

Arkansas River Power Authority

Financial Statements

December 31, 2017 and 2016

**Arkansas River Power Authority  
Table of Contents  
December 31, 2017 and 2016**

	Page
Table of Contents	i
Independent Auditor's Report	1
Management's Discussion and Analysis (RSI)	ii
Financial Statements:	
Statements of Net Position	3
Statements of Revenues, Expenses & Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplementary Information:	
Statement of Revenues, Expenses & Changes in Net Position – Budget & Actual - (Non-GAAP)	19

***rfarmer,llc***  
***a certified public accounting and consulting firm***

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*Independent Auditor's Report*

The Board of Directors  
Arkansas River Power Authority

We have audited the accompanying financial statements of the business-type activities Arkansas River Power Authority (ARPA), as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise ARPA's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

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 ARPA, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise ARPA's basic financial statements. The statement of revenues, expenses, and changes in net position, budget to actual, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of revenues, expenses, and changes in net position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***rfarmer, llc***

April 6, 2018

# **ARKANSAS RIVER POWER AUTHORITY**

## ***Management's Discussion and Analysis For the Year Ended December 31, 2017***

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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, 2017. The intent of this discussion and analysis is to look at ARPA's financial and program performance as well as its power supply resources; 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.

The Authority's 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, 2017, 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, 2017, and the results of its operations and cash flows for the year then ended in conformity with GAAP as applied to governments.

### **MISSION AND ORGANIZATIONAL STRUCTURE**

ARPA 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.

### **SUMMARY AND HIGHLIGHTS OF FINANCIAL INFORMATION**

The Authority's operating revenue from sales for its fiscal year ended December 31, 2017, was approximately \$28.6 million which was slightly lower than revenues for the Authority's fiscal year 2016. Revenues from sales for fiscal year 2017 were approximately 3% better than budget. Kilo-watt hour sales to Members remained steady in fiscal year 2017 and were approximately 3.2% better than budget.

Purchased power costs, which is the primary expense for the Authority, were lower in fiscal year 2017 compared to fiscal year 2016 as the Authority was able to take advantage of low cost excess hydro power through its Western Area Power Administration (“WAPA”) contract. Costs for network transmission service increased approximately 10% and were above budget for fiscal year 2017. Administrative and general costs were significantly less than budget as the Authority resolved its litigation with the City of Lamar. The combination of higher sales revenues and lower costs resulted in net revenues well above budget for fiscal year 2017.

The Authority met all bond covenant requirements, including 1.25x debt service coverage, for fiscal year 2017 and all bond reserve accounts remain fully funded as required by the bond covenants.

The Authority continued to improve its financial position in fiscal year 2017, realizing a net operating income of approximately \$3.3 million and improved its cash position by a little over \$1.0 million. The Authority was able to accomplish this without a rate increase to its Members. The Authority has not increased its wholesale power supply cost to its Members since 2011. The Authority’s 2018 budget does not anticipate a rate increase.

## **GENERAL TRENDS AND SIGNIFICANT EVENTS**

In 2004 the ARPA Board of Directors approved the Lamar Repowering Project (“Repowering Project”). The Repowering Project involved the development of a 38.5 mega-watt (net) coal-fired power plant in Lamar, Colorado. The approvals given to the Repowering Project by the member municipalities also extended the term of the Power Sales Agreement referred to in Note 10 of the audit, 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.

The Repowering Project commissioning began in 2009. During the commissioning effort, it was found that the Circulating Fluidized Bed boiler designed by Babcock and Wilcox (“B&W”) was unable to operate in compliance with the air emissions limitations of ARPA’s state-issued permit and the requirements of the federal Clean Air Act.

ARPA worked diligently with B&W in an effort to bring the boiler into compliance, however efforts at a resolution failed and in February 2014, ARPA commenced an action against B&W in the U.S. District Court for the District of Colorado. ARPA asserted claims against B&W regarding the failure of the boiler to meet emissions and performance guarantees. In November of 2016, ARPA was awarded damages, and pre-trial and post-trial interest of approximately \$8.0 million in a jury trial against B&W. B&W appealed the ruling in August of 2017 and the matter is currently in settlement discussions.

In July 2014, the City of Lamar and four ratepayer plaintiffs filed a lawsuit against the Authority and Syncora (ARPA’s bond insurer) in Colorado District Court. The matter was settled late in 2017 and effectively ended all outstanding litigation that the Authority has been involved in.

The Settlement includes upfront and annual payments to the City of Lamar that total a net present value of approximately \$8.04 million. The entire net present value is booked as a “Special Expense” in Fiscal Year 2017 resulting in Total Non-Operating Expenses of \$12.89 million. The Special Expense in Fiscal Year 2017 financials does not impact the Authority’s ability to meet its financial obligations; including making debt service payments, funding its bond reserve accounts, and achieving the required debt service coverage. There was also no impact on ARPA’s cash which increased by approximately \$1.07 million in 2017.

In 2014 ARPA determined that the Repowering Project was an impaired asset and was completely written down to zero. This produced a negative change in net position of approximately \$161.8 million. However, the write-down does not impact ARPA’s ability to meet its financial obligations, including meeting its debt service payments and the funding of its bond reserve accounts.

The Authority’s total net position at year ending 2017 is a negative \$131.9 million.

## **CAPITAL ASSETS AND PRODUCTION CAPACITY**

ARPA’s current power resources include generation resources owned by the Authority and the Member Municipalities, including wind generation owned by the Authority and the Lamar Utilities Board, purchases of federal hydropower from WAPA and supplemental purchases from Twin Eagle Resource Management.

## **CURRENT RISKS AND UNCERTAINTIES**

In 2013 the transmission owners/operators across portions of the mountain west began discussions on developing a common transmission tariff. The discussion resulted in the development of the Mountain West Transmission Group (“MWTG”) comprised of the transmission owners in Colorado and portions of Nebraska and Wyoming. The MWTG developed plans to implement a Regional Transmission Organization (“RTO”) and have entered into discussions with the Southwest Power Pool (“SPP”) to provide the RTO services. The goal of the organization is to reduce transmission costs across the Mountain West area while developing a wholesale energy market in the West. MWTG believes the development of the RTO will result in significant savings in both market power costs and transmission fees.

The current timeline for implementation of the RTO is first quarter of 2020.

At this time, the Authority’s management believes the implementation of the RTO will reduce its transmission costs and potentially its power supply expense. However, in the event there may be a negative impact, the Authority’s risks relative to the RTO implementation are mitigated for the foreseeable future through its Partial Requirements Agreement with Twin Eagle, which includes certain provisions that will allow the Authority to effectively manage its power supply costs through the term of the Partial Requirements Agreement. In addition, the Authority recently renewed its WAPA-LAP contract, which provides approximately 30% of the Authority’s power needs, to extend the Authority’s federal hydropower allocation into 2054.

The ARPA Board of Directors remains true to its Mission Statement:

We are committed to work together to promote the long term economic well-being of our municipal members and their consumers by providing a dependable and competitively priced supply of wholesale electric power in an environmentally sound manner.

*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 or contact us on our web-site [www.arpapower.org](http://www.arpapower.org).*



**Arkansas River Power Authority**  
**Statements of Net Position**  
**Proprietary Fund**  
**December 31, 2017 and 2016**

	<b>Enterprise Funds</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,292,171	\$ 5,239,560
Accounts Receivable, net	2,333,798	2,370,462
Total current assets	8,625,969	7,610,022
Non-current assets:		
Noncurrent Assets:		
Cash and cash equivalents-Restricted	16,273,544	15,828,094
Fixed Assets	8,657,374	8,639,932
Less Accumulated depreciation	(3,917,659)	(3,673,538)
Total non-current assets	21,013,259	20,794,488
Total assets	29,639,228	28,404,510
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	1,391,774	1,469,382
Accrued interest payable	1,958,758	1,990,597
Other accrued expenses	573,845	573,845
Accrued Vacation and Sick Leave	48,717	43,974
Premium paid on Bonds, current portion	254,858	254,858
Settlement payable, current portion	119,280	-
Bonds payable, current portion	2,375,000	2,260,000
Total current liabilities	6,722,232	6,592,656
Non-current liabilities:		
Performance deposit	500,000	-
Premium paid on Bonds, net of current portion	5,569,746	5,824,603
Settlement payable, net of current portion	7,892,840	-
Bonds payable, net of current portion	140,935,000	143,283,000
Total non-current liabilities	154,897,586	149,107,603
Total liabilities	161,619,818	155,700,259
<b>NET POSITION</b>		
Net investment in capital assets	(128,668,190)	(133,795,853)
Unrestricted	(3,312,400)	6,500,104
Total net position	\$ (131,980,590)	\$ (127,295,749)

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

**Arkansas River Power Authority**  
**Statements of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Fund**  
**for the years ended December 31, 2017 and 2016**

	<b>Enterprise Funds</b>	
	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>		
Resale of Energy to Municipalities	\$ 28,614,461	\$ 28,771,105
Power Billing Reimbursement	2,556,276	2,556,241
Total operating revenues	<u>31,170,737</u>	<u>31,327,346</u>
<b>OPERATING EXPENSES</b>		
Members Reimbursement _Fuel, O&M & Trans Exp	23,150	8,584
Purchased Power, Losses & Wheeling	15,891,841	15,568,603
Salaries	275,462	269,217
Legal Fees	1,009,572	2,158,800
Other Professional Fees	46,345	83,396
Engineering Study Fees	-	60
Employee Benefits	77,251	57,080
Education & Training	7,852	17,108
Auto Expenses	623	798
Miscellaneous Dues & General Expenses	17,181	12,919
Depreciation	266,852	266,305
Miscellaneous Plant Operations	85,450	576,903
Insurance & Bonds	40,440	36,091
Office, Travel & Occupancy	83,359	74,779
Total Operating Expenses	<u>17,825,378</u>	<u>19,130,643</u>
Operating income	<u>13,345,359</u>	<u>12,196,703</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	118,076	211,704
Miscellaneous income	146,371	1,529,229
Amortization of bond premium	227,858	254,858
Interest expense	(7,924,946)	(8,046,383)
Return of reserves	(2,556,276)	(2,556,241)
Total non-operating revenue (expenses)	<u>(9,988,917)</u>	<u>(8,606,833)</u>
Income before special items	3,356,442	3,589,870
Settlement	(8,041,286)	-
Change in net position	(4,684,844)	3,589,870
Total net position - beginning	<u>(127,295,746)</u>	<u>(130,885,619)</u>
Total net position - ending	<u>\$ (131,980,590)</u>	<u>\$ (127,295,749)</u>

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

**Arkansas River Power Authority**  
**Statements of Cash Flows**  
**Business-type Activity**  
**for the years ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Sales of Energy	\$ 31,207,401	\$ 31,548,946
Cash Payments to Suppliers for Goods & Services	(17,360,672)	(19,567,849)
Cash Payment for Salaries & Benefits	(270,719)	(267,839)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,576,010</u>	<u>11,713,258</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Performance Deposit	500,000	-
Miscellaneous Income	146,371	13,922
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>646,371</u>	<u>13,922</u>
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:</b>		
Return of Reserves	(2,556,276)	(2,556,241)
Settlement paymenets	(29,166)	-
Acquisition of Capital Assets	(40,169)	(5,451)
Proceeds from Sale of Equipment	-	1,515,308
Interest paid on bonds and other long term debt	(7,956,785)	(8,042,318)
Revenue Bonds Retired	(2,260,000)	(2,150,000)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	<u>(12,842,396)</u>	<u>(11,238,702)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Received on Investments	118,076	211,704
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>118,076</u>	<u>211,704</u>
 NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	 1,498,061	 700,182
<b>Cash &amp; Cash Equivalents:</b>		
Beginning of Year	<u>21,067,654</u>	<u>20,367,472</u>
End of Year	<u><u>\$ 22,565,715</u></u>	<u><u>\$ 21,067,654</u></u>

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

**Arkansas River Power Authority**  
**Statements of Cash Flows**  
**Business-type Activity**  
**for the years ended December 31, 2017 and 2016**  
**(Continued)**

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 13,345,359	\$ 12,196,703
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities:		
Depreciation	266,852	266,305
Miscellaneous	-	(32,106)
Change in Assets and Liabilities:		
(Increase) Decrease in Prepays	-	4,144
(Increase) Decrease in Receivables	36,664	221,600
Increase (Decrease) in Payables	(77,608)	(944,766)
Increase (Decrease) Accrued Liabilities	4,743	1,378
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 13,576,010</u></u>	<u><u>\$ 11,713,258</u></u>

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

<b>CASH DECEMBER 31,</b>		
Cash and Cash Equivalents	\$ 6,292,171	\$ 5,239,560
Cash and Cash Equivalents - Restricted	16,273,544	15,828,094
	<u><u>\$ 22,565,715</u></u>	<u><u>\$ 21,067,654</u></u>

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

**Arkansas River Power Authority  
Notes to Financial Statements  
December 31, 2017 and 2016**

**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:

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 or (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.

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.

All the Authority’s activities 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 “net investment in capital assets”; “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.

#### 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 “invested 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.

The Authority 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	5-7 years
Accessory Electric Equipment	10-20 years
Transportation Equipment	5 years
Generator (Holly)	20 years
Generator (Trinidad)	35 years
Mobile Substation	40 years
Transmission Line	40 years
Wind Turbines	20 years

### Budgets and Budgetary Accounting:

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 (CRS), 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 not adopted during the year.

### Capitalized Interest:

The Authority follows the policy of capitalizing interest on construction up to the date of completion. During 2017 and 2016, no interest was capitalized.

### Long-Term Obligations and Costs:

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are deferred and amortized over the life of the bonds.

### Estimates:

The preparation of financial statements in conformity with GAAP requires 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.

#### Cash and Cash Equivalents:

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

#### 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.

#### 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 Board or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the power systems.

#### 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.

#### Claims and Judgments:

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

#### Capital Contributions:

Contributions are recognized in the statement of revenues, expenses, and changes in net assets when made.

#### Net Position:

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net assets. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced 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.

#### 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.

#### 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), which 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”).

The Authority had \$16,273,544 invested with UMB and Morgan Stanley as of December 31, 2017 and \$15,828,094 as of December 31, 2016. The amounts have been invested in various investments, including certificates of deposit held in various banks. The funds are restricted in use by the various bond issues outstanding at year end.

### **Note 4      Capacity Fund:**

The authority has, from time to time, 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. The Capacity Fund balances were zero at year end for 2017 and 2016.

**Note 5      Inadvertent Accounts, Prepaid Expenses & Banked Power:**

The Authority did not have any inadvertent accounts, prepaid expenses or banked power as of December 31, 2017 and 2016.

**Note 6      Restricted Cash & Investments:**

The authority maintains cash accounts that are restricted for specific purposes. The restricted cash and investments include moneys set aside for debt retirement and interest expense on bond issues. The balances are maintained by UMB and Morgan Stanley.

**Note 7      Deferred Compensation Plan:**

Effective January 1, 1982, the Authority established a Public Employee Compensation Plan for 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. During 2017, the Authority contributed \$26,350 and the employees contributed \$21,080. During 2016, the Authority contributed \$9,246 and the employees contributed \$20,254.

Authority employees have participated in two different 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, the Authority 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 were \$48,717 at December 31, 2017 and \$43,974 at December 31, 2016.

**Note 9 Long-Term Debt:**

In 2003 the Authority 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 (see the following pages):

**2003 Issue:**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 195,000	\$ 58,815	\$ 253,815
2019	205,000	50,625	255,625
2020	215,000	41,400	256,400
2021	225,000	31,725	256,725
2022	235,000	21,600	256,600
2023	245,000	11,025	256,025
	<u>\$1,320,000</u>	<u>\$ 215,190</u>	<u>\$1,535,190</u>

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 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 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. During 2016, the Board authorized management to prepay all or part of the 2003 outstanding bonds taking into account the financial position of ARPA and the anticipated cash flow requirements with the overriding factor of providing the best financial benefit to ARPA members. No bonds were prepaid during 2017.

**2006 Issue:**

The 2006 Bonds are revenue obligations 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 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 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,635,000	\$ 4,111,862	\$ 5,746,862
2019	1,730,000	4,015,806	5,745,806
2020	1,835,000	3,950,168	5,785,168
2021	1,940,000	3,806,362	5,746,362
2022	2,055,000	3,692,388	5,747,388
2023-2027	12,240,000	16,502,332	28,742,332
2028-2032	15,985,000	12,755,136	28,740,136
2033-2037	20,635,000	8,096,547	28,731,547
2038-2042	18,040,000	2,072,175	20,112,175
	<u>\$ 76,095,000</u>	<u>\$ 59,002,776</u>	<u>\$ 135,097,776</u>

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

#### **2007 Issue:**

During 2007 the Authority issued Power Revenue Improvement Bonds, Series 2007, in the amount of \$28,575,000. The 2007 bonds are revenue obligations 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 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 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	<u>\$28,575,000</u>	<u>\$ 2,300,375</u>	<u>\$30,875,375</u>

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

**2008 Issue:**

During 2008 the Authority issued Power Revenue Improvement Bonds, Series 2008, in the amount of \$23,225,000. The 2008 bonds are revenue obligations 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 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 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 250,000	\$ 1,292,000	\$ 1,542,000
2019	265,000	1,277,700	1,542,700
2020	275,000	1,261,800	1,536,800
2021	295,000	1,245,300	1,540,300
2022	315,000	1,227,600	1,542,600
2023-2027	3,490,000	5,625,900	9,115,900
2028-2032	4,430,000	4,496,100	8,926,100
2033-2037	5,945,000	2,996,700	8,941,700
2038-2042	6,280,000	870,700	7,150,700
	<u>\$ 21,545,000</u>	<u>\$ 20,293,800</u>	<u>\$ 41,838,800</u>

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

**2010 Issue:**

During 2010 the Authority issued 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 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 not constitute 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 310,000	\$ 955,306	\$ 1,265,306
2019	320,000	939,806	1,259,806
2020	340,000	923,806	1,263,806
2021	355,000	906,806	1,261,806
2022	375,000	885,062	1,260,062
2023-2027	2,305,000	4,046,175	6,351,175
2028-2032	3,120,000	3,245,328	6,365,328
2033-2037	4,185,000	2,166,302	6,351,302
2038-2042	4,465,000	633,749	5,098,749
	<u>\$ 15,775,000</u>	<u>\$ 14,702,340</u>	<u>\$ 30,477,340</u>

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

	<u>January 1</u>	<u>Paid</u>	<u>Issued</u>	<u>December 31</u>	<u>Due in 1 Year</u>
Long Term Debt	<u>\$145,543,000</u>	<u>(\$2,260,000)</u>	<u>\$ -</u>	<u>\$143,283,000</u>	<u>\$2,390,000</u>

#### **Note 10 Energy Acquisition:**

The Authority 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 Supply 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; one extends through 2024 and the second through 2054; and (iv) substantial quantities of firm power are purchased through a Services Agreement with Twin Eagle Resources Management. The agreement includes scheduling services as well as providing a power supply. Transmission service for power purchases is provided under contracts or other arrangements with Southeast Colorado Power Association, Lamar Utility Board, 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 the Authority since the member municipalities have agreed to accept all energy obtained under contracts entered into by the Authority.

#### **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. The Authority believes it is in compliance with the requirements of the amendment. The Authority 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:**

The Authority 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 coverage the past two years.

**Note 13 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 members to these respective projects (\$1,070,000) is assigned to and added to that members' equity. 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 Project-35 years; Holly Project-20 years).

**Note 14 Bond Covenants:**

The bond covenants require the net income, as defined and adjusted per the bond covenants, to exceed 125% of debt service, as defined in the 2010 bond covenants. For 2017 and 2016 the Authority believes it was in compliance with the respective covenants.

**Note 15 Line of Credit:**

During 2017 the Authority renewed a line of credit for operating purposes. The total amount of the line is \$1,500,000 with no amount advanced at year-end. The line is secured by a certificate of deposit in the amount of \$1,518,106. The line of credit annual percentage rate is 3.0%. The note was renewed October 3, 2017 and matures October, 2018.

**Note 16 Litigation:**

As of December 31, 2017 the Authority was involved in one lawsuit, the B&W Litigation described below.

B&W Litigation

In February 2014, the Authority commenced an action against Babcock & Wilcox Power Generation Group, Inc. (B&W) in the U.S. District Court for the District of Colorado (the B&W Litigation), seeking damages related to the failure of the B&W-supplied boiler for the Lamar Repowering Project (LRP) to meet emissions guarantees, which prevented the LRP from operating. B&W asserted counterclaims against the Authority seeking approximately \$3,072,748, including damages for retention withheld by the Authority on the boiler contract as well as funds expended by B&W on certain proposed modifications to the boiler. During the latter part of 2016 a jury verdict awarded the Authority \$4,190,000. B&W appealed the judgment, which, with post-judgment interest, totaled approximately

\$8,000,000. As of December 31, 2017, the parties to the B&W Litigation were attempting to reach a settlement. The parties were continuing their attempts to reach a settlement as of March 1, 2018. The Authority expresses no opinion as to the likely outcome of the B&W Litigation.

#### Lamar Litigation

In July 2014, one of the Authority's member municipalities, the City of Lamar, Colorado, brought an action against the Authority in the Prowers County, Colorado District Court, seeking unspecified damages relating to the alleged failure of the LRP. In its claims, Lamar sought damages for certain alleged breaches of contract by the Authority relating to cost overruns and the failure to successfully develop the LRP, as well as damages related to Lamar's dedication of its 1972 electric generation facilities to the LRP. This matter was settled in late 2017, and the litigation was dismissed with prejudice.

The Authority entered into a settlement agreement with Lamar that requires a payment of \$2,500,000 in 2018 and \$350,000 annually for 26 years. The total Net Present Value of the Settlement is \$8,041,286 and is included as a special item settlement in the audit.

#### **Note 17    Property, Plant and Equipment:**

Property, plant and equipment of Arkansas River Power Authority as of December 31, 2017, are as follows:

	<b>1-Jan</b>	<b>Additions</b>	<b>Deletions</b>	<b>31-Dec</b>
Building	\$ 100,451	\$ 16,848	\$ -	\$ 117,299
Accessory Elec Equipment	182,255	-	-	182,255
Trinidad Generator	2,420,429	-	-	2,420,429
Holly Generator	535,130	-	-	535,130
Wind Generators	3,316,032	-	-	3,316,032
Mobile Substation	629,230	-	-	629,230
EZ Hauler	50,147	-	-	50,147
Office Furniture and Equipment	18,949	-	(89)	18,860
Transportation Equipment	22,642	23,325	(22,642)	23,325
Willow Creek Tie Line	1,364,667	-	-	1,364,667
Totals	8,639,932	40,173	(22,731)	8,657,374
Less: Accum Depreciation	(3,673,538)	(266,305)	22,184	(3,917,659)
Book Value	\$ 4,966,394	\$ (226,132)	\$ (547)	\$ 4,739,715



**Arkansas River Power Authority**  
**Budget and Actual Non-GAAP**  
**Business-Type Activity Enterprise Fund**  
**for the year ended December 31, 2017**

	<b>Budgeted Amounts-- Original and Final</b>	<b>Actual Amounts- Budgetary Basis</b>
<b>REVENUES</b>		
Power Billing Reimbursement	\$ 2,555,976	\$ 2,556,276
Resale of Energy to Municipalities	27,776,972	28,614,461
Interest Income	85,950	118,076
Miscellaneous Income	2,000,000	146,371
Total revenues	<u>32,418,898</u>	<u>31,435,184</u>
<b>EXPENDITURES</b>		
Members Reimbursement-Fuel	27,900	23,150
Purchased Power	15,571,828	15,891,841
Salaries	263,500	275,462
Legal Fees	2,548,000	1,009,572
Other Professional Fees	94,900	46,345
Employee Benefits	98,722	77,251
Education & Training	18,530	7,852
Auto Expense	-	623
Return of Reserves	2,555,976	2,556,276
Miscellaneous Dues & General Exp	13,800	17,181
Depreciation	268,426	266,852
Amortization Costs	(256,431)	(227,858)
Capital Outlay	415,000	40,173
Miscellaneous Plant Operations	97,668	85,450
Insurance & Bonds	38,068	40,440
Office, Travel & Occupancy	78,425	83,359
Interest Expense	7,930,440	7,924,946
Total Expenditures	<u>29,764,752</u>	<u>28,118,915</u>
Operating Income	<u>2,654,146</u>	<u>3,316,269</u>
<b>RECONCILIATION</b>		
Capital Outlay	-	40,173
<b>SPECIAL ITEM</b>		
Settlement	-	(8,041,286)
Net change in net position	<u>2,654,146</u>	<u>(4,684,844)</u>
Net position - beginning	-	(127,295,746)
Net position - ending	<u>\$ 2,654,146</u>	<u>\$ (131,980,590)</u>