HELD BY TRUSTEE	\$ 12,197,759	\$ 11,678,328

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 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 MBIA and received the par value and accrued interest of such investment, totaling \$6,584,738. These funds were 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, 2010, 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 AAA by S&P and AAA by Moody's. There is minimal interest rate risk.

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 9.85% (9.60% retirement and 0.25% long-term disability) and 9.40% (9.00% retirement and .40% longterm disability) of their compensation for the years ended September 30, 2010 and 2009, respectively, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the years ended September 30, 2010 and 2009, by the Authority's covered employees were \$69,236 and \$67,928, respectively.

Matching employer member contributions were actuarially determined and fixed at the same rate as employee member contributions for the years ended September 30, 2010 and 2009. 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 September 30, 2010 and 2009 were \$724,082 and \$717,199, 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.

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 SERVICES	PERCENT OF PREMIUM BENEFIT	MEMBER		MEMBER & DEPENDENT	
		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

note 11 - purchased power, sales & 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% of Western's revenue requirements each operating year until the contract expires. During the years ended September 30, 2010 and 2009, the Authority paid \$16,529,575 and \$16,554,759, 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, 2010 and 2009, the Authority paid \$5,911,905 and \$6,146,914, 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, 2010 and 2009, the Authority recognized a prepayment of \$485,005 and \$485,005, respectively, that applies to the last payment upon termination of the contract.

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 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, 2010 and 2009, the Authority paid \$5,064,737 and \$6,322,451, respectively, for purchased power under this contract for its customers.

note 12 – subsequent event.

Management evaluated subsequent events through February 9, 2011, the date the financial statements were available to be issued.

debt service coverage ratio. OY10

NET INCOME	48,328
ADD:	
INTEREST EXPENSE	2,169,863
AMORTIZATION	195,496
DEPRECIATION	24,936
WESTERN CREDITS	6,649,521
CREDITS TO CUSTOMERS FOR PRIOR YEARS	368,171
TOTAL ADDITIONS	9,456,315
DEDUCT:	
DEFERRED INTEREST EXPENSES	(2,065,021)
PREMIUM AMORTIZATION	(286,660)
TOTAL DEDUCTIONS	\$ (2,351,681)
INCOME AVAILABLE FOR DEBT SERVICE	\$ 7,104,634
DEBT SERVICE	\$ 6,389,863
DEBT SERVICE COVERAGE RATIO	1.11

NOTE: Interest expense, depreciation expense and amortization of Uprating Costs are not expenses under the Bond Resolution.

Debt Service is the total of Principal and Interest Expense accrued between October 1, 2009 and September 30, 2010

So many worlds, so much to do,
so little done, such things to be.

– Alfred, Lord Tennyson

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Photos Courtesy of the Bureau of Reclamation

