ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2018

CliftonLarsonAllen LLP
CLAconnect.com

ACCOUNTANTS' COMPILATION REPORT

Commission
Arizona Power Authority
Phoenix, Arizona

Management is responsible for the accompanying financial statements of the business-type activities and each major fund of the Arizona Power Authority (A Body, Corporate and Politic, of the State of Arizona) (the Authority), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 – 9, and the schedule of the Authority's proportionate share of the net pension liability and contributions on pages 26 – 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context, such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
March 1, 2019

Introduction

The following is a discussion and analysis of the Arizona Power Authority's (the Authority) financial performance for the operating year ended September 30, 2018. 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 2018 operating year's activities, resulting changes and known facts, and should be read in conjunction with the Authority's basic financial statements as of and for the year ended September 30, 2018.

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

USING THIS FINANCIAL REPORT

This financial report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows (on pages 10, 11, and 12, 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*, as amended.

AUTHORITY HIGHLIGHTS

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

REVENUES

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

Market Impacts on Investment Income – During operating year 2018 market conditions continued to result in historic low investment returns.

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 to existing programs during this operating year; however, a focused customer service program was created to assist in the onboarding of the new customers.

Increase/Decrease in Authorized Personnel – Changes in the Authority's services may result in increasing/decreasing authorized staffing. Operating year 2018 staffing costs (salary and related benefits) represented 4.47% of the Authority's operating costs. For operating year 2017, staffing costs represented 2.75% of the Authority's operating costs.

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

FINANCIAL HIGHLIGHTS

- The Authority's 2018 net position increased by $150,749.

- The Authority's 2017 net position decreased by $389,328 primarily due to a decrease in Western credits received.

- The Authority's 2018 operating revenues decreased by $12,005,123 or 34.49%, primarily due to the termination of Scheduling Entity revenue and transmission revenue.

- The Authority's 2017 operating revenues increased by $5,361,448 or 18.21%, primarily due to an increase in supplemental power.

STATEMENTS OF NET POSITION

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

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

Principal Payment on Debt – which will reduce current assets and reduce long-term debt, and impact restricted net position.

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

Condensed Statements of Net Position
Business-Type Activities

	2018	2017	Difference in Amount	Difference in Percent
Current Assets	$ 10,264,713	$ 18,115,472	$ (7,850,759)	(43.34)%
Long-Term Assets	23,254,626	20,935,973	2,318,653	11.07
Capital Assets, Net	89,455	104,101	(14,646)	(14.07)
Total Assets	33,608,794	39,155,546	(5,546,752)	(14.17)
Deferred Outflows of Resources	263,297	617,386	(354,089)	(57.35)
Current Liabilities	4,090,899	9,614,023	(5,523,124)	(57.45)
Long-Term Bonds Payable, Net	26,932,916	27,305,872	(372,956)	(1.37)
Total Liabilities	31,023,815	36,919,895	(5,896,080)	(15.97)
Deferred Inflows of Resources	121,088	276,598	(155,510)	(56.22)
Net Investment in Capital Assets	89,455	104,101	(14,646)	(14.07)
Restricted for Debt Service	2,337,802	8,721,076	(6,383,274)	(73.19)
Unrestricted	299,931	(6,248,738)	6,548,669	(104.80)
Total Net Position	$ 2,727,188	$ 2,576,439	$ 150,749	5.85

Operating Year 2018 Condensed Statement of Net Position Discussion

Current Assets decreased due to the last principal and interest payments of the 2001 Bonds.

Long-Term Assets increased primarily due to the increase in customer advances.

Capital Assets, Net decreased due to annual depreciation of $15,000.

Deferred Outflows of Resources decreased due to the full amortization of the Advances for Hoover Uprating Program as of September 30, 2018.

Current Liabilities decreased primarily due to the last principal bond payment of the 2001 Bonds.

Long-Term Liabilities decreased primarily due to the classification of the principal of the 2014 bonds to be paid in operating year 2019.

Deferred Inflows of Resources decreased due to the change in the net pension liability accrual.

Net Position overall change was flat. The unrestricted net position deficit decreased, and offsetting restricted for debt service net position decreased when compared to 2017, due to the principal payment of the 2001 Bonds.

CAPITAL ASSETS

As of September 30, 2018, the Authority had $89,455 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of $14,646 during operating year 2018, and a net decrease of $15,429 during operating year 2017.

	September 30, 2018	September 30, 2017
General Plant - Office	$ 89,455	$ 104,101
Net Investment in Capital Assets, End of Year	$ 89,455	$ 104,101

The following reconciliation summarizes the change in capital assets for the years ended September 30, 2018 and 2017, which is presented in detail in Note 4:

	September 30, 2018	September 30, 2017
Beginning Balance	$ 104,101	$ 119,530
Additions	-	2,260
Depreciation	(14,646)	(17,689)
Ending Balance	$ 89,455	$ 104,101

DEBT OUTSTANDING

As of September 30, 2018, the Authority had $-0- in debt outstanding for the 2001 Series Bonds, compared to $6,220,000 in the prior year, as a result of a principal payment of $6,220,000, which was paid on October 1, 2017. In addition, the Authority had $26,565,000 in debt outstanding for the 2014 Series Bonds.

As of September 30, 2017 the Authority had $6,220,000 in debt outstanding for the 2001 Series Bonds, compared to $12,125,000 in the prior year, as a result of a principal payment of $5,905,000, which was paid on October 1, 2016. In addition, the Authority had $26,565,000 in debt outstanding for the 2014 Series Bonds. Also see Note 8 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 years 2018 and 2017, the Commission did not change rates.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

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

Other Income (Expenses) – which increase/decrease as a result of investment market conditions, and amortization of the future benefit of the 2014 bond refinancing.

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Business-Type Activities

	2018	2017	Difference in Amount	Difference in Percent
Operating Revenues	$ 22,806,260	$ 34,811,383	$ (12,005,123)	(34.49)%
Operating Expenses:				
Purchased Power	19,775,877	24,316,730	(4,540,853)	(18.67)
Western Credits	-	(70,224)	70,224	(100.00)
Amortization of Hoover Uprating Program Costs	187,313	70,224	117,089	166.74
Transmission and Distribution	1,166	7,095,369	(7,094,203)	(99.98)
Amortization of Hoover Prepayment Program	-	1,277,389	(1,277,389)	(100.00)
Administrative and General	1,582,598	1,357,710	224,888	16.56
Depreciation	14,646	17,689	(3,043)	(17.20)
Total Operating Expenses	21,561,600	34,064,887	(12,503,287)	(36.70)
Operating Income	1,244,660	746,496	498,164	66.73
Nonoperating Income (Expenses)				
Interest Expense	(1,258,356)	(1,522,659)	264,303	(17.36)
Deferred Interest Expense	-	294,878	(294,878)	(100.00)
Interest Income	164,445	91,957	72,488	78.83
Total Nonoperating Income (Expenses)	(1,093,911)	(1,135,824)	41,913	(3.69)
Changes in Net Position	150,749	(389,328)	540,077	(138.72)
Net Position - Beginning of Year	2,576,439	2,965,767	(389,328)	(13.13)
Net Position - End of Year	$ 2,727,188	$ 2,576,439	$ 150,749	5.85

Operating Year 2018 Changes in Net Position Discussion

Net position increased overall because of the following:

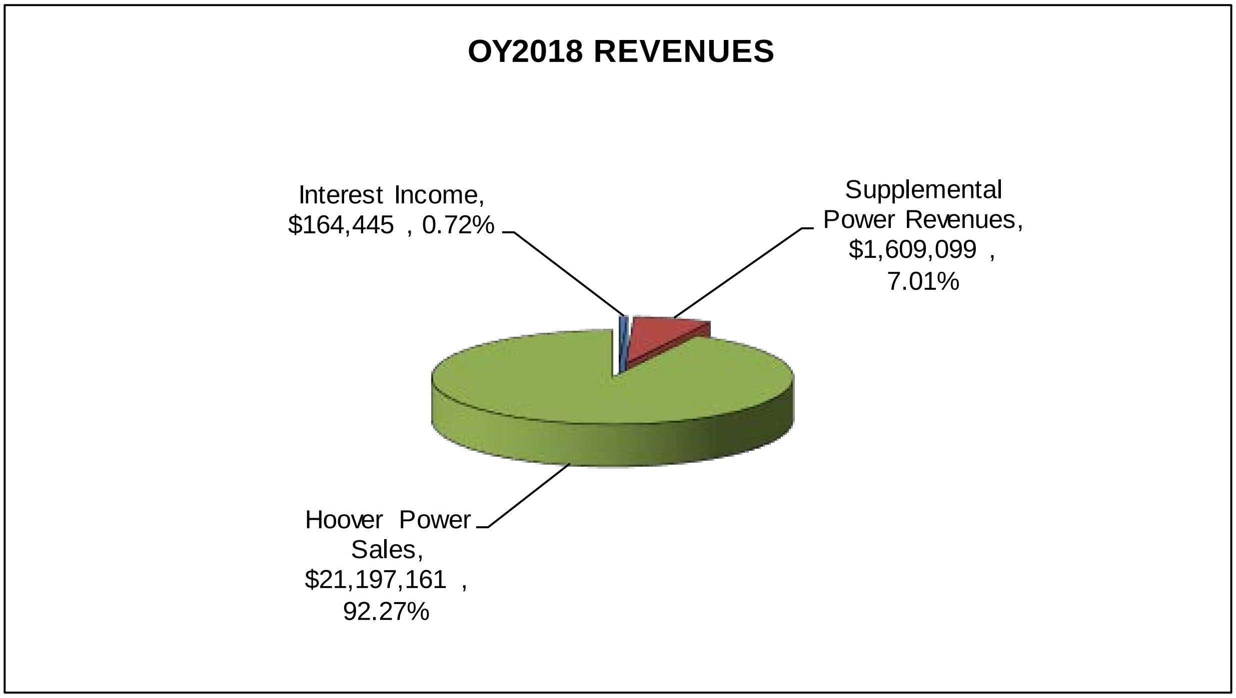
- Operating revenues decreased primarily due to a decrease of $7.1 million in transmission revenue (due to the expiration of the transmission contracts) and a decrease of $5.1 million in SRP revenue for the Scheduling Entity (due to the expiration of the contract).

- Total operating expenses decreased primarily due to a decrease of $7.1 million in transmission costs and $6.3 million in supplemental power.

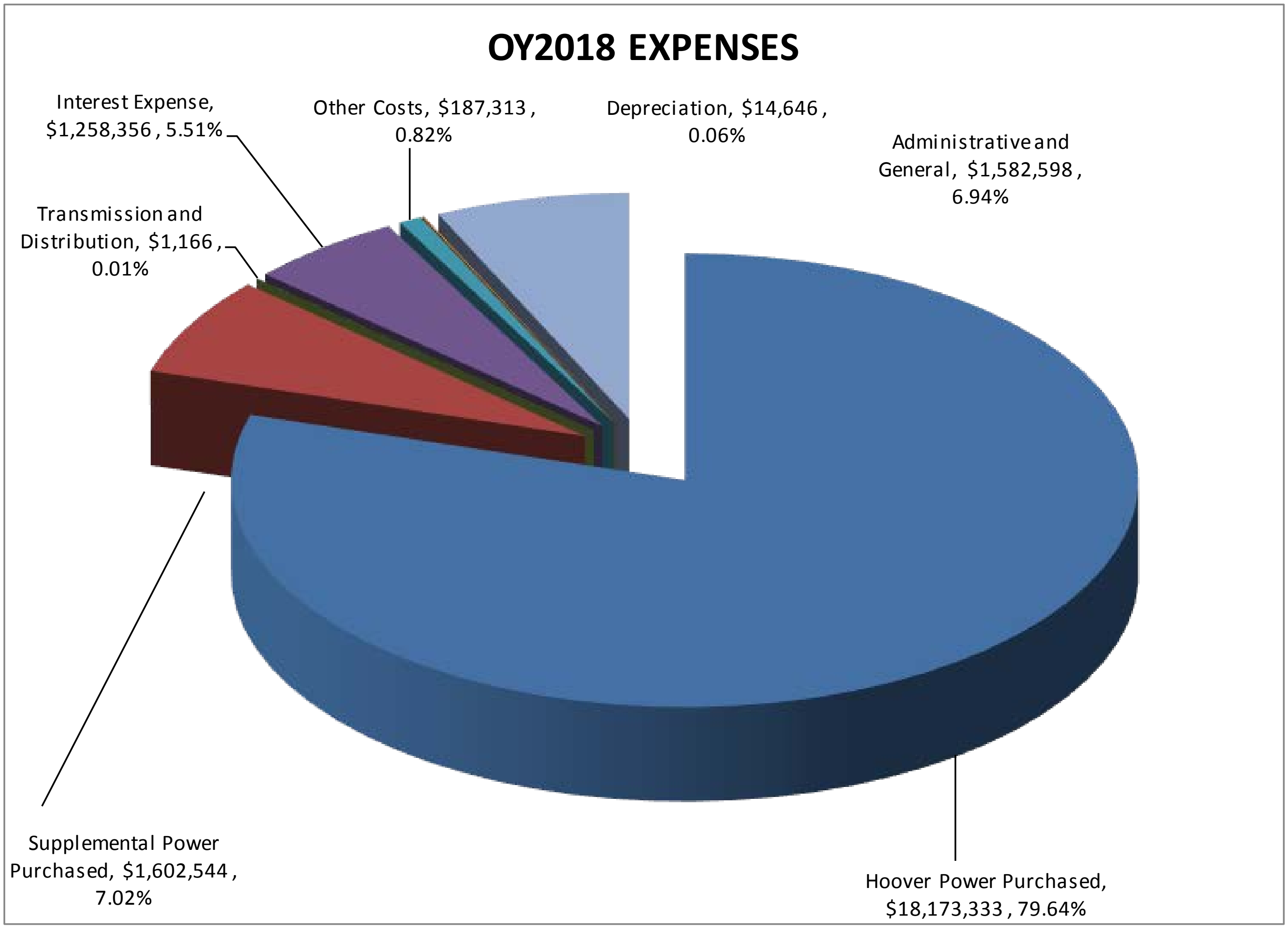
- Administrative and general expenses increased primarily due to the change in post-employment and pension liabilities.

Business-Type Activities

The following chart depicts the sources of revenues for the operating year 2018:



The following chart depicts the sources of expenses for the operating year 2018:



REQUEST FOR FINANCIAL INFORMATION

The information contained in the Management's Discussion and Analysis is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Accounting Department, Arizona Power Authority, 1810 West Adams Street, Phoenix, Arizona, 85007.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018
(SEE ACCOUNTANTS' COMPILATION REPORT)

	APA General Fund	Hoover Uprating Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 3,963,289	$ 3,050,630	$ 7,013,919
Investments - Short-Term	-	1,146,122	1,146,122
Accounts Receivable, Customer Power Purchases	1,125	2,103,547	2,104,672
Total Current Assets	3,964,414	6,300,299	10,264,713
NONCURRENT ASSETS			
Capital Assets, Net	89,455	-	89,455
Investment - Long-Term	-	1,761,368	1,761,368
Customer Advances	-	1,523,353	1,523,353
Future Benefit of Reduced Power Rates	-	19,969,905	19,969,905
Total Noncurrent Assets	89,455	23,254,626	23,344,081
Total Assets	4,053,869	29,554,925	33,608,794
DEFERRED OUTFLOWS OF RESOURCES			
Arizona State Retirement System	-	263,297	263,297
Total Deferred Outflows of Resources	-	263,297	263,297
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Other	-	788,362	788,362
Customer Refunds	-	431,166	431,166
Power Contracts Payable	121,934	1,611,381	1,733,315
Accrued Interest Payable	-	598,056	598,056
Bonds Payable - Short-Term	-	540,000	540,000
Total Current Liabilities	121,934	3,968,965	4,090,899
LONG-TERM LIABILITIES			
Bonds Payable - Long-Term	-	26,025,000	26,025,000
Net Pension Liability	-	907,916	907,916
Total Long-Term Liabilities	-	26,932,916	26,932,916
Total Liabilities	121,934	30,901,881	31,023,815
DEFERRED INFLOWS OF RESOURCES			
Arizona State Retirement System	-	121,088	121,088
Total Deferred Inflows of Resources	-	121,088	121,088
NET POSITION (DEFICIT)			
Net Investment in Capital Assets	89,455	-	89,455
Restricted for Debt Service	-	2,337,802	2,337,802
Unrestricted	3,842,480	(3,542,549)	299,931
Total Net Position (Deficit)	$ 3,931,935	$ (1,204,747)	$ 2,727,188

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2018
(SEE ACCOUNTANTS' COMPILATION REPORT)

	APA General Fund	Hoover Uprating Fund	Total
OPERATING REVENUES	$ 1,609,099	$ 21,197,161	$ 22,806,260
OPERATING EXPENSES			
Purchased Power	1,602,544	18,173,333	19,775,877
Amortization of Hoover Uprating Program Costs	-	187,313	187,313
Transmission and Distribution	1,166	-	1,166
Administrative and General	-	1,582,598	1,582,598
Depreciation	14,646	-	14,646
Other	(14,646)	14,646	-
Total Operating Expenses	1,603,710	19,957,890	21,561,600
OPERATING INCOME	5,389	1,239,271	1,244,660
NONOPERATING INCOME (EXPENSES)			
Interest Expense	-	(1,258,356)	(1,258,356)
Interest Income	58,532	105,913	164,445
Total Nonoperating Income (Expenses)	58,532	(1,152,443)	(1,093,911)
CHANGES IN NET POSITION	63,921	86,828	150,749
Net Position (Deficit) - Beginning of Year	3,868,014	(1,291,575)	2,576,439
NET POSITION (DEFICIT) - END OF YEAR	$ 3,931,935	$ (1,204,747)	$ 2,727,188

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018
(SEE ACCOUNTANTS' COMPILATION REPORT)

	APA General Fund	Hoover Uprating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	$ 1,635,224	$ 21,272,642	$ 22,907,866
Cash Payments to Suppliers for Goods or Services	(1,494,149)	(20,212,208)	(21,706,357)
Cash Payments to Employees for Services	-	(678,176)	(678,176)
Net Cash Provided by Operating Activities	141,075	382,258	523,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	58,532	105,913	164,445
Purchase of Investments, Net	-	(1,765,793)	(1,765,793)
Proceeds from Sale and Maturities of Investments	-	8,828,418	8,828,418
Net Cash Provided by Investing Activities	58,532	7,168,538	7,227,070
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest Payments on Bonds Payable	-	(1,421,631)	(1,421,631)
Principal Payments on Bonds Payable	-	(6,220,000)	(6,220,000)
Net Cash Used by Capital and Related Financing Activities	-	(7,641,631)	(7,641,631)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	199,607	(90,835)	108,772
Cash and Cash Equivalents - Beginning of Year	3,763,682	3,141,465	6,905,147
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,963,289	$ 3,050,630	$ 7,013,919
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	$ 5,389	$ 1,239,271	$ 1,244,660
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	14,646	-	14,646
Increase (Decrease) in Cash Resulting from Changes In:			
Accounts Receivable	26,125	75,481	101,606
Customer Advances	-	(1,523,353)	(1,523,353)
Advances for Hoover Uprating Program	-	482,960	482,960
Arizona Retirement System Deferred Outflows of Resources	-	(128,871)	(128,871)
Accounts Payable and Other	-	645,208	645,208
Customer Refunds	-	(585,767)	(585,767)
Power Contracts Payable	94,915	165,795	260,710
Net Pension Liability	-	167,044	167,044
Arizona Retirement System Deferred Inflows of Resources	-	(155,510)	(155,510)
Net Cash Provided by Operating Activities	$ 141,075	$ 382,258	$ 523,333

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

The Authority supplies capacity and energy on a wholesale basis to certain power purchasers in the state of Arizona. The Authority's primary source of power and energy is the Hoover Power Plant at Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. Hoover power is produced by the Boulder Canyon Project hydro-power 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. The Hoover Power Plant has been in continuous operation since that time. Power and energy from the Hoover Power Plant is transmitted to load centers in Arizona, California, and Nevada. The Authority first contracted for Arizona's share of Hoover power in 1952 and has continuously provided power and energy to its customers since that time.

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

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

Measurement Focus

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

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.

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

Investments

The Authority's investments are U.S. Treasury obligations which are used to fund its debt service obligation. All such investments are stated at fair value based on quoted market prices.

Capital Assets and Depreciation

Capital assets are initially stated at original cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the property items, which range from 3 to 20 years. The costs of additions and replacements are capitalized. Repairs and maintenance are charged to expense as incurred.

Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset, with any resulting gain or loss reflected in other income or expense within the Statement of Revenues, Expenses, and Changes in Net Position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Customer Advances

The Authority's 1987 customer contracts expired on September 30, 2017 and were replaced by 50-year contracts which reallocated approximately 5% of the Authority's entitlement to 35 new customers commencing on October 1, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer Advances (Continued)

As part of the reallocation, transition costs, and repayable advances were reconciled as of the end of the prior contracts and the proportionate share of these costs were calculated for the new customers. The Authority is acting as an agent of behalf of its old customers and new customers in remitting prepaid costs to old customers. These amounts are shown on the statement of net position as customer advances under noncurrent assets (for amounts prepaid by the Authority to the Western Area Power Administration on the customers' behalf) and as part of accounts payable and other (for amounts collected from customers but not yet submitted to the "old" Authority customers and the Western Area Power Administration).

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statement of net position in a separate section following assets and liabilities, respectively. The Authority elected the optional statement of net position presentation.

The Authority recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. The deferred outflows of resources are related to the Authority's pension plan.

The Authority recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources relate to the Authority's pension plan.

Hoover Prepayment Program

The Power Resource Revenue Bonds, (2014 Series Bonds) (Hoover Prepayment Program) were issued to advance funds to cover the Authority's proportionate share of the obligations incurred by the United States Bureau of Reclamation for certain improvements at Hoover Dam. The original advance of $23,843,169 will result in a reduction of future rates paid by the Authority for the power and energy from the Boulder Canyon Project. The Authority reports the future benefit of reduced power rates as an asset in the statement of net position. The future benefit of reduced power rates are amortized in a systematic and rational manner over the life of the bonds which will mature October 1, 2045. The amortization expense is reported in the statement of revenues, expenses, and changes in net position.

Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) and additions to/deductions from ASRS's fiduciary net position have been determined on the same basis as they are reported by ASRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues

Operating revenues are derived from the sale of power to customers or from other contractual agreements.

Application of Net Position to Expenses Incurred

The Authority's restricted resources are funds held by the trustee in the debt service and debt service reserve accounts. The Authority uses restricted resources solely for debt service associated with its outstanding bonds. The Authority would apply unrestricted, net position to expenses incurred which are not restricted.

Customer Credits

The Authority operates on a nonprofit basis and reduces charges to its customers through credits on power bills or checks to customers during the subsequent operating year for any revenues collected in excess of expenses during the current operating year. The Authority is required under state statute to set the rates at levels sufficient to pay all expenses incurred during the operating year.

Refunds of $976,462 were paid to the customers during the year ended September 30, 2018.

Income Taxes

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

Geographic and Product Concentration

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

NOTE 2 FUND ACCOUNTING

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.

NOTE 2 FUND ACCOUNTING (CONTINUED)

Hoover Uprating Fund (Continued)

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 expired September 30, 2017. The revenues and expenditures applicable to the sale and transmission of power and energy received by the Authority from Western under these contracts are accounted for in the Hoover Uprating Fund.

APA General Fund

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

NOTE 3 CASH AND CASH EQUIVALENTS

All cash and cash equivalent balances except for bond funds held by the Trustee are maintained by the State of Arizona Treasurer within the Local Government Investment Pool (LGIP). The LGIP is not registered with the Securities and Exchange Commission and investments are not subject to custodial credit risk. The state Board of Investment conducts monthly reviews of investment activity and performance. LGIP amounts are carried at fair value. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The Authority's LGIP investment balance represents its cash and cash equivalents as of September 30, 2018.

NOTE 4 FAIR VALUE

In determining fair value, the Authority uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. Fair value measurements framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Fair value measurements define levels within the hierarchy based on the reliability of input as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

NOTE 4 FAIR VALUE (CONTINUED)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The Authority's investments at September 30, 2018, categorized within the fair value hierarchy detailed above were as follows:

	Fair Value Measurements Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by Fair Value Level				
Direct U.S. Treasury Obligations	$ 2,907,490	$ 2,907,490	$ -	$ -
Total Investments by Fair Value Level	2,907,490	$ 2,907,490	$ -	$ -
External Investment Pools Measured at Fair Value				
State Treasurer's Investment Pool	7,013,919			
Total Investments Measured at Fair Value	$ 9,921,409			

NOTE 5 CAPITAL ASSETS

Capital assets of the Authority at September 30, 2018 were as follows:

	Balances September 30, 2017	Additions	Deletions	Balances September 30, 2018
Transmission Plant	$ 319,565	$ -	$ -	$ 319,565
Distribution Plant	227,518	-	-	227,518
General Plant - Office	792,245	-	(20,155)	772,090
Total Depreciable Assets	1,339,328	-	(20,155)	1,319,173
Less: Accumulated Depreciation for:				
Transmission Plant	(319,565)	-	-	(319,565)
Distribution Plant	(227,518)	-	-	(227,518)
General Plant - Office	(688,144)	(14,646)	20,155	(682,635)
Total Accumulated Depreciation	(1,235,227)	(14,646)	20,155	(1,229,718)
Capital Assets, Net	$ 104,101	$ (14,646)	$ -	$ 89,455

The Authority's depreciation expense was $14,646 for the year ended September 30, 2018.

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

NOTE 6 HOOVER PREPAYMENT PROGRAM

The future benefit of reduced power rates reported as an asset at September 30, 2018 was as follows:

Future Benefit of Reduced Power Rates	$ 23,843,169
Accumulated Amortization	(3,873,264)
Future Benefit of Reduced Power Rates, Net	$ 19,969,905

The Authority's amortization of future benefit of reduced power rates was $-0-, for the year ended September 30, 2018.

NOTE 7 BONDS PAYABLE

Bonds payable consists of the following:

	September 30, 2017	Increases	Reductions	Transfers	September 30, 2018
Bond Payable:					
Short-Term	$ 6,220,000	$ -	$ (6,220,000)	$ 540,000	$ 540,000
Long-Term	26,565,000	-	-	(540,000)	26,025,000
Total Bonds Payable	$ 32,785,000	$ -	$ (6,220,000)	$ -	$ 26,565,000

The Authority's outstanding bonds, totaling $26,565,000, bear interest ranging from 1.799% to 4.918%, are due through Operating Year 2046, and are secured by the pledged property, as defined by the bond resolution, which includes the proceeds from the sale of the bonds, rights, and interest in various contracts and revenues.

Principal and interest amounts due over the next five operating years ending September 30 and thereafter are as follows:

Operating Year	Principal	Interest
2019	$ 540,000	$ 1,196,112
2020	550,000	1,186,398
2021	560,000	1,174,303
2022	580,000	1,159,138
2023	595,000	1,141,402
2024-2028	3,310,000	5,373,767
2029-2033	4,055,000	4,627,379
2034-2038	5,130,000	3,546,124
2039-2043	6,515,000	2,155,068
2044-2046	4,730,000	472,866
Total	$ 26,565,000	$ 22,032,557

NOTE 8 RETIREMENT PLAN

The Authority contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the state of Arizona. At September 30, 2018, the Authority reported the following amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Activities	Business-Type Activities
Net Pension Liability	$ 907,916
Deferred Outflows of Resources	263,297
Deferred Inflows of Resources	121,088
Pension Expense (Recovery)	(117,337)

Plan Description – Authority employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multi-employer defined benefit pension plan, a cost-sharing, multi-employer defined benefit health insurance premium benefit (OPEB), a cost-sharing, multi-employer defined benefit long-term disability plan (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2, and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its web site at www.azasrs.gov.

The OPEB plan is not included in the Authority's financial statements as the liability and related deferred inflows of resources, deferred outflows of resources, and OPEB expense are not material.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Before July 1, 2011	On or After July 1, 2011
Years of Service and Age Required to Receive Benefits	Sum of Years and Age Equals 80 10 Years Age 62 5 Years Age 50* Any Years Age 65	30 Years Age 55 25 Years Age 60 10 Years Age 62 5 Years Age 50* Any Years Age 65
Final Average Salary is Based on:	Highest 36 Consecutive Months of Last 120 Months	Highest 60 Consecutive Months of Last 120 Months
Benefit Percentage Per Year of Service	2.1% to 2.3%	2.1% to 2.3%

** With actuarially reduced benefits*

NOTE 8 RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued) – Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended September 30, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.34% through June 30, 2018 and 11.64% from July 1, 2018 to September 30, 2018 of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 10.90% through June 30, 2018 and 11.18% from July 1, 2018 to September 30, 2018 of the active members' annual covered payroll.

In addition, the Authority was required by statute to contribute at the actuarially determined rate of 9.26% through June 30, 2018 and 10.41% from July 1, 2018 to September 30, 2018 of annual covered payroll of retired members who worked for the Authority in positions that would typically be filled by an employee who contributes to the ASRS. The Authority's contributions to the pension plan for the year ended September 30, 2018, were $73,155.

During the operating year ended September 30, 2018, the Authority paid all ASRS pension contributions out of the Hoover Uprating Fund.

Pension Liability – At September 30, 2018, the Authority reported a liability of $907,916 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018.The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The Authority's proportion of the net pension liability was based on the Authority's operating year 2018 contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The Authority's proportion measured as of June 30, 2018, was 0.00651%, which was an increase of 0.00192% from its proportion measured as of June 30, 2017.

NOTE 8 RETIREMENT PLAN (CONTINUED)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended September 30, 2018, the Authority recognized pension expense for ASRS of ($117,337). At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 25,012	$ 5,005
Changes of Assumptions or Other Inputs	24,025	80,499
Net difference Between Projected and Actual Earnings on Pension Plan Investments	-	21,833
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	195,471	13,751
Contributions Subsequent to the Measurement Date	18,789	-
Total	$ 263,297	$ 121,088

The $18,789 reported as deferred outflows of resources related to ASRS pensions resulting from the Authority contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the year ended September 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	$ 93,809
2020	72,521
2021	(33,119)
2022	(9,791)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation	Fair Value
Investment Rate of Return	7.5%
Projected Salary Increases	2.7 - 7.2%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP

NOTE 8 RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions (Continued) – Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2016.

On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective beginning July 2018. The long-term expected rate of return on ASRS pension plan investments was determined to be 5.07% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis
Equity	50 %	2.75 %
Fixed Income	30	1.15
Real Estate	20	1.17
Total Asset Allocation	100 %	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 RETIREMENT PLAN (CONTINUED)

Sensitivity of the Authority's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7%) or one percentage point higher (9%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Authority's Proportionate Share of the Net Pension Liability	$ 1,294,255	$ 907,916	$ 585,136

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Lower Colorado Multi-Species Conservation Program (MSCP) is a cooperative effort between Federal and nonfederal 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 year ended September 30, 2018 the Authority paid $163,400 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 10 INVESTMENTS HELD BY TRUSTEE

Certain funds of the Authority are secured under the Authority's bond resolution and held by the Authority's Trustee. The Authority has no formal policy concerning exposure to custodial credit risk, interest rate risk or credit risk. The Authority invests in U.S. Government securities collateralized with U.S. Government obligations held by the Authority's Trustee. The fair value of the investment securities at September 30, 2018 is as follows:

Money Market Funds	$ 2,907,490

NOTE 10 INVESTMENTS HELD BY TRUSTEE (CONTINUED)

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, 2018, the investments held by the Trustee consist of U.S. Treasury obligations, which are direct obligations of the United States of America, as required by the Bond Resolution. The U.S. Treasury obligations are rated AA+ by Standard & Poor's Rating Services and Aaa by Moody's Investors Service. There is minimal credit or interest rate risk.

NOTE 11 PURCHASED POWER, SALES, AND TRANSMISSION COMMITMENTS

The Authority has sales contracts with its customers. Under these contracts, customers are obligated to pay for their proportionate share of Hoover power and transmission costs if delivered or made available for delivery. These sales contracts expired September 30, 2017. As of October 1, 2017, the Authority has reallocated and entered into new take-or-pay contracts with 63 customers, across the state of Arizona, for a 50-year contract period.

The Authority is party to a new contract for electric service with Western which began October 1, 2017. This requires the Authority to pay approximately 19.75% of Western's revenue requirements each operating year until the contract expires. During the year ended September 30, 2018, the Authority paid $18,173,333 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 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 year ended September 30, 2018 the Authority paid $1,602,544 for purchased power under this contract for its customers. As of October 1, 2017, the Authority renewed its ability to purchase supplemental power from SRP, and still retains the ability to purchase supplemental power from the Southwest Public Power Agency, Inc. (SPPA) as well.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through March 1, 2019, the date the financial statements were available to be issued.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
SCHEDULE OF THE AUTHORITY’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY IN THE ARIZONA STATE RETIREMENT SYSTEM (ASRS) PLAN
SEPTEMBER 30, 2018
(SEE ACCOUNTANTS’ COMPILATION REPORT)

	Operating Year (Measurement Date)					
	2018 (2018)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 Through 2009
Authority's Proportion of the Net Pension Liability	0.00651%	0.00459%	0.00593%	0.00610%	0.00771%	Information Not Available
Authority's Proportionate Share of the Net Pension Liability	$ 907,916	$ 740,872	$ 923,113	$ 902,329	$ 1,282,102	
Authority's Covered Payroll	$ 666,827	$ 429,939	$ 517,487	$ 491,323	$ 683,359	
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	136.15%	172.32%	178.38%	183.65%	187.62%	
Plan Fiduciary Net Positon as a Percentage of the Total Pension Liability	73.00%	67.06%	68.35%	69.49%	Information Not Available	

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
SCHEDULE OF THE AUTHORITY’S CONTRIBUTIONS TO THE ARIZONA STATE RETIREMENT SYSTEM (ASRS) PLAN
SEPTEMBER 30, 2018 AND NINE YEARS PRIOR
(SEE ACCOUNTANTS’ COMPILATION REPORT)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily Required Contribution	$ 73,155	$ 49,638	$ 46,648	$ 59,623	$ 58,819	$ 70,239	$ 71,733	$ 66,816	$ 60,860	$ 56,569
Authority's Contributions in Relation to the Statutorily Required Contribution	73,155	49,638	46,648	59,623	58,819	70,239	71,733	66,816	60,860	56,569
Authority's Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's Covered Payroll	$ 666,827	$ 460,462	$ 429,939	$ 517,487	$ 491,323	$ 683,359	$ 714,370	$ 695,896	$ 678,912	$ 650,423
Authority's Contributions as a Percentage of Covered Payroll	10.97%	10.78%	10.85%	11.52%	11.97%	10.28%	10.04%	9.60%	8.96%	8.70%

NOTE 1 ACTUARIALLY DETERMINED CONTRIBUTION RATE

Actuarial determined contribution rates for ASRS are calculated as of June 30, one year prior to the end of the operating year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial Valuation Date	June 30, 2017
Actuarial Roll Forward Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method:	
Plan Amendments	Immediate
Investment Gain/Loss	5 Years
Assumption Gain/Loss	Average Future Service Lives
Experience Gain/Loss	Average Future Service Lives
Asset Valuation	Fair Value
Discount Rate	7.5%
Projected Salary Increases	2.7 - 7.2%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP