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

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2023

ARIZONA POWER AUTHORITY
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2023

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Commission
Arizona Power Authority
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2023, 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Arizona Power Authority as of September 30, 2023, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Arizona Power Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Power Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Arizona Power Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Power Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of the Authority's proportionate share of the net pension liability and contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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

Phoenix, Arizona
March 19, 2024

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, 2023. 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 2023 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, 2023.

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 for any funds.

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 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

Effects of Drought on Hoover Energy – The Colorado River Basin has been experiencing severe drought conditions for the past twenty-three 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 2023, market conditions resulted in a 421.54% increase in 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

Increase/Decrease in Authorized Personnel – Changes in the Authority's services may result in increasing/decreasing authorized staffing. Operating year 2023 staffing costs (salary and related benefits) represented 4.3% of the Authority's general and administrative costs. For operating year 2022, staffing costs represented 3.1% 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 2023 net position increased by $481,624 due to normal operating activity.
- The Authority's 2022 net position increased by $219,241 primarily due to normal operating activity.
- The Authority's 2023 operating revenues decreased by $245,636 or 1.29% primarily due to less supplemental power purchased by customers.
- The Authority's 2022 operating revenues decreased by $4,098,943 or 17.74% primarily due to less supplemental power purchased by customers.

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

	2023	2022	Difference in Amount	Difference in Percent
Current Assets	$ 12,119,112	$ 11,986,417	$ 132,695	1.11 %
Long-Term Assets	21,589,904	22,081,300	(491,396)	(2.23)
Capital Assets, Net	110,607	127,037	(16,430)	(12.93)
Total Assets	33,819,623	34,194,754	(375,131)	(1.10)
Deferred Outflows of Resources	139,465	78,814	60,651	76.95
Current Liabilities	3,405,261	3,607,191	(201,930)	(5.60)
Long-Term Bonds Payable, Net	23,927,161	24,393,583	(466,422)	(1.91)
Total Liabilities	27,332,422	28,000,774	(668,352)	(2.39)
Deferred Inflows of Resources	140,700	268,452	(127,752)	(47.59)
Net Investment in Capital Assets	110,607	127,037	(16,430)	(12.93)
Restricted for Debt Service	3,121,543	3,006,785	114,758	3.82
Unrestricted	3,253,816	2,870,520	383,296	13.35
Total Net Position	$ 6,485,966	$ 6,004,342	$ 481,624	8.02

Operating Year 2023 Condensed Statement of Net Position Discussion

Current Assets increased by $132,696 mainly due to increased cash and cash equivalents.

Long-Term Assets decreased by $491,396 due to $569,939 in future benefits due to the 2014 refinancing being reclassified as current.

Capital Assets, Net decreased due to the purchase of fixed assets in the amount of $1,380, less depreciation of $17,810.

Deferred Outflows of Resources increased due to the net changes in the pension and OPEB liability accruals.

Current Liabilities decreased primarily due to the decrease in supplemental power contracts payable.

Long-Term Liabilities decreased due to a pay down of the 2014 Bond Principal.

Deferred Inflows of Resources decreased due to the change in the pension and OPEB liability accruals.

Net Position increased due to the net income for the period.

CAPITAL ASSETS

As of September 30, 2023, the Authority had $110,607 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of $14,881 during operating year 2022, and a net decrease of $16,430 during operating year 2023.

	September 30, 2023	September 30, 2022
General Plant - Office	$ 110,607	$ 127,037
Capital Assets, Net	$ 110,607	$ 127,037

The following reconciliation summarizes the change in capital assets for the years ended September 30, 2023 and 2022, which is presented in detail in Note 4:

	September 30, 2023	September 30, 2022
Beginning Balance	$ 127,037	$ 141,918
Additions	1,380	4,646
Depreciation	(17,810)	(19,527)
Ending Balance	$ 110,607	$ 127,037

DEBT OUTSTANDING

As of September 30, 2023, the Authority had $23,740,000 in debt outstanding for the 2014 Series Bonds.

As of September 30, 2022, the Authority had $24,335,000 in debt outstanding for the 2014 Series Bonds.

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 2023 and 2022, 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

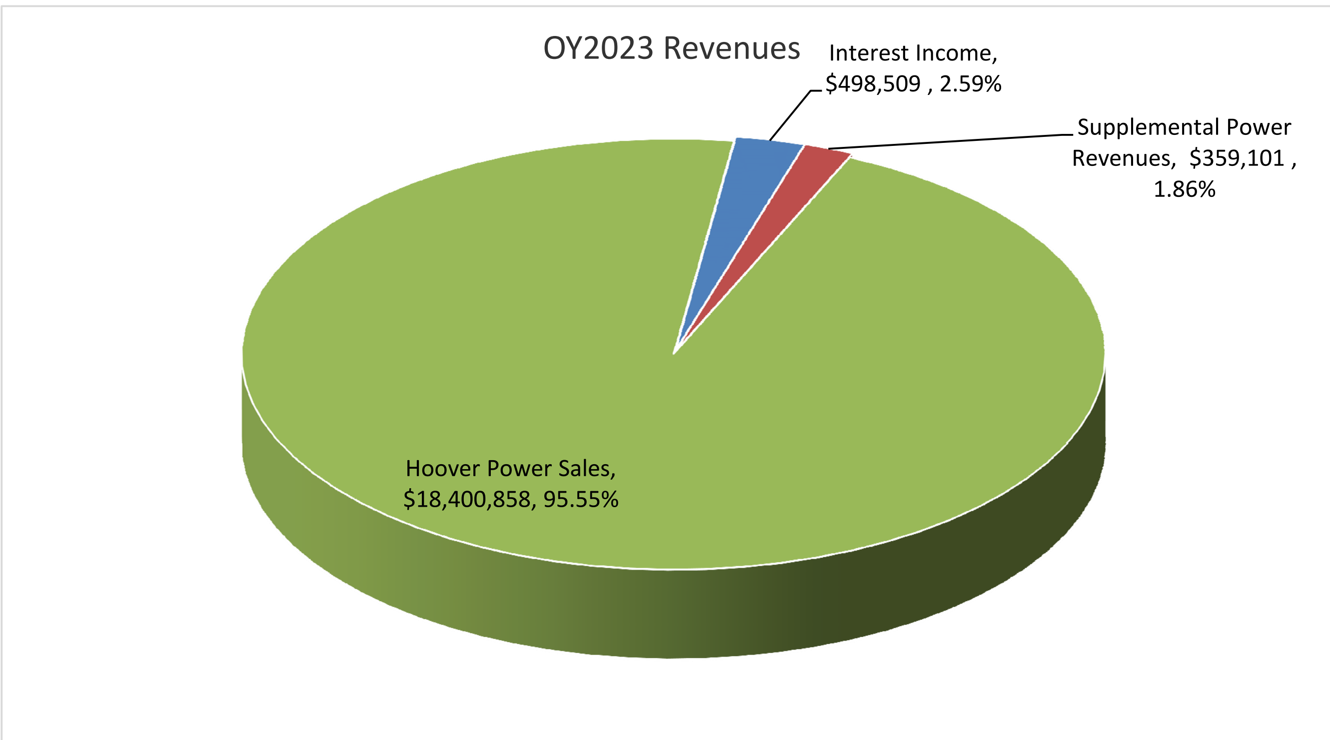
	2023	2022	Difference in Amount	Difference in Percent
Operating Revenues	$ 18,759,959	$ 19,005,595	$ (245,636)	(1.29)%
Operating Expenses:				
Purchased Power	15,855,002	16,270,185	(415,183)	(2.55)
Administrative and General	1,217,643	916,787	300,856	32.82
Amortization of Hoover Prepayment Program	551,988	534,037	17,951	3.36
Depreciation	17,810	19,527	(1,717)	(8.79)
Other	12,806	-	12,806	100.00
Total Operating Expenses	17,655,249	17,740,536	(85,287)	(0.48)
Operating Income	1,104,710	1,265,059	(160,349)	(12.68)
Nonoperating Income (Expenses):				
Interest Expense	(1,121,595)	(1,141,402)	19,807	(1.74)
Interest Income	498,509	95,584	402,925	421.54
Total Nonoperating Income (Expenses)	(623,086)	(1,045,818)	422,732	(40.42)
Changes in Net Position	481,624	219,241	262,383	(119.68)
Net Position - Beginning of Year	6,004,342	5,785,101	219,241	3.79
Net Position - End of Year	$ 6,485,966	$ 6,004,342	$ 481,624	8.02

Operating Year 2023 Changes in Net Position Discussion

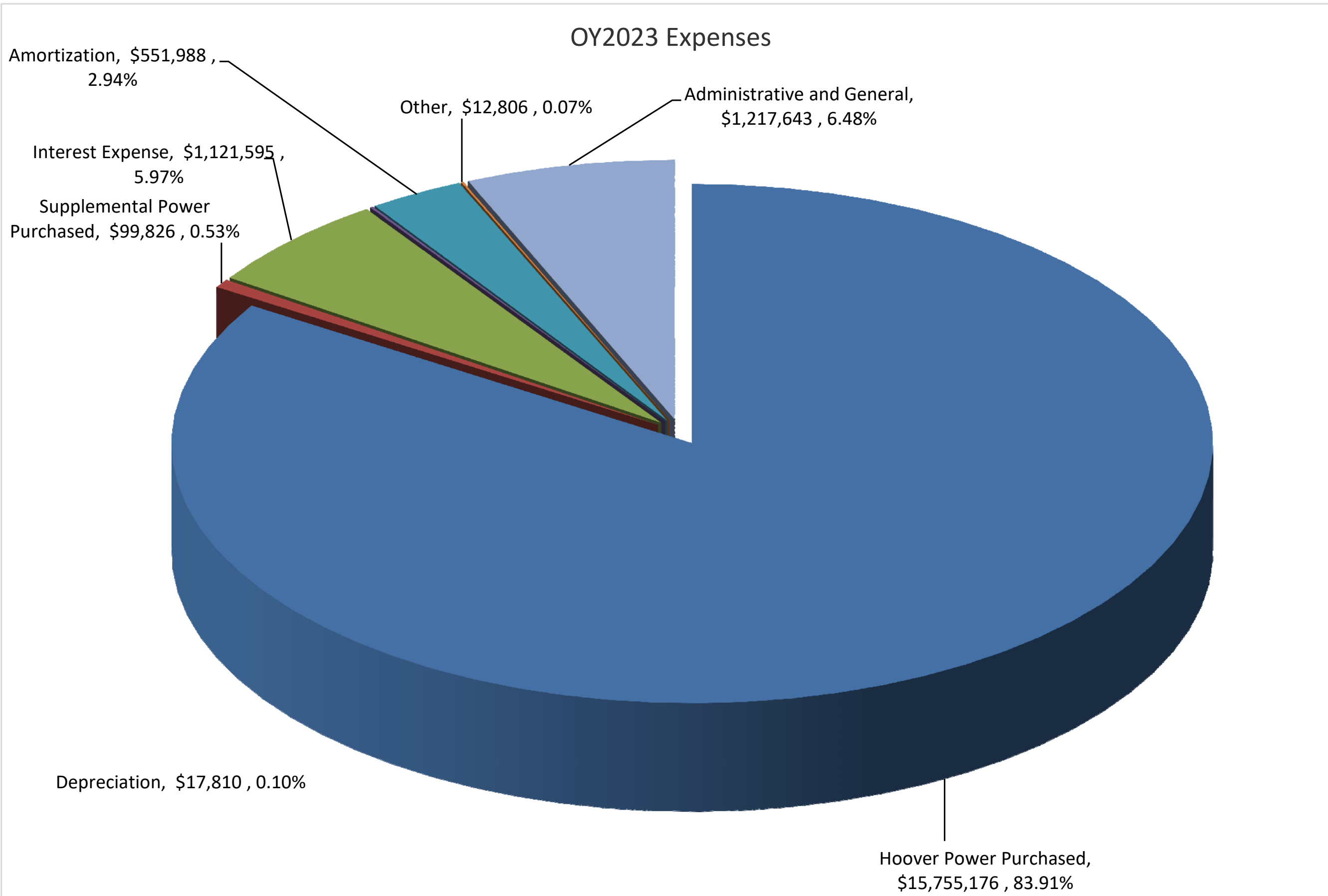
Net position increased overall primarily due to changes in the accrued pension amount, which does not affect rates nor the customer refunds as it is a non-cash item.

Business-Type Activities

The following chart depicts the sources of revenues for the fiscal year 2023:



The following chart depicts the sources of expenses for the fiscal year 2023:



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, 2023

	APA General Fund	Hoover Operating Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 4,429,229	$ 4,518,164	$ 8,947,393
Investments - Short Term	-	1,229,394	1,229,394
Accounts Receivable - Customer Power Purchases	55,595	1,316,791	1,372,386
Future Benefit of Reduced Power Rates, Net Short Term	-	569,939	569,939
Total Current Assets	4,484,824	7,634,288	12,119,112
NONCURRENT ASSETS			
Capital Assets, Net	110,607	-	110,607
Investment - Long Term	-	1,892,149	1,892,149
Future Benefit of Reduced Power Rates, Net Long Term	-	19,697,755	19,697,755
Total Noncurrent Assets	110,607	21,589,904	21,700,511
Total Assets	4,595,431	29,224,192	33,819,623
DEFERRED OUTFLOWS OF RESOURCES			
Relating to Pensions	-	114,164	114,164
Relating to OPEB	-	25,301	25,301
Total Deferred Outflows of Resources	-	139,465	139,465
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Other	-	520,785	520,785
Customer Refunds	-	257,229	257,229
Power Contracts Payable	55,344	1,401,606	1,456,950
Accrued Interest Payable	-	555,297	555,297
Bonds Payable - Short Term	-	615,000	615,000
Total Current Liabilities	55,344	3,349,917	3,405,261
LONG-TERM LIABILITIES			
Bonds Payable - Long Term	-	23,125,000	23,125,000
Net OPEB Liability	-	98,268	98,268
Net Pension Liability	-	703,893	703,893
Total Long-Term Liabilities	-	23,927,161	23,927,161
Total Liabilities	55,344	27,277,078	27,332,422
DEFERRED INFLOWS OF RESOURCES			
Relating to Pensions	-	67,354	67,354
Relating to OPEB	-	73,346	73,346
Total Deferred Inflows of Resources	-	140,700	140,700
NET POSITION (DEFICIT)			
Net Investment in Capital Assets	110,607	-	110,607
Restricted for Debt Service	-	3,121,543	3,121,543
Unrestricted	4,429,480	(1,175,664)	3,253,816
Total Net Position	$ 4,540,087	$ 1,945,879	$ 6,485,966

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, 2023

	APA General Fund	Hoover Operating Fund	Total
OPERATING REVENUES	$ 359,101	$ 18,400,858	$ 18,759,959
OPERATING EXPENSES			
Purchased Power	99,826	15,755,176	15,855,002
Administrative and General	6,677	1,210,966	1,217,643
Amortization of Hoover Prepayment Program	-	551,988	551,988
Depreciation	17,810	-	17,810
Other	2,004	10,802	12,806
Total Operating Expenses	126,317	17,528,932	17,655,249
Operating Income	232,784	871,926	1,104,710
NONOPERATING INCOME (EXPENSES)			
Interest Expense	-	(1,121,595)	(1,121,595)
Interest Income	187,549	310,960	498,509
Total Nonoperating Income (Expenses)	187,549	(810,635)	(623,086)
CHANGES IN NET POSITION	420,333	61,291	481,624
Net Position - Beginning of Year	4,119,754	1,884,588	6,004,342
NET POSITION - END OF YEAR	$ 4,540,087	$ 1,945,879	$ 6,485,966

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, 2023

	APA General Fund	Hoover Operating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	$ 304,256	$ 18,476,394	$ 18,780,650
Cash Payments to Suppliers for Goods or Services	(53,644)	(16,719,396)	(16,773,040)
Cash Payments to Employees for Services	-	(564,262)	(564,262)
Net Cash Provided by Operating Activities	250,612	1,192,736	1,443,348
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	187,549	310,960	498,509
Purchase of Investments	-	(1,841,256)	(1,841,256)
Proceeds from Sale and Maturities of Investments	-	1,726,498	1,726,498
Net Cash Provided by Investing Activities	187,549	196,202	383,751
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interest Payments on Bonds Payable	-	(1,131,499)	(1,131,499)
Principal Payments on Bonds Payable	-	(595,000)	(595,000)
Acquisition of Capital Assets	(1,380)	-	(1,380)
Net Cash Used by Noncapital Financing Activities	(1,380)	(1,726,499)	(1,727,879)
NET CHANGE IN CASH AND CASH EQUIVALENTS	436,781	(337,561)	99,220
Cash and Cash Equivalents - Beginning of Year	3,992,448	4,855,725	8,848,173
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,429,229	$ 4,518,164	$ 8,947,393

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2023

	APA General Fund	Hoover Uprating Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	$ 232,784	$ 871,926	$ 1,104,710
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	17,810	-	17,810
Amortization	-	551,988	551,988
Increase (Decrease) in Cash Resulting from Changes in:			
Accounts Receivable	(54,845)	75,536	20,691
Deferred Outflows of Resources Relating to Pensions	-	(67,238)	(67,238)
Deferred Outflows of Resources Relating to OPEB	-	6,587	6,587
Accounts Payable and Other	-	390,316	390,316
Customer Refunds	-	(654,400)	(654,400)
Power Contracts Payable	54,863	(2,805)	52,058
Net OPEB Liability	-	(21,578)	(21,578)
Net Pension Liability	-	170,156	170,156
Deferred Inflows of Resources Relating to Pensions	-	(121,732)	(121,732)
Deferred Inflows of Resources Relating to OPEB	-	(6,020)	(6,020)
Net Cash Provided by Operating Activities	$ 250,612	$ 1,192,736	$ 1,443,348

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 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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.

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 and OPEB plans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Deferred Outflows and Deferred Inflows of Resources (Continued)

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 and OPEB plans.

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 $26,565,000 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.

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 $911,456 were paid to the customers during the year ended September 30, 2023.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Geographic and Product Concentration

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

NOTE 2 FUND ACCOUNTING

Hoover Operating Fund

The Hoover Operating Fund accounted for revenues and expenses applicable to the sale and purchase of power and energy received by the Authority from WAPA under its Hoover Energy contract. Agreements with purchasers committed to Authority to sell and transmit this energy essentially at or near cost, specifying that any unexpended balance in the fund at the end of the Operating Year ending September 30, 2023 will be returned to the purchasers pro rata on the basis of their energy entitlement percentages as computed under the agreements.

The powers granted the Arizona Power Authority are broad in scope, allowing the Authority the ability to construct or participate in multiple energy projects. Pursuant to Arizona Revised Statute 30-121, the Authority has contracted with WAPA to purchase and resell Electric Service from Hoover Dam (Boulder Canyon Project) on behalf of the state of Arizona. As each project is unique, the Authority has established a separate fund for the operation, maintenance, and debt service repayment for this project. This included the "2014 Refinance – Revenue Bonds".

APA General Fund

The Authority’s operations other than those applicable to the Hoover Operating 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 INVESTMENTS

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, 2023. There are no withdrawal or redemption restrictions. The LGIP is not rated.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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's investments held by the trustee consist of money market funds as of September 30, 2023. The investment securities at September 30, 2023 are as follows:

Money Market Funds	$ 3,121,543
Investments Held by Trustee	$ 3,121,543

The Authority's cash and investments at September 30, 2023 were as follows:

External Investment Pools:	
State Treasurer's Investment Pool	$ 8,947,393
Investments by Amortized Cost:	
Money Market Funds	3,121,543
Total Cash and Investments	$ 12,068,936

NOTE 4 CAPITAL ASSETS

Capital assets of the Authority at September 30, 2023 were as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Transmission Plant	$ 289,049	$ -	$ -	$ 289,049
Distribution Plant	227,518	-	-	227,518
General Plant - Office	767,310	1,380	(488)	768,202
Total Depreciable Assets	1,283,877	1,380	(488)	1,284,769
Less: Accumulated Depreciation for:				
Transmission Plant	(289,049)	-	-	(289,049)
Distribution Plant	(227,518)	-	-	(227,518)
General Plant - Office	(640,273)	(17,810)	488	(657,595)
Total Accumulated Depreciation	(1,156,840)	(17,810)	488	(1,174,162)
Capital Assets, Net	$ 127,037	$ (16,430)	$ -	$ 110,607

The Authority's depreciation expense was $17,810 for the year ended September 30, 2023.

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

NOTE 5 HOOVER PREPAYMENT PROGRAM

The future benefit of reduced power rates reported as an asset at September 30, 2023 was as follows:

Future Benefit of Reduced Power Rates	$ 23,843,169
Accumulated Amortization	(3,575,475)
Future Benefit of Reduced Power Rates, Net	$ 20,267,694

The Authority's amortization of future benefit of reduced power rates was $551,988 for the year ended September 30, 2023.

NOTE 6 BONDS PAYABLE

Bonds payable consists of the following:

	October 1, 2022	Increases	Reductions	Transfers	September 30, 2023
Bonds Payable:					
Short-Term	$ 595,000	$ -	$ (595,000)	$ 615,000	$ 615,000
Bond Payable Long-Term	23,740,000	-	-	(615,000)	23,125,000
Total Bonds Payable	$ 24,335,000	$ -	$ (595,000)	$ -	$ 23,740,000

The Authority's outstanding bonds, totaling $23,740,000, bear interest ranging from 3.509% to 4.918%, are due through Fiscal Year 2045, 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 fiscal years ending September 30 and thereafter are as follows:

Year Ending September 30,	Principal	Interest
2024	$ 615,000	$ 1,121,595
2025	635,000	1,100,014
2026	660,000	1,076,653
2027	685,000	1,051,381
2028	715,000	1,024,125
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	$ 23,740,000	$ 16,175,204

NOTE 7 RETIREMENT PLANS

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, 2023, the Authority reported the following amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position	Business-Type Activities
Net Pension Liability	$ 703,893
Deferred Outflows of Resources	114,164
Deferred Inflows of Resources	67,354
Pension Expense	(43,718)

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.

The OPEB plan for ASRS 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.

Disclosures related to the OPEB plan for the Arizona Department of Administration Retiree Health Care Plan are not included as the liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense are not significant to the Authority's financial statements.

NOTE 7 RETIREMENT PLANS (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:

	Retirement Initial Membership Date:	
	Before 7/1/2011	On or After 7/1/2011
Years of Service and Age Required to Receive Benefits	Sum of Years and Age Equals 80 10 Years, Age 62 Any Years, Age 65 Age plus credited service equaling 80 or more	30 Years, Age 55 25 Years, Age 60 10 Years, Age 62 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 Years of Service	2.1% to 2.3%	2.1% to 2.3%

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, 2023, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.03% from October 1, 2022 through June 30, 2023 and 12.14% from July 1, 2023 through September 30, 2023 of the members' annual covered payroll, and the Authority was required by statute to contribute at the actuarially determined rate of 12.03% from October 1, 2022 through June 30, 2023 and 12.14% from July 1, 2023 through September 30, 2023 of the active members' annual covered payroll.

In addition, the Authority was required by statute to contribute at the actuarially determined rate of 9.68% from October 1, 2022 through June 30, 2023 and 9.99% from July 1, 2023 through September 30, 2023 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, 2023 were $66,662.

During the operating year ended September 30, 2023, the Authority paid all ASRS pension contributions out of the Hoover Operating Fund.

NOTE 7 RETIREMENT PLANS (CONTINUED)

Pension Liability – At September 30, 2023, the Authority reported a liability of $703,893 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2023. 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, 2021, to the measurement date of June 30, 2023.

The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2023. The Authority's proportion measured as of June 30, 2023, was 0.00435%, which was an increase of 0.00108% from its proportion measured as of June 30, 2022.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended September 30, 2023, the Authority recognized pension expense (revenue) for ASRS of $(43,718). At September 30, 2023, 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	$ 15,905	$ -
Changes of Assumptions or Other Inputs	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	84,755	-
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	-	67,354
Contributions Subsequent to the Measurement Date	13,504	-
Total	$ 114,164	$ 67,354

The $13,504 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, 2024.

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 Ending June 30,	Amount
2024	$ (10,020)
2025	19,581
2026	26,840
2027	(3,095)

NOTE 7 RETIREMENT PLANS (CONTINUED)

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

Actuarial Valuation Date	June 30, 2022
Actuarial Roll Forward Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation	Fair Value
Discount Rate	7.0%
Projected Salary Increases	2.9 - 8.4%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial study for the five-year period ended June 30, 2020.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.0% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Geometric Real Rate of Return
Public Equity	44 %	3.50 %
Credit	23	5.90
Real Estate	17	5.90
Private Equity	10	6.70
Interest Rate Sensitive	06	1.50
Total Asset Allocation	100 %	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.0%. 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)

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 7.0%, 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 (6.0%) or one percentage point higher (8.0%) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Authority's Proportionate Share of the Net Pension Liability	$ 1,054,328	$ 703,893	$ 411,692

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, 2023, the Authority paid $206,641 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 PURCHASED POWER AND SALES COMMITMENTS

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. Under these contracts, customers are obligated to pay for their proportionate share of Hoover power and operation of the Authority.

The Authority is party to a new contract for electric service with WAPA which began October 1, 2017. This requires the Authority to pay approximately 19.75% of WAPA's revenue requirements each operating year until the contract expires. During the year ended September 30, 2023, the Authority paid $15,755,176 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 power contracts with Salt River Project (SRP), Southwest Public Power Agency, Inc. (SPPA), and Western Area Power Administration (WAPA), 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, 2023, the Authority paid $99,826 for purchased power under these contracts.

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, 2023 AND NINE YEARS PRIOR

	Operating Year - September 30 (Measurement Date - June 30)									
	2023 (2023)	2022 (2022)	2021 (2021)	2020 (2020)	2019 (2019)	2018 (2018)	2017 (2017)	2016 (2016)	2015 (2015)	2014 (2014)
Authority's Proportion of the Net Pension Liability	0.00435%	0.00327%	0.00468%	0.00588%	0.00647%	0.00651%	0.00472%	0.00459%	0.00593%	0.00610%
Authority's Proportionate Share of the Net Pension Liability	$ 703,893	$ 533,737	$ 614,931	$ 1,018,799	$ 941,460	$ 907,916	$ 735,285	$ 740,872	$ 923,113	$ 902,329
Authority's Covered Payroll	$ 546,595	$ 428,165	$ 551,651	$ 587,799	$ 689,249	$ 647,354	$ 460,462	$ 429,939	$ 517,487	$ 491,323
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	128.78%	124.66%	111.47%	173.32%	136.59%	140.25%	159.68%	172.32%	178.38%	183.65%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.47%	79.57%	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

See accompanying Note to Required Supplementary Information.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
SCHEDULE OF AUTHORITY'S CONTRIBUTIONS TO THE ARIZONA STATE RETIREMENT SYSTEM (ASRS) PLAN
SEPTEMBER 30, 2023 AND NINE YEARS PRIOR

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	$ 66,662	$ 47,299	$ 64,267	$ 67,303	$ 77,058	$ 73,155	$ 49,638	$ 46,648	$ 59,623	$ 58,819
Authority's Contributions in Relation to the Statutorily Required Contribution	66,662	47,299	64,267	67,303	77,058	73,155	49,638	46,648	59,623	58,819
Authority's Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's Covered Payroll	$ 546,595	$ 428,165	$ 551,651	$ 587,799	$ 689,249	$ 647,354	$ 460,462	$ 429,939	$ 517,487	$ 491,323
Authority's Contributions as a Percentage of Covered Payroll	12.20%	11.05%	11.65%	11.45%	11.18%	11.30%	10.78%	10.85%	11.52%	11.97%

See accompanying Note to Required Supplementary Information.

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:

Actuarial Valuation Date	June 30, 2022
Actuarial Roll Forward Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation	Fair Value
Discount Rate	7.0%
Projected Salary Increases	2.9 - 8.4%
Inflation	2.3%
Permanent Benefit Increase	Included
Mortality Rates	2017 SRA Scale U-MP