Arizona Power Authority

30th Annual Report

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*Photograph courtesy of the U.S. Bureau of Reclamation

Arizona
Power Authority
1810 W. ADAMS ST., PHOENIX, AZ • (602) 542-4263 • MAIL ADDRESS: P.O. BOX 6708, PHOENIX, AZ 85005

January 19, 1989

The Honorable Rose Mofford
Governor of Arizona
State Capitol
Ninth Floor, West Wing
Phoenix, AZ 85007

Dear Governor Mofford:

The Thirtieth Annual Report of the Arizona Power Authority, (Authority) is submitted herewith featuring its operations and activities for the fiscal year ended June 30, 1988.

The Authority has now completed one full year of operations under a new thirty-year power sales contract for Hoover hydroelectric power with the Western Area Power Administration, a year of power operations in which the Authority distributed nearly twice the amount of power to more than double the number of customers served in the previous years.

The Authority continues to seek new power resources to supplement the ever-increasing demand for low-cost hydroelectric power. Currently, we are negotiating with Federal agencies to determine the feasibility for the development, construction, and operation of the Hoover Modification Project, which could provide 250,000 kilowatts of additional capacity from the Boulder Canyon Project for customers in Arizona.

The Authority remains committed to its responsibility to provide dependable, low-cost power to its customers in the State of Arizona.

Sincerely,

J. S. Francis, Jr.
Chairman

COMMISSION

J. S. FRANCIS, JR.
CHARIMAN

RICHARD WALDEN
VICE CHAIRMAN

ROBERT P. CASILLAS JEWELL LEWIS JAMES HENNESS

STAFF

L. S. ORMSBY
ADMINISTRATOR

RICHARD F. WILSON
ASSISTANT ADMINISTRATOR

Members of the Commission

J. S. Francis, Jr.

Chairman J. S. Francis, Jr. is a native of Arizona, graduating from the University of Arizona with a Bachelor of Science Degree in Business Administration. He served as a Lieutenant in the U.S. Army during the Korean conflict. He is Co-Owner and Chairman of the Board of Valley Industries, a more than 60-year-old family-owned cotton ginning company with headquarters in Peoria, Arizona.

Chairman Francis is, and has been, active in Arizona and national agriculture organizations. He currently serves as a Vice President of the National Cotton Council, Treasurer of Cotton Growers Association and the SuPima Association of America.

Past honors and awards include Man of the Year, SuPima Association, 1986; Distinguished Citizen Award, University of Arizona Alumni Association, 1977; Man of the Year, Progressive Farmer, 1976; and National Ginner of the Year, National Cotton Ginners Association, 1967.

Governor Bruce Babbitt appointed Mr. Francis to the Arizona Power Authority Commission for a six-year term in January, 1984. Mr. Francis became Vice Chairman of the Commission in May, 1986, and Chairman of the Commission in July, 1988.

Richard S. Walden

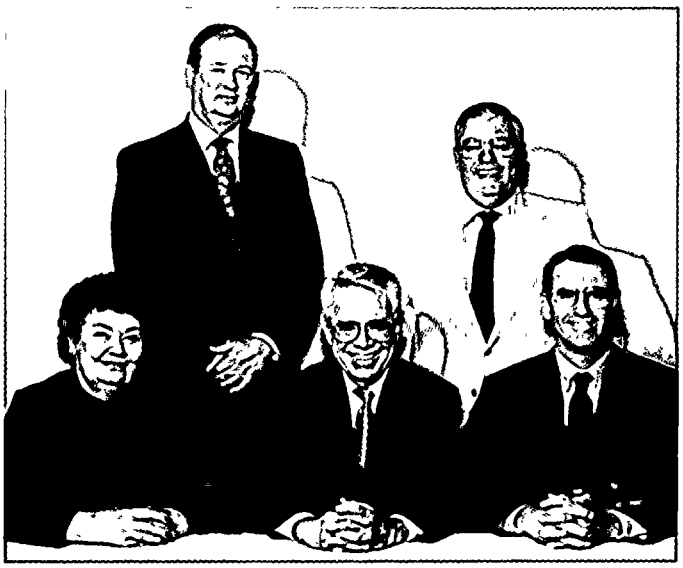
Vice-Chairman Richard S. Walden was born in Oxnard, California. He received a Bachelor's Degree in Economics from Pomona College. He served as a Captain in the U.S. Army, earning numerous decorations and awards and is currently the President and Chief Operating Officer of Farmers Investment Company in Sahuarita, Arizona.

Vice-Chairman Walden was a founding member of the Southern Arizona Water Resources Association and is currently a member of the Board of Directors. He is also a Director of the First Interstate Bank, Board Member of National Pecan Shellers Association, Green Fields Country Day School and Green Valley Community Health Center, Inc. His many memberships include the Water Resources Coordination Committee of Tucson and Tucson for Tomorrow. Previous memberships include the Governor's Central Arizona Project Financing Study Group and the University of Arizona Foundation President's Club.

Mr. Walden was appointed to the Arizona Power Authority Commission by Governor Babbitt in June 1984, to fill the unexpired term of Commissioner Hugh Holub. He was reappointed by Governor Babbitt to a six-year term in January, 1986. He became Vice-Chairman of the Commission in July, 1988.

Bottom Row (left to right): Dr. Jewell Lewis, J. S. Francis, Jr., Richard Walden.

Top Row (left to right): James Henness, Robert Casillas.



Robert Casillas

Commissioner Robert Casillas was born in Miami, Arizona. He graduated from Miami High School and attended Eastern Arizona Community College. He has been actively involved in community affairs, as well as government and business, serving as a Gila County Supervisor from 1977 through 1984. He is currently a manufacturer's marketing representative.

Commissioner Casillas is a past Vice President of the Arizona Supervisors Association and is a member of the Globe-Miami Economic Development Committee, Arizona Association of Counties, Knights of Columbus, American Legion, Globe Lions Club Board of Directors, Globe-Miami Chamber of Commerce and the National Association of Life Underwriters. He was named Globe Citizen of the Month in February, 1972, and was selected Globe-Miami Citizen of the Year in 1978.

Governor Babbitt appointed Mr. Casillas to the Arizona Power Authority Commission to fill the unexpired term of Commissioner Joe Albo in March, 1985.

James Henness

Commissioner James Henness was born in Casa Grande, Arizona. He graduated from Casa Grande High School and received his B.S. in Agricultural Economics from the University of Arizona. Commissioner Henness has been actively involved in farming in the Casa Grande Valley since 1958.

Commissioner Henness is President of the West Pinal Natural Resource Conservation District and the 11-Mile Corner Gin; Director of the National Association of Conservation Districts, the Cotton Growers Association, the Federal Land Bank of Arizona, and Chairman of Western Farm Credit Bank of Sacramento; Vice-President of the Arizona Agri-Business Council and the Farm Bureau, Wheat Growers Association, and the Cotton Gin Producers Institute. He serves on the Governor's Executive CAP Plan 6 Finance Committee. He is a past member of the Casa Grande Elementary School District Board of Trustees and the State 208 Environment Committee.

Commissioner Henness was appointed by Governor Babbitt, in January 1980, to serve a six-year term on the Arizona Power Authority Commission. He served as Vice Chairman from April, 1982 to March, 1984, and was elected Chairman in March, 1984. He served as Chairman until May, 1986. Mr. Henness was reappointed to the Commission by Governor Mofford in July 1988 for a six-year term.

Dr. Jewell M. Lewis

Commissioner Jewell M. Lewis is a life-long resident of Arizona. She received a Bachelor's Degree in Secondary Education from the Univeristy of Arizona, a Master's Degree in Elementary Education from George Washington University and a Ph.D. in Secondary Education from Arizona State University. She currently serves as Chairman of the Board of KTVK, Channel 3, in Phoenix.

Commissioner Lewis has been actively involved in the field of education as follows: Serving as a teacher in Florence, Arizona from 1954 to 1972; Reading Director of Coolidge Public Schools from 1972 to 1983; The Governor's Committee of Quality Education; The State's Right-To-Read Advisory Board; Trustee on the Board of the Arizona Educational Foundation; and an Advisory Committee Member of the Center for Excellence in Education at Northern Arizona University.

She is past President of the Junior Woman's Club and a past Worthy Matron of the Order of Eastern Star. She is a Director on the Arizona Perinatal Board of Trustees and a National Board Member of the Alumni of the University of Arizona. She also served as a "Friend" of the Genetics and Cancer Center of Southwest Biomedical Research Institute.

Governor Bruce Babbitt appointed Dr. Lewis to the Arizona Power Authority Commission in January, 1986, for a six-year term.

Report of the Commission

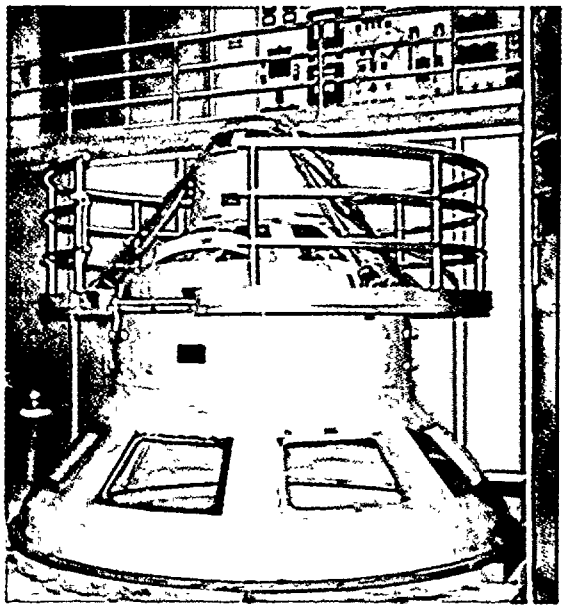
This year has been one of progress and great challenge. The Arizona Power Authority (Authority) has entered into a new era — an era in which we have provided part, or all, of the power requirements for well over twice the number of customers than have been previously served. Meeting these power requirements, with existing and newly-uprated Hoover power at the lowest possible cost, has been the Authority's challenge. Although not an easy chore, the transition from old to new conditions has, in the Authority's view, been accomplished to the benefit of the State as a whole, and to the individual benefit of each of the Authority's customers.

The Authority will continue in its efforts to maintain a low-cost hydropower base while expanding its efforts to meets its customers' requirements from other, low-cost, dependable power sources which may become available to the Authority.

J. S. Francis, Jr.
Chairman

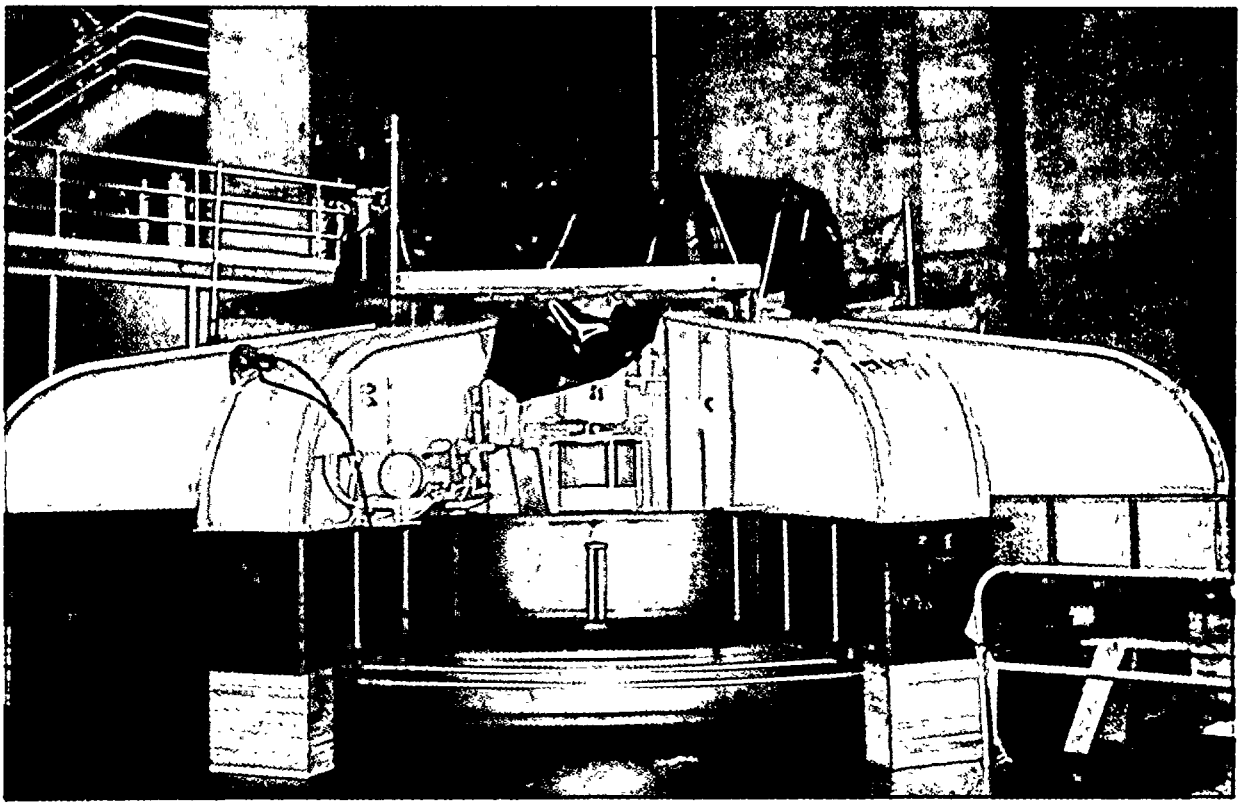
J. S. Francis, Jr.
Chairman

Hoover Uprating Program



*Hoover Power Plant Generator Exciter Uprating**

When Congress enacted the 1984 Hoover Power Plant Act, 503,00 kW of contingent capacity and 767,214,000 kWh of associated firm energy, resulting from the Hoover Uprating Program, became available to Hoover contractors under new power sales contracts effective June 1, 1987. This power will be phased in as the Upratings are completed and upon completion (projected for 1992), the Authority will receive annually (in addition to 189,000 kW of Hoover power reserved for the renewal of its prior Hoover contract), 188,000 kW of firm capacity. As of December 31, 1988 the Authority will have received uprated capability of 69,519 kW. On June 1, 1987, the Authority's initial share of the Upratings energy, in the amount of 212,000,000 kWh, was made available for allocation and distribution to Arizona customers.

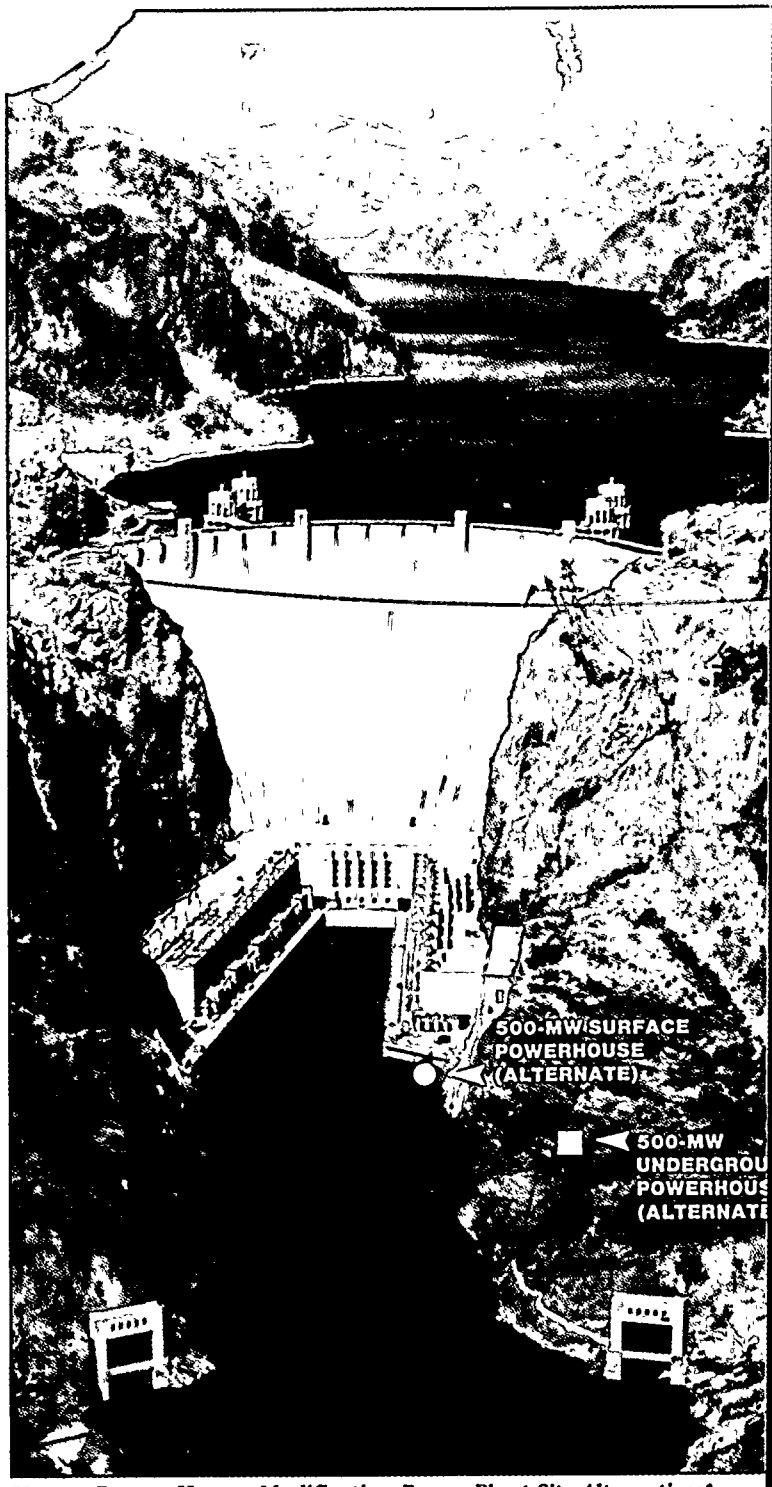


*Hoover Power Plant Generator Uprating**

Hoover Modification Project

The Authority and the Colorado River Commission of Nevada (CRC) have submitted a joint proposal to the U.S. Department of the Interior, Bureau of Reclamation and the U.S. Department of Energy, Western Area Power Administration for the study and possible development of the Hoover Modification Project. Under the proposal, the Authority and CRC will negotiate agreements with Federal entities to study feasibility and, if feasible, to jointly construct the project.

If the Modification Project is constructed, each state agency would share approximately 500,000 kW, of newly developed capacity, on an equal basis. The project would be constructed without federal financing, through the issuance of revenue bonds. The Authority believes that a major portion, if not all, of such financing would be on a tax-exempt basis.



*Hoover Dam—Hoover Modification Power Plant Site Alternatives**

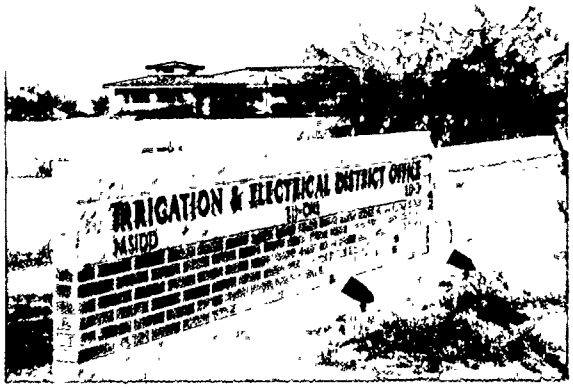
Customer Highlights
A Working Relationship for Progress

On June 1, 1987, the Authority entered into long-term power sales contracts for Hoover power with its Arizona customers. Hoover power is now being sold to 39 different entities within the State. In the past, only 17 Arizona customers were receiving Hoover power.

The primary customers for Hoover power are irrigation and electrical districts. The new contracts also make Hoover power available to cities, towns, private utilities, Indian communities, municipalities, and cooperatives, as well as the Central Arizona Water Conservation District.

This year, the Authority highlights the activities of the various electrical and irrigation districts throughout the State of Arizona. The primary function of these customers is to provide power for pumping water for agricultural and drainage purposes. This facilitates the production of a variety of farm products, including both food and non-food items, principally, cattle, citrus, vegetables, and cotton. A few districts provide electrical power and energy for use by qualified recipients within the districts' boundaries, including residential and commercial accounts. Electrical service of this type is not competitive with private investor-owned utilities. Instead, a service is being provided which would not otherwise be available, due to factors such as the location of the user.

Roosevelt Water Conservation District



ED-1 and ED-3, Pinal County

Customer Highlights
A Working Relationship for Progress

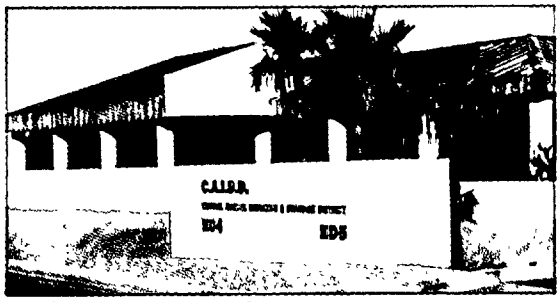
Electrical irrigation, conservation, and drainage districts have contributed immeasurably to the economic development of Arizona. These districts enabled farming communities in the central part of our state to develop, from barren desert, highly productive farms which exceed the national average for crop production.

In the late 1920's and early 1930's, several electrical districts had been formed in Pinal and Maricopa Counties. From that time until the end of World War II, energy for pumping irrigation water was provided primarily by electricity purchased from Salt River Project, from utilities which were forerunners of Arizona Public Service Company, and from private power generators. In addition, due to comparatively high water tables, many irrigation pumps could be effectively and economically operated with gas or diesel engines.

After World War II, the Authority was formed to enable the state to receive and market its share of low-cost electrical energy generated at the Hoover hydroelectric facility, and, for the first time, Hoover power became usable by Arizona entities. Electrical District No. 2, Pinal County, organized in 1923, Electrical District No. 4, Pinal County, organized in 1928, and several electric and irrigation districts in Pinal and Maricopa County, became the Authority's first major customers for Hoover power.

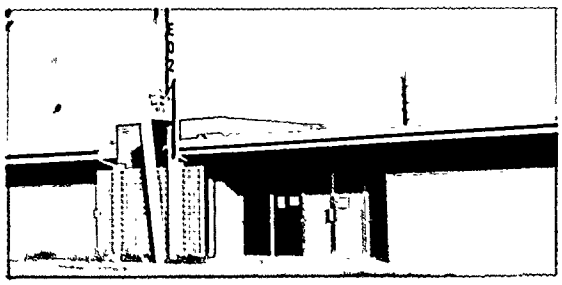
During the period from the 1940's to the present, the availability and cost of alternative sources of pumping energy (such as natural gas and diesel fuel) fluctuated widely and increased rapidly, leading to a rapid conversion of irrigation pumps to utilize reliable low-cost hydroelectricity provided through long-term Hoover contracts with the Authority. In addition, during the 1960's, districts such as ED No. 5, Pinal County, and ED No. 6, were organized to take advantage of another source of low-cost Federal Power generated at the Colorado River Storage Project. Later, Queen Creek Irrigation District and ED No. 5, Maricopa County, were similarly formed.

The Authority is indebted to Attorney Brock Ellis for his contribution to these "Highlights".

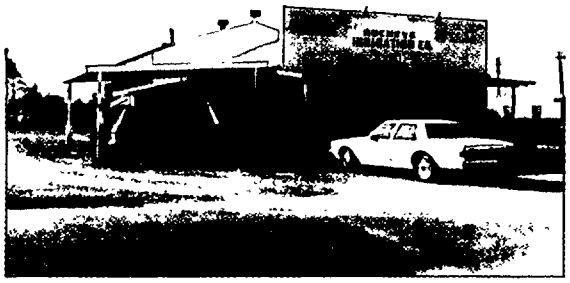


ED-4 and ED-5, Pinal County

Roosevelt Irrigation District


ED-2, Pinal County

Typical Pump Irrigation



Buckeye Water Conservation and Drainage District

Maricopa County Municipal Water District

Agricultural Development in Central Arizona

Today there are 27 active districts which are dedicated to the service of their constituents and to the continued economic prosperity of the areas which they serve. The Authority recognizes the contribution of each of the following districts:

Aguila Irrigation District
Avra Valley Irrigation and Drainage District
Buckeye Water Conservation and Drainage District
Central Arizona Water Conservation District
Chandler Heights Citrus Irrigation District
Cortaro-Marana Irrigation District
Electrical District No. 1, Pinal County
Electrical District No. 2, Pinal County
Electrical District No. 3, Pinal County
Electrical District No. 4, Pinal County
Electrical District No. 5, Maricopa County
Electrical District No. 5, Pinal County
Electrical District No. 6, Pinal County
Electrical District No. 7, Maricopa County
Electrical District No. 8, Maricopa County
Harquahala Valley Power District
Maricopa County Municipal Water District
McMullen Valley Water Conservation and Drainage District
Ocotillo Water Conservation District
Queen Creek Irrigation District
Roosevelt Irrigation District
Roosevelt Water Conservation District
Salt River Project
San Tan Irrigation District
Silverbell Irrigation and Drainage District
Tonopah Irrigation District
Wellton-Mohawk Irrigation and Drainage District

Queen Creek Irrigation District

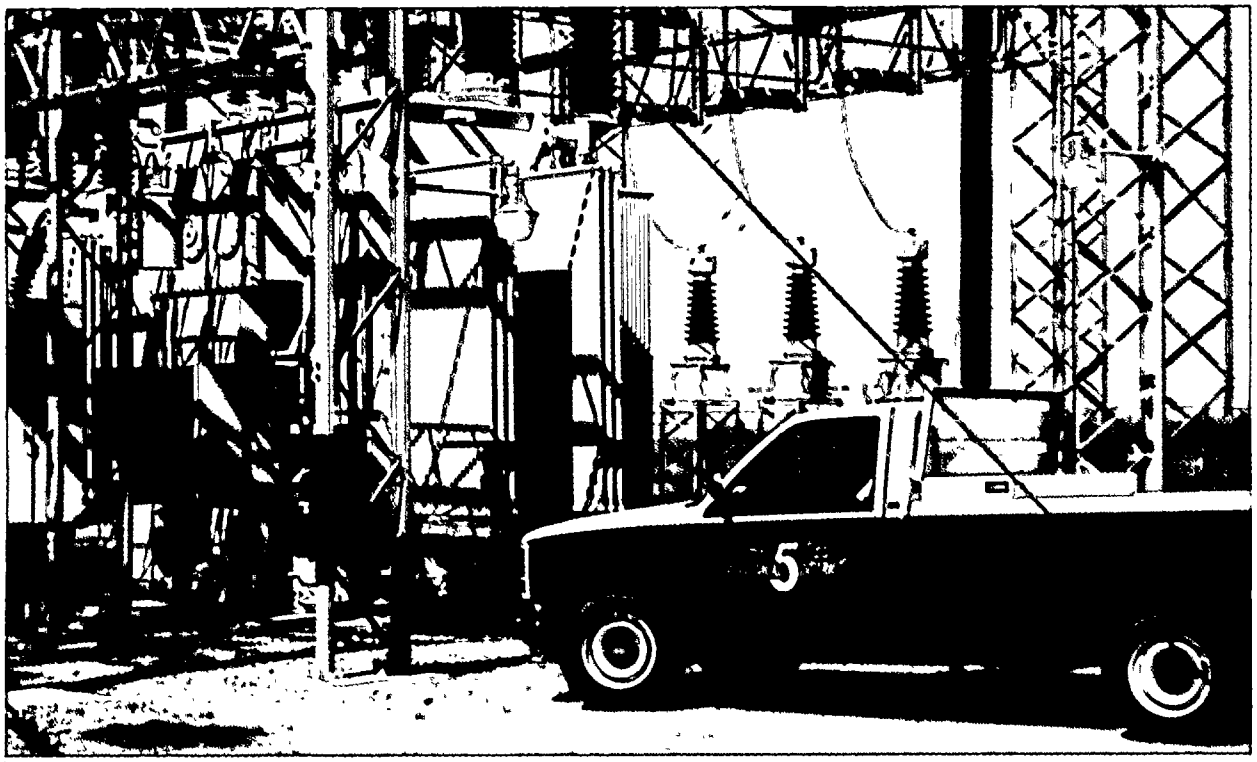
Conservation and Renewable Energy

In 1980, the Western Area Power Administration (Western) initiated its Conservation and Renewable Energy (C&RE) Program. The program has two major components: an in-house program and a customer-oriented program. The in-house program improves the efficiency of Western's operations and facilities. The customer-oriented program ensures that Federal hydropower is used wisely and encourages conservation of energy and development of renewable resources.

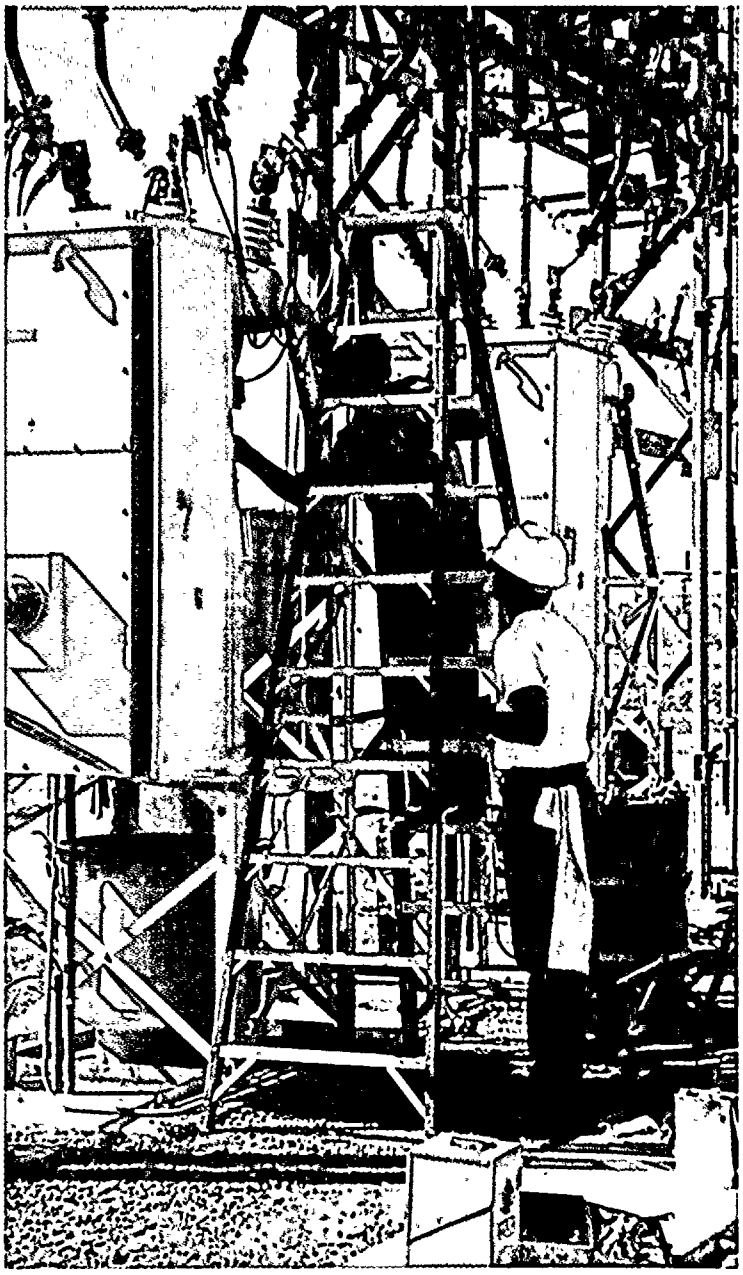
The C&RE Program was mandated by the Hoover Power Plant Act of 1984 which requires all contractors for firm electric service, from Western hydroprojects, to implement an approved C&RE Program within one year after contract execution.

The C&RE Program embraces the national energy policy, which can be summed up as fostering an adequate, diverse supply of energy at reasonable cost. C&RE resources are critical in developing such an energy system.

ED-5 Substation Infrared Inspection



ED-5 Substation Annual Preventative Maintenance Review

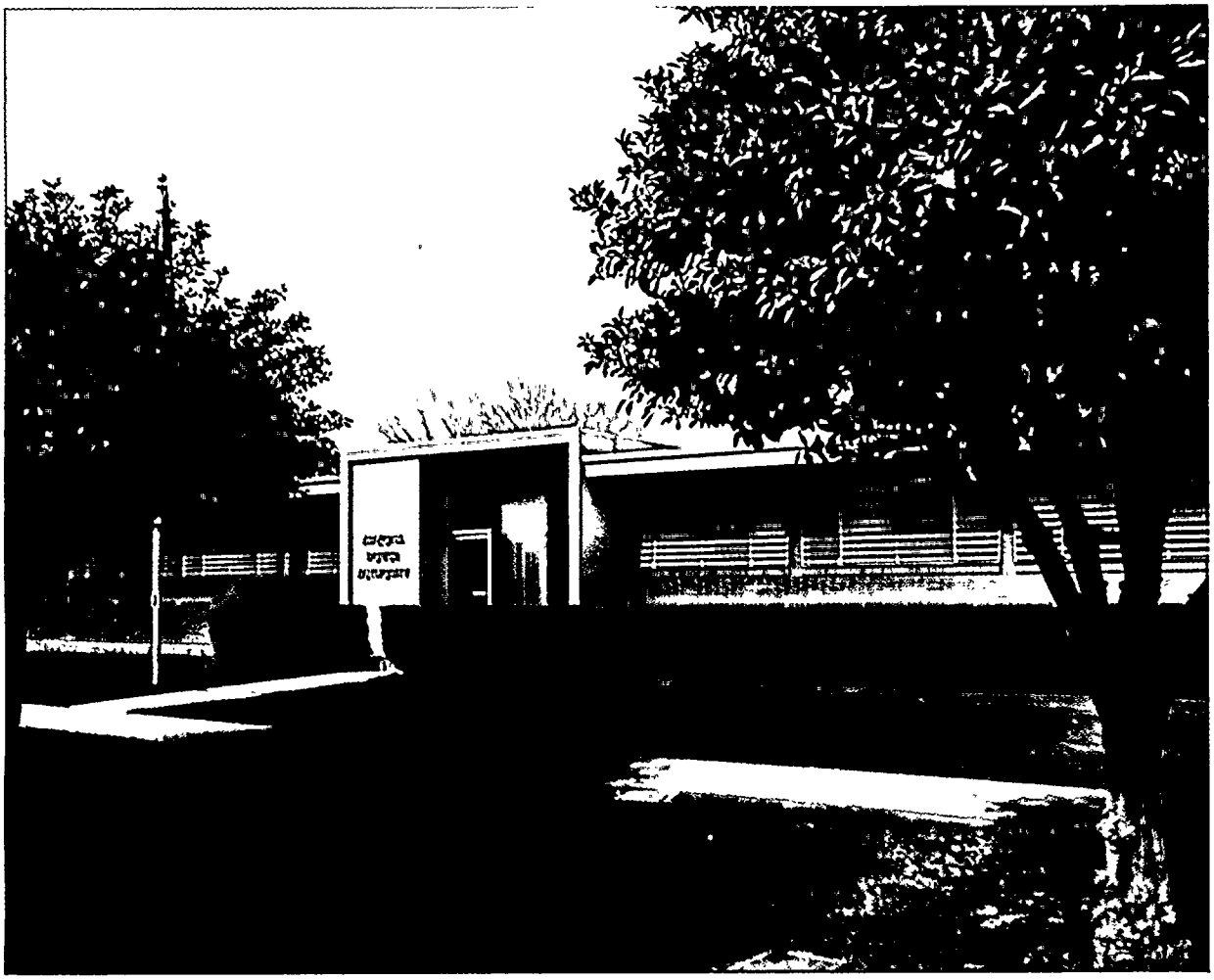


ED-5 Substation Line Breaker Maintenance

The Authority and Western consider the C&RE Program as a shared responsibility to assist Authority customers in developing their own programs and choosing activities best suited to their own situations. The Program recognizes the needs, and capabilities, of the individual customers. Past and present accomplishments, in the area of energy conservation, have also been acknowledged by the Program.

While supporting the national energy policy and C&RE goals, where practical, Authority customer programs include a cost-effective strategy for managing loads and increasing the efficiency of energy use through conservation and energy additions from renewable energy sources.

Operations



At fiscal year end (June 30, 1988), the water storage in Lake Mead was 23,380,000 acre-feet at a lake elevation of 1,203.2 feet. During the fiscal year, water released through power turbines amounted to 9,822,000 acre-feet and produced 4,702,000,000 kWh of energy.

During this period, the Authority's share of Hoover energy was 873,871,000 kWh, which was provided to its customers along with 92,416,000 kWh of firming energy from thermal generation resources.

To supplement customer needs, the Authority also purchased thermal-generated energy under wholesale power purchase contracts with the Arizona Public Service Company and the Arizona Electric Power Cooperative. This power was sold at wholesale rates to Electrical Districts No. 4 and No. 5, of Pinal County, and No. 8, of Maricopa County. During fiscal year 1988, the Authority delivered 8,229,167 kWh of thermal-generated energy to these districts.

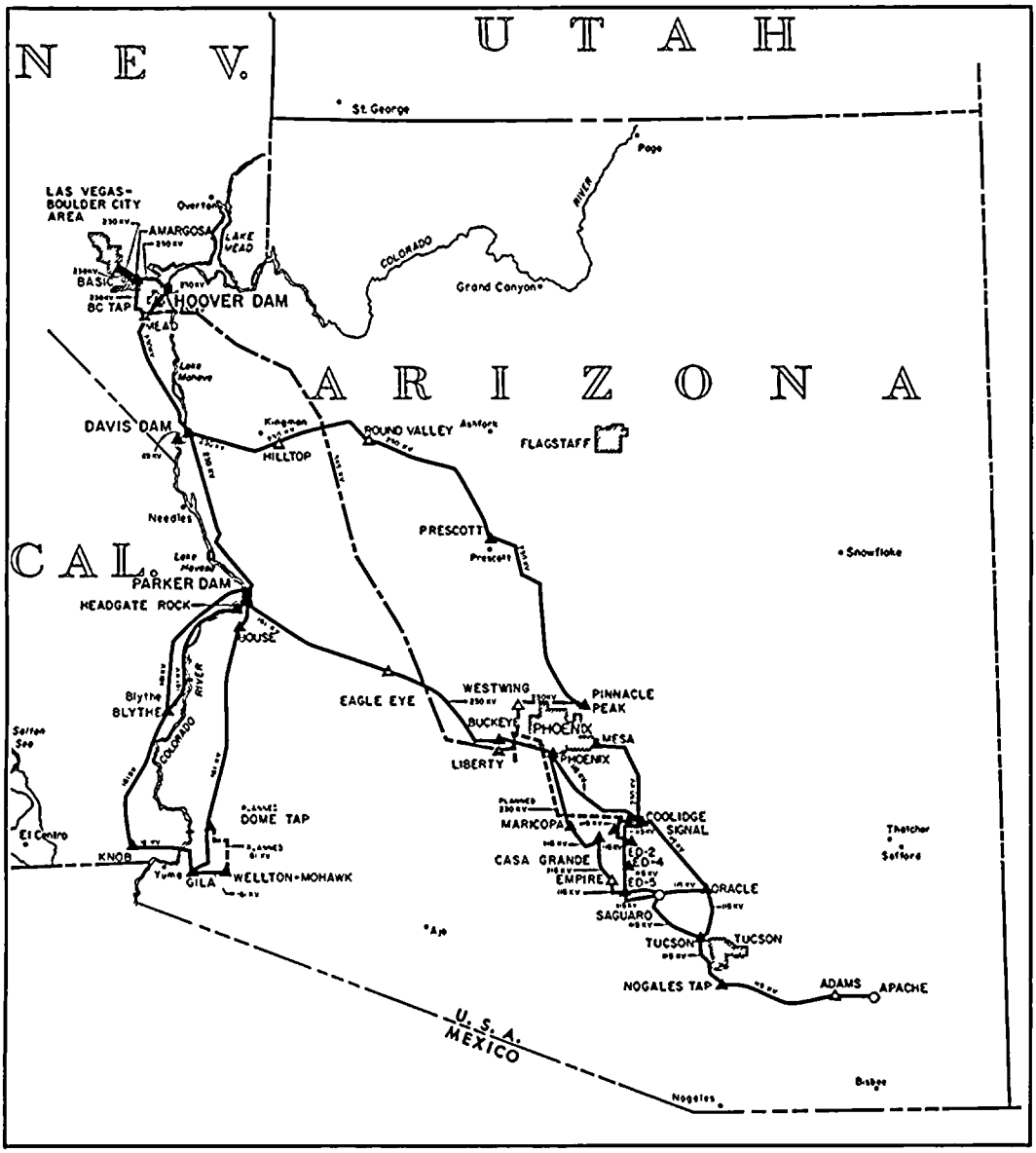
Arizona Power Authority Staff

Bottom Row (left to right): *Richard Wilson (Assistant Administrator), Rosemary Anhalt (Fiscal Services Specialist), Lester Ormsby (Administrator). Evelyn Magnusson (Power Scheduler)*

Middle Row (left to right): *James Bartlett (Authority Attorney), David Southworth (Computer Analyst), Donna Robins (Administrative Secretary), Ernest Gregg (Scheduling Consultant).*

Top Row (left to right): *Donald Esgar (Customer Services and Contracts Manager), Theodore Moss (Power Manager), Frank Bonfill (Chief Accountant).*

Western Area Power Administration Transmission System Utilized By Arizona Power Authority For Delivery of Hoover Power



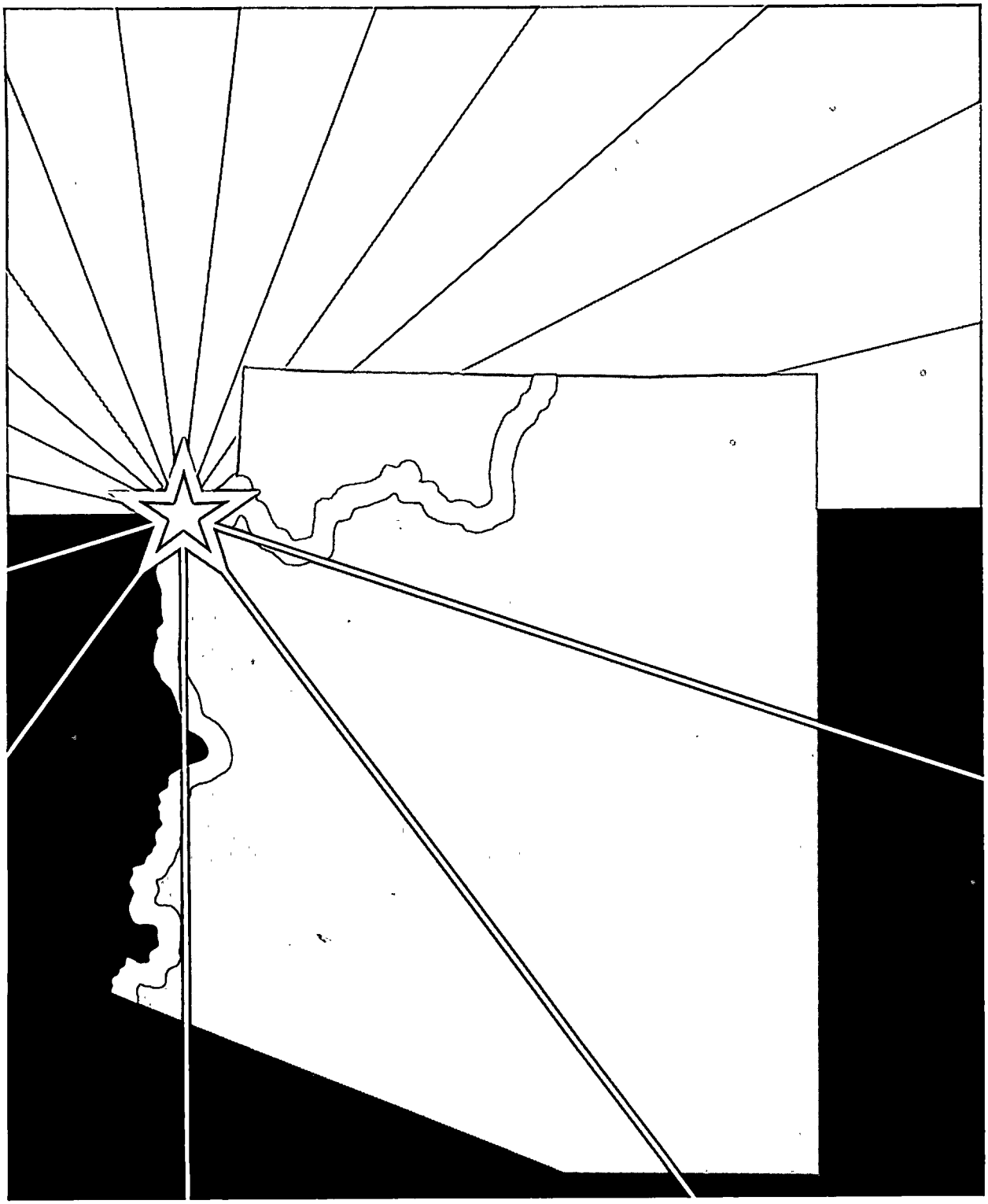
LEGEND

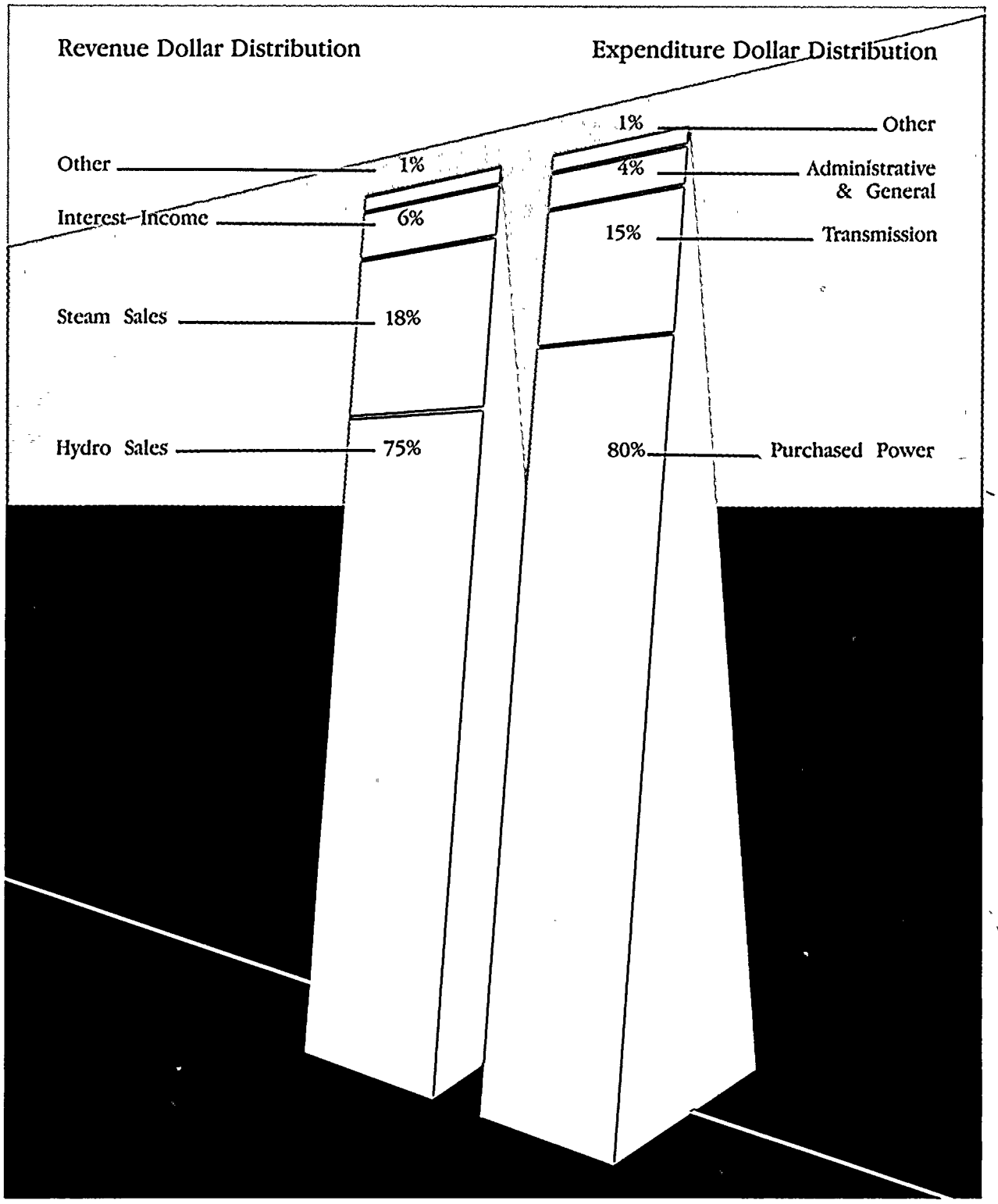
- △ Non-Federal Substation
- ▲ Federal Substation
- ■ Hydro-Generating Station
- ○ Non-Federal Steam-Generating Station
- ▬ Parker-Davis Project
- ▭ Pacific Northwest-Pacific Southwest Intertie Project

Schedule of Power and Energy Sales

FOR PERIOD OF JULY 1, 1987 THROUGH JUNE 30, 1988	AVERAGE BILLING DEMAND kW	DELIVERED kWh	AMOUNT	MILLS PER kWh
SALE OF HYDRO POWER				
Aguila Irrigation District	3,273	12,846,000	$ 187,414	14.59
Avra Valley Irrigation and Drainage District	847	2,580,000	41,055	15.91
Buckeye Water Conservation and Drainage District	2,813	10,609,000	156,720	14.77
Chandler Heights Citrus Irrigation District	880	3,197,000	47,806	14.95
Cortaro-Marana Irrigation District	6,079	17,969,000	289,107	16.09
Electrical District No. 1, Pinal County	6,268	25,065,000	363,527	14.50
Electrical District No. 2, Pinal County	20,799	82,158,000	1,196,048	14.56
Electrical District No. 3, Pinal County	14,673	56,846,000	832,730	14.65
Electrical District No. 4, Pinal County	19,975	74,052,000	1,100,117	14.86
Electrical District No. 5, Pinal County	14,719	55,779,000	824,722	14.79
Electrical District No. 5, Maricopa County	331	1,187,000	17,833	15.02
Electrical District No. 6, Pinal County	9,672	37,742,000	551,579	14.61
Electrical District No. 7, Maricopa County	10,285	39,424,000	579,373	14.70
Electrical District No. 8, Maricopa County	15,347	58,168,000	858,012	14.75
Harquahala Valley Power District	2,528	9,694,000	142,449	14.69
Maricopa County Municipal Water District	9,091	35,283,000	516,485	14.64
McMullen Valley Water Conservation and Drainage District	4,913	19,199,000	280,474	14.61
Ocotillo Water Conservation District	2,256	7,102,000	111,628	15.72
Queen Creek Irrigation District	2,364	9,295,000	135,522	14.58
Roosevelt Irrigation District	4,278	16,636,000	243,397	14.63
Roosevelt Water Conservation District	8,021	31,078,000	455,209	14.65
Salt River Project	43,016	172,354,000	2,498,063	14.49
San Tan Irrigation Project	828	3,317,000	48,074	14.49
*Silverbell Irrigation and Drainage District	480	903,000	9,030	10.00
Tonopah Irrigation District	2,068	8,132,000	118,583	14.58
Wellton-Mohawk Irrigation and Drainage District	4,049	16,482,000	237,753	14.43
City of Mesa	1,288	5,866,000	81,877	13.96
City of Page	261	1,186,000	16,555	13.96
City of Safford	522	2,377,000	33,172	13.96
Town of Thatcher	263	1,198,000	16,716	13.95
Town of Wickenburg	575	2,611,000	36,468	13.97
Ak-Chin Indian Community	278	1,267,000	17,685	13.96
Arizona Electric Power Cooperative	858	3,919,000	54,667	13.95
Arizona Public Service Co.	6,234	28,411,000	396,542	13.96
Citizens Utilities Co.	730	3,324,000	46,395	13.96
Papago Tribal Utilities Authority	619	2,728,000	38,439	14.09
San Carlos Project	644	2,930,000	40,909	13.96
Tucson Electric Power Co.	2,410	10,957,000	153,032	13.97
Total	224,535	873,871,000	$12,775,167	14.62
SALE OF THERMAL POWER				
Electrical District No. 4, Pinal	5,700		$ 923,821	
Electrical District No. 5, Pinal	500		85,246	
Electrical District No. 8, Maricopa	10,938	8,229,167	518,439	
Total Thermal Power Sales	17,138	8,229,167	$ 1,527,506	
SALE OF FIRMING ENERGY				
Navajo and Fuel Replacement		92,416,000	$ 1,667,188	18.04
Other Electric Revenues			68,520	
Total Operating Revenues			$16,038,381	

*Amount does not include capacity charge




Revenue Dollar Distribution
Expenditure Dollar Distribution
Other
1%
Interest–Income
6%
Steam Sales
18%
Hydro Sales
75%
1%
Other
4%
Administrative & General
15%
Transmission
80%
Purchased Power

APA General Fund, Hoover Energy Fund, Hoover Uprating Fund and Combined Balance Sheets June 30, 1988 and 1987

	APA GENERAL FUND	
	1988	1987
ASSETS		
PROPERTY, PLANT AND EQUIPMENT, Net (Note 3)	$ 308,639	$ 314,659
PRELIMINARY SURVEY AND INVESTIGATION COSTS (Note 4)	283,248	215,207
DEFERRED COSTS - HOOVER UPRATING PROJECT, Net (Note 5)		
BOND ISSUANCE COSTS		
INVESTMENTS (Note 6)		
CURRENT ASSETS:		
Cash	985,521	741,283
Temporary investments (Note 6)	2,850,000	2,850,000
Accounts receivable - customers' power purchases	403,657	788,662
Due from (to) other fund	704,344	660,275
Interest receivable	100,278	84,134
Prepaid purchased power and other assets	425	425
Total current assets	5,044,225	5,124,779
TOTAL	$5,636,112	$5,654,645
FUND EQUITY AND LIABILITIES		
FUND EQUITY:		
Contributed capital	$ 9,000	$ 9,000
Retained earnings (Notes 2 and 8):		
Allocated:		
Investment in property, plant and equipment	308,639	314,659
Property replacement reserve	433,480	404,260
Preliminary survey and investigation costs	283,248	215,207
General reserves	500,000	500,000
Unallocated	3,704,338	3,443,157
Total fund equity	5,238,705	4,886,283
BONDS PAYABLE (Note 7)		
LESS FUNDS HELD BY TRUSTEE (including unamortized premium on investments of $979,825 in 1988 and $2,346,508 in 1987) (Note 6)		
Bonds payable, net		
CURRENT LIABILITIES:		
Power contracts payable	397,407	768,362
Accounts payable		
Accrued interest payable (Note 7)		
Total current liabilities	397,407	768,362
TOTAL	$ 5,636,112	$ 5,654,645

See notes to financial statements.

HOOVER ENERGY FUND		HOOVER UPRATING FUND		COMBINED	
1988	1987	1988	1987	1988	1987
				$ 308,639	$ 314,659
				283,248	215,207
		$12,718,186	$ 3,425,351	12,718,186	3,425,351
		2,684,437	2,769,402	2,684,437	2,769,402
		2,999,800	2,999,800	2,999,800	2,999,800
$ 43,264	$(128,689)	4,376,415	(178,683)	5,405,200	433,911
650,000	650,000		2,496,095	3,500,000	5,996,095
	146,094	1,224,598	939,607	1,628,255	1,874,363
(693,358)	(649,289)	(10,986)	(10,986)		
94	94	1,314,603	1,667,811	1,414,975	1,752,039
			287,071	425	287,496
—0—	18,210	6,904,630	5,200,915	11,948,855	10,343,904
$ —0—	$ 18,210	$25,307,053	$14,395,468	$30,943,165	$20,068,323
				$ 9,000	$ 9,000
				308,639	314,659
				433,480	404,260
				283,248	215,207
$ 10,948	$ 10,948			510,948	510,948
(10,948)	(10,948)	$ 106,036	$ (103,428)	3,799,426	3,328,781
—0—	—0—	106,036	(103,428)	5,344,741	4,782,855
		89,820,000	89,820,000	89,820,000	89,820,000
		(67,129,374)	(77,918,673)	(67,129,374)	(77,918,673)
		22,690,626	11,901,327	22,690,626	11,901,327
		923,421	861,763	1,320,828	1,630,125
	18,210		148,836		167,046
		1,586,970	1,586,970	1,586,970	1,586,970
	18,210	2,510,391	2,597,569	2,907,798	3,384,141
$ —0—	$ 18,210	$25,307,053	$ 14,395,468	$30,943,165	$ 20,068,323

APA General Fund, Hoover Energy Fund, Hoover Uprating Fund and Combined Statements of Operations For the Years Ended June 30, 1988 and 1987

	APA GENERAL FUND	
	1988	1987
OPERATING REVENUES	$3,263,214	$2,055,891
OPERATING EXPENSES:		
Purchased power	3,195,958	2,001,334
Transmission	3,592	3,494
Distribution	7,183	6,987
Administrative and general	14,204	9,292
Depreciation and amortization	29,219	27,799
Allocation of depreciation	(20,790)	(18,091)
Total	3,229,366	2,030,815
OPERATING INCOME (LOSS)	33,848	25,076
OTHER INCOME (DEDUCTIONS):		
Interest income	300,138	222,254
Other, net	18,436	(29,278)
Interest expense		
Total	318,574	192,976
WRITE-OFF OF DEFERRED COSTS (Note 4)		(136,330)
NET INCOME (LOSS)	$ 352,422	$ 81,722

See notes to financial statements.

HOOVER ENERGY FUND		HOOVER UPRATING FUND		COMBINED	
1988	1987	1988	1987	1988	1987
	$4,662,689	$12,775,167	$ 939,607	$16,038,381	$7,658,187
	3,090,544	9,339,432	673,468	12,535,390	5,765,346
	1,347,858	2,271,859	188,315	2,275,451	1,539,667
				7,183	6,987
	525,752	657,337	97,842	671,541	632,886
		96,000	22,205	125,219	50,004
	17,709	20,790	382		
	4,981,863	12,385,418	982,212	15,614,784	7,994,890
	(319,174)	389,749	(42,605)	423,597	(336,703)
	51,046	783,778	468,168	1,083,916	741,468
	(405)	815		19,251	(29,683)
		(964,878)	(528,991)	(964,878)	(528,991)
	50,641	(180,285)	(60,823)	138,289	182,794
	(489,052)				(625,382)
	$(757,585)	$ 209,464	$(103,428)	$ 561,886	$(779,291)

APA General Fund, Hoover Energy Fund, Hoover Uprating Fund and Combined Statements of Changes in Fund Equity For the Years Ended June 30, 1988 and 1987

	APA GENERAL FUND	
	1988	1987
UNALLOCATED RETAINED EARNINGS:		
Balance, beginning of year	$3,443,157	$2,917,170
Net income (loss)	352,422	81,722
Net transfers to allocated retained earnings	(91,241)	444,265
Balance, end of year	3,704,338	3,443,157
ALLOCATED RETAINED EARNINGS:		
Balance, beginning of year	1,434,126	1,878,391
Net transfers from unallocated retained earnings	91,241	(444,265)
Balance, end of year	1,525,367	1,434,126
CONTRIBUTED CAPITAL	9,000	9,000
TOTAL FUND EQUITY	$5,238,705	$4,886,283

See notes to financial statements.

HOOVER ENERGY FUND		HOOVER UPRATING FUND		COMBINED	
1988	1987	1988	1987	1988	1987
$ (10,948)	$257,585	$ (103,428)		$3,328,781	$3,174,755
	(757,585)	209,464	$ (103,428)	561,886	(779,291)
	489,052			(91,241)	933,317
(10,948)	(10,948)	106,036	(103,428)	3,799,426	3,328,781
10,948	500,000			1,445,074	2,378,391
	(489,052)			91,241	(933,317)
10,948	10,948			1,536,315	1,445,074
				9,000	9,000
$ —0—	$ —0—	$ 106,036	$ (103,428)	$ 5,344,741	$ 4,782,855

APA General Fund, Hoover Energy Fund, Hoover Uprating Fund and Combined Statements of Changes in Financial Position For the Years Ended June 30, 1988 and 1987

	APA GENERAL FUND	
	1988	1987
FUNDS WERE PROVIDED BY:		
Net income (loss)	$352,422	$ 81,722
Charges to income not affecting funds:		
Bureau credits		
Depreciation and amortization	29,219	27,799
Funds provided (used) by operations	381,641	109,521
Decrease in working capital		
Increase in long-term bonds payable, net		
Preliminary survey and investigation costs		448,880
TOTAL FUNDS PROVIDED	$381,641	$558,401
FUNDS WERE APPLIED TO:		
Purchases of property, plant and equipment	$ 23,199	$ 12,029
Deferred costs — HUP		
Investments		
Bond issuance costs		
Preliminary survey and investigation costs	68,041	
Increase in working capital	290,401	546,372
TOTAL FUNDS APPLIED	$381,641	$558,401
INCREASE (DECREASE) IN WORKING CAPITAL:		
Cash	$244,238	$(139,653)
Temporary investments		
Accounts receivable — customers' power purchases	(385,005)	599,869
Prepaid purchased power		
Due from (to) other fund	44,069	660,275
Interest receivable	16,144	(15,228)
Accounts payable		20,622
Power contracts payable	370,955	(579,513)
Accrued interest payable		
Note payable		
Bonds payable		
Less funds held by trustee		
INCREASE (DECREASE) IN WORKING CAPITAL	$290,401	$546,372

See notes to financial statements.

HOOVER ENERGY FUND		HOOVER UPRATING FUND		COMBINED	
1988	1987	1988	1987	1988	1987
	$(757,585)	$ 209,464	$ (103,428)	$ 561,886	$ (779,291)
		735,073		735,073	
		96,000	22,205	125,219	50,004
	(757,585)	1,040,537	(81,223)	1,422,178	(729,287)
	757,585	10,789,299		10,789,299	757,585
			11,901,327		11,901,327
					448,880
	$ —0—	$11,829,836	$11,820,104	$12,211,477	$12,378,505
				$ 23,199	$ 12,029
		$10,027,907	$ 2,159,360	10,027,907	2,159,360
			2,999,800		2,999,800
		11,035	2,791,607	11,035	2,791,607
				68,041	
		1,790,894	3,869,337	2,081,295	4,415,709
		$11,829,836	$11,820,104	$12,211,477	$12,378,505
$171,953	$(289,405)	$ 4,555,098	$ (180,623)	$ 4,971,289	$ (609,681)
		(2,496,095)	2,496,095	(2,496,095)	2,496,095
(146,094)	(329,218)	284,991	939,607	(246,108)	1,210,258
		(287,071)	287,071	(287,071)	287,071
(44,069)	(660,275)				
	(6,924)	(353,208)	(1,214,026)	(337,064)	(1,236,178)
18,210	(18,210)	148,837	351,120	167,047	353,532
	546,447	(61,658)	(861,763)	309,297	(894,829)
			1,510,923		1,510,923
			1,031,571		1,031,571
			98,425,000		98,425,000
			(98,915,638)		(98,915,638)
$ —0—	$(757,585)	$ 1,790,894	$ 3,869,337	$ 2,081,295	$ 3,658,124

Statement of Operations of the Power Resource Revenue Bond Resolution Funds and Accounts For the Year Ended June 30, 1988

	REVENUE FUND	OPERATING ACCOUNT	MONTHLY PAYMENT RESERVE ACCOUNT	CONSTRUCTION FUND
OPERATING REVENUES	$12,775,167			
OPERATING EXPENSES:				
Purchased power		$ 9,339,432		
Transmission		2,271,859		
Administrative and general		657,337		
Depreciation				$ 96,000
Allocation of depreciation		20,790		
Total		12,289,418		96,000
OPERATING GAIN (LOSS)	12,775,167	(12,289,418)		(96,000)
OTHER INCOME (DEDUCTIONS):				
Interest income		26,185	$ 33,441	484,002
Interest expense				
Total		26,185	33,441	484,002
NET INCOME (LOSS)	12,775,167	(12,263,233)	33,441	388,002
ADJUSTMENTS TO INCOME (LOSS) UNDER THE POWER RESOURCE REVENUE BOND RESOLUTION:				
Add:				
Deferred charges credited		735,073		
Accrued interest expense				
Depreciation				96,000
Allocation of depreciation		20,790		
Accrued revenue	939,607			
Accrued purchased power		923,421		
Deduct:				
Accrued interest income			(8,724)	(105,282)
Accrued revenue	(1,134,406)			
Accrued purchased power		(861,733)		
INCOME (LOSS) AS DEFINED UNDER THE POWER RESOURCE REVENUE BOND RESOLUTION	$12,580,368	$(11,445,682)	$ 24,717	$ 378,720
JUNE 30, 1988 CASH AND INVESTMENTS BALANCE	$ —0—	$ 2,999,889	$3,220,006	$47,064,464

NOTE: The above supplemental schedule includes all funds and accounts, as defined by the APA Power Resource Revenue Bond Resolution.

Supplemental Schedule

DEBT SERVICE FUND	DEBT SERVICE RESERVE ACCOUNT	POWER RESOURCE DEVELOPMENT FUND	GENERAL RESERVES FUND	TOTAL
				$12,775,167
				9,339,432
				2,271,859
				657,337
				96,000
				20,790
				12,385,418
				389,749
$ 126,283	$ 105,714	$ 5,499	$ 3,469	784,593
(964,878)				(964,878)
(838,595)	105,714	5,499	3,469	(180,285)
(838,595)	105,714	5,499	3,469	209,464
				735,073
241,219				241,219
				96,000
				20,790
				939,607
				923,421
(55,156)	(30,658)			(199,820)
				(1,134,406)
				(861,733)
$ (652,532)	$ 75,056	$ 5,499	$ 3,469	969,615
$9,308,967	$9,776,118	$183,499	$972,822	$73,525,765

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System of Accounts — The accounting records of the Arizona Power Authority ("APA") are maintained in accordance with applicable provisions of the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

Property and Depreciation — Property is stated at original cost. The costs of property additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from plant accounts, and such costs plus removal expenses less salvage are charged to accumulated depreciation.

Depreciation is provided on the straight-line composite method based on the estimated useful lives of the property items.

Preliminary Survey and Investigation Costs — Certain preliminary costs relating to proposed major capital projects are deferred as long as completion of such projects is considered reasonably expected, and capitalized as a cost of such projects as they are completed.

Bond Issuance Costs — Costs relating to the issuance of long-term bonds have been deferred and are being amortized on the straight-line method over the life of the bonds.

Hoover Uprating Project Costs — Costs relating to the Hoover Uprating Project are being deferred. Such costs are amortized based on credits received on APA's power bills from the Bureau of Reclamation ("Bureau"). The credits are calculated based upon payments made by APA over the life of the power contracts.

Capitalization of Interest — A pro rata amount of interest income and expense related to the Hoover Uprating Project's revenue bonds is capitalized based on the number of power units that are in the process of being upgraded.

Unused Vacation Pay — Vacation pay for the APA General Fund is recorded as an expense when taken or when the payment in lieu of vacation is made. As of June 30, 1988 and 1987, unused vacation pay is estimated to be $21,650 and $30,843, respectively, and is not reflected in the accompanying financial statements.

2. FUND ACCOUNTING

Hoover Energy Fund — The Hoover Energy Fund accounted for revenues and expenditures applicable to the sale and transmission of power and energy received by APA from the Western Area Power Adminstration ("WAPA") under its Hoover Energy contract. Agreements with purchasers committed APA to sell and transmit this energy essentially at cost, specifying that any unexpended balance in the Fund on May 31, 1987 (expiration date of the Hoover Energy contracts) would be returned to the purchasers pro rata on the basis of their energy entitlement percentages as computed under the agreements. Unallocated retained earnings of the Fund were available to APA for certain other uses related to APA activities until May 31, 1987. As of June 30, 1988, the amount of refund has not been finalized among WAPA, APA and APA's customers.

The Hoover Power Plant Act of 1984 ("Hoover Act of 1984"), signed into law on August 17, 1984, renewed the present allocated power and allocated additional power to APA, effective June 1, 1987 through September 30, 2017. Effective June 1, 1987, APA executed new power contracts with WAPA and power allottees. The revenues and expenditures applicable to the sale and transmission of power and energy received by APA from WAPA under these contracts are accounted for in the Hoover Uprating Fund.

Hoover Uprating Fund — The Hoover Uprating Fund accounts for costs incurred by APA in connection with the Hoover Uprating Project. Effective June 1, 1987, this fund also accounts for revenues and expenditures applicable to the sale and transmission of power and energy received by APA from WAPA under its energy contracts.

APA General Fund — APA operations other than those applicable to the Hoover Energy Fund or the Hoover Uprating Project Fund are accounted for in the APA General Fund. The purchase of steam power and the sale and transmission of such power to APA's customers are also accounted for in this fund.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment of the APA General Fund at June 30, 1988 and 1987 are as follows:

	1988	1987
Transmission and distribution plant	$415,031	$415,031
General plant	327,088	303,889
Total	742,119	718,920
Less accumulated depreciation	433,480	404,261
Property, plant and equipment, net	$308,639	$314,659

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

4. PRELIMINARY SURVEY AND INVESTIGATION COSTS

Preliminary survey and investigation expenditures relating to the planning of the proposed Hoover Modification Project have been deferred.

Construction of the Hoover Modification Project may be dependent upon obtaining an agreement with the Bureau of Reclamation. If constructed, the project would increase the power generating capacity of the Boulder Canyon Project ("Hoover") by installing a new power plant. APA believes that construction of this project is reasonably expected.

The Hoover Uprating Project was approved under the Hoover Power Plant Act of 1984. The project will increase the power generating capacity of Hoover by rewinding the existing power plant generators providing an additional 503 megawatts of capacity of which APA has been allocated 188 megawatts under the Hoover Power Plant Act of 1984. Distribution of Hoover Uprating power commenced on June 1, 1987.

In 1987, it was determined that $625,382 of deferred preliminary survey and investigation costs relating to the Hoover Uprating Project would not be recoverable through rates. Accordingly, during the year ended June 30, 1987, $136,330 of these costs were written off against the income of the APA General Fund and $489,052 against the income of the Hoover Energy Fund. During the year ended June 30, 1988, no additional costs have been written off.

5. DEFERRED COSTS — HOOVER UPRATING PROJECT

Deferred costs — Hoover Uprating Project represents payments to the Bureau and capitalized net interest relating to the Hoover Uprating Project. During the years ended June 30, 1988 and 1987, net interest expense (income) capitalized (credited) to the Project is $1,010,347 and ($864,399), respectively. The amount of accumulated amortization as of June 30, 1988 and 1987 is $807,721 and $72,648, respectively.

6. DEPOSTIS AND INVESTMENTS

As of June 30, 1988 and 1987, all bank balances of deposits are entirely insured or collateralized with securities held by APA or by its agent in APA's name.

As of June 30, 1988 and 1987, all investments are insured or registered, or held by APA or by its agent in APA's name. Investments as of June 30, 1988, are as follows:

	Carrying Amount	Market Value
US government securities	$56,651,996	$56,651,996
Commercial paper	11,535,000	11,535,000
Repurchase agreements	650,000	650,000
Total investments	$68,836,996	$68,836,996

7. BONDS PAYABLE

The APA issued $98,425,000 in variable rate short-term revenue bonds on December 19, 1985 to obtain funding for the Hoover Uprating Project. On April 1, 1987, $89,820,000 of these bonds were remarketed. The new bonds are due serially from 1993 through 2017 and bear interest ranging from 5.4% to 7.2%.

8. RETAINED EARNINGS

Allocations of retained earnings appropriated for specified purposes are authorized by the Arizona Power Authority Commission ("Commission"), APA's governing board, under provisions of the Arizona Power Authority Act of 1944, as amended. The general reserves shown on the accompanying balance sheets are comprised of the following:

	June 30	
	1988	1987
APA General Fund		
Operations fund	$200,000	$200,000
Power contracts	100,000	100,000
System improvement and repairs	200,000	200,000
Total	$500,000	$500,000
Hoover Energy Fund		
Generation contingencies and systems improvements	$10,948	$10,948
Total	$10,948	$10,948

The unallocated retained earnings of the APA General Fund are considered by the Commission to be available for future purposes of APA.

See Note 2 relative to the ultimate disposition of the Hoover Energy Fund balance.

9. COMMITMENT AND CONTIGENCY

As of June 30, 1987, APA may have been obligated to purchase certain transmission and other facilities at an amount not in excess of $870,000 under an agreement with one of its customers. During the year ended June 30, 1988, the agreement was terminated by APA and its customer and no payment was required.

Independent Auditor's Opinion

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The Arizona Power Authority Commission:

We have audited the combined financial statements of Arizona Power Authority ("APA") and the separate financial statements of the APA General Fund, the Hoover Energy Fund and the Hoover Uprating Fund of APA as of and for the years ended June 30, 1988 and 1987 as listed in the foregoing table of contents. These financial statements are the responsibility of APA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of APA and the financial positions of the APA General Fund, the Hoover Energy Fund and the Hoover Uprating Fund of APA at June 30, 1988 and 1987 and the results of their operations and the changes in their financial position for years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte Haskins + Sells

July 29, 1988