

SPIRIT

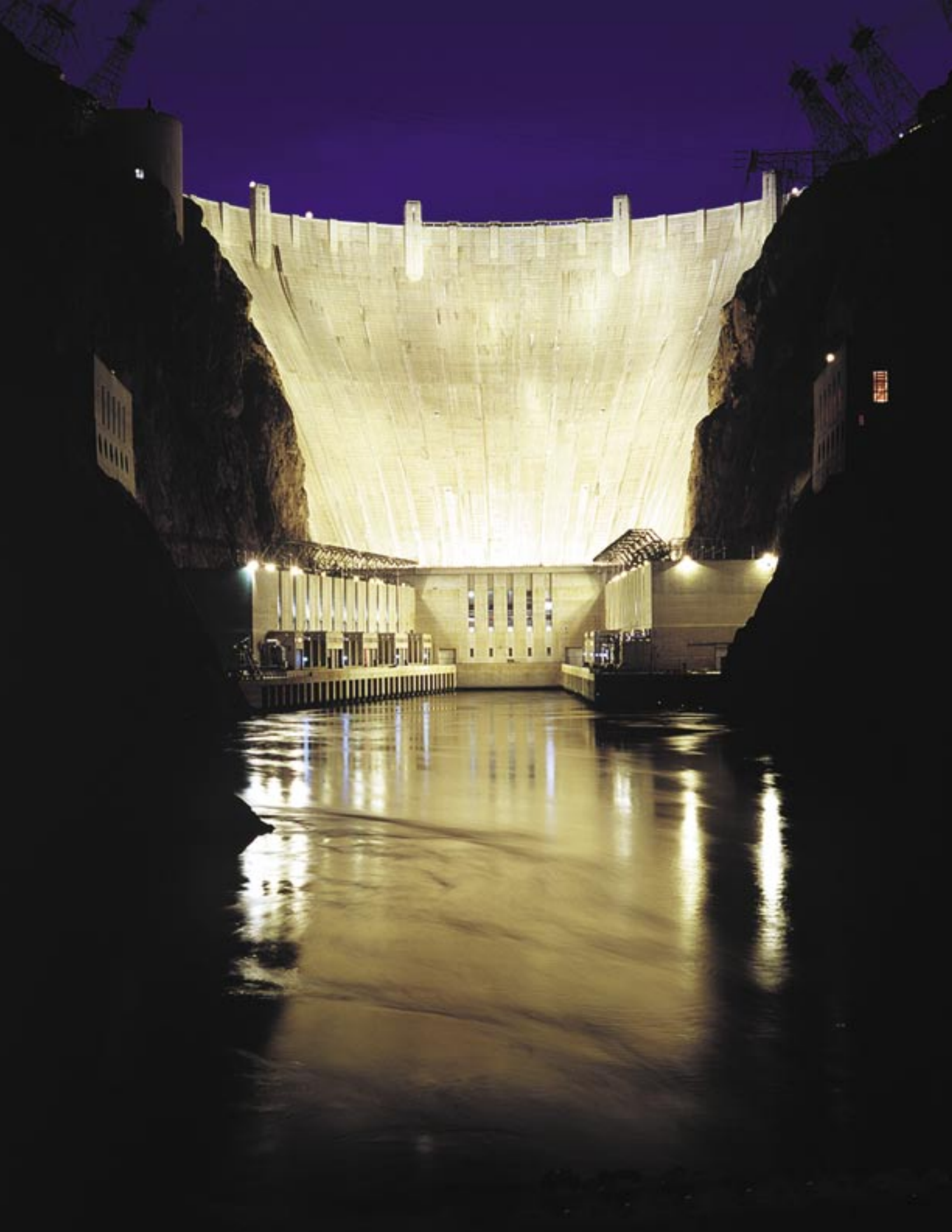
AMERICAN "CAN DO" SPIRIT
IS ALIVE AND WELL



47th

ANNUAL REPORT

ARIZONA POWER AUTHORITY - 2005



“America was not built on fear. America was built on courage, on imagination, and unbeatable determination to do the job at hand.”

--Harry S. Truman.

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December 1, 2005

The Honorable
Janet A. Napolitano
Governor of Arizona
State Capitol
Ninth Floor, West Wing
Phoenix, AZ 85007

Dear Governor:

On behalf of the Arizona Power Authority's Commissioners and staff, I submit the 47th Annual Report. This report details the Authority's operation and financial activities for the fiscal year ending June 30, 2005, and features the Authority's efforts in administering Arizona's hydroelectric power entitlement generated at the Hoover Dam Powerplant. As you are aware, the Colorado River system has undergone a six-year drought cycle, one of the most severe in recorded history. This has adversely impacted the entire river system, including the water stored in Lake Mead and other reservoirs.

As a result of the lowered levels of water impounded in Lake Mead, the amount of hydroelectric generation available to Arizona has been reduced 6.4 percent from Arizona's contractual entitlement of 377 megawatts. The storage in Lake Mead is at approximately sixty percent (60%) of its maximum capacity. However, at reduced levels of electric generation, the State's water and power entitlements are still available for the State's use. The Authority is actively engaged in federal and state efforts to mitigate the drought impacts.

The Authority continues researching supplemental electric power generation resources that could be located within Arizona at cost effective rates. These resources, if developed, would supplement the hydro resource and provide generation stability and reliability. The Authority is also investigating the development of various renewable, electric power resources in order to provide our customers with greater certainty of electric power and reduce their dependency on hydropower or external energy resources.

Sincerely,

Michael C. Francis
Chairman

Accomplishment in Action

The same can-do American spirit that built Hoover Dam 70 years ago is required today to ensure our customers continue to receive reliable, affordable energy. For this reason, the Arizona Power Authority is taking the lead on improving performance and meeting challenges directly and effectively.

As an organization, we are assuming a more agile and responsive footing than ever before. The conditions that affect our performance can literally change as quickly as the weather. This demands that we have the ability to move adroitly and intelligently to foresee emerging challenges and address them. To this end, we are conducting on-going training to provide our team with the skills they need to be proactive. In addition, we have hired key staff members capable of excelling in such a dynamic environment.

With lower reservoir levels and reduced generation, the Authority must be innovative in order to continue to deliver peak performance for its customers. While we can't control the weather, we can work to make sure we understand current conditions and their consequences through in-depth drought analysis measures. We are also maintaining the lowest possible rates by reviewing them monthly and, if necessary, adjusting them based on the most updated information.

Furthermore, we are taking innovative, long-term steps to reduce costs to customers. In a landmark program with the Western Area Power Administration, the Authority is studying the possibility of funding an early payoff of their high interest debt. This lowers Western's interest rates, which are locked in according to Federal regulations. In doing so, we would lower our own costs and subsequently pass on the savings of approximately 10% annually in transmission costs to our customers. This precedent-setting arrangement will also help ensure the long-term stability of power transmission in our region.

In addition, the Authority contractually confirmed its participation in the Multi-Species Conservation Program. This supports the recovery of endangered species along the lower basin of the Colorado River, and ensures the Authority's compliance with Federal and State laws and regulations.

We're also supporting the Bureau of Reclamation in maintaining the physical plant at Hoover for greater efficiency during low water conditions. A more effective turbine wicket gate assembly has been installed on one of the Hoover generators. This provides greater performance under reduced water head conditions. In addition, the Authority carefully works with Reclamation to coordinate scheduled maintenance outages to maximize the value of Hoover power to its customers.

Renewable energy development remains a priority. The Authority is working with the National Renewable Energy Laboratory to explore wind power potential in Arizona. The Authority and Native American leaders in Arizona have discussed the possibility of placing wind power generation on tribal lands. The Authority is also seeking to pursue other forms of renewable energy research for Arizona in coordination with the U. S. Department of Energy. In these and other accomplishments this year, the Arizona Power Authority has shown its commitment to clear, constructive action. We will continue to apply our can-do attitude to ensure our customers, and the State of Arizona as a whole, are served to the very best of our abilities.



{ The Authority has embarked on a series of programs to improve its overall performance. }

JOE MULHOLLAND





The Arizona Power Authority, having provided sixty years of reliable, low cost power to the citizens of Arizona, continues its hands-on administration of Arizona's federal hydroelectric power entitlement from Hoover Dam and Powerplant. Much like the pioneers that constructed Hoover Dam, the Authority continues to explore innovative approaches to fulfilling its mandate. Through monthly oversight and effective cost containment measures, the Authority ensures the availability of the lowest priced electric power in Arizona. In addition, the Authority is studying the viability of new opportunities for maximizing existing resources as well as developing new ones.

“There is nothing wrong with America that the faith, love of freedom, intelligence and energy of her citizens cannot cure.”
 --Dwight D. Eisenhower.

MICHAEL FRANCIS

Michael C. Francis is a partner in Santa Lucia Farms, producer of over 3.7 million garden rose bushes annually. Mr. Francis also owns and operates Francis Insurance Agency, which insures Arizona and California farmers. Mr. Francis is a Board of Directors member of M&I Bank, Arizona Region. He is also a member of the American Rose Society. Starting his tenure on the Commission in 1999, Mr. Francis was selected Chairman in April 2003 and re-elected to this position in 2005. His current term expires in January 2008.

LT. GENERAL JOHN I. HUDSON

John I. Hudson is a retired Lieutenant General in the U.S. Marine Corps where he served for 37 years. He is also a member of the Board of Directors of the Yuma Regional Medical Center. In addition, he is a member and past chairman of the Greater Yuma Port Authority Board of Directors, a founding Director of the Foothills Bank of Yuma, a member of the Foothills Rotary Club of Yuma and past president of Yuma's 78-CRIME Board of Directors. First appointed to the Arizona Power Authority Commission in March 2000, Mr. Hudson was elected Vice Chairman in May 2003, with his current term expiring in 2006.

RICHARD WALDEN

Richard S. Walden is the President and CEO of Farmers Investment Company, a family-owned, pecan growing and processing company headquartered in Sahuarita, Arizona. Mr. Walden 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 and Education associated with the Nutrition and Education Foundation. Mr. Walden is also a former member of the Advisory Council on Small Business and Agriculture for the Federal Reserve Bank of San Francisco and a member of the Board of the National Pecan Shellers Association. He was appointed to the Commission in 1984 and re-appointed through his present term expiring in 2010.

DALTON COLE

Dalton H. 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. For 18 years, he also served on the board of Electrical District No. 2 in Pinal County 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. Mr. Cole was appointed to the Commission in January 2002 for a term to run until 2008.

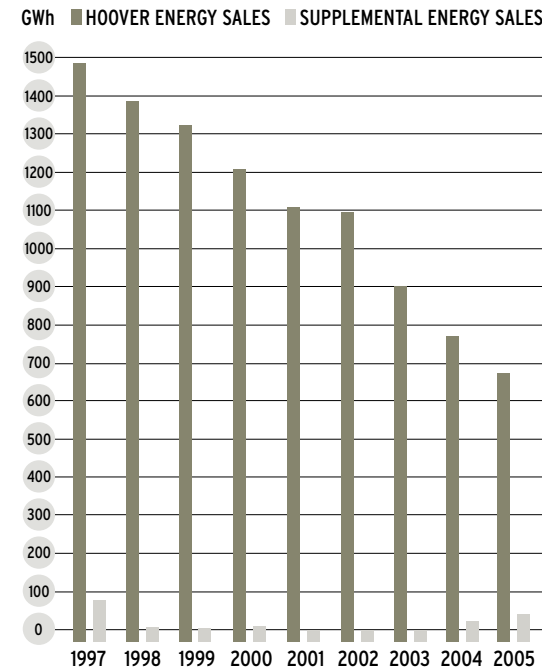
DELBERT R. LEWIS:

As one of the founders of KTVK Channel 3 and the CEO of MAC America Communications, Inc., Mr. Lewis' past and present civic affiliations include the Arizona Broadcasters Association, Metropolitan Phoenix Broadcasters, Phoenix Chamber of Commerce, Samaritan Health Services, Greater Phoenix Leadership, the National Conference, Maricopa County Sports Authority and Orpheum Theatre Foundation. He is currently farming 4,000 acres of farmland near Florence, Arizona. Mr. Lewis and his late wife, Dr. Jewell Lewis, have been nationally recognized for their financial support and commitment to education and community service. First appointed to the Arizona Power Commission in April 2003, Delbert Lewis has been reappointed for a six-year term ending in January 2010.





The following graph illustrates the Authority's historical energy sales (GWh) since 1997 for power obtained from the Hoover Powerplant and for supplemental sales. Supplemental power is obtained by the Authority for sale to customers on an "as requested" basis. This energy augments the customers' allocation from the Authority.



FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005
HOOVER ENERGY	1,485	1,389	1,318	1,205	1,103	1,098	899	753	681
SUPPLEMENTAL ENERGY	79	3	2	4	0	0	0	23	38
TOTAL ENERGY	1,564	1,392	1,320	1,209	1,103	1,098	899	776	719

OPERATIONS AND ENVIRONMENT

COLORADO RIVER OPERATIONS

During Water Year 2005, Lake Mead reservoir storage increased by approximately 1.3 million acre-feet (maf). The sixth year of drought conditions ended with an upswing in the inflow into Colorado River reservoirs, including Lake Mead. By the close of 2005 water year, the Colorado River system's total storage increased by 9 percent to a total of 59 percent of the system capacity.

The more normal condition of Water Year 2005 with its above average runoff may be nothing more than a "wet year" in a "drought cycle". Subsequent years will be the true measure of where we stand in the current weather cycle. The Secretary of the Interior has declared that under the most probable inflow scenario during Water Year 2006, downstream water deliveries are expected to drive the water releases from Hoover Dam. Consequently, Lake Mead's elevation will decline by approximately 13 vertical feet resulting in a slight reduction of total storage by year-end. Depending upon snow pack and moisture content during the winter months of Water Year 2006 and successive years, it is premature to suggest that the drought is diminishing.

THE ENVIRONMENT

The voluntary Lower Colorado River Multi-Species Conservation Program was adopted by the Secretary of the Interior and the states of Arizona, California and Nevada during a signing ceremony held on the bank of the Lower Colorado River in April of 2005. Under this 50-year agreement, the federal and non-federal participants each share fifty percent (50%) of the total \$626 million program cost. The Bureau of Reclamation has appointed a project manager and a MSCP Steering Committee has been formed to oversee the implementation and operation of the program.

"There is a New America every morning when we wake up. It is upon us whether we will it or not."
 --Adlai E. Stevenson Jr.

SALE OF HYDRO POWER CUSTOMERS

	AVERAGE BILLING DEMAND (KW)	ENERGY DELIVERED (KWH)	SALES (\$)	MILLS PER KWH	PRIOR YEAR ADJ. (\$)
Aguila Irrigation District	4,775	8,874,000	\$223,574	25.19	\$(15,942)
Avra Valley Irrigation & Drainage District	478	2,565,000	44,657	17.41	(2,497)
Buckeye Water Conservation District	2,262	7,815,000	163,955	20.98	(9,980)
Central Arizona Water Conservation District	122,648	157,254,000	4,613,961	29.34	(339,382)
Chandler Heights Citrus Irrigation District	706	1,932,000	31,667	16.39	(2,621)
Cortaro-Marana Irrigation District	4,888	18,360,000	288,961	15.74	(17,904)
Electrical District No. 2, Pinal	14,763	54,226,000	1,059,792	19.54	(68,941)
Electrical District No. 3, Pinal	12,067	53,636,000	1,121,315	20.91	(79,240)
Electrical District No. 4, Pinal	14,762	54,411,000	954,573	17.54	(61,489)
Electrical District No. 5, Pinal	11,211	35,825,000	648,661	18.11	(45,246)
Electrical District No. 5, Maricopa	266	981,000	16,095	16.41	(1,534)
Electrical District No. 6, Pinal	6,080	10,406,000	189,906	18.25	(17,626)
Electrical District No. 7, Maricopa	7,969	11,706,000	310,011	26.48	(22,701)
Electrical District No. 8, Maricopa	18,367	54,301,000	1,183,552	21.80	(79,030)
Harquahala Valley Power District	1,890	10,511,000	202,973	19.31	(11,989)
Maricopa County Municipal Water District No. 1	6,709	14,677,000	351,801	23.97	(23,010)
McMullen Valley Water Conserv. & Drainage Dist.	6,899	12,678,000	320,249	25.26	(24,359)
Ocotillo Water Conservation District	1,814	4,619,000	87,904	19.03	(6,099)
Queen Creek Irrigation District	1,344	1,286,000	21,715	16.89	(2,183)
Roosevelt Irrigation District	2,444	17,020,000	314,327	18.47	(14,297)
Roosevelt Water Conservation District	5,131	9,002,000	159,439	17.71	(12,207)
Salt River Project	29,440	107,640,000	1,962,658	18.23	(129,170)
San Tan Irrigation District	395	1,199,000	21,049	17.56	(1,629)
Silverbell Irrigation & Drainage District	539	3,476,000	57,141	16.44	(3,349)
Tonopah Irrigation District	1,176	4,884,000	98,576	20.18	(5,937)
Wellton-Mohawk Irrigation & Drainage District	2,208	8,460,000	157,908	18.67	(9,690)
City of Page	789	860,000	17,901	20.81	(2,188)
City of Safford (previously reported as Gila Resources)	1,579	5,334,000	105,030	19.69	(4,850)
Town of Thatcher	797	2,375,000	46,985	19.78	(2,613)
Town of Wickenburg	1,738	4,154,000	93,589	22.53	(6,860)
Ak-Chin Indian Community	0	0	0	0.00	0
Arizona Electric Power Cooperative	0	0	0	0.00	0
Arizona Public Service Company	0	0	0	0.00	0
Citizens Utilities Company	0	0	0	0.00	0
City of Mesa	0	0	0	0.00	0
Tohono O'odham Utilities Authority	0	0	0	0.00	0
San Carlos Project	0	0	0	0.00	0
Tucson Electric Power Company	0	0	0	0.00	0
TOTAL HYDRO POWER SALES	286,130	680,467,000	\$14,869,924	21.85	
TOTAL NET PRIOR YEAR ADJUSTMENT			\$0		\$(1,024,562)
TOTAL SUPPLEMENTAL POWER SALES	889,295	37,846,000	\$6,451,476		
OTHER ELECTRIC SERVICES INCOME**			\$6,176,229		
TOTAL POWER INCOME			\$26,473,067*		

* Difference between Total Electric Sales and Operating Revenue is due to post-closing reconciliation of estimate to actuals between the Authority and Western Area Power Administration.
 ** Includes Administrative fees, facilities charges, late charges, and Scheduling Entity revenue.



The following is a discussion and analysis of the Arizona Power Authority's (Authority) financial performance for the fiscal years ended June 30, 2005 and 2004. 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 2005 and 2004 fiscal year's activities, resulting changes and known facts, and should be read in conjunction with the Authority's annual report for the years ended June 30, 2005 and 2004.

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 18 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 18-21, 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 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.

AUTHORITY HIGHLIGHTS

SCHEDULING ENTITY AGREEMENT

The Authority and Salt River Project were parties to a Scheduling Entity Agreement, which expired on September 30, 2004, and provided for Salt River Project (SRP) to pay the Authority \$8.4 million each year in return for allowing Salt River Project to be the Scheduling Entity of the Hoover generation in Arizona. A new Scheduling Entity Agreement became effective as of October 1, 2004, provides for SRP to pay the Authority \$5.4 million each year, and expires on September 30, 2011. The effect of this agreement is that the energy banking program with SRP has been increased to the advantage of our customers. However, because payment from SRP has been reduced by \$3 million each year, the rates for Hoover power increased accordingly.

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. As of June 30, 2005 and 2004,

the Authority advanced a net prepaid deposit of \$182,360, which is included in the Statements of Net Assets. This new contract gives Western greater flexibility and allows them to work more effectively with the Authority and other customers.

CONTRIBUTIONS

During fiscal years 2005 and 2004, the Authority contributed \$60,000 to state universities via the Arizona Power Authority Scholarship Program. The following schools each received \$20,000: the Arizona State University, the University of Arizona, and Northern Arizona University.

FUNDS

On January 1, 1971, new Hoover contracts between the Authority and its customers went into effect. At that time, previously earned funds from "steam sales" and other sales were placed into a fund identified as the APA Fund. Simultaneously, the Arizona Power Authority Commission established the Hoover Energy Fund to account for revenues and expenditures applicable to the sale and transmission of power and energy received by the Authority under its Hoover Energy Contract.

EFFECTS OF DROUGHT ON HOOVER ENERGY

The Colorado River Basin has been experiencing severe drought conditions for the past six 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, 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 has written off the lost investment amount as of June 30, 2003. As of June 30, 2005, \$26,083 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 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. In response to the reduced power production from Hoover, the Commission raised rates by 9.0% in April 2005.

MARKET IMPACTS ON INVESTMENT INCOME

Favorable market conditions during Fiscal Year 2005 resulted in an increase in interest rates, yielding greater investment income for the year.

ECONOMIC DROUGHT CONDITION

The sustained drought condition in the Colorado River Basin has resulted in a decline in power production from Hoover Dam, and this has caused an increase in supplemental power consumption and revenues from power sold.



EXPENSES

INTRODUCTION OF NEW PROGRAMS

There were no changes during this fiscal 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. Fiscal year 2005 staffing costs (salary and related benefits) represent 2.87% of the Authority's operating costs. For fiscal year 2004, staffing costs represent 3.18% of the Authority's operating costs.

SALARY STRUCTURE (COST OF LIVING, MERIT AND MARKET ADJUSTMENT)

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. During fiscal year 2005, changes in staffing (including employee retirements) resulted in a net reduction in salaries. During fiscal year 2004, increases in staffing personnel resulted in an increase in salaries.

FINANCIAL HIGHLIGHTS

- The Authority's 2005 net assets decreased by \$773,807, or 21.9%, primarily due to the timing in prepaid purchased power usage.
- The Authority's 2004 net assets increased by \$598,398 or 20.4%, primarily due to reduced amount of long-term debt payable associated with the defeasance of the 1993 Bonds in October 2003.
- The Authority's 2005 operating revenues increased by \$1,026,668 or 4.0%, primarily due to increased supplemental power sales volume.
- The Authority's 2004 operating revenues increased by \$432,317 or 1.7%, primarily due to an increase in the sale of supplemental power.

STATEMENTS OF NET ASSETS

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

NET RESULTS OF ACTIVITIES

Which impact (increase/decrease) current assets and unrestricted net assets.

BORROWING FOR CAPITAL

Which increases assets and long-term debt.

SPENDING BORROWED PROCEEDS ON NEW CAPITAL

Which will reduce current assets and increase capital assets. There is a second impact, an increase in invested capital assets and an increase in related net debt, which will not change the investment in capital assets, net of debt.

SPENDING OF NONBORROWED CURRENT ASSETS ON NEW CAPITAL

Which will (a) reduce current assets and increase capital assets and (b) will reduce undesignated net assets and increase investment in capital assets, net of debt.

CONDENSED STATEMENTS OF NET ASSETS

BUSINESS TYPE ACTIVITIES

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Diff \$</u>	<u>Diff %</u>
Current assets	\$ 11,558,522	\$ 13,045,876	\$ (1,487,354)	(11%)
Long-term assets	52,113,652	54,296,784	(2,183,132)	(4%)
Capital assets, net	211,786	159,403	52,383	33%
Total assets	63,883,960	67,502,063	(3,618,103)	(5%)
Current liabilities	5,261,291	5,421,283	(159,992)	(3%)
Long-term (bonds payable, net)	55,867,177	58,551,481	(2,684,304)	(5%)
Total liabilities	61,128,468	63,972,764	(2,844,296)	(4%)
Net assets				
Invested in capital assets	211,786	159,403	52,383	33%
Unrestricted	2,543,706	3,369,896	(826,190)	(25%)
Total net assets	\$ 2,755,492	\$ 3,529,299	\$ (773,807)	(22%)
Total liabilities and net assets	\$ 63,883,960	\$ 67,502,063	\$ (3,618,103)	(5%)

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.

FISCAL YEAR 2005 CONDENSED STATEMENTS OF NET ASSETS DISCUSSION

CURRENT ASSETS

Decreased due to a reduction in prepaid purchased power and an increase in customer refunds, which resulted in a reduction in cash.

LONG TERM ASSETS

Decreased because of a payment of principal for the current year Uprating Program.

CAPITAL ASSETS, NET

Increased due to additions of a new air conditioning units for the office building, a new circuit breaker and a right-of-way easement for the E.D. #5 substation. See further explanation on page 12.

CURRENT LIABILITIES

Decreased due to a reduction in amounts owed pursuant to power contracts at June 30, 2005.

LONG TERM LIABILITIES

Decreased due to a pay down of the bond principal. See further explanation on page 12.

NET ASSETS

Are explained on pages 13 and 14.



CONDENSED STATEMENTS OF NET ASSETS

BUSINESS TYPE ACTIVITIES

	June 30, 2004	June 30, 2003	Diff \$	Diff %
Current assets	\$ 13,045,876	\$ 14,952,938	\$ (1,907,062)	(13%)
Long-term assets	54,296,784	56,666,028	(2,369,244)	(4%)
Capital assets, net	159,403	160,664	(1,261)	(1%)
Total assets	67,502,063	71,779,630	(4,277,567)	(6%)
Current liabilities	5,421,283	4,854,228	567,055	12%
Long-term (bonds payable, net)	58,551,481	63,994,501	(5,443,020)	(9%)
Total liabilities	63,972,764	68,848,729	(4,875,965)	(7%)
Net assets				
Invested in capital assets	159,403	160,664	(1,261)	(1%)
Unrestricted	3,369,896	2,770,237	599,659	22%
Total net assets	\$ 3,529,299	\$ 2,930,901	\$ 598,398	20%
Total liabilities and net assets	\$ 67,502,063	\$ 71,779,630	\$ (4,277,567)	(6%)

FISCAL YEAR 2004 CONDENSED STATEMENTS OF NET ASSETS DISCUSSION

CURRENT ASSETS

Decreased because the Cash with Trustee was used to reduce long-term debt.

LONG TERM ASSETS

Decreased because of the reduction in the cost of the current year Uprating Program, associated with debt and other costs related to improvements at Hoover Dam.

CURRENT LIABILITIES

Increased primarily due to the increased bonds payable for principal and increased power contracts payable.

LONG TERM LIABILITIES

Decreased due to a change in the investments held by the Trustee, attributable to the Crossover Refunding of the 1993 Bonds, and the paydown of bond principal.

NET ASSETS

Are explained on pages 15 and 16.

CAPITAL ASSETS

As of June 30, 2005 and 2004, the Authority had \$211,786 and \$159,403, respectively, invested in a variety of capital assets, as reflected in the following schedule, which represents a net increase (additions less retirements and depreciation) of \$52,383 or 32.9% during fiscal year 2005 and a net decrease of \$1,261 or 0.8% during fiscal year 2004.

	June 30, 2005	June 30, 2004
Transmission plant	\$ 30,516	-
Distribution plant	\$ 40,482	\$ 24,204
General plant - office	140,788	135,199
Invested in capital assets, end of year	\$ 211,786	\$ 159,403

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2005 and 2004, which are presented in detail on pages 26 and 27 of the Notes to the Financial Statements:

	June 30, 2005	June 30, 2004
Beginning Balance	\$ 159,403	\$ 160,664
Additions	98,420	34,609
Disposals	(5,013)	-
Depreciation	(41,024)	(35,870)
Ending Balance	\$ 211,786	\$ 159,403

DEBT OUTSTANDING

As of June 30, 2005, the Authority had \$57,520,000 in debt outstanding, compared to \$60,065,000 in the prior year as a result of the payment of a principal payment of \$2,545,000, which was paid on October 1, 2004. As of June 30, 2004, the Authority had \$60,065,000 in debt outstanding compared to \$67,495,000 in the prior year, as a result of the defeasance of the 1993 Bonds, including a principal payment of \$2,320,000, which was paid on October 1, 2003. Also see page 27 of the Notes to the Financial Statements for a detailed summary of debt activity.

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.



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

There are basic or normal transactions that will affect the comparability of the Statements of 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.

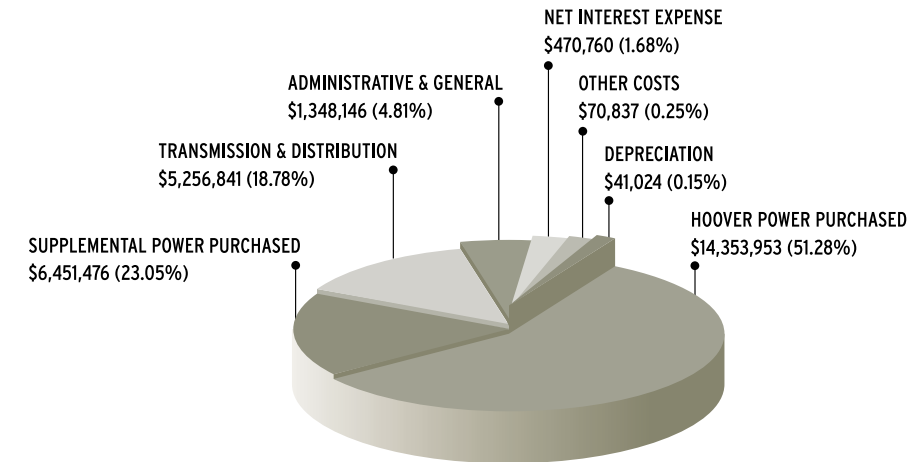
	June 30,			
	2005	2004	Diff \$	Diff %
Operating revenues	\$ 26,472,435	\$ 25,445,767	\$ 1,026,668	4%
Operating expenses				
Purchased power	20,805,429	18,014,692	2,790,737	16%
Western credits	(5,119,484)	(5,224,715)	105,231	(2%)
Amortization of Hoover Uprating Program costs	5,119,484	5,224,715	(105,231)	(2%)
Transmission and distribution	5,256,841	5,247,155	9,686	.2%
Administrative and general	1,348,146	1,564,083	(215,937)	(14%)
Depreciation	41,024	35,870	5,154	15%
Other	70,837	102,322	(31,485)	(31%)
Total operating expenses	27,522,277	24,964,122	2,558,155	10%
Operating income (loss)	(1,049,842)	481,645	(1,531,487)	(318%)
Other (deductions) income				
Interest expense	(2,990,812)	(3,209,937)	219,125	(7%)
Deferred interest expense	2,520,052	2,735,366	(215,314)	(8%)
Amortization	124,304	47,177	77,127	164%
Interest income	596,597	541,265	55,332	10%
Other	25,894	2,882	23,012	799%
Total other (deductions) income	276,035	116,753	159,282	136%
Change in net assets	(773,807)	598,398	(1,372,205)	(229%)
Net assets, beginning of the year	3,529,299	2,930,901	598,398	20%
Net assets, end of the year	\$ 2,755,492	\$ 3,529,299	\$ (773,807)	(22%)

FISCAL YEAR 2005 CHANGES IN NET ASSETS DISCUSSION

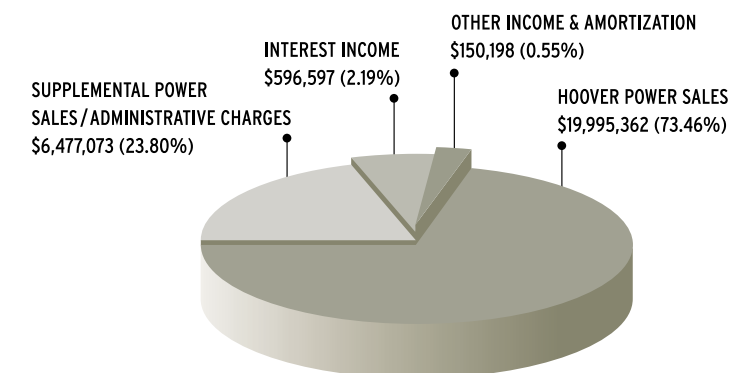
Net Assets decreased overall because of the following:

- Operating Revenues increased as a result of increased supplemental power sales.
- Total Operating Expenses increased due to an increase in purchased power costs.
- Western credits decreased 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 due to a reduction in annual report expenses, reduction in Commission and staff travel, payroll costs and a reduction of legal expenses.
- Depreciation increased because additional capital assets were acquired (such as new air conditioning units for the office building, a new circuit breaker and a right-of-way easement for the ED #5 substation).
- Other operating expenses decreased due to reduced costs in connection with utility organizations, such as WestConnect, which is an independent system operator-type organization that has suspended further development.

2005 EXPENSES



2005 REVENUES





STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BUSINESS TYPE ACTIVITIES

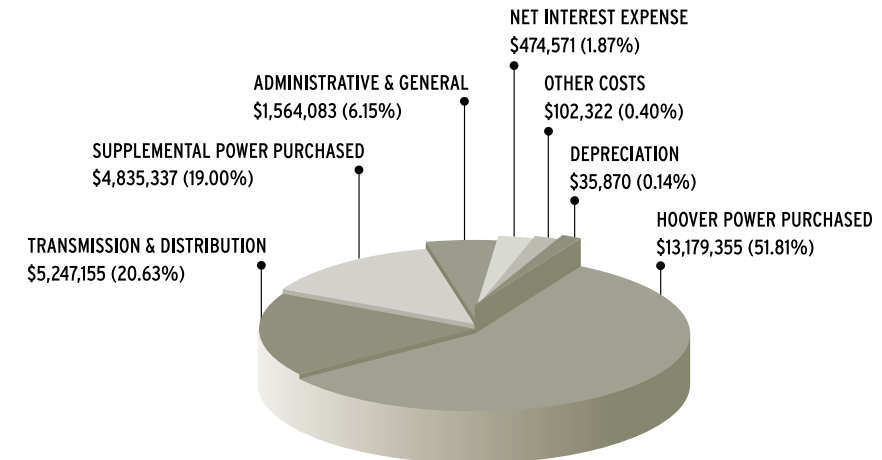
	June 30,		Diff \$	Diff %
	2004	2003		
Operating revenues	\$ 25,445,767	\$ 25,013,450	\$ 432,317	2%
Operating expenses				
Purchased power	18,014,692	18,048,125	(33,433)	(.2%)
Western credits	(5,224,715)	(5,325,522)	100,807	2%
Amortization of Hoover Uprating Program costs	5,224,715	5,325,522	(100,807)	(2%)
Transmission and distribution	5,247,155	5,229,802	17,353	.3%
Administrative and general	1,564,083	1,427,504	136,579	10%
Depreciation	35,870	30,711	5,159	17%
Other	102,322	155,357	(53,035)	(35%)
Total operating expenses	24,964,122	24,891,499	72,623	.3%
Operating income (loss)	481,645	121,951	359,694	295%
Other (deductions) income				
Interest expense	(3,209,937)	(3,593,036)	383,099	11%
Deferred interest expense	2,735,366	2,958,718	(223,352)	(8%)
Amortization	47,177	(82,842)	130,019	157%
Interest income	541,265	627,332	(86,067)	(14%)
Other	2,882	(225,382)	228,264	101%
Total other (deductions) income	116,753	(315,210)	431,963	137%
Change in net assets	598,398	(193,259)	791,657	410%
Net assets, beginning of the year	2,930,901	3,124,160	(193,259)	(6%)
Net assets, end of the year	\$ 3,529,299	\$ 2,930,901	\$ 598,398	20%

FISCAL YEAR 2004 CHANGES IN NET ASSETS DISCUSSION

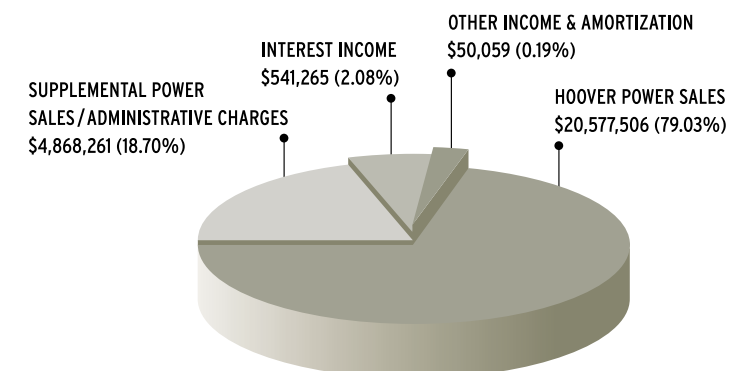
Net Assets increased overall because of the following:

- Operating revenues increased because of increased supplemental power sales.
- Uprating credits decreased because of decreases in debt payments and other costs related to the Uprating Program.
- Amortization of the Uprating Program decreased because of the decrease in interest payments, due to the Crossover Refunding of the 1993 bonds.
- Administrative and general expenses increased due to increases in personnel costs, occupancy expenses, and Colorado River Energy Distributors Association ("CREDA") expenses.
- Depreciation increased because additional capital assets were acquired.
- Other non-operating expenses decreased due to the fact that the LGIP loss was recorded as of June 30, 2003.

2004 EXPENSES



2004 REVENUES





STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

To the Arizona Power Authority Commission

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets, and statements of cash flows present fairly, in all material respects, the financial position of the Arizona Power Authority (the "Authority") (A Body, Corporate and Politic, of the State of Arizona) at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 5, 2005

	APA General Fund		Hoover Uprating Fund		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets						
Cash and cash equivalents	\$ 3,619,626	\$ 3,757,939	\$ 1,973,165	\$ 2,148,362	\$ 5,592,791	\$ 5,906,301
Investments held by Trustee	-	-	2,426,277	2,653,463	2,426,277	2,653,463
Accounts receivable, customer power purchases	464,188	695,958	2,181,432	2,136,496	2,645,620	2,832,454
Interest receivable	15,477	7,818	122,963	117,562	138,440	125,380
Other Assets	50,702	7,888	-	-	50,702	7,888
Prepaid purchased power	-	-	704,692	1,520,390	704,692	1,520,390
Total current assets	4,149,993	4,469,603	7,408,529	8,576,273	11,558,522	13,045,876
Capital assets, net	211,786	159,403	-	-	211,786	159,403
Investments held by Trustee	-	-	6,766,682	6,546,550	6,766,682	6,546,550
Advances for Hoover Uprating Program, net	-	-	45,164,610	47,567,874	45,164,610	47,567,874
Prepaid transmission	182,360	182,360	-	-	182,360	182,360
Total assets	4,544,139	4,811,366	59,339,821	62,690,697	63,883,960	67,502,063
Liabilities						
Current liabilities						
Accounts payable and other	33,640	12,607	112,920	99,682	146,560	112,289
Power contracts payable	461,973	693,222	1,353,166	1,298,732	1,815,139	1,991,954
Accrued interest payable	-	-	739,592	772,040	739,592	772,040
Bonds payable	-	-	2,560,000	2,545,000	2,560,000	2,545,000
Total current liabilities	495,613	705,829	4,765,678	4,715,454	5,261,291	5,421,283
Bonds payable	-	-	54,960,000	57,520,000	54,960,000	57,520,000
Premium (discounts) on bonds payable	-	-	2,852,699	3,243,535	2,852,699	3,243,535
Deferred amounts, net	-	-	(1,945,522)	(2,212,054)	(1,945,522)	(2,212,054)
Bonds payable, net	-	-	55,867,177	58,551,481	55,867,177	58,551,481
Total liabilities	495,613	705,829	60,632,855	63,266,935	61,128,468	63,972,764
Net Assets						
Invested in capital assets	211,786	159,403	-	-	211,786	159,403
Unrestricted	3,836,740	3,946,134	(1,293,034)	(576,238)	2,543,706	3,369,896
Total net assets	4,048,526	4,105,537	(1,293,034)	(576,238)	2,755,492	3,529,299
Total liabilities and net assets	\$ 4,544,139	\$ 4,811,366	\$ 59,339,821	\$ 62,690,697	\$ 63,883,960	\$ 67,502,063

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



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

JUNE 30, 2005 AND 2004

	APA General Fund		Hoover Uprating Fund		Total	
	2005	2004	2005	2004	2005	2004
Operating revenues	\$ 6,477,073	\$ 4,868,261	\$ 19,995,362	\$ 20,577,506	\$ 26,472,435	\$ 25,445,767
Operating expenses						
Purchased power	6,451,476	4,835,337	14,353,953	13,179,355	20,805,429	18,014,692
Western credits	-	-	(5,119,484)	(5,224,715)	(5,119,484)	(5,224,715)
Amortization of Hoover Uprating Project costs	-	-	5,119,484	5,224,715	5,119,484	5,224,715
Transmission and distribution	18,946	19,593	5,237,895	5,227,562	5,256,841	5,247,155
Administrative and general	67,666	81,471	1,280,480	1,482,612	1,348,146	1,564,083
Depreciation	41,024	35,870	-	-	41,024	35,870
Other	40,110	76,299	30,727	26,023	70,837	102,322
Total operating expenses	6,619,222	5,048,570	20,903,055	19,915,552	27,522,277	24,964,122
Operating income (loss)	(142,149)	(180,309)	(907,693)	661,954	(1,049,842)	481,645
Other (deductions) income						
Interest expense	-	-	(2,990,812)	(3,209,937)	(2,990,812)	(3,209,937)
Deferred interest expense	-	-	2,520,052	2,735,366	2,520,052	2,735,366
Amortization	-	-	124,304	47,177	124,304	47,177
Interest income	69,361	38,411	527,236	502,854	596,597	541,265
Other	15,777	-	10,117	2,882	25,894	2,882
Total other (deductions) income	85,138	38,411	190,897	78,342	276,035	116,753
Change in net assets	(57,011)	(141,898)	(716,796)	740,296	(773,807)	598,398
Net assets, beginning of year	4,105,537	4,247,435	(576,238)	(1,316,534)	3,529,299	2,930,901
Net assets, end of year	\$ 4,048,526	\$ 4,105,537	\$ (1,293,034)	\$ (576,238)	\$ 2,755,492	\$ 3,529,299

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

STATEMENTS OF CASH FLOWS

JUNE 30, 2005 AND 2004

	APA General Fund		Hoover Uprating Fund		Total	
	2005	2004	2005	2004	2005	2004
Cash flows from operating activities						
Cash received from customers	\$ 6,666,029	\$ 4,400,269	\$ 19,950,426	\$ 20,391,066	\$ 26,616,455	\$ 24,791,335
Cash payments to suppliers for goods or services	(6,783,401)	(4,543,201)	(19,407,140)	(19,436,486)	(26,190,541)	(23,979,687)
Cash payments to employees for services	-	-	(612,545)	(659,550)	(612,545)	(659,550)
Net cash provided by (used in) operating activities	(117,372)	(142,932)	(69,259)	295,030	(186,631)	152,098
Cash flows from capital and related financing activities						
Interest payments on bonds payable	-	-	(3,023,260)	(3,331,716)	(3,023,260)	(3,331,716)
Payments on bonds payable	-	-	(2,545,000)	(62,255,424)	(2,545,000)	(62,255,424)
Proceeds from refunding, net	-	-	-	59,779,157	-	59,779,157
Acquisition of capital assets	(98,420)	(34,609)	-	-	(98,420)	(34,609)
Advances for Hoover Uprating Program	-	-	4,923,316	4,507,379	4,923,316	4,507,379
Net cash provided by (used in) capital and related financing activities	(98,420)	(34,609)	(644,944)	(1,300,604)	(743,364)	(1,335,213)
Cash flows from investing activities						
Interest on investments	77,479	41,395	531,952	515,675	609,431	557,070
Purchase of investments	-	-	(10,429,978)	(6,189,167)	(10,429,978)	(6,189,167)
Proceeds from sale and maturities of investments	-	-	10,437,032	6,728,588	10,437,032	6,728,588
Net cash provided by (used in) investing activities	77,479	41,395	539,006	1,055,096	616,485	1,096,491
Net change in cash and cash equivalents	(138,313)	(136,146)	(175,197)	49,522	(313,510)	(86,624)
Cash and cash equivalents, beginning of year	3,757,939	3,894,085	2,148,362	2,098,840	5,906,301	5,992,925
Cash and cash equivalents, end of year	\$ 3,619,626	\$ 3,757,939	\$ 1,973,165	\$ 2,148,362	\$ 5,592,791	\$ 5,906,301



STATEMENTS OF CASH FLOWS (CONTINUED)

JUNE 30, 2005 AND 2004

	APA General Fund		Hoover Uprating Fund		Total	
	2005	2004	2005	2004	2005	2004
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ (142,149)	\$ (180,309)	\$ (907,693)	\$ 661,954	\$ (1,049,842)	\$ 481,645
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation	41,024	35,870	-	-	41,024	35,870
Loss on disposal of capital asset	5,013	-	-	-	5,013	-
Changes in assets and liabilities						
(Increase) in accounts receivable	231,770	(460,104)	(44,936)	(186,440)	186,834	(646,544)
(Increase) decrease in other assets	(42,814)	(7,888)	-	-	(42,814)	(7,888)
(Increase) decrease in prepaid purchased power	-	-	815,698	(174,819)	815,698	(174,819)
Increase (decrease) in accounts payable and other	21,033	8,777	13,238	(8,086)	34,271	691
Increase (decrease) in power contracts payable	(231,249)	460,722	54,434	2,421	(176,815)	463,143
Total adjustments	24,777	37,377	838,434	(366,924)	863,211	(329,547)
Net cash provided by (used in) operating activities	(117,372)	(142,932)	(69,259)	295,030	(186,631)	152,098
Supplemental schedule of noncash capital and related financing activities						
Deferred interest expense	-	-	2,520,052	2,735,366	2,520,052	2,735,366
Supplemental schedule of cash paid for interest						
	\$ -	\$ -	\$ 3,023,260	\$ 3,331,716	\$ 3,023,260	\$ 3,331,716

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

DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. DESCRIPTION OF BUSINESS

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

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

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

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

MEASUREMENT FOCUS

The Authority's funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities (whether current or noncurrent) associated with their activity are included in the Statements of Net 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

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.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying financial statements have been prepared in accordance with the reporting model defined by Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34, and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

ACCOUNTING STANDARDS

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

NEW ACCOUNTING PRONOUNCEMENTS

In July 2004, the GASB published Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB Statement No. 45 is effective for fiscal periods beginning after December 15, 2007. The Authority believes the implementation of GASB Statement No. 45 will not have a material impact on the financial statements.

In December 2004, the GASB published Statement No. 46, Net Assets Restricted by Enabling Legislation an amendment of GASB Statement No. 34. The provisions of this Statement clarify that a legally enforceable enabling legislation restriction is one that a party external to a government-such as citizens, public interest groups, or the judiciary can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The Authority believes the implementation of GASB Statement No. 46, will not have a material impact on the financial statements.



In June 2005, the GASB published Statement No. 47, Accounting for Termination Benefits. This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. The Authority believes the implementation of GASB Statement No. 47 will not have a material impact on the financial statements.

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 when purchased, of three months or less as cash equivalents.

All cash and cash equivalent balances are maintained by the State of Arizona Treasurer within the Local Government Investment Pool ("LGIP"). The LGIP is not registered with the Securities and Exchange Commission and investments are not subject to custodial credit risk. The State Board of Investment conducts monthly reviews of investment activity and performance. LGIP amounts are carried at fair value. Participant shares are purchased and sold based on the Net Asset Value ("NAV") of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are stated at original cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the property items, which range from 3 to 20 years. The costs of additions and replacements are capitalized. Repairs and maintenance are charged to expense as incurred. Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in Other within the Statements of Revenues, Expenses, and Changes in Net 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 UPRATING PROGRAM

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



SCHEDULE C ENERGY

Under its Electric Service Contract with Western, the Authority has preferential rights to excess energy ("Schedule C energy") generated at the Hoover Power Plant. The Authority buys Schedule C energy when available from Western during an operating year (October 1 to September 30). The Authority's financial statements are prepared on a fiscal year (July 1 to June 30) basis. When excess energy is available, the Authority bills its customers as Schedule C energy is delivered and receives payment during a given operating year, but Western does not bill for the cost of such Schedule C energy until the following operating year. An estimate of such amounts is accrued at the end of the fiscal year. The Statements of Net Assets as of June 30, 2005 and 2004 has a \$0 accrual for Schedule C energy as no Schedule C energy was available during the operating years.

OPERATING REVENUES

Operating revenues are derived from the sale of power to customers or from other contractual agreements. Operating revenues include \$6,150,000 and \$8,400,000 received from Salt River Project for scheduling entity services during the years ended June 30, 2005 and 2004, respectively. The revenue is the result of an agreement between the Authority and the Salt River Project which 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, 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.

INCOME TAXES

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

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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

GEOGRAPHIC AND PRODUCT CONCENTRATION

The Authority's revenues are derived from the sale of electrical power and services to 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 electric power from various providers.

RECLASSIFICATIONS

Certain amounts in the accompanying financial statements for June 30, 2004 have been reclassified to conform to the June 30, 2005 presentation. Such reclassifications had no effect on net assets as previously reported.

2. FUND ACCOUNTING

HOOVER UPGRATING FUND

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

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

APA GENERAL FUND

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

3. CAPITAL ASSETS, NET

Capital assets, net, of the APA General Fund at June 30, 2005 and 2004 were as follows:

	2005	2004
Transmission plant	\$ 319,565	\$ 289,049
Distribution plant	227,518	219,634
General plant	726,808	694,719
	<hr/> 1,273,891	<hr/> 1,203,402
Less: Accumulated depreciation	(1,062,105)	(1,043,999)
Capital assets, net	<hr/> \$ 211,786	<hr/> \$ 159,403



	June 30, 2004	Additions	Disposals	June 30, 2005
Capital assets				
Transmission plant	\$ 289,049	\$ 30,516	\$ -	\$ 319,565
Distribution plant	219,634	27,639	(19,755)	227,518
General plant - office	694,719	40,265	(8,176)	726,808
Total capital assets	<u>1,203,402</u>	<u>98,420</u>	<u>(27,931)</u>	<u>1,273,891</u>
Accumulated depreciation				
Transmission plant	(289,049)	-	-	(289,049)
Distribution plant	(195,430)	(8,068)	16,462	(187,036)
General plant - office	(559,520)	(32,956)	6,456	(586,020)
Total accumulated depreciation	<u>(1,043,999)</u>	<u>(41,024)</u>	<u>22,918</u>	<u>(1,062,105)</u>
Capital assets, net	<u>\$ 159,403</u>	<u>\$ 57,396</u>	<u>\$ (5,013)</u>	<u>\$ 211,786</u>

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

4. 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 \$5,119,484 and \$5,224,715 for the years ended June 30, 2005 and 2004, 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.

5. BONDS PAYABLE

Bonds payable consists of the following:

	June 30, 2004	Increases	Reductions	Transfers	June 30, 2005
Bond payable current	\$ 2,545,000	\$ -	\$ (2,545,000)	\$ 2,560,000	\$ 2,560,000
Bond payable long-term	57,520,000	-	-	(2,560,000)	54,960,000
Total bonds payable	<u>\$ 60,065,000</u>	<u>\$ -</u>	<u>\$ (2,545,000)</u>	<u>\$ -</u>	<u>\$ 57,520,000</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 Uprating Fund. Accordingly, the trust account assets and related liabilities are not included in the Authority's financial statements.

The Authority's outstanding bonds, totaling \$57,520,000, bear interest ranging from 5.00% to 5.25%, are due from fiscal year 2006 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 fiscal years ended June 30 and thereafter are as follows: \$2,560,000 in 2006, \$2,825,000 in 2007, \$3,120,000 in 2008, \$3,450,000 in 2009, \$3,815,000 in 2010 and \$41,750,000 in 2011 through 2018. Interest amounts due over the next five fiscal years ended June 30 and thereafter are as follows: \$2,894,363 in 2006, \$2,759,738 in 2007, \$2,611,113 in 2008, \$2,446,863 in 2009, \$2,265,238 in 2010, and \$9,356,134 in 2011 through 2018.

CROSSOVER REFUNDING

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

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

As a result of the crossover refunding transaction on October 1, 2003, the 2001 Series Bonds are reflected as obligations of the Authority at June 30, 2004 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 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 effective interest method as a component of interest expense over the life of the refunded bonds. The Authority amortized \$266,532 and \$199,902 for the years ended June 30, 2005 and 2004 resulting in a net deferred amount of \$1,945,522 and \$2,212,054 in the Statement 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 effective interest method. The Authority amortized \$390,836 and \$293,117 for the years ended June 30, 2005 and 2004, resulting in a net premium of bonds payable of \$2,852,699 and \$3,243,535 in the Statement of Net Assets, respectively.

6. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2005 and 2004, investments are collateralized with securities held by the Authority's trustee. The fair value of the investment securities at June 30 is as follows:

	2005	2004
Repurchase agreement	\$ 6,766,682	\$ 6,546,550
U.S. government securities	2,426,277	2,653,463
Total investments held by Trustee	\$ 9,192,959	\$ 9,200,013

On September 19, 1996, the Authority entered into a repurchase and custody agreement with MBIA Investment Management Corporation ("IMC") wherein the Authority agreed to effect a series of repurchase transactions with IMC, in investments allowable under the bond resolution agreements and state law, with a fixed earnings rate of 6.95%. The securities are held in trust by JP Morgan Institutional Trust Services. If at any time the aggregate market value of all purchased securities is less than the amount required under the repurchase and custody agreement (calculated using a percentage of 104%), the Authority may require IMC to transfer additional securities so the aggregate market value of all securities will equal or exceed such requirement. At June 30, 2005, the aggregate market value of all purchased securities exceeded the amount required under the repurchase and custody agreement.

7. 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 5.70% (5.20% retirement and .50% long-term disability) of their compensation for the years ended June 30, 2005 and 2004, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the years ended June 30, 2005 and 2004 by the Authority's covered employees were \$35,527 and \$38,991, respectively.

Matching employer member contributions were actuarially determined and fixed at the same rate as employee member contributions for the years ended June 30, 2005 and 2004. In the event the Plan's actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer member will be required to contribute the revised contribution percentage which is established by the Arizona State Legislature.



All full-time employees of the Authority are required to become members of the Plan. The Authority's total payroll for employees covered by this Plan for the years ended June 30, 2005 and 2004 was \$612,545 and \$659,550, 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.

8. ADDITIONAL BENEFITS

In addition to the pension benefits described above, ASRS offers health care benefits to retired and disabled members who are no longer eligible for health care benefits through their former member employer's group health plan. Retired is defined as actively receiving an annuity benefit and disabled is defined as receiving a long-term disability ("LTD") benefit through the LTD program administered by ASRS. A premium benefit is applied to the member's health insurance cost. The following chart illustrates the maximum amount of the monthly available benefit supplement for eligible members and their dependents:

Years of Credited Service	Percent of Premium Benefit	Member		Member and Dependent(s)	
		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

9. 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 June 30, 2005 and 2004, the Authority paid \$14,353,953 and \$13,179,355, 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 June 30, 2005 and 2004, the Authority paid \$5,237,895 and \$5,227,562, 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 June 30, 2005 and 2004, the Authority recognized a prepaid deposit of \$182,360 that is refundable 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 June 30, 2005 and 2004, the Authority paid \$6,451,476 and \$4,835,337, respectively, for purchased power under this contract for its customers.

DEBT SERVICE COVERAGE RATIO
YEAR ENDED JUNE 30, 2005
(UNAUDITED)

NET INCOME	\$ (716,796)
<hr/>	
Add:	
Interest Expense	\$ 2,990,812
Amortization	\$ 266,532
Depreciation	\$ 30,727
Western Credits	\$ 5,119,484
Credits to Customers for Prior Years	\$ 1,024,562
<hr/>	
Total Additions	\$ 8,715,321
<hr/>	
Deduct:	
Deferred Interest Expenses	\$ (2,520,052)
Premium Amortization	\$ (390,828)
Total Deductions	\$ (2,910,880)
<hr/>	
Income available for debt service	\$ 5,804,441
<hr/>	
Debt Service	\$ 5,547,062
<hr/>	
Debt service Coverage ratio	1.05

IN MEMORY OF

Ernest James "E.J./Ernie" Gregg, 85

Born: March 20, 1920 in Moyer, OK

Passed away: August 19, 2005.

Moved to Coolidge, AZ in 1936. A World War II Veteran serving in the U.S. Navy. Employed by the U.S. Department of the Interior during construction of Parker Dam; Chief Dispatcher for the Western Area Power Administration; retiring from the Arizona Power Authority after 10 yrs. service in 1988.

Robert J. Linssen, 65

Born: March 23, 1940 in Green Bay, WI.

Passed away: September 17, 2005.

Moved to Arizona in 1978. Former employee of the Arizona Public Service Company, and retired from the Salt River Project. At the time of his death, he was an electrical engineer for the Arizona Power Authority serving as the Director of Engineering and Operations. Bob was a Registered Professional Engineer and an active member of the Paradise Valley Rotary Club.



ARIZONA POWER AUTHORITY

1810 WEST ADAMS STREET
PHOENIX, ARIZONA 85007

(602) 542-4263
FAX (602) 253-7970

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