Arkansas River Power Authority

Financial Statements

December 31, 2018 and 2017

Arkansas River Power Authority
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December 31, 2018 and 2017

rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

The Board of Directors
Arkansas River Power Authority

We have audited the accompanying financial statements of the business-type activities of Arkansas River Power Authority (ARPA), as of and for the year ended December 31, 2018 and 2017, 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, 2018 and 2017, 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.

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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, budget to actual 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

rfarmer, llc

April 30, 2019

ARKANSAS RIVER POWER AUTHORITY

Management's Discussion and Analysis
For the Year Ended December 31, 2018

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, 2018. 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, 2018, are free of material misstatements. 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, 2018, 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, 2018, was approximately $29.7 million which was almost 4% better than revenues for the Authority's fiscal year 2017. Member sales were strong, registering the highest annual sales in several years at 284,780 mega-watt hours.

Purchased power costs, which is the largest expense for the Authority, reflected the increased sales and were approximately 4% higher than fiscal year 2017. However, on a kilo-watt hour basis, the Authority's purchased power costs were slightly lower in 2018 compared to 2017. This is a result of the Authority reducing costs in operations as well as taking advantage of low-cost hydro power through its Western Area Power Administration ("WAPA") contract. The Authority was also able to access excess power from WAPA that was available in May and June.

Costs for transmission service increased again in 2018 by approximately 19.6%. This was due primarily to increases in the Authority's Network Transmission service. Unfortunately, the Authority is budgeting for yet another increase in its 2019 budget of approximately 8%.

The Authority continued to improve its financial position in fiscal year 2018, as it realized a change in net position of approximately $16.1 million. This included approximately $5 million in miscellaneous revenue from amortization funds from the 2018 bond refinancing. The Authority also improved its cash position by approximately $4.7 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, and in fact, the Authority *reduced* its energy rate by 2% in its 2019 budget.

GENERAL TRENDS AND SIGNIFICANT EVENTS

In July of 2018, the Authority closed on a bond refinancing that reduced its annual debt service costs by approximately $700,000. The 2018 refinancing included ARPA's 2003, 2006, 2007, and 2008 bonds and totaled approximately $119 million. The bonds were refinanced with both tax-exempt bonds ($99.4 million) and taxable bonds ($19.9 million). The bonds are scheduled to be fully retired by 2043.

In 2014 the Authority commenced legal action against Babcock and Wilcox ("B&W"), the company that designed a Circulating Fluidized Bed boiler for the Authority's 44 mega-watt Lamar Repowering Project ("LRP") power plant. The boiler failed to meet emissions and performance guarantees and was never able to perform per its contracted obligations. In November of 2016, ARPA was awarded damages by the U.S. District Court for the District of Colorado for the performance failures. In 2018 the parties agreed to a settlement of the damages that will result in three payments from B&W to the Authority totaling $7.0 million. The first payment of $2.5 million was made in July of 2018. Subsequent payments are due in July of 2019 and July of 2020.

In July 2014, the City of Lamar and four ratepayer plaintiffs filed a lawsuit against the Authority and Syncora Guarantee, Inc. ("Syncora") (ARPA's bond insurer) in the 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 included an upfront payment to Lamar of $2.5 million that was made in July of 2018. In addition, there are annual payments to Lamar that in total represent a net present value of approximately $5.37 million.

In November of 2017, the Authority entered into a "Conditional Bond Refinancing Funding Agreement" with Syncora. The agreement stipulated that Syncora would be fully relieved of its obligations related to the Authority's bonds in exchange for a $2.25 million payment to the

Authority once the litigation with the City of Lamar was dismissed and the 2018 bond refinancing closed. The Agreement was executed, and the payment made in full in July of 2018.

In 2014 ARPA determined that the LRP was an impaired asset and was completely written down to zero. This produced a negative change in net position that is approximately a negative $115.9 million at year ending 2018. 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 bond reserve accounts remain fully funded and the Authority is in compliance with its bond covenants including the 1.25 times debt service coverage ratio.

CAPITAL ASSETS AND PRODUCTION CAPACITY

ARPA's current power supply resources include generation resources owned by the Authority and the Member Municipalities, including wind generation owned by the ARPA 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 late in 2017 entered into discussions with the Southwest Power Pool ("SPP") to provide the RTO services. However, in March of 2018 the group's efforts came to a halt as one of the main participants in the effort withdrew. There remains an interest in developing a market for the Rocky Mountain area and discussions have resumed, but there is no certainty that the effort will be successful. The goal of the RTO is to reduce transmission costs across the Mountain West area while developing a wholesale energy market in the West.

Early in 2018, Tri-State Generation and Transmission Association, Inc., approached the Authority with a proposal that would have Tri-State defease the Authority's debt and have the Authority assign its power supply and transmission contracts to Tri-State. In exchange, Tri-State would become the power supplier for the ARPA members. The proposal is under review by the ARPA members as negotiations on the proposal continue. At this point in time, the Authority cannot say whether the proposal will be approved by the ARPA members, but the Authority's risks 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 Agreement. In addition, the Authority recently renewed its WAPA contract, which provides approximately 30% of the Authority's power needs. The contract extends 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.

Arkansas River Power Authority
Statements of Net Position
Proprietary Fund
December 31, 2018 and 2017

	Enterprise Funds	
	2018	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,822,803	$ 6,292,171
Accounts Receivable, net	6,828,096	2,333,798
Total current assets	18,650,899	8,625,969
Non-current assets:		
Noncurrent Assets:		
Cash and cash equivalents-Restricted	15,437,725	16,273,544
Fixed Assets	8,664,601	8,657,374
Less Accumulated depreciation	(4,183,965)	(3,917,659)
Total non-current assets	19,918,361	21,013,259
Total assets	38,569,260	29,639,228
LIABILITIES		
Current Liabilities:		
Accounts payable	1,505,567	1,391,774
Accrued interest payable	1,673,280	2,153,758
Other accrued expenses	-	573,845
Accrued Vacation and Sick Leave	51,305	48,717
Premium paid on Bonds, current portion	254,858	254,858
Settlement payable, current portion	124,450	119,280
Bonds payable, current portion	2,840,000	2,180,000
Total current liabilities	6,449,460	6,722,232
Non-current liabilities:		
Performance deposit	500,000	500,000
Premium paid on Bonds, net of current portion	11,053,459	5,569,746
Settlement payable, net of current portion	5,268,390	7,892,840
Bonds payable, net of current portion	131,220,000	140,935,000
Total non-current liabilities	148,041,849	154,897,586
Total liabilities	154,491,309	161,619,818
NET POSITION		
Net investment in capital assets	(125,449,956)	(128,668,190)
Unrestricted	9,527,907	(3,312,400)
Total net position	$ (115,922,049)	$ (131,980,590)

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, 2018 and 2017

	Enterprise Funds	
	2018	**2017**
REVENUES		
Resale of Energy to Municipalities	$ 29,716,960	$ 28,614,461
Power Billing Reimbursement	2,476,851	2,556,276
Total operating revenues	32,193,811	31,170,737
OPERATING EXPENSES		
Members Reimbursement _Fuel, O&M & Trans Exp	31,196	23,150
Purchased Power, Losses & Wheeling	16,522,897	15,891,841
Salaries	283,013	275,462
Legal Fees	192,797	1,009,572
Other Professional Fees	146,968	46,345
Employee Benefits	70,289	77,251
Education & Training	3,020	7,852
Auto Expenses	227	623
Miscellaneous Dues & General Expenses	3,500	17,181
Depreciation	266,305	266,852
Miscellaneous Plant Operations	72,028	85,450
Insurance & Bonds	36,324	40,440
Office, Travel & Occupancy	90,506	83,359
Total Operating Expenses	17,719,070	17,825,378
Operating income	14,474,741	13,345,359
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	258,065	118,076
Miscellaneous income	10,104,730	146,371
Amortization of bond premium	976,584	227,858
Interest expense	(7,474,727)	(7,924,946)
Return of reserves	(2,280,864)	(2,556,276)
Total non-operating revenue (expenses)	1,583,788	(9,988,917)
Income before special items	16,058,529	3,356,442
Settlement	-	(8,041,286)
Change in net position	16,058,529	(4,684,844)
Total net position - beginning	(131,980,578)	(127,295,746)
Total net position - ending	$ (115,922,049)	$ (131,980,590)

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Sales of Energy	$ 32,199,513	$ 31,207,401
Cash Payments to Suppliers for Goods & Services	(17,055,959)	(17,360,672)
Cash Payment for Salaries & Benefits	(280,425)	(270,719)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,863,129	13,576,010
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Performance Deposit	-	500,000
Settlements received	4,750,000	-
Miscellaneous Income	280,885	146,371
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	5,030,885	646,371
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Return of Reserves	(2,280,864)	(2,556,276)
Settlement payments	(2,619,280)	(29,166)
Acquisition of Capital Assets	(7,227)	(40,169)
Interest paid on bonds and other long term debt	(7,955,205)	(7,956,785)
Cash received from 2018 bond issue	125,883,310	-
Revenue bonds retired	(128,478,000)	(2,260,000)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	(15,457,266)	(12,842,396)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	258,065	118,076
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	258,065	118,076
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	4,694,813	1,498,061
Cash & Cash Equivalents:		
Beginning of Year	22,565,715	21,067,654
End of Year	$ 27,260,528	$ 22,565,715

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, 2018 and 2017
(Continued)

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 14,474,741	$ 13,345,359
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:		
Depreciation	266,305	266,852
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	5,702	36,664
Increase (Decrease) in Payables	113,793	(77,608)
Increase (Decrease) Accrued Liabilities	2,588	4,743
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,863,129	$ 13,576,010

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

CASH DECEMBER 31,		
Cash and Cash Equivalents	$ 11,822,803	$ 6,292,171
Cash and Cash Equivalents - Restricted	15,437,725	16,273,544
	$ 27,260,528	$ 22,565,715

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

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 2018 and 2017, 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 $15,437,724 invested with UMB and Morgan Stanley as of December 31, 2018 and $16,273,544 as of December 31, 2017. 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 2018 and 2017.

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, 2018 and 2017.

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 2018, the Authority contributed $16,988 by check and used $10,257 of forfeiture funds for a total contribution of $27,245 and the employees contributed $21,796. During 2017, the Authority contributed $26,350 and the employees contributed $21,080.

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 $51,305 at December 31, 2018 and $48,717 at December 31, 2017.

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:

Year	Principal	Interest	Total
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
	$1,320,000	$ 215,190	$1,535,190

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.

This issue was paid in full upon the issuance of the 2018 refunding issue.

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:

Year	Principal	Interest	Total
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
	$ 76,095,000	$ 59,002,776	$ 135,097,776

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

This issue was paid in full upon the issuance of the 2018 refunding issue.

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:

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%.

This issue was paid in full upon the issuance of the 2018 refunding issue.
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:

Year	Principal	Interest	Total
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
	$ 21,545,000	$ 20,293,800	$ 41,838,800

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

This issue was paid in full upon the issuance of the 2018 refunding issue.

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:

Year	Principal	Interest	Total
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	400,000	862,094	1,262,094
2024-2028	2,455,000	3,904,993	6,359,993
2029-2033	3,310,000	3,054,228	6,364,228
2034-2038	4,445,000	1,909,971	6,354,971
2039-2043	3,465,000	360,268	3,825,268
	$ 15,465,000	$ 13,747,034	$ 29,212,034

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

2018 Issue:

The Series 2018 Bonds are special and limited revenue obligations of the Authority payable out of the revenues derived from the Authority's ownership and operation of its power supply system, subject to the application of the revenues for the purposes and upon the terms set forth in the Indenture. The revenues consist of all of the income from the system, including the payments made by the Authority's six members under the power supply agreement, which extends to at least the date of the final payment and discharge of the Series 2018 Bonds and outstanding parity obligations. The Members have agreed to purchase all of their net electric power and energy requirements from the Authority, and to make payments to the Authority sufficient to pay all of the costs of the system, including the debt service on the 2018 bonds and the outstanding parity obligations. The Members have agreed to make such payments solely from the available revenues and income of their respective municipal electric utilities.

The Series 2018 bonds do not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, and the Series 2018 bonds are not general obligations of the Authority. The Series 2018 bonds do not constitute a debt, liability or obligation of the Members or any other governmental entity other than the Authority.

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
2019	$ 2,520,000	$ 5,753,320	$ 8,273,320
2020	2,610,000	5,659,879	8,269,879
2021	2,720,000	5,555,816	8,275,816
2022	2,835,000	5,443,610	8,278,610
2023	2,940,000	5,323,708	8,263,708
2024-2028	16,750,000	24,522,364	41,272,364
2029-2033	20,365,000	20,072,260	40,437,260
2034-2038	25,325,000	14,554,500	39,879,500
2039-2043	42,530,000	6,722,250	49,252,250
	$ 118,595,000	$ 93,607,707	$ 212,202,707

Due In

	January 1	Paid	Issued	December 31	One Year
Long Term Bonds Payable	$ 143,283,000	$(128,478,000)	$ 119,255,000	$ 134,060,000	$ 2,840,000

Lamar Settlement:

The terms of the settlement require annual payments of $350,000, including principle and interest, to be paid annually for 26 years with an interest rate of 4.5% as follows:

Year	Principal	Interest	Total
2019	$ 124,450	$ 225,550	$ 350,000
2020	129,843	220,157	350,000
2021	135,470	214,530	350,000
2022	141,341	208,659	350,000
2023	147,466	202,534	350,000
2024-2028	838,917	911,083	1,750,000
2029-2033	1,037,154	712,846	1,750,000
2034-2038	1,282,234	467,766	1,750,000
2039-2043	1,526,794	164,871	1,691,665
	$ 5,363,669	$ 3,327,996	$ 8,691,665

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, Tri-State Generation and Transmission, Black Hills Energy, 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 2018 and 2017 the Authority believes it was in compliance with the respective covenants.

Note 15 Line of Credit:

During 2018 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 3.65%. The note was renewed October 3, 2018 and matures October, 2019.

Note 16 Litigation:

As of December 31, 2018, the Authority was not involved in any litigation.

Note 17 Property, Plant and Equipment:

Property, plant and equipment of Arkansas River Power Authority as of December 31, 2018, are as follows:

	1-Jan	Additions	Deletions	31-Dec
Building	$ 117,299	$ 7,227	$ -	$ 124,526
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	18,860	-	-	18,860
Transportation Equipment	23,325	-	-	23,325
Willow Creek Tie Line	1,364,667	-	-	1,364,667
Totals	8,657,374	7,227	-	8,664,601
Less: Accum Depreciation	(3,917,659)	(266,306)	-	(4,183,965)
Book Value	$ 4,739,715	$ (259,079)	$ -	$ 4,480,636

Arkansas River Power Authority
Budget and Actual Non-GAAP
Business-Type Activity Enterprise Fund
for the year ended December 31, 2018

	Budgeted Amounts-- Original and Final	Actual Amounts- Budgetary Basis
REVENUES		
Power Billing Reimbursement	$ 2,493,561	$ 2,476,851
Resale of Energy to Municipalities	27,776,972	29,716,960
Interest Income	89,407	258,065
Miscellaneous Income	2,256,431	10,104,738
Total revenues	32,616,371	42,556,614
EXPENDITURES		
Members Reimbursement-Fuel	27,900	31,196
Purchased Power	16,194,792	16,522,897
Salaries	273,955	283,013
Legal Fees	1,306,000	192,797
Other Professional Fees	345,200	146,968
Employee Benefits	102,510	70,289
Education & Training	18,800	3,020
Auto Expense	-	227
Return of Reserves	2,493,561	2,280,864
Miscellaneous Dues & General Exp	5,000	3,500
Depreciation	268,426	266,305
Amortization Costs	(256,431)	(976,584)
Capital Outlay	415,000	7,227
City of Lamar settlement	600,000	2,624,450
Miscellaneous Plant Operations	32,556	72,028
Insurance & Bonds	38,068	36,324
Office, Travel & Occupancy	89,744	90,514
Interest Expense	7,551,748	7,474,727
Total Expenditures	29,506,829	29,129,762
Operating Income	3,109,542	13,426,852
RECONCILIATION		
Capital Outlay	-	7,227
City of Lamar settlement	-	2,624,450
Net change in net position	3,109,542	16,058,529
Net position - beginning	-	(131,980,578)
Net position - ending	$ 3,109,542	$ (115,922,049)