

**ARIZONA POWER AUTHORITY**  
**(A Body, Corporate and Politic, of the**  
**State of Arizona)**  
**Phoenix, Arizona**

**FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

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## 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, 2009 and 2008, 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, 2009 and 2008 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 12 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  
January 14, 2010

**ARIZONA POWER AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2009 and 2008**

**Introduction**

The following is a discussion and analysis of the Arizona Power Authority's ("Authority") financial performance for the operating years ended September 30, 2009 and 2008. 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 2009 and 2008 operating years' activities, resulting changes and known facts, and should be read in conjunction with the Authority's basic financial statements as of and for the operating years ended September 30, 2009 and 2008.

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 15 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 ANNUAL REPORT**

This annual 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 13, 15 and 17 respectively) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. The Authority is a body, corporate and politic, of the State of Arizona and is a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements presented are the required basic financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

**AUTHORITY HIGHLIGHTS**

**Transmission Agreement** - On January 24, 2003, the Authority and the Western Area Power Administration ("Western") entered into an agreement for the Advancement of Funds for Transmission Services. The Authority had an existing agreement with Western that provided for the delivery of power and energy. The agreement provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. For the years ended September 30, 2009 and 2008, the Authority advanced a net prepaid deposit of \$485,005 and \$231,597, respectively, 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.

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**Contributions** - During operating years 2009 and 2008, the Authority contributed \$60,000 via the Arizona Power Authority Scholarship Program. In operating year 2009, the following schools each received \$30,000: Arizona State University and The University of Arizona.

**Effects of Drought on Hoover Energy** - The Colorado River Basin has been experiencing severe drought conditions for the past ten 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 decision-making authority. In November 2002, the Authority was advised that one of the Treasurer's chosen investments managed by National Century Financial Enterprises was under investigation for fraud. In December 2002, the Authority was informed that the Treasurer was vitiating the investment in question, thereby reducing the value to zero. Since that time, litigation was initiated and continues. There is no guarantee that the litigation will result in the recovery of the Authority's funds, which total \$227,224. Therefore, the Authority wrote off the lost investment amount as of June 30, 2003. As of September 30, 2009, a total of \$120,934 has been recovered of which \$2,365 was received in operating year 2008 and is presented as other income in the Statement of Revenue, Expenses and Changes in Net Assets.

## **REVENUES**

**Increase/Decrease in Commission Approved Power Rates** - State statute requires the rates be set at levels to recover the cost of supplying service. 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 2009 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 2009 staffing costs (salary and related benefits) represent 3.80% of the Authority's operating costs. For operating year 2008, staffing costs represent 3.59% 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.

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**FINANCIAL HIGHLIGHTS**

- 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 primarily to the increase in supplemental power sales and an increase in rates.
- The Authority's operating year 2008 net assets increased by \$94,489, due primarily to a decrease in Purchased Power expenses resulting from a decrease in supplemental power purchased by the customers through the Authority.
- The Authority's operating year 2008 operating revenues decreased by \$( 2,856,646) , due to a decrease in supplemental power purchased by the customers through the Authority.

**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 debt.

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September 30, 2009 and 2008

**Condensed Statements of Net Assets**  
**Business Type Activities**

	<u>2009</u>	<u>2008</u>	<u>Difference In Amount</u>	<u>Difference In %</u>
Current assets	\$ 15,188,239	\$ 14,317,080	\$ 871,159	(11.9)
Long-term assets	39,173,351	42,272,236	(3,098,885)	(6.9)
Capital assets, net	<u>163,337</u>	<u>185,382</u>	<u>(22,045)</u>	<u>(11.9)</u>
<b>Total assets</b>	<u>\$ 54,524,927</u>	<u>\$ 56,774,698</u>	<u>\$ (2,249,771)</u>	<u>(4.0)</u>
Current liabilities	\$ 7,943,587	\$ 7,005,739	\$ 937,846	13.5
Long-term bonds payable, net	<u>42,188,631</u>	<u>46,102,811</u>	<u>(3,914,180)</u>	<u>(8.5)</u>
Total liabilities	<u>50,132,218</u>	<u>53,108,550</u>	<u>(2,976,332)</u>	<u>(5.6)</u>
Invested in capital assets	163,337	185,382	(22,045)	(11.9)
Unrestricted	<u>4,229,372</u>	<u>3,480,766</u>	<u>748,608</u>	<u>21.5</u>
Total net assets	<u>4,392,709</u>	<u>3,666,148</u>	<u>726,561</u>	<u>19.8</u>
<b>Total liabilities and net assets</b>	<u>\$ 54,524,927</u>	<u>\$ 56,774,698</u>	<u>\$ (2,249,772)</u>	<u>(4.0)</u>

**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 current bonds payable.

**Long-Term Liabilities** decreased due to a pay down of the bond principal. See further explanation on page 7.

**Net Assets** are explained on page 9.

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**Condensed Statements of Net Assets**  
**Business Type Activities**

	<u>2008</u>	<u>2007</u>	<u>Difference In Amount</u>	<u>Difference In %</u>
Current assets	\$ 14,317,080	\$ 14,762,421	\$ (445,340)	(3.0)
Long-term assets	42,272,236	45,714,526	(3,442,290)	(7.5)
Capital assets, net	<u>185,382</u>	<u>193,308</u>	<u>(7,926)</u>	<u>(4.1)</u>
<b>Total assets</b>	<b><u>\$ 56,774,698</u></b>	<b><u>\$ 60,670,255</u></b>	<b><u>\$ (3,895,556)</u></b>	<b><u>(6.4)</u></b>
Current liabilities	\$ 7,005,739	\$ 7,439,369	\$ (433,630)	(5.8)
Long-term bonds payable, net	<u>46,102,811</u>	<u>49,659,227</u>	<u>(3,556,416)</u>	<u>(7.2)</u>
Total liabilities	<u>53,108,550</u>	<u>57,098,596</u>	<u>(3,990,046)</u>	<u>(7.0)</u>
Invested in capital assets	185,382	193,308	(7,926)	(4.1)
Unrestricted	<u>3,480,766</u>	<u>3,378,351</u>	<u>102,415</u>	<u>3.0</u>
Total net assets	<u>3,666,148</u>	<u>3,571,659</u>	<u>94,489</u>	<u>2.6</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 56,774,698</u></b>	<b><u>\$ 60,670,255</u></b>	<b><u>\$ (3,895,556)</u></b>	<b><u>(6.4)</u></b>

**Operating Year 2008 Condensed Statements of Net Assets Discussion**

**Current Assets** decreased due to a decrease in accounts receivable resulting from a reduction in the customers' purchase of supplemental power.

**Long-Term Assets** decreased because of a 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 primarily due to a decrease in Power Contracts Payable resulting from a reduction in the customers' purchase of supplemental power.

**Long-Term Liabilities** decreased due to a pay down of the bond principal. See further explanation on page 7.

**Net Assets** are explained on page 10.

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**CAPITAL ASSETS**

As of the operating year end, the Authority had \$163,337 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$(22,045) or (11.89)% during operating year 2009.

	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Transmission plant	\$ 17,547	\$ 20,598
Distribution plate	17,850	20,153
General plant – office	127,940	144,631
Capital assets, net, end of year	<b>\$ 163,337</b>	<b>\$ 185,382</b>

The following reconciliation summarizes the change in Capital Assets for the operating years ended September 30, 2009 and 2008, which is presented in detail in Note 4:

	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Beginning balance	\$ 185,382	\$ 193,308
Additions	10,130	22,664
Depreciation	(32,175)	(30,590)
Ending balance	<b>\$ 163,337</b>	<b>\$ 185,382</b>

**DEBT OUTSTANDING**

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. Also see Note 6 to the Financial Statements for a detailed summary of debt activity 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 2009, the Commission raised rates 6.9%, effective February 2009. No rate changes were effected during operating year 2008.

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**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.

**Statements of Revenue, Expenses, and Changes in Net Assets**  
**Business Type Activities**

	<u>2009</u>	<u>2008</u>	<u>Difference In Amount</u>	<u>Difference In %</u>
Operating revenues	\$ 31,297,963	\$ 25,725,199	\$ 5,572,764	21.6
Operating expenses:				
Purchase power	22,877,210	18,183,942	4,693,268	25.8
Western credits	(5,842,790)	(5,883,053)	40,263	(.6)
Amortization of Hover Uprating Program costs	5,842,790	5,883,053	(40,263)	(.6)
Transmission and distribution	6,156,461	6,115,557	40,904	.6
Administrative and general	1,478,892	1,486,707	(7,816)	(.5)
Depreciation	32,175	30,590	1,585	5.1
Other	<u>60,000</u>	<u>61,007</u>	<u>(1,007)</u>	<u>(1.6)</u>
Total operating expenses	<u>30,604,738</u>	<u>25,877,803</u>	<u>4,726,935</u>	<u>18.2</u>
Operating income (loss)	<u>693,225</u>	<u>(152,604)</u>	<u>845,829</u>	<u>(554.2)</u>
Other income (deductions):				
Interest expense	(2,360,613)	(2,533,111)	172,498	(6.8)
Deferred interest expense	2,222,465	2,122,323	100,142	4.7
Amortization	99,180	106,416	(7,236)	(6.8)
Interest income	72,304	548,952	(476,648)	(86.8)
Other, net	<u>-</u>	<u>2,513</u>	<u>(2,513)</u>	<u>(100.0)</u>
Net other income (deductions)	<u>33,336</u>	<u>247,093</u>	<u>(213,757)</u>	<u>(86.5)</u>
Change in net assets	726,561	94,489	632,072	668.9
Net assets, beginning of year	<u>3,666,148</u>	<u>3,571,659</u>	<u>94,489</u>	<u>2.6</u>
Net assets, end of year	<u>\$ 4,392,709</u>	<u>\$ 3,666,148</u>	<u>\$ 726,561</u>	<u>19.8</u>

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**Operating Year 2009 Changes in Net Assets Discussion**

Net Assets increased overall 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.

**Statements of Revenue, Expenses, and Changes in Net Assets**  
**Business Type Activities**

	<u>2008</u>	<u>2007</u>	<u>Difference In Amount</u>	<u>Difference In %</u>
Operating revenues	\$ <u>25,725,199</u>	\$ <u>28,581,845</u>	\$ (2,856,646)	_(10.0)
Operating expenses:				
Purchase power	18,183,942	22,998,892	(4,814,950)	(20.9)
Western credits	(5,883,053)	(5,607,510)	(275,544)	4.9
Amortization of Hover Upgrading Program costs	5,883,053	5,607,510	275,544	4.9
Transmission and distribution	6,115,557	5,307,133	808,424	15.2
Administrative and general	1,486,707	1,491,029	(4,322)	(.3)
Depreciation	30,590	36,574	(5,984)	(16.4)
Other	<u>61,007</u>	<u>87,484</u>	<u>(26,477)</u>	<u>(30.3)</u>
Total operating expenses	<u>28,877,803</u>	<u>29,921,112</u>	<u>(4,043,308)</u>	<u>(13.5)</u>
Operating income (loss)	<u>(152,604)</u>	<u>(1,339,267)</u>	<u>1,186,662</u>	<u>(88.6)</u>
Other income (deductions):				
Interest expense	(2,533,111)	(2,689,113)	156,002	(5.8)
Deferred interest expense	2,122,323	2,273,297	(150,974)	(6.6)
Amortization	106,416	112,968	(6,552)	(5.8)
Interest income	548,952	822,464	(273,512)	(33.3)
Other, net	<u>2,513</u>	<u>41,598</u>	<u>(39,085)</u>	<u>(94.0)</u>
Net other income (deductions)	<u>247,093</u>	<u>561,215</u>	<u>(314,121)</u>	<u>(55.9)</u>
Change in net assets	94,489	(778,052)	872,541	(112.1)
Net assets, beginning of year	<u>3,571,659</u>	<u>4,349,710</u>	<u>(778,052)</u>	<u>(17.9)</u>
Net assets, end of year	<u>\$ 3,666,148</u>	<u>\$ 3,571,659</u>	<u>\$ 94,489</u>	<u>2.6</u>

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**Operating Year 2008 Changes in Net Assets Discussion**

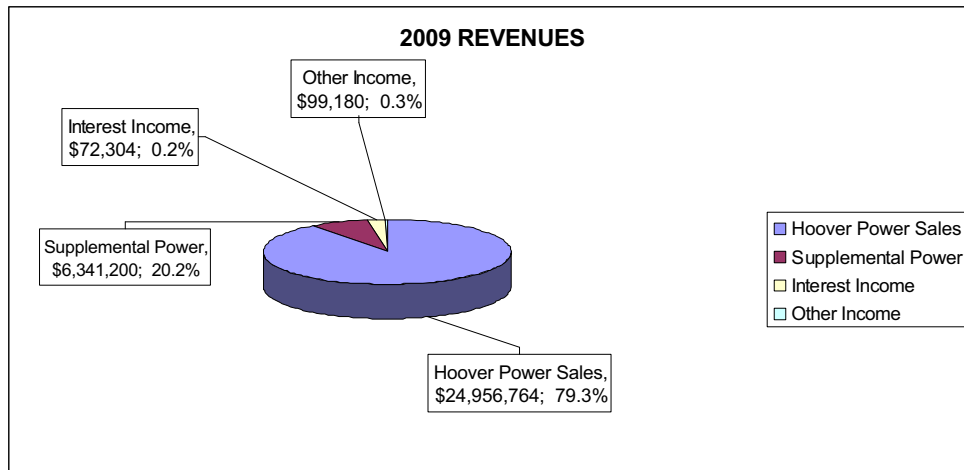
Net Assets decreased overall because of the following:

- Operating revenues decreased due to decreased supplemental power sales.
- Total operating expenses decreased due to a reduction in supplemental power purchases.
- Western credits increased because of changes in debt payments and associated costs related to the Uprating Program.
- Amortization of the Uprating Program increased because of the increase in the amortization of long-term bond costs.
- Administrative and general expenses decreased by \$(4,322), or (0.3)% due to normal cost-saving measures.
- Depreciation decreased due to the normal attrition of capital assets.
- Other expenses decreased due to a reduction in special project expenses.

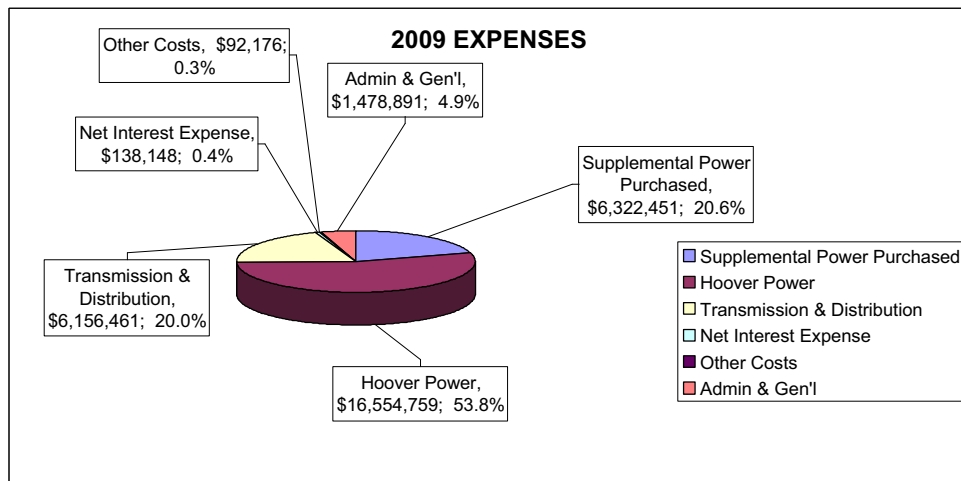
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**Business Type Activities**

The following chart depicts the sources of revenues for the operating year 2009:



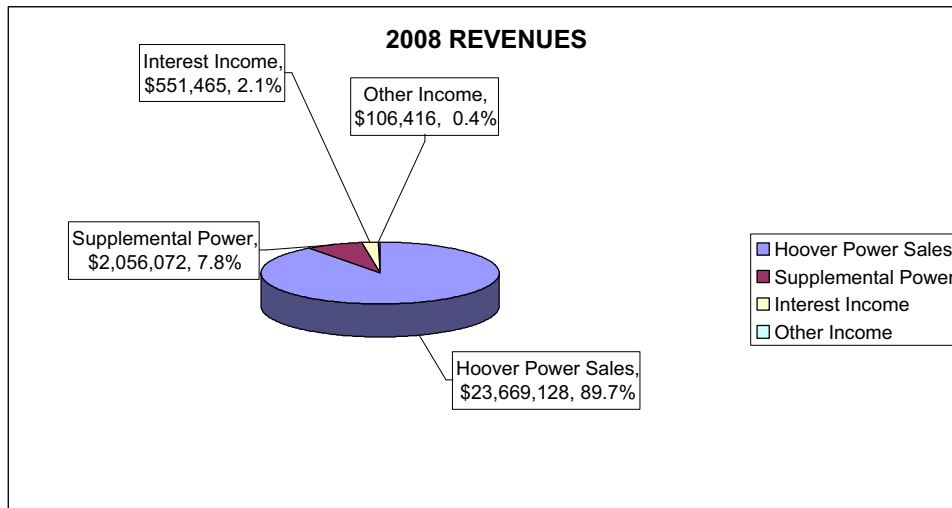
The following chart depicts the expenses for the operating year 2009:



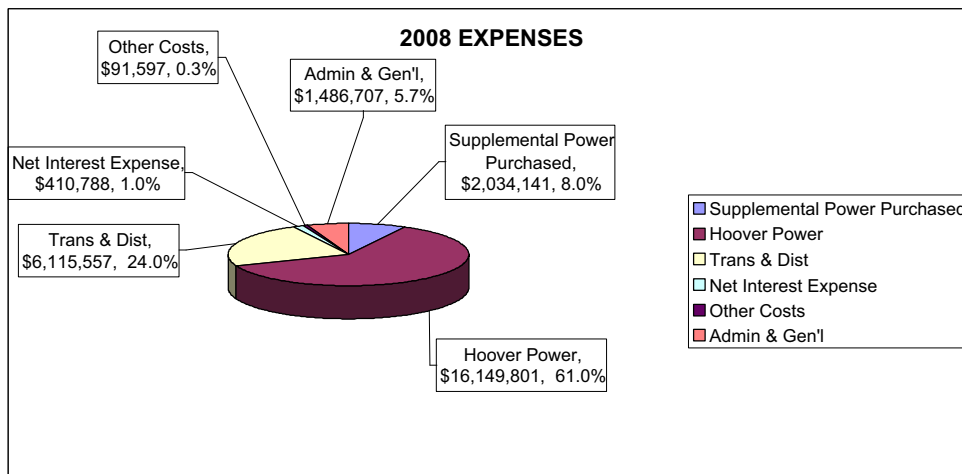
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**Business Type Activities**

The following chart depicts the sources of revenues for the operating year 2008:



The following chart depicts the expenses for the operating year 2008:



**Request for information**

The financial report is designed 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 Executive Director of the Authority.

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**STATEMENTS OF NET ASSETS**  
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	<b>ASSETS</b>			
	<b>APA General Fund</b>		<b>Hoover Uprating Fund</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$3,317,884	\$3,586,212	\$ 3,448,212	\$ 2,873,846
Investments - short-term	-	-	5,081,028	4,734,047
Accounts receivable, customer power purchases	409,738	1,504	2,698,184	2,707,878
Interest receivable	-	10,120	-	170,280
Other assets	<u>233,193</u>	<u>233,193</u>	<u>-</u>	<u>-</u>
Total current assets	<u>3,960,815</u>	<u>3,831,029</u>	<u>11,227,424</u>	<u>10,486,051</u>
Capital assets, net	163,337	185,382	-	-
Investments - long-term	-	-	6,597,300	6,546,558
Advances for Hoover Uprating Program, net	-	-	32,091,046	35,494,081
Prepaid transmission	<u>485,005</u>	<u>231,597</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$4,609,157</u></b>	<b><u>\$4,248,008</u></b>	<b><u>\$49,915,770</u></b>	<b><u>\$52,526,690</u></b>
<b>CURRENT LIABILITIES</b>				
Accounts payable and other	\$ -	\$ -	\$ 128,895	\$ 106,709
Customer refunds	-	-	1,080,940	856,617
Power contracts payable	408,002	-	1,330,443	1,325,857
Accrued interest payable	-	-	1,180,307	1,266,556
Bonds payable - short-term	<u>-</u>	<u>-</u>	<u>3,815,000</u>	<u>3,450,000</u>
Total current liabilities	<u>408,002</u>	<u>-</u>	<u>7,535,585</u>	<u>7,005,739</u>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable - long-term	-	-	41,750,000	45,565,000
Premium on bonds payable, net	<u>-</u>	<u>-</u>	<u>438,631</u>	<u>537,811</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>42,188,631</u>	<u>46,102,811</u>
Total liabilities	<u>408,002</u>	<u>-</u>	<u>49,724,216</u>	<u>53,108,550</u>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets	163,337	185,382	-	-
Unrestricted	<u>4,037,818</u>	<u>4,062,626</u>	<u>191,554</u>	<u>(581,860)</u>
Total net assets (deficit)	<u>4,201,155</u>	<u>4,248,008</u>	<u>191,554</u>	<u>(581,860)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b><u>\$4,609,157</u></b>	<b><u>\$4,248,008</u></b>	<b><u>\$49,915,770</u></b>	<b><u>\$52,526,690</u></b>

<b>Total</b>	
<u>2009</u>	<u>2008</u>
\$ 6,766,096	\$ 6,460,058
5,081,028	4,734,047
3,107,922	2,709,382
-	180,400
<u>233,193</u>	<u>233,193</u>
<u>15,188,239</u>	<u>14,317,080</u>
163,337	185,382
6,597,300	6,546,558
32,091,046	35,494,081
<u>485,005</u>	<u>231,597</u>
<u>\$54,524,927</u>	<u>\$ 56,774,698</u>
\$ 128,895	\$ 106,709
1,080,940	856,617
1,738,445	1,325,857
1,180,307	1,266,556
<u>3,815,000</u>	<u>3,450,000</u>
<u>7,943,587</u>	<u>7,005,739</u>
41,750,000	45,565,000
<u>438,631</u>	<u>537,811</u>
<u>42,188,631</u>	<u>46,102,811</u>
<u>50,132,218</u>	<u>53,108,550</u>
163,337	185,382
<u>4,229,372</u>	<u>3,480,766</u>
<u>4,392,709</u>	<u>3,666,148</u>
<u>\$54,524,927</u>	<u>\$ 56,774,698</u>

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

**ARIZONA POWER AUTHORITY**  
**(A Body, Corporate and Politic, of the State of Arizona)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended September 30, 2009 and 2008**

	<u>APA General Fund</u>		<u>Hoover Uprating Fund</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>	<u>\$6,341,200</u>	<u>\$2,056,071</u>	<u>\$24,956,763</u>	<u>\$23,669,128</u>
<b>OPERATING EXPENSES</b>				
Purchased power	6,322,451	2,034,141	16,554,759	16,149,801
Western credits	-	-	(5,842,790)	(5,883,053)
Amortization of Hoover Uprating Program costs	-	-	5,842,790	5,883,053
Transmission and distribution	9,547	-	6,146,914	6,115,557
Administrative and general	-	-	1,478,892	1,486,707
Depreciation	32,175	30,590	-	-
Other	<u>33,335</u>	<u>36,709</u>	<u>26,665</u>	<u>24,298</u>
Total operating expenses	<u>6,397,508</u>	<u>2,101,440</u>	<u>24,207,230</u>	<u>23,776,363</u>
Operating income (loss)	<u>(56,308)</u>	<u>(45,369)</u>	<u>749,533</u>	<u>(107,235)</u>
<b>OTHER INCOME (DEDUCTIONS)</b>				
Interest expense	-	-	(2,360,613)	(2,533,111)
Deferred interest expense	-	-	2,222,465	2,122,323
Amortization	-	-	99,180	106,416
Interest income	<u>9,455</u>	<u>97,813</u>	<u>62,849</u>	<u>453,652</u>
Net other income (deductions)	<u>9,455</u>	<u>97,813</u>	<u>23,881</u>	<u>149,280</u>
<b>CHANGES IN NET ASSETS</b>	(46,853)	52,444	773,414	42,045
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>4,248,008</u>	<u>4,195,564</u>	<u>(581,860)</u>	<u>(623,905)</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$4,201,155</u>	<u>\$4,248,008</u>	<u>\$ 191,554</u>	<u>\$ (581,860)</u>

<b>Total</b>	
<u>2009</u>	<u>2008</u>
<u>\$31,297,963</u>	<u>\$25,725,199</u>
22,877,210	18,183,942
(5,842,790)	(5,883,053)
5,842,790	5,883,053
6,156,461	6,115,557
1,478,892	1,486,707
32,175	30,590
<u>60,000</u>	<u>61,007</u>
<u>30,604,738</u>	<u>25,877,803</u>
<u>693,225</u>	<u>(152,604)</u>
(2,360,613)	(2,533,111)
2,222,465	2,122,323
99,180	106,416
<u>72,304</u>	<u>551,465</u>
<u>33,336</u>	<u>247,093</u>
726,561	94,489
<u>3,666,148</u>	<u>3,571,659</u>
<u>\$ 4,392,709</u>	<u>\$ 3,666,148</u>

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

**ARIZONA POWER AUTHORITY**  
**(A Body, Corporate and Politic, of the State of Arizona)**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended September 30, 2009 and 2008**

	<u>APA General Fund</u>		<u>Hoover Uprating Fund</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 5,932,966	\$ 2,996,554	\$ 24,966,457	\$ 23,709,257
Cash payments to suppliers for goods or services	(6,210,739)	(2,992,448)	(23,238,936)	(22,929,631)
Cash payments to employees for services	<u>-</u>	<u>-</u>	<u>(717,199)</u>	<u>(708,576)</u>
Net cash provided by (used in) operating activities	<u>(277,773)</u>	<u>4,106</u>	<u>1,010,322</u>	<u>71,050</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	19,575	106,344	233,129	456,655
Purchase of investments	<u>-</u>	<u>-</u>	<u>(397,723)</u>	<u>(153,021)</u>
Net cash provided by (used in) investing activities	<u>19,575</u>	<u>106,344</u>	<u>(164,594)</u>	<u>303,634</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Interest payments on bonds payable	-	-	(2,446,862)	(2,611,113)
Payments on bonds payable	-	-	(3,450,000)	(3,120,000)
Acquisition of capital assets	(10,130)	(22,663)	-	-
Other costs relating to Hoover Uprating Program	-	-	(217,290)	(269,194)
Western credits received for Hoover Uprating Program	<u>-</u>	<u>-</u>	<u>5,842,790</u>	<u>5,883,053</u>
Net cash used in capital and related financing activities	<u>(10,130)</u>	<u>(22,663)</u>	<u>(271,362)</u>	<u>(117,254)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(268,328)	87,787	574,366	257,430
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,586,212</u>	<u>3,498,425</u>	<u>2,873,846</u>	<u>2,616,416</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,317,884</u>	<u>\$ 3,586,212</u>	<u>\$ 3,448,212</u>	<u>\$ 2,873,846</u>

<u>Total</u>	
<u>2009</u>	<u>2008</u>
\$ 30,899,423	\$ 26,705,811
(29,449,675)	(25,922,079)
<u>(717,199)</u>	<u>(708,576)</u>
<u>732,549</u>	<u>75,156</u>
252,704	562,999
<u>(397,723)</u>	<u>(153,021)</u>
<u>(145,019)</u>	<u>409,978</u>
(2,446,862)	(2,611,113)
(3,450,000)	(3,120,000)
(10,130)	(22,663)
(217,290)	(269,194)
<u>5,842,790</u>	<u>5,883,053</u>
<u>(281,492)</u>	<u>(139,917)</u>
306,038	345,217
<u>6,460,058</u>	<u>6,114,841</u>
<u>\$ 6,766,096</u>	<u>\$ 6,460,058</u>

(Continued)

**ARIZONA POWER AUTHORITY**  
**(A Body, Corporate and Politic, of the State of Arizona)**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**Years Ended September 30, 2009 and 2008**

	<u>APA General Fund</u>		<u>Hoover Upgrading Fund</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF OPERATING INCOME</b>				
<b>(LOSS) TO NET CASH PROVIDED BY</b>				
<b>(USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (56,308)	\$ (45,369)	\$ 749,533	\$ (107,235)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	32,175	30,590	-	-
Increase (decrease) in cash resulting from changes in:				
Accounts receivable	(408,234)	872,791	9,693	40,128
Other assets	-	67,691	-	-
Prepaid purchased power	-	-	-	(48,573)
Prepaid transmission	(253,408)	(49,237)	-	-
Accounts payable and other	-	-	22,187	22,206
Customer refunds	-	-	224,323	23,688
Power contracts payable	<u>408,002</u>	<u>(872,360)</u>	<u>4,586</u>	<u>140,836</u>
Total adjustments	<u>(253,640)</u>	<u>18,885</u>	<u>260,789</u>	<u>178,285</u>
Net cash provided by (used in) operating activities	<u>\$ (277,773)</u>	<u>\$ 4,106</u>	<u>\$ 1,010,322</u>	<u>\$ 71,050</u>
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH</b>				
<b>CAPITAL AND RELATING FINANCING</b>				
<b>ACTIVITIES</b>				
Deferred interest expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,222,465</u>	<u>\$ 2,122,323</u>

<b>Total</b>	
<u>2009</u>	<u>2008</u>
\$ 693,225	\$ (152,604)
32,175	30,590
(398,541)	912,919
-	67,691
-	(48,573)
(253,408)	(49,237)
22,187	22,206
224,323	23,688
<u>412,588</u>	<u>(731,524)</u>
<u>7,149</u>	<u>197,170</u>
<u>\$ 732,549</u>	<u>\$ 75,156</u>
<u>\$2,222,465</u>	<u>\$2,122,323</u>

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

**ARIZONA POWER AUTHORITY**  
**(a Body, Corporate and Politic, of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**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.

**ARIZONA POWER AUTHORITY**  
**(a Body, Corporate and Politic, of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting** (Continued)

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.

**ARIZONA POWER AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 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, 2009 and 2008. 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 \$853,438 and \$835,754 were paid to the customers during the operating years ended September 30, 2009 and 2008, respectively.

The accrued amount to be refunded to the customers was \$1,080,940 and \$856,617 at September 30, 2009 and 2008, 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.

**ARIZONA POWER AUTHORITY**  
**(a Body, Corporate and Politic, of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Geographic and Product Concentration**

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

**NOTE 2 – FUND ACCOUNTING**

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

**Hoover Uprating 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 ("Uprating Program"). Instead of appropriating further federal funds for the Uprating Program, Congress implemented an advancement of funds procedure whereby prospective nonfederal 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 connection 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 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 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.

**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, 2009 and 2008. The Authority does not have a credit risk policy for pooled investments.

**ARIZONA POWER AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)**

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 LGIP is primarily invested in commercial paper and government agency notes, with lesser investments in repurchase agreements and corporate notes. The LGIP is unrated and had a weighted average maturity of 44 days and 45 days at September 30, 2009 and 2008, respectively. The maximum weighted average maturity permitted for the LGIP is 240 days.

The Authority’s LGIP investment balance represents its cash and cash equivalents as of September 30, 2009 and 2008.

**NOTE 4 – CAPITAL ASSETS**

Capital assets of the Authority at September 30, 2009 and 2008 were as follows:

	<b>Balances September 30, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balances September 30, 2009</b>
Transmission plant	\$ 319,565	\$ -	\$ -	\$ 319,565
Distribution plant	227,518	-	-	227,518
General plant – office	<u>791,608</u>	<u>10,130</u>	<u>20,474</u>	<u>781,264</u>
Total depreciable assets	<u>1,338,691</u>	<u>10,130</u>	<u>20,474</u>	<u>1,328,347</u>
Less: accumulated depreciation for:				
Transmission plant	298,967	3,051	-	302,018
Distribution plant	207,365	2,303	-	209,668
General plant – office	<u>646,977</u>	<u>26,822</u>	<u>20,474</u>	<u>653,324</u>
Total accumulated depreciation	<u>1,153,309</u>	<u>32,175</u>	<u>20,474</u>	<u>1,165,010</u>
Capital assets, net	<u>\$ 185,382</u>	<u>\$ (22,045)</u>	<u>\$ -</u>	<u>\$ 163,337</u>

**ARIZONA POWER AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2009 and 2008

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

	<b>Balances September 30, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balances September 30, 2008</b>
Transmission plant	\$ 319,565	\$ -	\$ -	\$ 319,565
Distribution plant	227,518	-	-	227,518
General plant – office	<u>780,666</u>	<u>22,664</u>	<u>11,722</u>	<u>791,608</u>
Total depreciable assets	<u>1,327,749</u>	<u>22,664</u>	<u>11,722</u>	<u>1,338,691</u>
Less: accumulated depreciation for:				
Transmission plant	295,915	3,052	-	298,967
Distribution plant	205,062	2,303	-	207,365
General plant – office	<u>633,464</u>	<u>25,235</u>	<u>11,722</u>	<u>646,977</u>
Total accumulated depreciation	<u>1,134,441</u>	<u>30,590</u>	<u>11,722</u>	<u>1,153,309</u>
Capital assets, net	<u>\$ 193,308</u>	<u>\$ (7,926)</u>	<u>\$ -</u>	<u>\$ 185,382</u>

The Authority's depreciation expense was \$32,175 and \$30,590 for the years ended September 30, 2009 and 2008, 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 \$5,842,790 and \$5,883,053 for the years ended September 30, 2009 and 2008, 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:

	<b>September 30, 2008</b>	<b>Increases</b>	<b>Reductions</b>	<b>Transfers</b>	<b>September 30, 2009</b>
Bonds payable short-term	\$ 3,450,000	\$ -	\$ (3,450,000)	\$ 3,815,000	\$ 3,815,000
Bonds payable long-term	<u>45,565,000</u>	<u>-</u>	<u>-</u>	<u>(3,815,000)</u>	<u>41,750,000</u>
Total bonds payable	<u>\$ 49,015,000</u>	<u>\$ -</u>	<u>\$ (3,450,000)</u>	<u>\$ -</u>	<u>\$ 45,565,000</u>

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**NOTE 6 – BONDS PAYABLE (CONTINUED)**

	<u>September 30,</u> <u>2007</u>	<u>Increases</u>	<u>Reductions</u>	<u>Transfers</u>	<u>September 30,</u> <u>2008</u>
Bonds payable short-term	\$ 3,120,000	\$ -	\$ (3,120,000)	\$ 3,450,000	\$ 3,450,000
Bonds payable long-term	<u>49,015,000</u>	<u>-</u>	<u>-</u>	<u>(3,450,000)</u>	<u>45,565,000</u>
Total bonds payable	<u>\$ 52,135,000</u>	<u>\$ -</u>	<u>\$ (3,120,000)</u>	<u>\$ -</u>	<u>\$ 49,015,000</u>

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.

The Authority's outstanding bonds, totaling \$45,565,000, 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 effective interest method. Principal amounts due over the next five operating years ending September 30 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 3,815,000	\$ 2,265,238
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
2015-2018	<u>23,070,000</u>	<u>2,500,051</u>
	<u>\$ 45,565,000</u>	<u>\$ 11,621,373</u>

**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.

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**NOTE 6 – BONDS PAYABLE (CONTINUED)**

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, 2009 and 2008 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 \$212,676 and \$228,228 for the years ended September 30, 2009 and 2008, respectively, resulting in a net deferred amount of \$940,705 and \$1,153,381 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 \$311,856 and \$334,644 for the years ended September 30, 2009 and 2008, respectively, resulting in a net premium of bonds payable of \$1,379,336 and \$1,691,192 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, 2009 and 2008, the Authority paid \$146,489 and \$141,937, 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, 2009 and 2008, investments were collateralized with securities held by the Authority’s trustee. The fair value of the investment securities at September 30 is as follows:

	<u>2009</u>	<u>2008</u>
U.S. Treasury obligation	\$ 6,597,300	\$ -
Repurchase agreement	-	6,546,558
U.S. government securities	<u>5,081,028</u>	<u>4,734,047</u>
Total investments held by Trustee	<u>\$ 11,678,328</u>	<u>\$ 11,280,605</u>

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**NOTE 8 – INVESTMENTS HELD BY TRUSTEE (CONTINUED)**

On October 2, 2006, 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 are invested in direct U.S. Treasury Obligations, which mature on dates coinciding with the principal and interest payment dates for the Authority’s outstanding bonds.

As of September 30, 2009, 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 9.40% (9.00% retirement and .40% long-term disability) and 9.45% (8.95% retirement and 0.50% long-term disability) of their compensation for the years ended September 30, 2009 and 2008, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the years ended September 30, 2009 and 2008, by the Authority’s covered employees were \$67,928 and \$66,044, respectively.

Matching employer member contributions were actuarially determined and fixed at the same rate as employee member contributions for the years ended September 30, 2009 and 2008. 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, 2009 and 2008 were \$717,199 and \$708,576, 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.

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**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:

<b>Years of Credited Service</b>	<b>Percent of Premium Benefit</b>	<b>Member</b>		<b>Member and Dependent(s)</b>	
		<b>Not Medicare Eligible</b>	<b>Medicare Eligible</b>	<b>Not Medicare Eligible</b>	<b>Medicare Eligible</b>
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 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% of Western's revenue requirements each operating year until the contract expires. During the years ended September 30, 2009 and 2008, the Authority paid \$16,554,759 and \$16,149,801, 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, 2009 and 2008, the Authority paid \$6,146,914 and \$6,115,557, 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, 2009 and 2008, the Authority recognized a prepayment of \$485,005 and \$231,597, 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.

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**NOTE 11 – PURCHASED POWER, SALES AND TRANSMISSION COMMITMENTS (CONTINUED)**

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, 2009 and 2008, the Authority paid \$6,322,451 and \$2,034,141, respectively, for purchased power under this contract for its customers.

This information is an integral part of the accompanying financial statements.