Arkansas River Power Authority

Financial Statements

December 31, 2012 and 2011

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rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

The Governing Body
Arkansas River Power Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Arkansas River Power Authority, as of December 31, 2012 and 2011 and for the years then ended, and the related notes to the financial statements, which collectively comprise Arkansas River Power Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Arkansas River Power Authority'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 our opinion 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Arkansas River Power Authority, as of December 31, 2012 and 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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Other Matters

Accounting principles generally accepted in the United States of America require that the 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arkansas River Power Authority's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

rfarmer, llc

Lamar, Colorado

May 10, 2013

ARKANSAS RIVER POWER AUTHORITY

Management's Discussion and Analysis
For the Year Ended December 31, 2012

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, 2012. The intent of this discussion and analysis is to look at ARPA's financial and program performance as well as changes in power supply resources currently in development; readers should review ARPA's financial statements in their evaluation of the Authority's financial performance.

ACCURACY AND PRESENTATION OF DATA

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

ARPA financial statements have been audited by rfarmer, llc, a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of ARPA for the fiscal year ended December 31, 2012, 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, 2012, 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 2012 was approximately $33,660,000 which was about 2% better than budget; however, revenues were approximately 4.8% lower than 2011. This was due to our member rates being approximately 4.3% lower in 2012 compared to 2011. Kilo-watt hour sales to members were basically unchanged from 2011.

Purchased power costs, which is the primary expense for the Authority was down significantly from 2011 as the Authority entered into a short-term power supply agreement in February of 2012. The three-year agreement allowed the Authority to take advantage of the depressed energy markets and as a result total operating expenses were down approximately 23% from 2011.

Legal fees exceeded budget by approximately 6% as ARPA continued to vigorously defend itself from unwarranted lawsuits filed by the environmental group, WildEarth Guardians. The litigious nature of this environmental group has diverted resources from the Authority and serves no purpose other than to increase cost to the ARPA members. However, total A&G expenses finished the year on budget.

Reimbursements to the participating member municipalities for the prepaid electric power agreement executed in 2010 continued as scheduled and 2/3 of the debt was retired as of the end of 2012. The debt is anticipated to be fully retired by year's end 2013. The Authority met all bond covenant requirements including the 1.25x Debt Service Coverage for 2012 as it did in 2011, and all bond reserve accounts are fully funded as required by the bond covenants.

The depreciation schedule for 2012 is based on a straight line method for a portion of the Authority's fixed assets; however, the depreciation schedule for the Lamar Repowering Project is based upon the "production method" of depreciation. The depreciated schedule for the unit will be determined by hours of operation rather than the straight line method.

The reduction in operating expenses provided for a sound financial year for the Authority. The Authority experienced a net income of approximately $7,000,000 in 2012 and an improvement to its cash and cash equivalents of approximately $3,000,000. The Authority believes the energy markets will improve over the short–term but remain depressed when compared to historic market levels. This will provide the Authority the opportunity to improve its financial position through the life of the short-term power supply agreement.

CAPITAL ASSETS AND PRODUCTION CAPACITY

ARPA's current power sources 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 the Western Area Power Administration ("Western") and supplemental purchases from the Tri-State Generation and Transmission Association.

The Lamar Repowering Project (LRP) continues to be viewed as the baseload resource for the future. Once operations prove full regulatory compliance the plant will have approximately 44 MW gross capacity with a net output rating of 38.5 MW.

GENERAL TRENDS AND SIGNIFICANT EVENTS

The LRP completed final commissioning and start-up in 2010 but testing completed in late 2011 demonstrated that the plant was in permit compliance at reduced load levels but was not successful in making emissions at full load. The Project is currently undergoing additional engineering as recommended by the boiler manufacturer and additional compliance testing is anticipated to occur in 2013.

The Authority submitted its Integrated Resource Plan (IRP) to Western as required by the Energy Management and Planning Program adopted by Western in 1995. The program requires an IRP be submitted every five years and updated annually.

The IRP concluded that based on current market conditions, the most cost-effective operating mode for LRP for the foreseeable future is year-round cold standby. With recent increases in proven natural gas reserves and no additional pipeline development anticipated, natural gas prices in Colorado are expected to remain relatively low into the future. Low natural gas prices would likely keep electrical energy prices relatively low, given the amount of natural gas-fired generation in the Rocky Mountain region.

The IRP also recognized that the LRP, once permitted and operating in full permit compliance, represents an ideal resource to supply the baseload needs for the Authority's members in the future. However, natural gas prices would likely need to increase significantly from their current price to be high enough to justify baseload operations of the LRP.

CURRENT RISKS AND UNCERTAINTIES

In recent years, the market price of electric energy correlates closely to the price of natural gas. The price of natural gas fell significantly in 2012 and remained at or near historic lows throughout most of the year. The Authority's agreement with Tri-State positions the Authority to take advantage of the lower costs and will provide the opportunity for ARPA to stabilize its rates to its members.

As with all other utilities, potential future environmental regulations; such as those pertaining to the Utility MACT rule and Greenhouse Gas emissions, create a level of uncertainty regarding the future cost of environmental compliance. In addition, the modifications anticipated for the LRP must result in the plant operating within permit compliance for the LRP to be considered the baseload resource as envisioned.

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 Assets
Proprietary Fund
December 31, 2012 and 2011

	Enterprise Funds	
	2012	**2011**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,925,606	$ 1,120,500
Accounts Receivable, net	2,847,852	2,951,796
Inventories	333,965	335,065
Prepaid Expenses	2,186,492	1,318,027
Total current assets	9,293,915	5,725,388
Non-current assets:		
Noncurrent Assets:		
Cash and cash equivalents-Restricted	15,327,132	15,200,039
Fixed Assets	174,122,081	174,122,081
Less Accumulated depreciation	(7,549,658)	(6,922,555)
Bond Issue Costs	5,907,624	5,907,624
Less Accumulated Amortization	(1,043,802)	(869,650)
Projects in Process	2,535,079	2,347,481
Total non-current assets	189,298,456	189,785,020
Total assets	198,592,371	195,510,408
LIABILITIES		
Current Liabilities:		
Accounts payable	1,323,366	1,972,548
Accrued interest payable	2,090,931	2,115,285
Other accrued expenses	573,846	641,323
Accrued Vacation and Sick Leave	27,339	29,440
Accrued overhaul expenses	406,510	200,000
Deferred Revenues-Members	904,838	1,873,402
Line of credit due in one year	-	400,000
Premium paid on Bonds, net	254,858	254,858
Bonds and Notes payable, current portion	1,860,000	1,785,000
Total current liabilities	7,441,688	9,271,856
Non-current liabilities:		
Premium paid on Bonds, net of current portion	6,844,034	7,098,892
Bonds and Notes payable, net of current portion	151,704,999	153,565,000
Total non-current liabilities	158,549,033	160,663,892
Total liabilities	165,990,721	169,935,748
NET ASSETS		
Invested in capital assets, net of related debt	28,060,719	23,612,867
Unrestricted	4,540,931	1,961,793
Total net assets	$ 32,601,650	$ 25,574,660

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 Assets
Proprietary Fund
For the years ended December 31, 2012 and 2011

	Enterprise Funds	
	2012	2011
REVENUES		
Resale of Energy to Municipalities	$ 33,658,458	$ 35,365,002
Total operating revenues	33,658,458	35,365,002
OPERATING EXPENSES		
Members Reimbursement _Fuel, O&M & Trans Exp	23,744	11,341
Purchased Power, Losses & Wheeling	15,307,559	21,508,814
Salaries	245,630	296,538
Legal Fees	523,277	516,674
Other Professional Fees	39,234	6,600
Engineering Study Fees	3,004	1,288
Employee Benefits	55,520	72,835
Education & Training	15,652	11,275
Auto Expenses	1,784	826
Miscellaneous Dues & General Expenses	5,042	3,893
Depreciation	627,102	935,637
Amortization Bond Issue Costs & Bond Discount	147,046	147,871
Miscellaneous Plant Operations	1,599,427	604,420
Insurance & Bonds	54,341	43,691
Office, Travel & Occupancy	83,603	67,694
Total Operating Expenses	18,731,965	24,229,397
Operating income	14,926,493	11,135,605
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	264,275	285,264
Misc. Income, including premium of bond costs	290,276	388,131
Interest expense	(8,454,045)	(8,728,757)
Miscellaneous expenses	(8)	-
Total non-operating revenue (expenses)	(7,899,502)	(8,055,362)
Income before special items	7,026,991	3,080,243
Impairment of assets	-	(665,579)
Change in net assets	7,026,991	2,414,664
Total net assets - beginning	25,574,659	23,159,996
Total net assets - ending	$ 32,601,650	$ 25,574,660

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Sales of Energy	$ 32,793,838	$ 34,916,962
Cash Payments to Suppliers for Goods & Services	(19,091,802)	(23,511,750)
Cash Payment for Salaries & Benefits	(245,630)	(296,538)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,456,406	11,108,674
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Miscellaneous Income	35,418	388,131
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	35,418	388,131
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	-	(10,001)
Additional amounts for projects in process/boiler renovation	(187,598)	(2,576,106)
Proceeds from Line of Credit, net of repayments	(400,000)	400,000
Interest paid on bonds and other long term debt	(8,451,302)	(8,743,685)
Revenue Bonds Retired and Note payments	(1,785,000)	(2,241,213)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	(10,823,900)	(13,171,005)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	264,275	285,264
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	264,275	285,264
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	2,932,199	(1,388,936)
Cash & Cash Equivalents:		
Beginning of Year	16,320,539	17,709,475
End of Year	$ 19,252,738	$ 16,320,539

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, 2012 and 2011
(Continued)

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 14,926,493	$ 11,135,605
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities:		
Depreciation	627,102	935,637
Amortization of Bond Issue Costs & Bond Discount	147,046	147,871
Change in Assets and Liabilities:		
(Increase) Decrease in Prepaids	(868,465)	37,529
(Increase) Decrease in Receivables	103,944	501,391
(Increase) Decrease in Inventories	1,100	190,000
Increase (Decrease) in Payables	(649,182)	(474,974)
Increase (Decrease) Deferred Revenues-Members	(968,564)	(949,431)
Increase (Decrease) Accrued Liabilities	136,932	(414,954)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 13,456,406	$ 11,108,674

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

	2012	2011
CASH DECEMBER 31,		
Cash and Cash Equivalents	$ 3,925,606	$ 1,120,500
Cash and Cash Equivalents - Restricted	15,327,132	15,200,039
	$ 19,252,738	$ 16,320,539

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

Arkansas River Power Authority
Notes To Financial Statements
December 31, 2012 and 2011

Note 1 - Description of Entity:

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

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

Note 2 - Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity:

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization 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.

B. Basis of Presentation and Accounting:

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

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

Managements Discussion and Analysis For State and Local Governments: Omnibus, Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation* No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

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

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

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

C. Fixed Assets:

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net assets. Their reported net assets (net total assets) is segregated into "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.

ARPA does not have any infrastructure.

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

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 and Mercury 50)	35 years
Lamar Repowering Project	60 years
Mobile Substation	40 years
Transmission Line	40 years
Wind Turbines	20 years

D. 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, 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.

E. Capitalized Interest:

Arkansas River Power Authority follows the policy of capitalizing interest on construction up to the date of completion. During 2012 and 2011, no interest was capitalized.

F. Long-Term Obligations and Costs:

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

G. Bond Issue Costs:

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

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

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

H. Discount Loss and Issuance Costs on Bonds:

The discount loss and issuance costs incurred due to the Series 2003 refunding bonds will be amortized over the life of the 2003 issue, 20 years. The annual amount amortized during 2011 and 2012 was $7,389.

The 2006 cost of issuance of $3,123,819 is being amortized over the life of the bonds, which is approximately 415 months. The annual amount amortized during 2011 and 2012 was approximately $90,436.

The 2007 cost of issuance of $1,222,962 is being amortized over the life of the bonds, which is approximately 434 months. The annual amount amortized during 2011 and 2012 was approximately $33,815.
The 2008 cost of issuance of $1,074,836 is being amortized over the life of the bonds, which is approximately 387 months. The annual amount amortized during 2011 and 2012 was approximately $33,814.

The 2010 cost of issuance of $279,579 is being amortized over the life of the bonds, which is approximately 387 months. The annual amount amortized during 2011 and 2012 was approximately $9,183.

I. Estimates:

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

J. Inventories:

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

K. Cash and Cash Equivalents:

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

L. Accounts Receivable:

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

M. Restricted Assets:

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

N. Compensation for Future Absences:

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

O. Claims and Judgments:

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

P. Capital Contributions:

Contributions are recognized in the statement of revenues, expenses, and changes in net assets when earned. Member cities did not make any contributions during 2012 or 2011.

Q. Special and Extraordinary Items:

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

During 2011, ARPA wrote down an asset due to an impairment in the amount of $665,579.

R. Net Assets:

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

S. Revenues and Rate Structure:

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

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

Note 3 - Deposits and Investments:

Deposits

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

Custodial Credit Risk

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

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

At year-end, ARPA was exposed to custodial credit risk in that they had $869,898 of deposits in local banks collateralized under item c above. ARPA also had $250,000 covered by FDIC in a local bank.

Investments

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

Repurchase agreements,

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

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

Federally insured mortgages and student loans, Participation with other local governments in pooled investment funds (trusts), 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").

ARPA has $15,200,039 invested with UMB. UMB in turn has invested the amount in various investments. The funds are restricted in use by the various bond issues outstanding at year end.

Note 4 - Capacity Fund:

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

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

ARPA and its members have inadvertent accounts, prepaid and banked power with utilities as of December 31, 2012 of $874,747 and $6,282 as of December 31, 2011.

As of December 31, 2012 and 2011, ARPA had $1,311,745 of emission allowances and prepaid expenses.

Note 6 - Restricted Cash & Investments:

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

Note 7 - Deferred Compensation Plan:

Effective January 1, 1982, ARPA established a Public Employee Compensation Plan for its full-time employees. The plan has a five year incremental vesting period for employer contributions and provides for a 10% employer contribution with an 8% employee matching contribution. The plan is funded through ICMA-RC. Effective August 16, 1991, a new pension plan was adopted under Internal Revenue Service Code Section 401(a). The employer contribution is 10% with the employee contributing 8% of qualifying salaries, as defined by the Plan document.

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

Vacation leave may be carried over from year-to-year up to a maximum of 20 days in addition to the current year accrual. Upon termination, unused accrued vacation leave will be paid in full, based upon the regular salary rate. Accrued vacation, comp time, and sick leave was $27,339 at December 31, 2012 and $29,440 at December 31, 2011.

Note 9 - **Long-Term Debt**:

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

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

2003 Issue:

Year	Principal	Interest	Total
2013	$ 160,000	$ 95,565	$ 255,565
2014	170,000	88,845	258,845
2015	175,000	81,705	256,705
2016	180,000	74,355	254,355
2017	190,000	66,795	256,795
2018-2022	1,075,000	204,165	1,279,165
2023	245,000	11,025	256,025
	$2,195,000	$ 622,455	$2,817,455

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

The Bonds are revenue obligations of the Authority payable out of the net revenue derived from the Authority's ownership and operation of its electric system. The Bonds do not constitute an indebtedness 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.

2006 Issue:

The 2006 Bonds are revenue obligations of the Authority payable out of the net revenue derived from the Authority's ownership and operation of its electric system, as more particularly set forth in the official statement and in the authorizing bond resolution. The Bonds do not constitute an indebtedness 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
2013	$ 1,270,000	$ 4,478,042	$ 5,748,042
2014	1,330,000	4,419,544	5,749,544
2015	1,395,000	4,353,042	5,748,042
2016	1,470,000	4,279,806	5,749,806
2017	1,545,000	4,202,632	5,747,632
2018-2022	9,195,000	19,576,586	28,771,586
2023-2027	12,240,000	16,502,332	28,742,332
2028-2032	15,985,000	12,755,137	28,740,137
2033-2037	20,635,000	8,096,548	28,731,548
2038-2040	18,040,000	2,072,175	20,112,175
	$ 83,105,000	$ 80,735,844	$ 163,840,844

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

2007 Issue:

During 2007 Arkansas River Power Authority issued Power Revenue Improvement Bonds, Series 2007, in the amount of $28,575,000. The 2007 bonds are revenue obligations of the Authority payable out of the net revenue derived from the Authority's ownership and operation of its electric system, as more particularly set forth in the official statement and in the authorizing bond resolution. The Bonds do not constitute an indebtedness 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%.

2008 Issue:

During 2008 Arkansas River Power Authority issued Power Revenue Improvement Bonds, Series 2008, in the amount of $23,225,000. The 2008 bonds are revenue obligations of the Authority payable out of the net revenue derived from the Authority's ownership and operation of its electric system, as more particularly set forth in the official statement and in the authorizing bond resolution. The Bonds do not constitute an indebtedness 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
2013	$ 240,000	$ 1,366,800	$ 1,606,800
2014	250,000	1,352,400	1,602,400
2015	270,000	1,337,400	1,607,400
2016	240,000	1,321,300	1,561,300
2017	235,000	1,306,800	1,541,800
2018-2022	1,400,000	6,305,100	7,705,100
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	2,995,200	8,940,200
2038-2040	6,280,000	871,500	7,151,500
	$ 22,780,000	$ 26,978,500	$ 49,758,500

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

2010 Issue:

During 2010, Arkansas River Power 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 of the Authority payable out of the net revenues derived from the Authority's ownership and operation of its electric system, as more particularly set forth herein and in the Indenture. The Bonds do no constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, and the bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the member municipalities of the Authority or any other governmental entities other than the Authority.

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

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

Year	Principal	Interest	Total
2013	$ 190,000	$ 1,007,068	$ 1,197,068
2014	195,000	1,002,556	1,197,556
2015	200,000	992,806	1,192,806
2016	260,000	982,806	1,242,806
2017	290,000	969,806	1,259,806
2018-2023	1,700,000	4,610,786	6,310,786
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	2,166,483	6,351,483
2038-2040	4,465,000	633,568	5,098,568
	$ 16,910,000	$ 19,657,382	$ 36,567,382

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

	January 1	Paid	Issued	December 31	Due in 1 Year
Long Term Debt	$155,350,000	($1,785,000)	$ -	$153,565,000	$1,860,000

Note 10 - Energy Acquisition:

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

Note 11 - Tax, Spending and Debt Limitations:

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

Note 12 - Risk Management:

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

Note 13 - Projects Completed and In Process:

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

Note 14 - Contributed Capital-Member Entities:

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

Note 15 - Bond Covenants:

The bond covenants require the net income, as defined and adjusted per the bond covenants, exceed 125% of debt service, defined as principal and interest for all bonds issued and outstanding and due and payable in the current year. For 2011, the covenant was not met. ARPA is required to increase electrical rates to cure the violation, which they did for 2012 and were in compliance.

Note 16 - Deferred Revenues:

During 2010, five of the six member municipalities advanced funds to ARPA. The respective members will receive credit towards their respective power bill plus 2% interest on any outstanding balance until the advances are paid in full. The outstanding balances will be paid in full by the end of 2013.

Note 17 - Line of Credit:

During 2011 ARPA obtained a line of credit for operating purposes. The total amount of the line is $1,507,508 with the total amount advanced at year-end of $400,000. The line is secured by specific personal properties owned by ARPA. The annual percentage rate is 5.0%. The renewal date of the note was January 27, 2012. The maturity date was extended to March 31, 2012. That note was paid in full with a new line of credit for $1,500,000 entered into in July, 2012. As of December 31, 2012, no advances were made against the line of credit.

Note 18 - Litigation:

Arkansas River Power Authority (ARPA) is involved in three separate lawsuits.

In December 2009, WildEarth Guardians ("WEG"), an environmental group, commenced an action against ARPA and the Lamar Utilities Board ("LUB") in the U.S. District Court alleging that the emissions permit for the Lamar Repowering Project ("LRP") failed to satisfy the Federal Clean Air Act.

In March 2011, WEG filed a second lawsuit against ARPA and LUB in the U.S. District Court asserting that emissions at the LRP exceeded the permitted amounts in violation of the Federal Clean Air Act.

In March 2011, one of ARPA's member municipalities, the City of Trinidad, commenced an action in the Las Animas County, Colorado, District Court seeking unspecified damages and to sever its relationship with ARPA based on cost overruns at the LRP and other alleged contractual violations.

We express no opinion regarding the likely outcome of these matters. However, ARPA is vigorously defending itself in these actions.

Note 19 - Property, Plant and Equipment:

Property, plant and equipment of Arkansas River Power Authority as of December 31, 2012, are as follows:

	1-Jan	Additions	Deletions	31-Dec
Building	$ 85,000	$ -	$ -	$ 85,000
Accessory Elec Equipment	194,965	-	-	194,965
Trinidad Generator	2,420,429	-	-	2,420,429
Mercury 50 Generator	1,540,166	-	-	1,540,166
Holly Generator	535,130	-	-	535,130
Wind Generators	3,316,032	-	-	3,316,032
25MGW Repowering Project	163,914,534	-	-	163,914,534
Mobile Substation	629,231	-	-	629,231
EZ Hauler	50,147	-	-	50,147
Office Furniture and Equipment	32,308	-	-	32,308
Transportation Equipment	39,472	-	-	39,472
Willow Creek Tie Line	1,364,667	-	-	1,364,667
Totals	174,122,081	-	-	174,122,081
Less: Accum Depreciation	(6,922,555)	(627,103)	-	(7,549,650)
Book Value	$ 167,199,526	$ -	$ -	$ 166,572,423

Arkansas River Power Authority
Budget and Actual Non-GAAP (with Variances)
Business-Type Activity Enterprise Fund
For the year ended December 31, 2012

	Budgeted Amounts Original and Final	Actual Amounts, Budgetary Basis
REVENUES		
Resale of Energy to Municipalities	$ 32,825,444	$ 33,658,458
Interest Income	260,424	264,275
Miscellaneous Income	517,872	290,276
Total revenues	33,603,740	34,213,009
EXPENDITURES		
Members Reimbursement-Fuel	152,900	23,744
Purchased Power	16,553,529	15,307,559
Salaries	223,600	245,630
Legal Fees	512,004	523,277
Other Professional Fees	19,500	39,234
Engineering Study Fees	-	3,004
Employee Benefits	67,878	55,520
Education & Training	-	15,652
Auto Expense	-	1,784
Miscellaneous Dues & General Exp	8,800	5,042
Depreciation	4,431,612	627,102
Amortization Costs	142,597	147,046
Miscellaneous Plant Operations	2,899,997	1,599,427
Insurance & Bonds	32,940	54,341
Office, Travel & Occupancy	66,696	83,611
Interest Expense	8,495,623	8,454,045
Total Expenditures	33,607,676	27,186,018
Operating Income (Loss)	(3,936)	7,026,991
RECONCILIATION		
Net change in retained earnings	(3,936)	7,026,991
Retained Earnings - beginning	-	23,159,996
Retained Earnings - ending	$ (3,936)	$ 30,186,987