Arkansas River Power Authority

Financial Statements

December 31, 2014 and 2013

Arkansas River Power Authority
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December 31, 2014 and 2013

rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

The Governing Body
Arkansas River Power Authority

We have audited the accompanying financial statements of the business-type activities of Arkansas River Power Authority, as of and for the years ended December 31, 2014, and 2013, 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 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 Arkansas River Power Authority, as of December 31, 2014 and 2013, 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.

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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, pages ii-v, 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 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 accompanying supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information 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

May 8, 2015

Management's Discussion and Analysis
For the Year Ended December 31, 2014

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, 2014. 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.

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, 2014, 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, 2014, and the results of its operations and cash flows for the year then ended in conformity with GAAP as applied to governments.

MISSION AND ORGANIZATONAL STRUCTURE

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 2014 was approximately $28,153,000 which was slightly less than revenues generated in 2013. The revenues were somewhat better than budget; however, kilo-watt hour sales to members were approximately 1% less in 2014 compared to 2013.

Purchased power costs, which is the primary expense for the Authority increased approximately 1.4% from 2013, however the cost on a kilo-watt hour basis was virtually unchanged from 2013.

The Authority met all bond covenant requirements including the 1.25x Debt Service Coverage for 2014. Furthermore, all bond reserve accounts are fully funded as required by the bond covenants.

Legal fees exceeded budget significantly as ARPA continued to vigorously defend itself from ill-advised lawsuits filed against it by the City of Lamar/Lamar Rate Payers and the City of Lamar/Lamar Utilities Board. Among other things, Lamar seeks damages for certain alleged breaches of contract by ARPA relating to cost overruns and the failure to successfully develop the LRP, as well as damages related to Lamar's dedication of its 1972 electric generation facilities to the LRP, and injunctive relief relating to the potential decommissioning of the LRP.

Despite these certain challenges, ARPA continues to improve its financial position as it realized approximately $1.53 million in net operating revenue in 2014.

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.

GENERAL TRENDS AND SIGNIFICANT EVENTS

In 2004 the ARPA Board of Directors approved the Lamar Repowering Project ("Repowering Project"). The Repowering Project involved the development of a 38.5 MW (net) coal-fired power plant in Lamar, Colorado. All the member municipalities 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 to finance the Repowering Project. Subsequent authorization increased the par value of the bond issuance to $76 million. 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 extended the term of the Power Sales Agreement referred to in Note 10 of the audit, and the Organic Contract, until the later of December 31, 2040 or the date when the bonds for the Repowering Project are paid in full.

The Repowering Project was first put into operation in 2009. During initial operations it was found that the Circulating Fluidized Bed boiler designed by Babcock & Wilcox Power Generation Group, Inc. ("B&W") was unable to operate in compliance with the air emissions limitations of ARPA's state-issued permit and the requirements of the federal Clean Air Act.

ARPA worked diligently with B&W in an effort to bring the boiler into compliance, including the installation of a Selective Non-Catalytic Reduction ("SNCR") system in 2010 and significant boiler modifications in 2011. However, the implementation of the SNCR system and 2011 modifications failed to bring the boiler into compliance with the Air Quality permit.

Furthermore, the boiler could not meet its contractual performance obligations including guarantees for emissions and auxiliary power consumption.

B&W subsequently proposed further modifications, however it refused to provide funding for the modifications and would not guarantee they would result in the plant operating in compliance. In addition, the modifications proposed by B&W would further increase the operating costs for the Repowering Project.

In February 2014, ARPA commenced an action against B&W in the U.S. District Court for the District of Colorado, seeking damages related to the failure of the B&W-supplied boiler. ARPA is asserting claims against B&W due to the failure of the boiler to meet emissions and performance guarantees.

In light of these events, ARPA commissioned a series of third-party studies to evaluate its options relative to the plant. Based on the reports prepared by its consultants and the analysis of staff, it was projected that ARPA will be required to raise its wholesale electric rates by as much as 9 percent annually in order to maintain the plant. With no assurance that the facility will be capable of operating in compliance with its permit or the federal Clean Air Act, the ARPA Board of Directors determined that it would be economically beneficial to decommission or dispose of the Repowering Project assets. It also determined that the Repowering Project was an impaired asset. The 2014 financials reflect that the impaired asset was completely written down to zero.

This produced a negative change in net position of approximately $161.8 million, and resulted in a total net position at year ending of a negative $133 million. However, the write-down does not impact ARPA's ability to meet its financial obligations, including meeting its debt service payments and the funding of its bond reserve accounts.

CURRENT RISKS AND UNCERTAINTIES

As with all other utilities, potential future environmental regulations, such as those pertaining to the Utility MACT rule and the recently published Clean Power Plan ("CPP") create a level of uncertainty regarding the future cost of environmental compliance and, consequently, the market cost for power. Furthermore, there have been serious concerns raised by utilities and by the North American Electric Reliability Corporation ("NERC") regarding the impact the CPP may have on reliability.

A component of the CPP is to encourage conversion of coal fired power plants to natural gas. A rush to convert plants may well result in significant increases in power costs. ARPA has mitigated this risk for the foreseeable future with its power supply contract that begins on February 1, 2015 and extends until January 31, 2025. The contract includes certain provisions that will allow ARPA to effectively manage its power supply costs through the term of the contract. In addition, the Authority recently renewed its contract with Western to extend ARPA'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, 2014 and 2013

	Enterprise Funds	
	2014	**2013**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,788,581	$ 3,176,868
Accounts Receivable, net	2,633,138	2,980,426
Inventories	-	253,126
Prepaid Expenses	834,622	858,502
Total current assets	6,256,341	7,268,922
Non-current assets:		
Noncurrent Assets:		
Cash and cash equivalents-Restricted	15,614,585	15,520,631
Fixed Assets	8,687,017	174,131,718
Less Accumulated depreciation	(3,192,796)	(8,416,710)
Projects in Process	-	2,686,709
Total non-current assets	21,108,806	183,922,348
Total assets	27,365,147	191,191,270
LIABILITIES		
Current Liabilities:		
Accounts payable	1,286,662	1,683,956
Accrued interest payable	2,045,301	2,069,901
Other accrued expenses	573,845	573,848
Accrued Vacation and Sick Leave	38,578	33,728
Accrued overhaul expenses	-	400,000
Premium paid on Bonds, current portion	254,858	254,858
Bonds and Notes payable, current portion	2,040,000	1,945,000
Total current liabilities	6,239,244	6,961,291
Non-current liabilities:		
Premium paid on Bonds, net of current portion	6,334,319	6,589,176
Bonds and Notes payable, net of current portion	147,693,000	149,760,000
Total non-current liabilities	154,027,319	156,349,176
Total liabilities	160,266,563	163,310,467
NET POSITION		
Net investment in capital assets	(135,787,216)	24,799,466
Unrestricted	2,885,800	3,081,337
Total net position	$ (132,901,416)	$ 27,880,803

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, 2014 and 2013

	Enterprise Funds	
	2014	**2013**
REVENUES		
Resale of Energy to Municipalities	$ 28,152,516	$ 28,776,859
Total operating revenues	28,152,516	28,776,859
OPERATING EXPENSES		
Members Reimbursement _Fuel, O&M & Trans Exp	(28,505)	68,449
Purchased Power, Losses & Wheeling	15,703,401	15,485,500
Salaries	254,863	247,693
Legal Fees	1,013,543	734,511
Other Professional Fees	201,073	54,764
Engineering Study Fees	342	674
Employee Benefits	66,094	61,770
Education & Training	18,167	15,781
Auto Expenses	2,139	280
Miscellaneous Dues & General Expenses	10,072	9,087
Depreciation	867,723	867,061
Miscellaneous Plant Operations	629,606	1,368,622
Insurance & Bonds	108,130	57,338
Office, Travel & Occupancy	65,529	59,266
Total Operating Expenses	18,912,177	19,030,796
Operating income	9,240,339	9,746,063
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	249,501	299,499
Misc. Income, including premium of bond costs	234,977	242,445
Amortization of bond premium	32,106	32,106
Interest expense	(8,227,998)	(8,353,190)
Total non-operating revenue (expenses)	(7,711,414)	(7,779,140)
Income before special items	1,528,925	1,966,923
Adjustment for asset impairment	(162,311,149)	(1,303,495)
Change in net position	(160,782,224)	663,428
Total net position - beginning	27,880,808	27,217,375
Total net position - ending	$ (132,901,416)	$ 27,880,803

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Sales of Energy	$ 28,499,804	$ 27,739,447
Cash Payments to Suppliers for Goods & Services	(18,582,014)	(16,699,301)
Cash Payment for Salaries & Benefits	(254,863)	(247,693)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,662,927	10,792,453
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Miscellaneous Income	234,977	242,445
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	234,977	242,445
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Impairment of assets related to the repowering project	(261,375)	-
Acquisition of Capital Assets	(10,000)	(9,637)
Additional amounts for projects in process/boiler renovation	-	(1,455,125)
Interest paid on bonds and other long term debt	(8,310,363)	(8,310,017)
Revenue Bonds Retired	(1,860,000)	(2,114,857)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	(10,441,738)	(11,889,636)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	249,501	299,499
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	249,501	299,499
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	(294,333)	(555,239)
Cash & Cash Equivalents:		
Beginning of Year	18,697,499	19,252,738
End of Year	$ 18,403,166	$ 18,697,499

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, 2014 and 2013
(Continued)

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 9,240,339	$ 9,746,063
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities:		
Depreciation	867,723	867,061
Amortization of Bond Premium	(32,106)	(32,106)
Change in Assets and Liabilities:		
(Increase) Decrease in Prepaids	32,130	1,327,990
(Increase) Decrease in Receivables	347,288	(132,574)
(Increase) Decrease in Inventories	-	80,839
Increase (Decrease) in Payables	(397,294)	(159,863)
Increase (Decrease) Deferred Revenues-Members	-	(904,838)
Increase (Decrease) Accrued Liabilities	(395,153)	(119)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,662,927	$ 10,792,453

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

	2014	2013
CASH DECEMBER 31,		
Cash and Cash Equivalents	$ 2,788,581	$ 3,176,868
Cash and Cash Equivalents - Restricted	15,614,585	15,520,631
	$ 18,403,166	$ 18,697,499

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 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
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. The fund overspent its budget which may be a violation of CRS.

Capitalized Interest:

The Authority follows the policy of capitalizing interest on construction up to the date of completion. During 2014 and 2013, 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.

Inventories:

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

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.

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 has $15,614,585 invested with UMB as of December 31, 2014 and $15,520,631 as of December 31, 2013. UMB in turn has invested the amount in various investments, including Certificates of Deposit. 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 2014 and 2013.

Note 5 Inadvertent Accounts, Prepaid Expenses & Banked Power:

The Authority has prepaid expenses as of December 31, 2014 of $834,622 and $850,252 as of December 31, 2013, which include prepaid power of $825,000 for both years.

As of December 31, 2014 and 2013, ARPA had $0 and $8,250, respectively, of emission allowances recorded as prepaid expenses.

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.

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.

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 was $38,578 at December 31, 2014 and $33,728 at December 31, 2013.

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:

2003 Issue:

Year	Principal	Interest	Total
2015	$ 175,000	$ 81,705	$ 256,705
2016	180,000	74,355	254,355
2017	190,000	66,795	256,795
2018	195,000	58,815	253,815
2019	205,000	50,625	255,625
2020-2023	920,000	105,750	1,025,750
	$1,865,000	$ 438,045	$2,303,045

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 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
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	1,635,000	4,111,862	5,746,862
2019	1,730,000	4,015,806	5,745,806
2020-2024	10,310,000	18,464,450	28,774,450
2025-2029	13,643,000	15,074,900	28,717,900
2030-2034	17,700,000	11,032,873	28,732,873
2035-2039	22,860,000	5,872,911	28,732,911
2040	8,190,000	429,975	8,619,975
	$ 80,478,000	$ 71,838,257	$ 152,316,257

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

2007 Issue:

During 2007 the Authority issued Power Revenue Improvement Bonds, Series 2007, in the amount of $28,575,000. The 2007 bonds are revenue obligations payable out of the net revenue derived from the Authority's ownership and operation of its electric system, as more particularly set forth in the official statement and in the authorizing bond resolution. The Bonds do not constitute 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 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 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
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	250,000	1,292,000	1,542,000
2019	265,000	1,277,700	1,542,700
2020-2024	2,275,000	6,105,900	8,380,900
2025-2029	3,720,000	5,206,200	8,926,200
2030-2034	4,985,000	3,949,800	8,934,800
2035-2039	6,675,000	2,259,700	8,934,700
2040	3,375,000	202,500	3,577,500
	$ 22,290,000	$ 24,259,300	$ 46,549,300

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

2010 Issue:

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

The Bonds are special and limited revenue obligations payable out of the net revenues derived from the Authority's ownership and operation of its electric system, as more particularly set forth herein and in the Indenture. The Bonds do not constitute 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
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	310,000	955,306	1,265,306
2019	320,000	939,806	1,259,806
2020-2024	1,905,000	4,415,362	6,320,362
2025-2029	2,605,000	3,754,624	6,359,624
2030-2034	3,510,000	2,851,489	6,361,489
2035-2039	4,720,000	1,637,895	6,357,895
2040	2,405,000	147,858	2,552,858
	$ 16,525,000	$ 17,647,758	$ 34,172,758

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	$151,705,000	($1,945,000)	$ -	$149,760,000	$2,040,000

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 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 are purchased through a Services Agreement with Tri-State Generation and Transmission Association (Tri-State). The agreement includes scheduling services as well as provide power supply. The agreement is for three years and began on February 1, 2012 and extends until January 31, 2015. Transmission service for power purchases is provided under contracts or other arrangements with Tri-State, Black Hills Electric Utility Company, 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 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 Projects Completed and In Process:

In 2004 the 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 10 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.

During 2014 management determined the project was an impaired asset along with certain other long term assets. All impaired assets were written down to zero, which was determined to be fair value.

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 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 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 2014 and 2013 the Authority was in compliance.

Note 16 Line of Credit:

During 2014 the Authority obtained 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 $1,500,000. The line of credit annual percentage rate is 2.6%. The note is dated October 27, 2014 and matures September 17, 2015.

Note 17 Litigation:

As of December 31, 2014 the Authority was involved in three lawsuits.

In March 2011, one of our 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 the Authority based on cost overruns at the LRP and other alleged contractual violations. This was settled in 2014.

In February 2014, the Authority commenced an action against Babcock & Wilcox Power Generation Group, Inc. (B&W) in the U.S. District Court for the District of Colorado, seeking damages related to the failure of the B&W supplied boiler for the Lamar Repowering Project (LRP) to meet emissions guarantees, which has prevented the LRP from operating. B&W has asserted counterclaims against the Authority seeking approximately $3,461,356 in damages for retention withheld by the Authority on the boiler contract as well as funds expended by B&W on certain proposed modifications to the boiler.

In July 2014, one of the Authority's member municipalities, the City of Lamar, Colorado, and certain ratepayers of Lamar's municipally-owned electric utility brought an action against the Authority in the Prowers County, Colorado District Court, seeking unspecified damages relating to the alleged failure of the LRP. Among other things, Lamar seeks damages for certain alleged breaches of contract by the Authority relating to cost overruns and the failure to successfully develop the LRP, as well as damages related to Lamar's dedication of its 1972 electric generation facilities to the LRP.

In October 2014, the City of Lamar and its municipally-owned electric utility, Lamar Utilities Board (LUB) brought a second action against the Authority in the Prowers county, Colorado District Court asserting additional claims for breach of contract and injunctive relief relating to the potential decommissioning of the LRP. Lamar and LUB seek unspecified damages as well as an order preventing the decommissioning of the LRP.

The Authority express no opinion as to the likely outcome of these three matters. However, the Authority is vigorously defending and prosecuting these claims.

Note 18 Property, Plant and Equipment:

Property, plant and equipment of Arkansas River Power Authority as of December 31, 2014, are as follows:

	1-Jan	Additions	Deletions	31-Dec
Building	$ 85,000	$ 10,000	$ -	$ 95,000
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	41,945	-	-	41,945
Transportation Equipment	39,472	-	-	39,472
Willow Creek Tie Line	1,364,667	-	-	1,364,667
Totals	174,131,718	10,000	(165,454,700)	8,687,018
Less: Accum Depreciation	(8,416,710)	(867,723)	6,091,637	(3,192,796)
Book Value	$ 165,715,008	$ (857,723)	$(159,363,063)	$ 5,494,222

Arkansas River Power Authority
Budget and Actual Non-GAAP
Business-Type Activity Enterprise Fund
for the year ended December 31, 2014

	Budgeted Amounts Original and Final	Actual Amounts, Budgetary Basis
REVENUES		
Resale of Energy to Municipalities	$ 26,695,623	$ 28,152,516
Interest Income	240,424	249,501
Miscellaneous Income	1,618,803	234,977
Total revenues	28,554,850	28,636,994
EXPENDITURES		
Members Reimbursement-Fuel	27,900	(28,505)
Purchased Power	14,822,504	15,703,401
Salaries	243,137	254,863
Legal Fees	506,000	1,013,543
Other Professional Fees	294,000	201,073
Engineering Study Fees	-	342
Employee Benefits	78,107	66,094
Education & Training	17,775	18,167
Auto Expense	3,600	2,139
Miscellaneous Dues & General Exp	22,600	10,072
Depreciation	867,668	867,723
Amortization Costs	142,044	(32,106)
Miscellaneous Plant Operations	1,290,100	629,606
Insurance & Bonds	62,821	108,130
Office, Travel & Occupancy	89,242	65,529
Interest Expense	8,254,998	8,227,998
Total Expenditures	26,722,496	27,108,069
Operating Income	1,832,354	1,528,925
RECONCILIATION		
Net change in net position	1,832,354	1,528,925
Net position - beginning	-	27,880,803
Net position - ending	$ 1,832,354	$ 29,409,728