Arkansas River Power Authority

Financial Statements

December 31, 2010

rfarmer, llc
a certified public accounting and consulting firm

Arkansas River Power Authority
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Independent Auditor's Report

The Governing Body
Arkansas River Power Authority

We have audited the accompanying financial statements of the business-type activities of Arkansas River Power Authority, as of December 31, 2010, and for the year then ended, which collectively comprise Arkansas River Power Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arkansas River Power Authority's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Arkansas River Power Authority, as of December 31, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise Arkansas River Power Authority's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information 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 in relation to the basic financial statements taken as a whole.

rfarmer, llc

May 10, 2011

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ARKANSAS RIVER POWER AUTHORITY

Management's Discussion and Analysis
For the Year Ended December 31, 2010

This discussion and analysis of the Arkansas River Power Authority's ("ARPA" or the "Authority") financial performance provides an overall review of the Authority's operational and financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at ARPA's financial and program performance as well as changes in power supply resources currently in development; readers should review ARPA's financial statements in their evaluation of the Authority's financial performance.

ACCURACY AND PRESENTATION OF DATA

The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of ARPA, including but not limited to the Board of Directors and the General Manager. To the best of our knowledge, the enclosed data is accurate in all material respects.

ARPA financial statements have been audited by rfarmer,llc, a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of ARPA for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by Management; and evaluating the overall financial statement presentation. The independent auditor concluded the financial statements of ARPA present fairly, in all material respects, the financial position of ARPA as of December 31, 2010, and the results of its operations and cash flows for the year then ended in conformity with GAAP as applied to governments.

MISSION AND ORGANIZATONAL STRUCTURE

The Arkansas River Power Authority (ARPA or the Authority) is a political subdivision of the State of Colorado established by its municipal members in 1979 under provisions of an intergovernmental cooperation statute, CRS section 29-1-204. The Authority's primary purpose is to supply the wholesale electric power and energy requirements of its Member Municipalities - Holly, La Junta, Lamar, Las Animas, Trinidad and Springfield, Colorado and Raton, New Mexico. Raton, New Mexico's membership in the Authority was terminated per mutual agreement on January 15, 2010.

SUMMARY AND HIGHLIGHTS OF FINANCIAL INFORMATION

The following 2 pages include condensed financial statements with highlighted information for both 2009 and 2010.

Arkansas River Power Authority
Condensed Statement of Net Assets
December 31, 2009 and 2010

	Dec. 31, 2010	Dec. 31, 2009
ASSETS		
Current assets:		
Cash and Restricted Funds	17,709,476	$9,843,322
Accounts Receivable, Inv. & Prepaids	5,333,809	9,632,349
Total current assets:	$23,043,285	$19,475,671
Non-current assets:		
Fixed and other assets, net of Depr.	174,002,866	$95,287,130
Projects in process	0.00	68,946,753
Total non-current assets:	$174,002,866	$164,233,883
Total assets:	$197,046,151	$183,709,554
LIABILITIES		
Current liabilities:		
Accounts payable and other accruals	8,941,193	$10,470,744
Bonds payable, current portion	2,241,213	1,843,958
Total current liabilities:	$11,182,406	$12,314,702
Non-current liabilities:		
Premium on bonds	7,353,749	$6,808,487
Bonds payable, net of current portion	155,350,000	140,336,173
Total non-current liabilities:	$162,703,749	$147,144,660
Total liabilities:	$173,886,155	$159,459,362
NET ASSETS		
Total net assets:	$23,159,997	$24,250,193

HIGHLIGHTS

Fixed assets increased by approximately $79 million due to the completion of the Lamar Repowering Project. The $3.5 million increase in current assets is the combination of 2010 restricted fund and the reduction in inventory.

Total liabilities increased by $14.5 million due to the issuance of $18 million of new bonds in September of 2010 to fund the completion of the Repowering Project.

Arkansas River Power Authority
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2009 and 2010

	Dec. 31, 2010	Dec. 31, 2009
REVENUES		
Sales of Energy to Municipalities	$31,247,866	$28,029,421
Other Income	481,964	735,945
Total Revenues	31,729,830	28,765,366
OPERATING EXPENSES		
Energy, Transmission, Wheeling	20,428,259	17,512,576
Administrative and General	1,417,580	1,394,405
Total Operating Expenses	21,845,839	18,906,981
Operating Income	9,883,991	9.858,385
Less: Depreciation and Amort.	(3,050,958)	(1,285,076)
Less: Interest Expense	(7,923,230)	(7,613,557)
Net Income	(1,090,197)	959,752
Contrib. Purchased		(2,299,718)
Change in Net Assets	(1,090,197)	(1,339,966)
Total Net Assets - Beginning	24,250,193	25,590,159
Total Net Assets - Ending	$23,159,996	$24,250,193

HIGHLIGHTS

ARPA's revenues from energy sales increased by $3 million or 11% above 2009 sales, but at the same time the purchased power, transmission, and wheeling increased by $2.9 million from $17.5 million. Even though the operating income is at $9.8 million, the interest and depreciation expense help contribute to the $1 million loss for 2010.

BUDGET VARIANCES

The power supply cost was higher than budget due to various factors. One of which is coal delivery cost went up. Another factor is the over-haul of turbine generator (Unit 6). The biggest cost was the construction contract closed out for 2009 was push into 2010, resulting in larger increase in capital expenditures than was budgeted.

The interest and depreciation expense was higher than budgeted because of the 2010 bond. The legal service was also higher as the result of the WildEarth Guardians lawsuit.

CAPITAL ASSETS AND PRODUCTIVE CAPACITY

ARPA's current power sources include generation resources owned by the Authority and the Member Municipalities, purchases of federal hydropower from the Western Area Power Administration ("WAPA") and supplemental purchases from the Municipal Energy Agency of Nebraska ("MEAN").

As a fully commission steam turbine generator, the Lamar Repowering Project will have approximately 44 MW gross capacity with a net output rating of 38.5 MW. This is intended to provide the baseload generation for ARPA.

GENERAL TRENDS AND SIGNIFICANT EVENTS

The Lamar Repowering Project completed final commissioning and start up in 2010. The Project is currently undergoing modifications to the boiler as recommended by the manufacturer. We expect the Project will be ready for full production for the summer of 2011, providing energy supply to all ARPA member communities.

The Board approved a new rate adjustment along with the 2011 budget effective January 1, 2011. The new rate will generate additional revenues to ARPA to meet the bond debt service coverage ratio of 125%.

CURRENT RISKS AND UNCERTAINTIES

In recent years, the market price of electric energy correlates closely to the price of natural gas. Since September of 2008, the price of natural gas has fallen significantly and remains low. The price of electric energy has followed this trend over the same period. This has helped keep the cost of ARPA's purchased energy low prior to full commercial operations of the Repowering Project. However, if the low energy market prices remain through 2011 and beyond, it will have a negative impact on our projected revenues from sales of surplus energy from the Repowering Project.

As with all other utilities, potential future environmental regulations, such as those pertaining to carbon offsets and carbon capture, create a level of uncertainty regarding the future cost of environmental compliance. However, until specific regulations or requirements are adopted, the cost impact of any such regulations is unknown. Despite this uncertainty, the costs and impacts associated with any future regulations would not be unique to ARPA but common to all fossil-fueled generation facilities, hence increasing costs to all neighboring utilities. ARPA also has a significant renewable energy portfolio in the form of wind generation and federal hydropower, which together supply about one third of ARPA's energy needs.

If you have any questions about this report or need additional financial information, contact the Arkansas River Power Authority, 3409 South Main, P. O. Box 70, Lamar, CO 81052.

Arkansas River Power Authority
Statement of Net Assets
Proprietary Fund
December 31, 2010

	Enterprise Funds	
	Business-Type Activity Enterprise Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,101,667	$ 2,101,667
Accounts Receivable, net	3,453,187	3,453,187
Inventories	525,065	525,065
Prepaid Expenses	1,355,556	1,355,556
Total current assets	7,435,475	7,435,475
Non-current assets:		
Noncurrent Assets:		
Cash and cash equivalents-Restricted	15,607,808	15,607,808
Fixed Assets	174,777,659	174,777,659
Less Accumulated depreciation	(5,986,918)	(5,986,918)
Bond Issue Costs	5,907,624	5,907,624
Less Accumulated Amortization	(695,497)	(695,497)
Total non-current assets	189,610,676	189,610,676
Total assets	197,046,151	197,046,151
LIABILITIES		
Current Liabilities:		
Accounts payable	2,447,522	2,447,522
Accrued interest payable	2,130,263	2,130,263
Other accrued expenses	1,250,750	1,250,750
Accrued Vacation and Sick Leave	34,967	34,967
Deferred Revenues-Members	2,822,833	2,822,833
Premium paid on Bonds, net	254,858	254,858
Bonds and Notes payable, current portion	2,241,213	2,241,213
Total current liabilities	11,182,406	11,182,406
Non-current liabilities:		
Premium paid on Bonds, net of current portion	7,353,749	7,353,749
Bonds and Notes payable, net of current portion	155,350,000	155,350,000
Total non-current liabilities	162,703,749	162,703,749
Total liabilities	173,886,155	173,886,155
NET ASSETS		
Invested in capital assets, net of related debt	23,160,106	23,160,106
Unrestricted	(110)	(110)
Total net assets	$ 23,159,996	$ 23,159,996

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

Arkansas River Power Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2010

	Enterprise Funds	
	Business-Type Activity Enterprise Fund	Total
REVENUES		
Resale of Energy to Municipalities	$ 31,247,866	$ 31,247,866
Total operating revenues	31,247,866	31,247,866
OPERATING EXPENSES		
Members Reimbursement _Fuel, O&M & Trans Exp	69,348	69,348
Purchased Power, Losses & Wheeling	20,359,586	20,359,586
Salaries	406,359	406,359
Legal Fees	796,101	796,101
Other Professional Fees	6,300	6,300
Employee Benefits	83,198	83,198
Education & Training	12,270	12,270
Auto Expenses	452	452
Miscellaneous Dues & General Expenses	3,046	3,046
Depreciation	2,889,968	2,889,968
Amortization Bond Issue Costs & Bond Discount	160,990	160,990
Western States Power Corp.	503	503
Insurance & Bonds	53,742	53,742
Office, Travel & Occupancy	54,934	54,934
Total Operating Expenses	24,896,797	24,896,797
Operating income	6,351,069	6,351,069
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	186,706	186,706
Misc. Income, including premium of bond costs	295,258	295,258
Interest expense	(7,923,230)	(7,923,230)
Total non-operating revenue (expenses)	(7,441,266)	(7,441,266)
Income before contributions and transfers	(1,090,197)	(1,090,197)
Change in net assets	(1,090,197)	(1,090,197)
Total net assets - beginning	24,250,193	24,250,193
Total net assets - ending	$ 23,159,996	$ 23,159,996

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

Arkansas River Power Authority
Statement of Cash Flows
Business-type Activity
For the year ended December 31, 2010

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Sales of Energy	$ 37,947,745
Cash Payments to Suppliers for Goods & Services	(25,395,633)
Cash Payment for Salaries & Benefits	(406,359)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,145,753
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous Income	295,258
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	295,258
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(12,254,376)
Proceeds from Long Term Debt	17,260,000
Interest Paid on Revenue Bonds and long term debt	(7,923,230)
Revenue Bonds Retired and Note payments	(1,843,958)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	(4,761,564)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received on Investments	186,706
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	186,706
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	7,866,153
Cash & Cash Equivalents:	
Beginning of Year	9,843,322
End of Year	$ 17,709,475

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

Arkansas River Power Authority
Statement of Cash Flows
Business-type Activity
For the year ended December 31, 2010
(Continued)

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	$ 6,351,069
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities:	
Depreciation	2,889,968
Amortization of Bond Issue Costs & Bond Discount	160,990
Change in Assets and Liabilities:	
(Increase) Decrease in Prepaids	77,715
(Increase) Decrease in Receivables	3,877,046
(Increase) Decrease in Inventories	343,780
Increase (Decrease) in Payables	(2,491,511)
Increase (Decrease) Accrued Interest Payable	243,726
Increase (Decrease) Deferred Revenues-Members	2,822,833
Increase (Decrease) Accrued Liabilities	(2,129,863)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 12,145,753

Note: The beginning and end-of-year cash & cash equivalents include restricted and unrestricted cash.

CASH DECEMBER 31,	
Cash and Cash Equivalents	$ 2,101,667
Cash and Cash Equivalents - Restricted	15,607,808
	$ 17,709,475

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

Arkansas River Power Authority
Notes To Financial Statements
December 31, 2010

Note 1 - **Description of Entity:**

Arkansas River Power Authority (the "Authority" or "ARPA") was established in 1975 as a non-profit corporation and became a political subdivision of the state of Colorado on November 8, 1979. The Authority is a special purpose governmental entity engaged in business-type activities. The Authority provides the wholesale electric power requirements of its member cities -- Trinidad, Colorado; La Junta, Colorado; Lamar, Colorado; Las Animas, Colorado; Springfield, Colorado; and Holly, Colorado. A Board of Directors appointed by the member municipalities governs the Authority and the Board hires a manager to oversee operations, management, and administration.

The Authority is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within Colorado, but is not part of state government nor is it part of its member cities' governments but is an intergovernmental entity created by its members.

Note 2 - **Summary of Significant Accounting Policies:**

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Financial reporting entity:

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

B. Basis of Presentation and Accounting:

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (GASB 34). Statement No. 34 makes the most significant change in financial reporting in over twenty years. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted: Statement No. 37, *Basic Financial Statements and Managements Discussion and Analysis For State and Local Governments: Omnibus,* Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation* No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for capital activity and debt service"; and "unrestricted" components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expense during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

C. Fixed assets:

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net assets. Their reported net assets (net total assets) is segregated into "interested in capital assets, net of related debt" as of year end. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are valued at historical cost when that cost is $5,000 or greater or estimated historical costs if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

ARPA does not have any infrastructure.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Building	30 years
Office Furniture & Equipment	5-7years
Accessory Electric Equipment	10-20years
Transportation Equipment	5 years
Generator (Holly)	20 years
Generators (Trinidad and Mercury 50)	35 years
Lamar Repowering Project	40 years
Mobile Substation	40 years
Transmission Line	40 years
Wind Turbines	20 years

Fixed assets of Arkansas River Power Authority as of December 31, 2010, are as follows:

	1-Jan	Additions	Deletions	31-Dec
Building	$ 85,000	$ -	$ -	$ 85,000
Accessory elec equipment	194,965	-	-	194,965
Trinidad generator	2,420,429	-	-	2,420,429
Mercury 50 generator	2,205,745	-	-	2,205,745
Holly generator	535,130	-	-	535,130
Wind generators	3,316,032	-	-	3,316,032
25MGW Repowering Project	83,775,750	80,128,784	-	163,904,534
Mobile substation	629,231	-	-	629,231
EZ hauler	50,147	-	-	50,147
Office furniture and equipment	37,679	-	(5,371)	32,308
Transportation equipment	55,475	-	(16,003)	39,472
Willow Creek Tie Line	-	1,364,667	-	1,364,667
Totals	93,305,583	81,493,451	(21,374)	174,777,660
Less: accum depreciation	(3,118,326)	(2,889,966)	21,374	(5,986,918)
Book value	$ 90,187,257	$ 78,603,485	$ -	$ 168,790,742

D. <u>Budgets and budgetary accounting</u>:

Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets adopted are on a basis that is not consistent with generally accepted accounting principles and as such the budgetary basis is presented on a non-GAAP basis. Under Colorado Revised Statutes, the Authority follows the following budget calendar:

September 1

Statutory deadline for submission of the budget estimates to the person designated under Section 29-1-104, CRS to prepare the budget.

October 15

Budget officer must submit proposed budget to the governing board. Governing body must publish "Notice of Budget" upon receiving proposed budget. (CRS 29-1-106)

December 31

Local governments not levying a property tax must adopt the budget on or before this date. A certified copy of the adopted budget must be filed with the Department of Local Governments (DLG) no later than thirty days following the beginning of the fiscal year of the budget adopted. (January 30) The resolution to adopt the budget, resolution to set the mill levies and the resolution to appropriate funds should accompany the budget. (CRS 29-1-113(1) (3)) If budget is not filed, county treasurer at DLG's authorization will withhold tax revenues. Board must enact a resolution or ordinance to appropriate funds for ensuing fiscal year. Local government is restricted to 90% of its prior year's appropriation for operating and maintenance expenses if resolution/ordinance is adopted after this date. (CRS 29-1-108(4))

Appropriations are adopted by resolution for each fund in total. Over expenditures are deemed to exist if the total expenses have exceeded appropriations. All appropriations lapse at year-end. Supplemental appropriations were adopted during the year.

Arkansas River Power Authority overspent its 2010 budget which might be a violation of Colorado Revised Statutes.

E. Capitalized interest:

Arkansas River Power Authority follows the policy of capitalizing interest on construction up to the date of completion. During 2010, no interest was capitalized.

F. Long-term Obligations and Costs:

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, issuance costs, and gains or losses on advance refundings and defeasances, are deferred and amortized over the life of the bonds.

G. Bond issue costs:

In 1995 the 1988 bonds were refunded by $2,915,000 of 1995 Power Revenue Refunding Bonds under current refunding provisions. The 1988 bond issue cost was used to determine the loss on refunding. The loss will be offset against the refunding debt and amortized over the life of the refunding issue.

The 1995 bonds were paid in full in 2003 with the issuance of the Series 2003 bonds.

During 2006 ARPA issued power revenue improvement bonds. The cost of issuance was $3,123,819. During 2007, ARPA issued additional revenue improvement bonds. The cost of issuance was $1,222,962. During 2008, ARPA issued additional revenue improvement bonds. The cost of issuance was $1,074,836. During 2010, ARPA issued additional revenue improvement bonds the cost of issuance was $279,519.

H. Discount Loss and Issuance Costs on Bonds:

The discount loss and issuance costs incurred due to the Series 2003 refunding bonds will be amortized over the life of the 2003 issue, 20 years. The total amount amortized during the year was $7,389.

The 2006 cost of issuance of $3,123,819 is being amortized over the life of the bonds, which is approximately 415 months. The total amount amortized during the year was approximately $90,436.

The 2007 cost of issuance of $1,222,962 is being amortized over the life of the bonds, which is approximately 434 months. The total amount amortized during the year was approximately $33,815.

The 2008 cost of issuance of $1,074,836 is being amortized over the life of the bonds, which is approximately 387 months. The total amount amortized during the year was approximately $34,901.

The 2010 cost of issuance of $279,579 is being amortized over the life of the bonds, which is approximately 387 months. The total amount amortized during the year was approximately $7,321.

I. Estimates:

The preparation of financial statements in conformity with GAAP required the Authority's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

J. Inventories:

Inventories are valued at the lower of cost, first-in, first-out, or market.

K. Cash and cash equivalents:

Cash and cash equivalents, for purpose of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit and certificates of deposit.

L. Accounts receivable:

The majority of accounts receivable are from member cities; therefore, there is no provision for bad debts, as all accounts are considered collectible.

M. Restricted Assets:

Restricted assets represent cash and certificates of deposit maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the power systems.

N. Compensation for Future Absences:

Accumulated vacation and the portion of sick leave eligible to be paid to employees at termination are recorded as an expense and liability as the benefits are earned.

O. Claims and Judgments:

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

P. Capital Contributions:

Contributions are recognized in the statement of revenues, expenses, and changes in net assets when earned. Member cities did not make any contributions during the current year.

Q. Special and Extraordinary Items:

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses, and changes in net assets.

There were not any special and extraordinary items during 2010.

R. Net Assets:

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduce by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

S. Revenues and Rate Structure:

Revenues from electrical power services are recognized as operating revenues on the accrual basis as earned. Services are supplied to member cities under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves, and debt service coverage.

Interest income and miscellaneous income is considered non-operating revenue.

Note 3 - **Deposits and investments**:

Deposits

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories; State regulators determine eligibility. Amounts on deposit in excess of Federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public depositories as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

a. Uncollateralized,
b. Collateralized with securities held by the pledging financial institution, or
c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

At year-end, ARPA was exposed to custodial credit risk in that they had $1,851,067 of deposits in local banks collateralized under item c above. ARPA also had $250,000 covered by FDIC in a local bank.

Investments

Colorado Statutes specify in which instruments the units of local government may invest which include:

Repurchase agreements,

Obligations of the United States or obligations unconditionally guaranteed by the United States,

Obligations of the State of Colorado and most general obligations of units of local governments,

Federally insured mortgages and student loans,

Participation with other local governments in pooled investment funds (trusts), these trusts are supervised by participating governments, and must comply with the same restrictions on cash deposits and investments. (One such trust formed under the statute is "ColoTrust").

ARPA has $15,607,808 invested with American National Bank. American National Bank in turn has invested the amount in various investment. The funds are restricted in use by the various bond issues outstanding at year end.

Note 4 - **Capacity fund**:

ARPA has restricted reserves in a fund titled Capacity Fund. The Capacity Fund's reserves are also restricted as to spending, and per Resolutions 1-83 and Resolutions 14-98, can only be expended for expansion of capacity of ARPA, for future "Firm Power" allocation, or reliability projects associated with power supply, or projects designed to maintain reliability of existing generating capacity owned by the ARPA members.

Note 5 - **Inadvertent accounts, prepaid expenses & banked power**:

ARPA and its members have inadvertent accounts, prepaid and banked power with utilities as of year-end of $2,178.

As of year-end, ARPA had $1,353,379 of emission allowances and prepaid expenses.

Note 6 - **Restricted cash & investments:**

ARPA maintains cash accounts that are restricted for specific purposes. The restricted cash and investments include moneys set aside for expansion of capacity of ARPA maintenance on the new transmission line, debt retirement and interest expense on bond issue, expansion of the system, and for replacement for property, plant and equipment owned by ARPA and the repowering project and is maintained by American National Bank.

Note 7 - **Deferred Compensation Plan:**

Effective 1-1-82, ARPA established a Public Employee Compensation Plan for its full-time employees. The plan has a five year incremental vesting period for employer contributions and provides for a 10% employer contribution with an 8% employee matching contribution. The plan is funded through ICMA-RC. Effective August 16, 1991, a new pension plan was adopted under Internal Revenue Service Code Section 401(a). The employer contribution is 10% with the employee contributing 8% of qualifying salaries, as defined by the Plan document. The employer contribution to the 401(a) plan during 2010 was $38,475. The salaries paid and subject to the contributions were $396,676 for 2010. The employees contributed $30,780 in 2010. Total salaries paid were $407,336 in 2010. All full-time employees are covered under the plan.

ARPA's employees have participated in two different 457 plans. ARPA does not make contributions to the 457 plans. The annual contributions to the plans are based upon elections made by individual employees to defer a portion of their salaries.

Note 8 - **Vacation, comp time and sick leave policies:**

Sick leave accumulates ten days a year up to a maximum of 45 days. Upon termination, any employee with a total of up to 45 days accrued sick leave will be paid according to the individual's rate of pay.

All permanent full-time employees are entitled to vacation leave after one full year of employment. The number of vacation days depends on the number of years employed.

As a public employer, ARPA has adopted a policy of providing comp time for non-exempt employees who work overtime. The comp time earned is equal to 1.5 hours for each 1.0 hour of overtime work. If an employee leaves employment with ARPA, the employee is paid for any accrued comp time at the date of termination based on that employee's rate or equivalent hourly rate times the accrued comp time.

Vacation leave may be carried over from year-to-year up to a maximum of 20 days in addition to the current year accrual. Upon termination, unused accrued vacation leave will be paid in full, based upon the regular salary rate. Accrued vacation, comp time, and sick leave was $34,967 at year-end.

Note 9 - **Long-term debt:**

In 2003 ARPA issued revenue refunding and improvement bonds, Series 2003. As a result the 1995 bonds were paid in full. A portion of the Series 2003 Bonds were used to finance a Wind Generation project.

The maturity date for the annual principal retirement is October 1 with interest paid April 1 and October 1. Future requirements are as follows:

2003 Issue:

Year	Principal	Interest	Total
2011	$ 150,000	$ 108,375	$ 258,375
2012	155,000	102,075	257,075
2013	160,000	95,565	255,565
2014	170,000	88,845	258,845
2015	175,000	81,705	256,705
2016-2020	985,000	291,970	1,276,970
2021-2023	705,000	64,350	769,350
	$2,500,000	$ 832,885	$3,332,885

The interest rate varies depending upon the maturity dates of the Bonds.

The Bonds are revenue obligations of the Authority payable out of the Net Revenue derived from the Authority's ownership and operation of its Electric System. The Bonds do not constitute an indebtedness nor a debt within the meaning of any constitutional or statutory provision or limitation, and the Bonds shall not be considered or held to be general obligations of the Authority.

The Series 2003 Bonds were issued to: (i) refund the Authority's Power Revenue Refunding Bonds, Series 1995; (ii) finance the design, acquisition and construction of the Wind Project; and (iii) pay the costs of issuance on the Bonds.

The Bonds are subject to redemption prior to maturity as set forth in the official statement dated November 21, 2003.

2006 Issue:

The 2006 Bonds are revenue obligations of the Authority payable out of the Net Revenue derived from the Authority's ownership and operation of its Electric System, as more particularly set forth in the official statement and in the authorizing Bond Resolution. The Bonds do not constitute an indebtedness nor a debt within the meaning of any constitutional or statutory provision or limitation, and the Bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the members of the Authority or any other governmental entities other than the Authority.

The Bonds are subject to redemption prior to maturity as set forth in the official statement dated February 9, 2006.

The maturity date for the annual principal retirement is October 1 with the interest paid April 1 and October 1. Future requirements are as follows:

Year	Principal	Interest	Total
2011	$ 1,170,000	$ 4,577,144	$ 5,747,144
2012	1,220,000	4,526,842	5,746,842
2013	1,270,000	4,478,042	5,748,042
2014	1,330,000	4,419,544	5,749,544
2015	1,395,000	4,353,042	5,748,042
2016-2020	8,215,000	20,560,274	28,775,274
2021-2025	10,915,000	17,822,738	28,737,738
2026-2030	14,420,000	14,325,819	28,745,819
2031-2035	18,625,000	10,103,623	28,728,623
2036-2040	26,935,000	4,672,762	31,607,762
	$ 85,495,000	$ 89,839,830	$ 175,334,830

The interest rates on the notes vary from 4.00% to 5.875%.

2007 Issue:

During 2007 Arkansas River Power Authority issued Power Revenue Improvement Bonds, Series 2007, in the amount of $28,575,000. The 2007 bonds are revenue obligations of the Authority payable out of the Net Revenue derived from the Authority's ownership and operation of its Electric System, as more particularly set forth in the official statement and in the authorizing Bond Resolution. The Bonds do not constitute an indebtedness nor a debt within the meaning of any constitutional or statutory provision or limitation, and the Bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the members of the Authority or any other governmental entities other than the Authority.

The Bonds are being issued: (i) to finance completion of the design, acquisition and construction of the Repowering Project; (ii) to fund capitalized interest on the Bonds and the Series 2006 Bonds; (iii) to fund the Reserve Account and (iv) to pay the costs of issuance on the Bonds.

Interest only, in the amount of $708,125 is due and payable on April 1 and October 1 of each year beginning October 1, 2007 and ending April 1, 2041.

Principle and interest payments begin October 1, 2041 as follows:

Year	Principal	Interest	Total
10/1/2041	$ 8,205,000	$ 708,125	$ 8,913,125
4/1/2042	-	504,806	504,806
10/1/2042	8,615,000	504,806	9,119,806
4/1/2043	-	291,319	291,319
10/1/2043	11,755,000	291,319	12,046,319
	$28,575,000	$ 2,300,375	$30,875,375

The interest rates on the notes vary from 4.75% to 5.00%.

2008 Issue:

During 2008 Arkansas River Power Authority issued Power Revenue Improvement Bonds, Series 2008, in the amount of $23,225,000. The 2008 bonds are revenue obligations of the Authority payable out of the Net Revenue derived from the Authority's ownership and operation of its Electric System, as more particularly set forth in the official statement and in the authorizing Bond Resolution. The Bonds do not constitute an indebtedness nor a debt within the meaning of any constitutional or statutory provision or limitation, and the Bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the members of the Authority or any other governmental entities other than the Authority.

The bonds are being issued: (i) to complete the financing of the design, acquisition, construction, working capital (including the acquisition of start-up and spare parts), start-up and commissioning of the Repowering Project; (ii) to fund capitalized interest on the Bonds; (iii) to fund the Reserve Account and (iv) to pay the costs of issuance on the Bonds.

The maturity date for the required principal retirement is October 1 with interest paid April 1 and October 1. Future requirements are as follows:

Year	Principal	Interest	Total
2011	$ 215,000	$ 1,393,500	$ 1,608,500
2012	230,000	1,380,600	1,610,600
2013	240,000	1,366,800	1,606,800
2014	250,000	1,352,400	1,602,400
2015	270,000	1,337,400	1,607,400
2016-2020	1,265,000	6,460,300	7,725,300
2021-2025	2,660,000	5,969,400	8,629,400
2026-2030	3,940,000	4,983,000	8,923,000
2031-2035	5,290,000	3,649,200	8,939,200
2036-2040	8,865,000	1,860,000	10,725,000
	$ 23,225,000	$ 29,752,600	$ 52,977,600

The interest rates on the notes vary from 4.00% to 6.00%.

2010 Issue:

During 2010, the Arkansas River Power Authority is issuing its Power Revenue Bonds pursuant to an Indenture of Trust dated as of September 15, 2010, between UMB Bank, n.a., as trustee, and the Authority.

The Bonds are special and limited revenue obligations of the Authority payable out of the Net Revenues derived from the Authority's ownership and operation of its Electric System., as more particularly set forth herein and in the Indenture. The Bonds do no constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, and the bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the Member Municipalities of the Authority or any other governmental entities other than the Authority.

The Bonds are being issued: (i) to pay outstanding unpaid Repowering Project costs; (ii) to restore a portion of the fund balances of the Authority which have been used for the payment of Repowering Project costs; (iii) to repay a short term bank loan; (iv) to fund the Reserve Account and (v) to pay the costs of issuance on the Bonds.

The maturity date for the required principal retirement is October 1 with interest paid April 1 and October 1. Future requirements are as follows:

Year	Principal	Interest	Total
2011	$ 170,000	$ 1,020,149	$ 1,190,149
2012	180,000	1,011,028	1,191,028
2013	190,000	1,007,068	1,197,068
2014	195,000	1,002,556	1,197,556
2015	200,000	992,806	1,192,806
2016-2020	1,520,000	4,771,530	6,291,530
2021-2021-2025	2,025,000	4,302,506	6,327,506
2026--2030	2,770,000	3,595,067	6,365,067
2031-2035	3,720,000	2,636,504	6,356,504
2036-2040	6,290,000	1,349,346	7,639,346
	$ 17,260,000	$ 21,688,560	$ 38,948,560

The interest rates on the notes vary from 5.00% to 6.125%.

Note Payable- City of La Junta:

During 2009 ARPA borrowed $1,500,000 for capital construction. The terms of the note call for monthly payments of $50,000, including interest until paid in full. Interest is charged at the rate of 2%.

Year	Principal	Interest	Total
2011	$ 536,213	$ 8,827	$ 545,040

	January 1	Paid	Issued	December 31	Due in 1 Year
Long Term Debt	$142,180,131	($1,848,918)	$17,260,000	$157,591,213	$2,241,213

Note 10 - **Energy acquisition**:

ARPA and its member municipalities have entered into an all requirements purchase power contract (the "Power Sales Agreement") under which the members agree to obtain all their wholesale power requirements (in excess of pre-existing contracts and member-owned generation) from the Authority. This Power Sales Agreement had an initial term through October 20, 2023. In early 2006, the term of the Power Sales Agreement was extended by the member municipalities until 2040 or such later date depending on the repayment of certain bonds (see Note 9). The Authority obtains wholesale power for its member municipalities from a variety of sources. They are: (i) Energy generated from member-owned power plants and wind turbines is purchased by the Authority and distributed to the members; (ii) ARPA also owns several generating units and wind turbines that are capable of supplying energy to the member systems, (iii) The Authority purchases firm power from the Western Area Power Administration, a federal power agency, under two contracts that extend to the year 2024; and (iv) substantial quantities of firm power as well as scheduling services are obtained under contract with the Municipal Energy Agency of Nebraska ("MEAN") . The contract with MEAN extends through June 2008 and is renewable monthly thereafter. Transmission service for power purchase is provided under contracts or other arrangements with Tri-State Generation and Transmission Association, Aquila, Inc., Southeast Colorado Power Association, and San Isabel Electric Association. Payment for wholesale power supply and transmission service is made by the members under a wholesale rate structure that is approved by the Authority's Board of Directors. In effect, there is no contingent liability to ARPA since the member municipalities have agreed to accept all energy obtained under contracts entered into by ARPA.

Note 11 - **Tax, spending and debt limitations:**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. ARPA believes it is in compliance with the requirements of the amendment. ARPA has made certain interpretations of the amendment's language in order to determine its compliance. One of the interpretations is the entity is an Enterprise Fund and therefore is not subject to the requirements of the amendment.

Note 12 - **Risk management:**

ARPA is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; claims relating to professional liability; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverages the past two years.

Note 13 - **Projects completed and in process:**

In 2004 the ARPA Board of Directors approved the Lamar Repowering Project ("Repowering Project") and recommended it to the member municipalities. The Repowering Project involves the development of a 38.5 MW (net) coal-fired power plant in Lamar, Colorado. All the member municipalities have approved the issuance of bonds to finance the Repowering Project as is required under the terms of the ARPA organizational contract (the "Organic Contract"). The initial bond issuance approval authorized ARPA to issue up to $66 million (exclusive of interest during construction, bond insurance and issuance costs) to finance the Repowering Project. Subsequent authorization increased the par value of the bond issuance to $76 million (exclusive of interest during construction, bond insurance and issuance costs). In 2007, 2008, and 2010, the Authority issued revenue bonds to finance the ongoing development of the Repowering Project. The approvals given to the Repowering Project by the member municipalities also extend the term of the Power Sales Agreement referred to in Note 9 and the Organic Contract until the later of December 31, 2040 or the date when the bonds for the Repowering Project are paid in full.

Note 14 - **Contributed Capital-Member Entities:**

Under contracts with Trinidad and Holly for the Trinidad and Holly Generation Projects described in these financial statements and notes to the financial statements, the capital contributed by the involved ARPA members to these respective projects ($1,070,000) is assigned to and added to that members' equity in ARPA. These contracts also require that the member-contributed capital be reduced following the commercial acceptance date of the project in an amount equivalent to the depreciation taken on the project (Trinidad Generation Projects-35 years; Holly Project-20 years).

Note 15 - **Bond Covenants:**

The bond covenants require the net income, as defined and adjusted per the bond covenants, exceed 125% of debt service, defined as principal and interest for all bonds issued and outstanding and due and payable in the current year. For 2010, the covenant was not met. ARPA is required to increase electrical rates to cure the violation.

Note 16- **Deferred Revenues:**

During 2010, five of the six member municipalities advanced funds to ARPA. The respective members will receive credit towards their respective power bill plus 2% interest on any outstanding balance until the advances are paid in full.

Arkansas River Power Authority
Budget and Actual Non-GAAP (with Variances)
Business-Type Activity Enterprise Fund
For the year ended December 31, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis
	Original	Final	
REVENUES			
Resale of Energy to Municipalities	$ 31,121,997	$ 31,298,069	$ 31,247,866
Interest Income	229,589	186,722	186,706
Miscellaneous Income	-	258,586	295,258
Total revenues	31,351,586	31,743,377	31,729,830
EXPENDITURES			
Members Reimbursement-Fuel	-	-	69,348
Purchased Power	18,889,216	20,428,752	20,359,586
Salaries	536,643	491,664	406,359
Legal Fees	258,500	802,402	796,101
Other Professional Fees	-	-	6,300
Employee Benefits	-	-	83,198
Education & Training	-	-	12,270
Auto Expense	-	-	452
Miscellaneous Dues & General Exp	39,420	27,639	3,046
Depreciation	4,195,793	3,063,831	2,889,968
Amortization Costs	-	-	160,990
Western States Power Corp.	-	-	503
Insurance & Bonds	50,760	53,742	53,742
Office, Travel & Occupancy	61,700	42,135	54,934
Capital Outlay	1,048,500	11,880,939	22,439,504
Interest Expense	7,567,191	7,923,230	7,923,230
Total Expenditures	32,647,723	44,714,334	55,259,531
Operating Income (Loss)	(1,296,137)	(12,970,957)	(23,529,701)
RECONCILIATION			
Capital Outlay	-	-	22,439,504
Net change in retained earnings	(1,296,137)	(12,970,957)	(1,090,197)
Retained Earnings - beginning	25,590,159	25,590,159	24,250,193
Retained Earnings - ending	$ 24,294,022	$ 12,619,202	$ 23,159,996