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

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

ARIZONA POWER AUTHORITY
(A Body, Corporate and Politic, of the State of Arizona)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arizona Power Authority
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Arizona Power Authority (A Body, Corporate and Politic, of the State of Arizona) (the Authority), which comprise the statements of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Arizona Power Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Power Authority as of September 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

During operating year ended September 30, 2015, the Arizona Power Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result of the implementation of GASBS No. 68 and 71, Arizona Power Authority reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and schedule of the Authority's proportionate share of the net pension liability and contributions on pages 3 - 11 and pages 31 - 32 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 which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 11, 2016

Introduction

The following is a discussion and analysis of the Arizona Power Authority's ("Authority") financial performance for the operating year ended September 30, 2015. 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 2015 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, 2015.

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

USING THIS FINANCIAL REPORT

This financial report consists of a series of financial statements. The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows (on pages 12, 13 and 14, 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

Transmission Agreement - On January 24, 2003, the Authority and the Western Area Power Administration ("Western") entered into an agreement for the Advancement of Funds for Transmission Services. The Authority had an existing agreement with Western that provided for the delivery of power and energy. The agreement provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. For the years ended September 30, 2015 and 2014, the Authority advanced a net prepaid deposit of $613,373 and $599,055, respectively, which is included in the Statements of Net Position. This contract gives Western greater flexibility and allows them to work more effectively with the Authority and other customers.

Effects of Drought on Hoover Energy – The Colorado River Basin has been experiencing severe drought conditions for the past sixteen 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 that 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 2015 market conditions have resulted 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 decreased power production resulting from generation.

EXPENSES

Introduction of New Programs – There were no changes to existing programs during this operating year; however, individual programs may be added or deleted to meet changing Authority needs.

Increase/Decrease in Authorized Personnel – Changes in the Authority's services may result in increasing/decreasing authorized staffing. Operating year 2015 staffing costs (salary and related benefits) represent 2.88% of the Authority's operating costs. For operating year 2014, staffing costs represent 2.81% 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 2015 net position decreased by $2,108,698 primarily due to GASB 68 Pension Liability reporting and amortization of the future benefit of reduced power rates associated with the Power Revenue Bonds, 2014 Series (Hoover Prepayment Project).

- The Authority's 2014 net position decreased by $1,145,347 due to bond issuance costs related to the Power Resource Revenue Bonds, 2014 Series (Hoover Prepayment Project) and the reduction in supplemental power sales, which resulted in a decrease in revenues.

- The Authority's 2015 operating revenues increased by $1,505,069 or 5.5% due largely to an increase in supplemental power sales, and is partially offset by reduced rates from refinancing accomplished under the Hoover Prepayment Project.

- The Authority's 2014 operating revenues decreased by $1,173,777 or 4.1% due largely to a reduction in supplemental power sales.

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

	2015	2014	Difference in Amount	Difference in %
Current assets	$ 15,824,860	$ 15,632,243	$ 192,617	1.2
Long-term assets	8,375,379	8,357,154	18,225	0.2
Capital assets, net	78,011	88,688	(10,677)	(12.0)
Total assets	24,278,250	24,078,085	200,165	0.8
Deferred outflows of resources	25,959,115	32,519,629	(6,560,514)	(20.2)
Current liabilities	8,857,741	8,702,458	155,283	1.8
Long-term liabilities	39,632,776	44,384,567	(4,751,791)	(10.7)
Total liabilities	48,490,517	53,087,025	(4,596,508)	(8.7)
Deferred inflows of resources	344,857	-	344,857	100.0
Net investment in capital assets	78,011	88,688	(10,677)	(12.0)
Restricted for debt service	14,906,735	14,740,464	166,271	1.1
Unrestricted	(13,582,755)	(11,318,463)	(2,264,292)	20.0
Total net position	$ 1,401,991	$ 3,510,689	$ (2,108,698)	(60.1)

Operating Year 2015 Condensed Statement of Net Position Discussion

Current Assets increased due to an increase in Western Credits associated with the 2001 Series Bonds and the collection of 2014 Series Bond Interest.

Long-Term Assets increased slightly due to an increase in prepaid transmission.

Capital Assets, Net decreased due to normal depreciation/attrition of capital assets.

Current Liabilities increased due to the increase in the 2001 Series Bonds current maturities.

Long-Term Liabilities decreased due to a paydown of the 2001 Bond Principal. See further explanation on page 7.

Net Position decreased by $2,108,698 primarily due to GASB 68 Pension Liability reporting and amortization of the future benefit of reduced power rates associated with the Power Revenue Bonds, 2014 Series (Hoover Prepayment Project).

CAPITAL ASSETS

As of September 30, 2015, the Authority had $78,011 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of $10,677 during operating year 2015.

	September 30, 2015		September 30, 2014	
Transmission plant	$	-	$	2,289
Distribution plant		4,031		6,334
General plant - office		73,980		80,065
Net investment in capital assets, end of year	$	78,011	$	88,688

The following reconciliation summarizes the change in Capital Assets for the years ended September 30, 2015 and 2014, which is presented in detail in Note 4:

	September 30, 2015		September 30, 2014	
Beginning balance	$	88,688	$	103,212
Additions		3,187		5,141
Depreciation		(13,864)		(19,665)
Ending balance	$	78,011	$	88,688

DEBT OUTSTANDING

As of September 30, 2015, the Authority had $17,740,000 in debt outstanding for the 2001 Series Bonds, compared to $23,070,000 in the prior year, as a result of a principal payment of $5,330,000, which was paid on October 1, 2014. In addition, the Authority had $26,565,000 in debt outstanding for the 2014 Series Bonds, which were issued on March 27, 2014.

As of September 30, 2014, the Authority had $23,070,000 in debt outstanding for the 2001 Series Bonds, compared to $28,135,000 in the prior year, as a result of a principal payment of $5,065,000, which was paid on October 1, 2013. These payments were scheduled principal payments during the year. In addition, the Authority had $26,565,000 in debt outstanding for the 2014 Series Bonds, which were issued on March 27, 2014. Also see Note 6 to the Financial Statements for a detailed summary of debt activity during the year.

LIQUIDITY

Pursuant to Arizona Revised Statutes (A.R.S.) Section 30-124, the Commission of the Authority shall establish electric rates to include such price components as are necessary to maintain the Authority, to provide and maintain reasonable working capital and depreciation and other necessary and proper reserves. Components that are necessary to maintain the Authority include employee payroll, occupancy costs, cost of purchases or construction of generation and transmission services, and any cost factors chargeable to the cost of providing service as the Commission deems necessary or advisable to establish and maintain the financial integrity of the Authority. Contracts for sale of electric power to the Authority's customers include rates which may be modified upon 24-hour notice when such action is necessary in the sole judgment of the Commission in order to achieve the purposes of A.R.S. Section 30-124. The Commission, on a monthly basis, reviews the financial status of the Authority, including expenses and revenues and the adequacy of the rates to maintain the Authority's financial integrity. During operating year 2015, the Commission increased rates by 4.35%. During operating year 2014, 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 sales.

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

Other Income (Expenses) – which increase/decrease primarily as a result of investment market conditions.

	2015	2014	Difference in Amount	Difference in %
Operating revenues	$ 29,094,525	$ 27,589,456	$ 1,505,069	5.5
Operating expenses:				
Purchased power	18,071,042	17,878,282	192,760	1.1
Western credits	(6,575,745)	(6,600,115)	24,370	(0.4)
Amortization of Hoover Uprating Program costs	6,575,745	6,600,115	(24,370)	(0.4)
Transmission and distribution	7,303,644	7,345,228	(41,584)	(0.6)
Administrative and general	2,113,325	1,972,252	141,073	7.2
Depreciation	13,864	19,665	(5,801)	(29.5)
Other	-	14,310	(14,310)	(100.0)
Total operating expenses	27,501,875	27,229,737	272,138	1.0
Operating income	1,592,650	359,719	1,232,931	342.7
Other income (loss):				
Interest expense	(2,127,461)	(1,822,522)	(304,939)	16.7
Deferred interest expense	892,351	1,163,108	(270,757)	(23.3)
Amortization	(1,251,968)	50,892	(1,302,860)	(2,560.0)
Interest income	9,013	6,029	2,984	49.5
Bond issuance costs	-	(918,340)	918,340	(100.0)
Other, net	-	15,767	(15,767)	(100.0)
Total other income (loss)	(2,478,065)	(1,505,066)	(972,999)	64.6
Change in net position	(885,415)	(1,145,347)	259,932	(22.7)
Net position, beginning of year as originally reported	3,510,689	4,656,036	(1,145,347)	(24.6)
Restatement of prior year	(1,223,283)	-	(1,223,283)	100.0
Net position, beginning of year as restated	2,287,406	4,656,036	(2,368,630)	(50.9)
Net position, end of year	$ 1,401,991	$ 3,510,689	$ (2,108,698)	(60.1)

Operating Year 2015 Changes in Net Position Discussion

Net Position decreased overall because of the following:

- Operating Revenues increased due to an increase in supplemental power sales, and is partially offset by reduced rates from the future benefit of reduced power rates associated with the Power Revenue Bonds, 2014 Series (Hoover Prepayment Project).

- Total Operating Expenses increased due to a net increase in power purchases and Administrative & General.

- Western Credits changed because of scheduled debt payments and associated costs related to the Hoover Uprating Program.

- Amortization of the Hoover Uprating Program costs changed because of the debt payments and associated costs related to the Hoover Uprating Program.

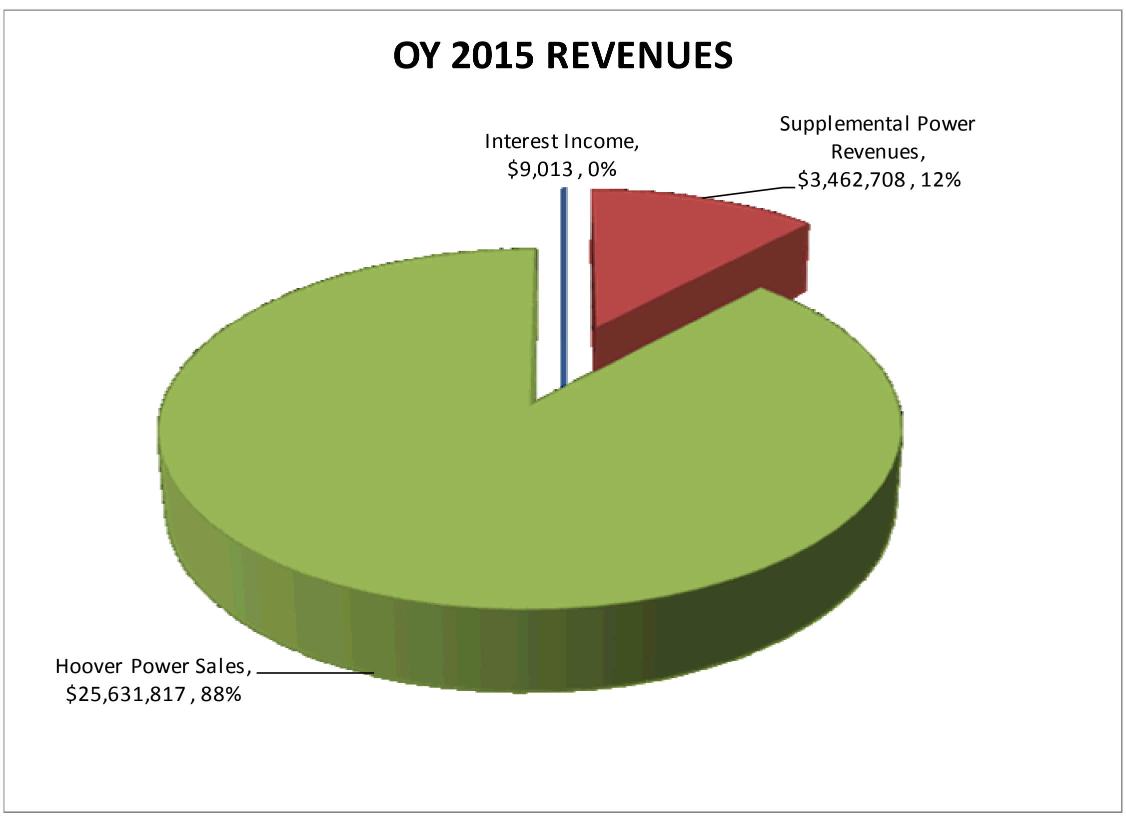
- Administrative and General Expenses increased due to an increase in Miscellaneous Outside Professional Services.

- Depreciation decreased due to normal attrition of the carrying value of property, plant and equipment.

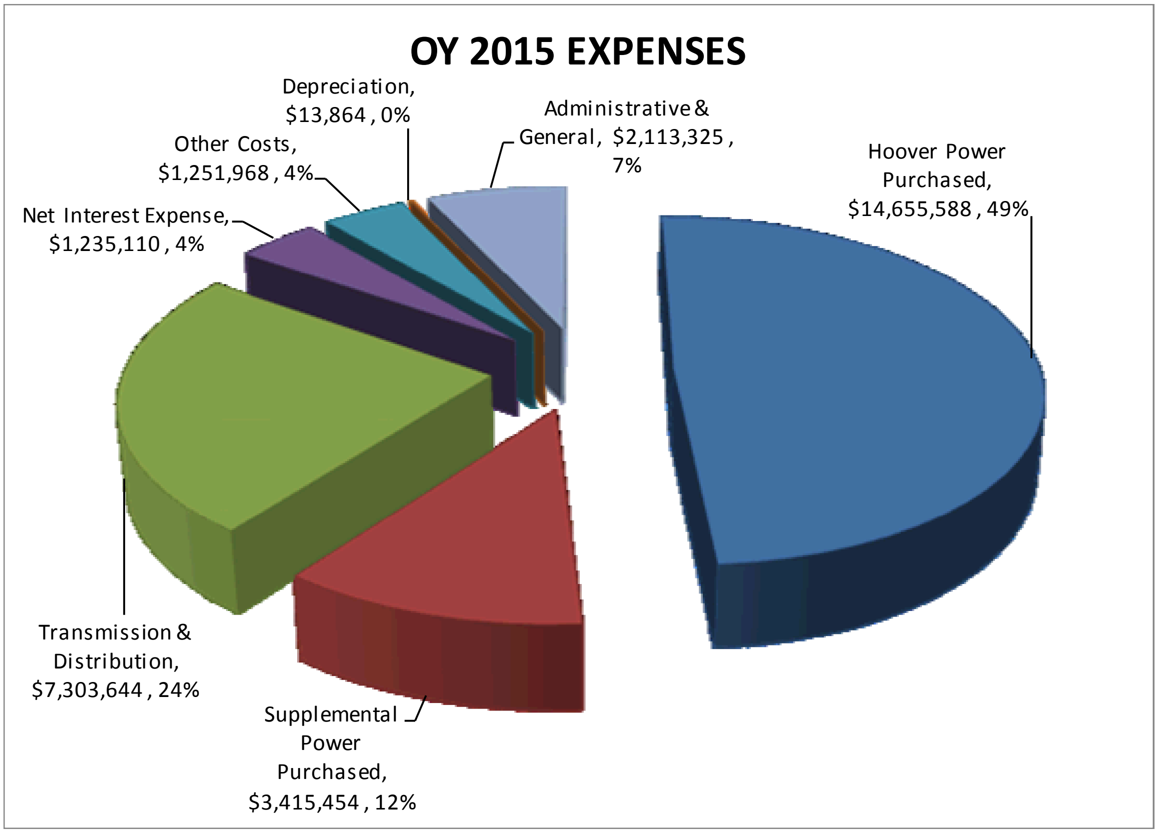
- Net other income decreased due to expenses and costs related to the 2014 Series bond issuance.

Business Type Activities

The following chart depicts the sources of revenues for the operating year 2015:



The following chart depicts the sources of expenses for the operating year 2015:



REQUEST FOR FINANICAL 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, 2015

	APA General Fund	Hoover Uprating Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 3,244,174	$ 2,912,232	$ 6,156,406
Investments - short-term	-	7,144,729	7,144,729
Accounts receivable, customer power purchases	100	2,523,625	2,523,725
Total current assets	3,244,274	12,580,586	15,824,860
NONCURRENT ASSETS			
Capital assets, net	78,011	-	78,011
Investments - long-term	-	7,762,006	7,762,006
Prepaid transmission	527,507	85,866	613,373
Total noncurrent assets	605,518	7,847,872	8,453,390
Total assets	3,849,792	20,428,458	24,278,250
DEFERRED OUTFLOWS OF RESOURCES			
Arizona State Retirement System	-	105,482	105,482
Advances for Hoover Uprating Program, net	-	3,301,552	3,301,552
Future benefit of reduced power rates	-	22,552,081	22,552,081
Total deferred outflows of resources	-	25,959,115	25,959,115
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and other	4,913	229,987	234,900
Customer refunds	-	796,256	796,256
Power contracts payable	-	1,147,853	1,147,853
Accrued interest payable	-	1,063,732	1,063,732
Bonds payable - short-term	-	5,615,000	5,615,000
Total current liabilities	4,913	8,852,828	8,857,741
LONG-TERM LIABILITIES			
Bonds payable - long-term	-	38,690,000	38,690,000
Premium on bonds payable, net of discounts	-	40,447	40,447
Pension liability	-	902,329	902,329
Total long-term liabilities	-	39,632,776	39,632,776
Total liabilities	4,913	48,485,604	48,490,517
DEFERRED INFLOWS OF RESOURCES			
Arizona State Retirement System	-	344,857	344,857
Total deferred inflows of resources	-	344,857	344,857
NET POSITION			
Net investment in capital assets	78,011	-	78,011
Restricted for debt service	-	14,906,735	14,906,735
Unrestricted	3,766,868	(17,349,623)	(13,582,755)
Total net position	$ 3,844,879	$ (2,442,888)	$ 1,401,991

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, 2015

	APA General Fund	Hoover Uprating Fund	Total
OPERATING REVENUES	$ 3,462,708	$ 25,631,817	$ 29,094,525
OPERATING EXPENSES			
Purchased power	3,415,454	14,655,588	18,071,042
Western credits	-	(6,575,745)	(6,575,745)
Amortization of Hoover Uprating Program costs	-	6,575,745	6,575,745
Transmission and distribution	37,769	7,265,875	7,303,644
Administrative and general	-	2,113,325	2,113,325
Depreciation	13,864	-	13,864
Other	(9,270)	9,270	-
Total operating expenses	3,457,817	24,044,058	27,501,875
Operating income (loss)	4,891	1,587,759	1,592,650
OTHER INCOME (LOSS)			
Interest expense	-	(2,127,461)	(2,127,461)
Deferred interest expense	-	892,351	892,351
Amortization	-	(1,251,968)	(1,251,968)
Interest income	2,657	6,356	9,013
Total other income (loss)	2,657	(2,480,722)	(2,478,065)
CHANGES IN NET POSITION	7,548	(892,963)	(885,415)
Net Position - Beginning of Year as Originally Reported	3,837,331	(326,642)	3,510,689
Prior Period Adjustment (Note 1)	-	(1,223,283)	(1,223,283)
NET POSITION - BEGINNING OF YEAR AS RESTATED	3,837,331	(1,549,925)	2,287,406
NET POSITION - END OF YEAR	$ 3,844,879	$ (2,442,888)	$ 1,401,991

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, 2015

	APA General Fund	Hoover Uprating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 3,467,825	$ 25,531,584	$ 28,999,409
Cash payments to suppliers for goods or services	(3,439,040)	(23,584,210)	(27,023,250)
Cash payments to employees for services	-	(537,172)	(537,172)
Net cash provided by operating activities	28,785	1,410,202	1,438,987
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	2,657	6,356	9,013
Purchase of investments, net	-	(7,776,937)	(7,776,937)
Proceeds from sale and maturities of investments	-	7,610,666	7,610,666
Net cash provided by (used in) investing activities	2,657	(159,915)	(157,258)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest payments on bonds payable	-	(2,280,664)	(2,280,664)
Payments on bonds payable	-	(5,330,000)	(5,330,000)
Acquisition of capital assets	(3,187)	-	(3,187)
Other costs relating to Hoover Uprating Program	-	(308,486)	(308,486)
Reduction in advances for Hoover Uprating Program	-	6,575,745	6,575,745
Net cash used in capital and related financing activities	(3,187)	(1,343,405)	(1,346,592)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,255	(93,118)	(64,863)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,215,919	3,005,350	6,221,269
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,244,174	$ 2,912,232	$ 6,156,406

Continued

ARIZONA POWER AUTHORITY
(A Body, Corporate and Politic, of the State of Arizona)
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2015

	APA General Fund	Hoover Uprating Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 4,891	$ 1,587,759	$ 1,592,650
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	13,864	-	13,864
Adjustment to pension expense	-	(81,579)	(81,579)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	5,117	(100,233)	(95,116)
Prepaid transmission	-	(14,318)	(14,318)
Accounts payable and other	4,913	35,015	39,928
Customer refunds	-	192,300	192,300
Power contracts payable	-	(208,742)	(208,742)
Total adjustments	23,894	(177,557)	(153,663)
Net cash provided by operating activities	$ 28,785	$ 1,410,202	$ 1,438,987
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Deferred interest expense	$ -	$ 892,351	$ 892,351
Amortization of future benefit of reduced power rates	$ -	$ 1,291,088	$ 1,291,088

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 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. 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, (whether current or noncurrent) associated with their activity are included in the Statements of Net Position. The Statements 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.

New Accounting Standards

The Authority implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result, the Authority recognized a prior period adjustment of $1,223,283.

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 and accumulated depreciation accounts with any resulting gain or loss reflected in other income or expense within the Statements of Revenues, Expenses and Changes in Net 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements 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 advance for the Hoover Uprating Program and the future benefit of reduced power rates associated with the 2014 Series Bonds (Hoover Prepayment Program).

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.

Advances for Hoover Uprating Program

Proceeds from Hoover Uprating Bonds were advanced by the Authority to the Bureau of Reclamation for uprating the Hoover Power Plant and are recorded as advances. Such advances, including debt issuance 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 life of the bonds, which will mature October 1, 2017. Substantially all advances, net interest expense and other related costs on the 2001 Series Hoover Uprating Bonds are charged to the Uprating Program as amounts to be recovered from future credits. These amounts are included in the Amortization of Hoover Uprating Program Costs in the Statements 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.

Operating Revenues

Operating revenues are derived from the sale of power to customers or from other contractual agreements. Operating revenues include funds received as a result of a scheduling entity agreement between the Authority and the Salt River Project. These revenues amounted to $5,452,000 during the year ended September 30, 2015. These scheduling entity revenues reduce the overall revenue requirements to be paid by the Authority's customers through power rates. The current Scheduling Entity Agreement was approved and implemented as of October 1, 2013, and that Agreement will expire on September 30, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, undesignated net position to expenses incurred which are not restricted. To the extent undesignated net position is unavailable, unrestricted, designated net position will be applied to expenses incurred.

Customer Credits

The Authority operates on a non-profit basis and reduces charges to its customers through credits on power bills 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 $603,956 were paid to customers during the year ended September 30, 2015.

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.

Change in Accounting Principle

Net position as of July 1, 2014, has been restated as follows for the implementation of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*.

Beginning net position as previously reported at September 30, 2014	$ 3,510,689
Restatement adjustment - Implementation GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(1,282,102)
Deferred outflows - Authority contributions made during fiscal and operating year 2015	58,819
Total restatement adjustment	(1,223,283)
Net position as restated, October 1, 2014	$ 2,287,406

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 its portion of the total Uprating Program by issuing bonds.

The Hoover Uprating Fund accounts for advances by the Authority in connection with the Uprating Program. Effective June 1, 1987, the Authority executed new power contracts with Western and its customers which expire in 2017. The revenues and 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, 2015.

NOTE 4 CAPITAL ASSETS

Capital assets of the Authority at September 30, 2015 were as follows:

	Balances September 30, 2014	Additions	Deletions	Balances September 30, 2015
Transmission plant	$ 319,565	$ -	$ -	$ 319,565
Distribution plant	227,518	-	-	227,518
General plant - office	785,264	3,187	(15,896)	772,555
Total depreciable assets	1,332,347	3,187	(15,896)	1,319,638
Less accumulated depreciation for:				
Transmission plant	317,276	2,289	-	319,565
Distribution plant	221,184	2,303	-	223,487
General plant - office	705,199	9,272	(15,896)	698,575
Total accumulated depreciation	1,243,659	13,864	(15,896)	1,241,627
Capital assets, net	$ 88,688	$ (10,677)	$ -	$ 78,011

The Authority’s depreciation expense was $13,864 for the year ended September 30, 2015.

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

NOTE 5 ADVANCES FOR HOOVER UPRATING PROGRAM

Advances for the Hoover Uprating Program were reimbursed by Western through credits on the Authority’s power bills in the amount of $6,575,745 for the year ended September 30, 2015. Credits were received for the upraters’ portion of principal and interest expense on the bonds and other costs associated with the Hoover Uprating Program.

NOTE 6 BONDS PAYABLE

Bonds payable consists of the following:

	September 30, 2014	Increases	Reductions	Transfers	September 30, 2015
Bonds payable short-term	$ 5,330,000	$ -	$ (5,330,000)	$ 5,615,000	$ 5,615,000
Bonds payable long-term	44,305,000	-	-	(5,615,000)	38,690,000
Total bonds payable	$ 49,635,000	$ -	$ (5,330,000)	$ -	$ 44,305,000
Premium on bonds payable, net of discounts	$ 79,567	$ -	$ (39,120)	$ -	$ 40,447

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. All prior defeased Bonds have been called for redemption.

The Authority's outstanding bonds, totaling $44,305,000, bear interest ranging from 1.799% to 5.25%, are due through Operating Year 2045, and are secured by the pledged property, as defined by the Resolution, which includes the proceeds from the sale of the bonds, rights and interest in various contracts and revenues. The Authority amortizes the bond premium (discount) using the interest method. Principal and interest amounts due over the next five operating years ending September 30 and thereafter are as follows:

Operating Year	Principal	Interest
2016	$ 5,615,000	$ 2,127,462
2017	5,905,000	1,832,675
2018	6,220,000	1,522,662
2019	540,000	1,196,112
2020	550,000	1,186,398
2021-2025	2,985,000	5,696,452
2026-2030	3,580,000	5,110,293
2031-2035	4,440,000	4,234,152
2036-2040	5,645,000	3,029,242
2041-2045	7,170,000	1,498,515
2046	1,655,000	81,393
Total	$ 44,305,000	$ 27,515,356

NOTE 6 BONDS PAYABLE (CONTINUED)

Crossover Refunding

On September 12, 2001, the Authority issued $57,520,000 of Special Obligation Crossover Refunding Bonds which refunded on October 1, 2003 $62,630,000 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005. The 2001 Series Bonds bear interest at a rate of 5.00% and 5.25% payable on April 1 and October 1, respectively, of each year, commencing April 1, 2004 and maturing in 2017. In addition, the Authority recognized an economic gain (difference between the present value of the old and new debt service payments) of $2,095,648 in 2003 as a result of the cross-over.

The crossover refunding also resulted in the recognition of a deferred amount of $2,411,956 that has been reflected as a decrease in bonds payable and which will be amortized using the interest method as a component of interest expense over the life of the refunded bonds. The Authority amortized $83,916 for the year ended September 30, 2015, resulting in a net deferred amount of $86,785 in the Statement of Net Position. The Authority also recognized a premium of $3,536,652 on the crossover refunding which has been reflected as an increase in bonds payable and which will be amortized using the interest method. The Authority amortized $123,036 for the year ended September 30, 2015, resulting in a net premium of bonds payable of $127,232 in the Statement of Net Position.

NOTE 7 RETIREMENT PLANS

The Authority contributes to the Arizona State Retirement System plan described below. The plan is a component unit of the State of Arizona. At September 30, 2015, 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 Assets	$ -
Net Pension Liability	902,329
Deferred Outflows of Resources	105,482
Deferred Inflows of Resources	344,857
Pension Expense (Recovery)	(81,579)

Arizona State Retirement System

Plan Descriptions – Authority employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (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.

NOTE 7 RETIREMENT PLANS (CONTINUED)

Arizona State Retirement System (Continued)

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 benefit	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 consecutive 36 months of last 120 months	Highest consecutive 60 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

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.

NOTE 7 RETIREMENT PLANS (CONTINUED)

Arizona State Retirement System (Continued)

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, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for the health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the Authority was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) 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, 2015, were $59,623. The Authority's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Years Ended September 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	$ 3,230	$ 1,314
2014	3,298	1,319
2013	4,454	1,645

During the operating year ended September 30, 2015, the Authority paid all ASRS pension and OPEB contributions out of the Hoover Uprating Fund.

Pension Liability – At September 30, 2015, the Authority reported a liability of $902,329 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of September 30, 2014. 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, 2013, to the measurement date of September 30, 2014.

NOTE 7 RETIREMENT PLANS (CONTINUED)

Arizona State Retirement System (Continued)

The Authority's reported liability at October 1, 2014 decreased by $58,819 from the Authority's initial liability of $1,282,102 because of changes in the ASRS' net pension liability and the Authority's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Authority's proportion of the net pension liability was based on the Authority's fiscal year 2014 contributions. The Authority's proportion measured as of September 30, 2014, was 0.006098 percent, which was a decrease of 0.001614 percent from its proportion measured as of June 30, 2013.

Pension Expense and Deferred Outflows/Inflows of Resources – The Authority reported a pension expense adjustment of ($81,579) in administrative and general expense on its statement of revenues, expenses and changes in net position. The negative pension expense represents the net amount recognized after the amortization of deferred inflows and outflows, as well as the decrease in the Authority's proportionate share of the ASRS' net pension liability. For the year ended September 30, 2015, the Authority recognized pension expense for ASRS of ($21,956). September 30, 2015, 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
Difference between expected and actual experience	$ 45,859	$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	157,790
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	187,067
Contributions subsequent to the measurement date	59,623	-
Total	$ 105,482	$ 344,857

The $59,623 reported as deferred outflows of resources related to ASRS pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. 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:

Years Ended September 30,	
2016	$ 100,842
2017	100,842
2018	57,866
2019	39,448

NOTE 7 RETIREMENT PLANS (CONTINUED)

Arizona State Retirement System (Continued)

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

Actuarial Valuation Date	June 30, 2013
Actuarial Roll Forward Date	September 30, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8%
Projected Salary Increases	3% - 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent 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 Allocations	Long-Term Expected Real Rate of Return
Equity	63%	4.43%
Fixed Income	25%	0.80%
Real Estate	8%	0.38%
Commodities	4%	0.18%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. 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 7 RETIREMENT PLANS (CONTINUED)

Arizona State Retirement System (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 percent, 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 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Authority's proportionate share of the net pension liability	$ 1,140,498	$ 902,329	$ 773,111

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 8 COMMITMENTS AND CONTINGENCIES

The Lower Colorado Multi-Species Conservation Program ("MSCP") is a cooperative effort between Federal and non-federal entities that will create more than 8,100 acres of riparian, marsh and backwater habitat for 31 species of fish, birds, mammals and plants. The program became effective on April 4, 2005 and expires April 30, 2055. As a party to this Agreement, the Arizona Power Authority's financial obligation is approximately $119,000 per year (in 2003 dollars, adjusted annually for inflation). For the year ended September 30, 2015, the Authority paid $187,098 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 9 INVESTMENTS HELD BY TRUSTEE

Certain funds of the Authority are secured under the Authority's bond resolution and held by the Authority's trustee. Such funds are invested in U. S. Government securities collateralized with U. S. Government obligations held by the Authority's trustee. The fair value of these investment securities at September 30, 2015 is as follows:

Direct U.S. Treasury obligations	$ 14,906,735

NOTE 9 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, 2015, 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 10 ADDITIONAL BENEFITS

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

		Member		Member and Dependents(s)	
Years of Credited Service	Percent of Premium Benefit	Not Medicare Eligible	Medicare Eligible	Not Medicare Eligible	Medicare Eligible
5.0-5.9	50%	$ 75.00	$ 50.00	$ 130.00	$ 85.00
6.0-6.9	60%	90.00	60.00	156.00	102.00
7.0-7.9	70%	105.00	70.00	182.00	119.00
8.0-8.9	80%	120.00	80.00	208.00	136.00
9.0-9.9	90%	135.00	90.00	234.00	153.00
10.0 +	100%	150.00	100.00	260.00	170.00

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 expire September 30, 2017, but some can be terminated by the Authority on June 1, 2007 or thereafter.

The Authority is party to a contract for electric service with Western which expires 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 year ended September 30, 2015, the Authority paid $14,655,588 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.

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

The Authority also has a contract with Western for transmission services. During the year ended September 30, 2015, the Authority paid $7,258,522 for transmission costs to Western. On January 24, 2003, the Authority entered into the Advancement of Funds for Transmission Services contract with Western. The contract provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. The advanced funds are then applied to the subsequent month's transmission invoice. As of September 30, 2015, the Authority recognized a prepayment of $613,373 that applies to the last payment upon termination of the contract.

The Authority has power contracts with SRP and the Southwest Public Power Agency, Inc. (SPPA) 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 year ended September 30, 2015, the Authority paid $3,415,454 for purchased power under this contract for its customers.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through January 11, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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
2015 AND ONE YEAR PRIOR

	Operating Year		
	2015	**2014**	**2013 Through 2006**
Authority's proportion of the net pensions liability	0.006098%	0.007712%	Information not available
Authority's proportionate share of the net pension liability	$ 902,329	$ 1,282,102	
Authority's covered-employee payroll	$ 463,721	$ 513,386	
Authority's proportionate share of net pension liability as a percentage of its covered-employee payroll	194.58%	249.73%	
Plan fiduciary net position as a percentage of the total pension liability	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
2015 AND NINE YEARS PRIOR

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 59,623	$ 58,819	$ 70,239	$ 71,733	$ 66,816	$ 60,860	$ 56,569	$ 56,730	$ 53,248	$ 35,762
Contributions in relation to the contractually required contribution	59,623	58,819	70,239	71,733	66,816	60,860	56,569	56,730	53,248	35,762
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 463,721	$ 513,386	$ 589,644	$ 683,524	$ 720,000	$ 675,524	$ 661,750	$ 653,283	$ 694,407	$ 691,226
Contributions as a percentage of covered-employee payroll	12.86%	11.46%	11.91%	10.49%	9.28%	9.01%	8.55%	8.68%	7.67%	5.17%

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 fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

ASRS	
Actuarial valuation date	6/30/2013
Actuarial roll forward date	9/30/2014
Actuarial cost method	Entry age normal
Amorization 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	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB