

# **American Municipal Power, Inc.**

**Interim Consolidated Financial Statements and  
Supplementary Information  
September 30, 2016**

**American Municipal Power, Inc.**  
**Index**  
**Nine Months Through and Ended September 30, 2016 (unaudited)**

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## Independent Auditor's Report

To the Board of Trustees and Members of  
American Municipal Power, Inc.

We have reviewed the accompanying consolidated interim financial information of American Municipal Power, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of September 30, 2016, and the related consolidated statements of revenues and expenses, of changes in member and patron equities, and of cash flows for the nine-month periods ended September 30, 2016 and 2015.

### ***Management's Responsibility for the Consolidated Interim Financial Information***

The Company's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

### ***Auditor's Responsibility***

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

### ***Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of American Municipal Power, Inc. and its subsidiaries as of December 31, 2015, and the related consolidated statements of revenues and expenses, of changes in member and patron equities, and of cash flows for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 29, 2016. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

As disclosed in Note 2 to the consolidated financial statements, the Organization changed the manner in which it classifies debt issuance costs.

*PricewaterhouseCoopers LLP*

December 21, 2016

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2016 (unaudited) and December 31, 2015**

	September 30, 2016	December 31, 2015
Assets		
Utility plant		
Electric plant in service	\$ 3,957,836,673	\$ 1,961,747,992
Accumulated depreciation	(281,372,342)	(209,239,897)
Total utility plant	<u>3,676,464,331</u>	<u>1,752,508,095</u>
Nonutility property and equipment		
Nonutility property and equipment	28,356,976	26,687,366
Accumulated depreciation	(16,633,946)	(15,075,399)
Total nonutility property and equipment	<u>11,723,030</u>	<u>11,611,967</u>
Construction work-in-process	836,871,021	2,542,984,068
Plant held for future use	35,753,841	35,444,960
Coal reserves	23,702,883	24,289,252
Trustee funds and other assets		
Trustee funds	349,933,223	240,911,289
Trustee funds - restricted	752,960,838	781,814,925
Financing receivables - members	6,180,950	9,917,087
Notes receivable	2,827,647	2,918,329
Regulatory assets	384,121,037	331,928,040
Investment in The Energy Authority	10,211,442	10,211,442
Intangible and other assets	29,708,470	32,776,674
Total trustee funds and other assets	<u>1,535,943,607</u>	<u>1,410,477,786</u>
Current assets		
Cash and cash equivalents	130,639,447	107,158,983
Cash and cash equivalents - restricted	13,463,237	33,587,383
Trustee funds	121,266,135	255,746,345
Trustee funds - restricted	21,508,369	21,303,628
Investments	66,232	14,574,681
Collateral postings	25,216,865	23,315,857
Accounts receivable	94,217,752	87,651,299
Interest receivable	19,920,883	23,065,760
Financing receivables - members	27,568,383	17,398,543
Notes receivable	-	49,796,786
Inventories	9,015,831	8,010,440
Regulatory assets	20,647,688	24,680,286
Prepaid expenses and other assets	4,166,563	5,521,148
Total current assets	<u>487,697,385</u>	<u>671,811,139</u>
Total assets	<u>\$ 6,608,156,098</u>	<u>\$ 6,449,127,267</u>

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2016 (unaudited) and December 31, 2015**

	September 30, 2016	December 31, 2015
Equities and Liabilities		
Member and patron equities		
Contributed capital	\$ 826,968	\$ 813,018
Patronage capital	76,495,087	66,813,898
Total member and patron equities	<u>77,322,055</u>	<u>67,626,916</u>
Long-term debt		
Term debt	5,685,698,476	5,512,629,764
Term debt on behalf of Central Virginia Electric Cooperative	21,062,499	21,916,666
Revolving credit loan	359,000,000	350,900,000
Total long-term debt	<u>6,065,760,975</u>	<u>5,885,446,430</u>
Current liabilities		
Accounts payable	145,410,136	120,600,278
Accrued postretirement benefits	-	3,509,648
Accrued interest	45,261,419	126,762,465
Term debt	78,682,412	77,687,412
Term debt on behalf of members	20,738,500	9,044,500
Term debt on behalf of Central Virginia Electric Cooperative	854,167	854,167
Regulatory liabilities	8,496,393	5,724,815
Other liabilities	21,653,996	29,210,298
Total current liabilities	<u>321,097,023</u>	<u>373,393,583</u>
Other noncurrent liabilities		
Accrued postretirement benefits	100,000	100,000
Deferred gain on sale of real estate	1,174,093	1,211,736
Other liabilities	64,045,646	66,542,061
Asset retirement obligations	7,734,362	7,696,014
Regulatory liabilities	70,921,944	47,110,528
Total other noncurrent liabilities	<u>143,976,045</u>	<u>122,660,339</u>
Total liabilities	<u>6,530,834,043</u>	<u>6,381,500,352</u>
Total equities and liabilities	<u>\$ 6,608,156,098</u>	<u>\$ 6,449,127,267</u>

The accompanying notes are in integral part of these consolidated financial statements.

**American Municipal Power, Inc.**  
**Consolidated Statements of Revenues and Expenses**  
**Nine Months Ended September 30, 2016 and 2015 (unaudited)**

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	September 30, 2016	September 30, 2015
<b>Revenues</b>		
Electric revenue	\$ 888,986,061	\$ 813,647,208
Service fees	8,925,272	8,884,234
Programs and other	9,337,081	8,758,326
Total revenues	<u>907,248,414</u>	<u>831,289,768</u>
<b>Operating expenses</b>		
Purchased electric power	443,856,240	469,545,324
Production	128,077,685	108,521,061
Fuel	93,505,331	100,428,643
Depreciation and amortization	72,564,200	43,864,394
Administrative and general	6,920,810	9,152,050
Property and real estate taxes	6,158,091	4,625,552
Programs and other	12,360,519	8,913,757
Total operating expenses	<u>763,442,876</u>	<u>745,050,781</u>
Operating margin	<u>143,805,538</u>	<u>86,238,987</u>
<b>Nonoperating revenues (expenses)</b>		
Interest expense	(192,195,638)	(103,491,392)
Interest income, subsidy	38,675,633	10,144,480
Interest income, other	27,197,851	15,027,923
Other, net	(7,802,195)	(1,471,355)
Total nonoperating expenses	<u>(134,124,349)</u>	<u>(79,790,344)</u>
Net margin	<u>\$ 9,681,189</u>	<u>\$ 6,448,643</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statements of Changes in Member and Patron Equities**  
**Nine Months Ended September 30, 2016 and 2015 (unaudited)**

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	Contributed Capital	Patronage Capital	Total
<b>Balances at December 31, 2014</b>	\$ 806,248	\$ 60,990,058	\$ 61,796,306
Capital contributions	6,770	-	6,770
Net margin	-	5,823,840	5,823,840
<b>Balances at December 31, 2015</b>	813,018	66,813,898	67,626,916
Capital contributions	13,950	-	13,950
Net margin	-	9,681,189	9,681,189
<b>Balances at September 30, 2016</b>	<u>\$ 826,968</u>	<u>\$ 76,495,087</u>	<u>\$ 77,322,055</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2016 and 2015 (unaudited)**

	September 30, 2016	September 30, 2015
<b>Cash flows from operating activities</b>		
Net margin	\$ 9,681,189	\$ 6,448,643
Adjustments to reconcile net margin to net cash provided by (used in) operating activities		
Depreciation and amortization	71,977,831	43,270,836
Depletion of coal reserves	586,369	593,558
Amortization of deferred financing costs	4,358,403	3,329,813
Amortization of bond premium, net of amortization of bond discount	(6,779,893)	(5,057,521)
Accretion of interest on asset retirement obligations	180,981	129,730
Loss on disposal of utility property and equipment	190,059	(51,107)
Unrealized loss on investments	10,154,750	2,744,341
Changes in assets and liabilities		
Collateral postings	(1,901,008)	(4,875,508)
Accounts receivable	(6,566,453)	(13,318,722)
Interest receivable	(774,879)	978,819
Inventories	(1,005,391)	(2,093,298)
Regulatory assets and liabilities, net	(30,744,151)	(14,369,887)
Prepaid expenses and other assets	3,555,984	1,758,650
Accounts payable	(27,761,548)	(5,387,554)
Accrued postretirement benefits	(3,509,648)	47,128
Accrued interest	(18,558,501)	(24,510,429)
Asset retirement obligations	(142,633)	(117,610)
Other liabilities	(885,970)	(1,399,687)
Net cash provided by (used in) operating activities	<u>2,055,491</u>	<u>(11,879,805)</u>
<b>Cash flows from investing activities</b>		
Purchase of utility property and equipment	(143,181,704)	(2,865,963)
Purchase of nonutility property and equipment	(1,669,610)	(107,272)
Proceeds due to repayments of loans made to related parties	49,796,786	5,998,439
Purchase of construction work-in-progress	(151,186,550)	(345,209,569)
Proceeds from sale of investments	637,094,840	424,182,996
Purchase of investments	(578,633,519)	(871,074,563)
Purchase of plant held for future use	(308,881)	(292,255)
Changes in restricted cash and cash equivalents	20,124,146	(4,672,516)
Net cash provided by (used in) investing activities	<u>\$ (167,964,492)</u>	<u>\$ (794,040,703)</u>

**American Municipal Power, Inc.**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2016 and 2015 (unaudited)**

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	September 30, 2016	September 30, 2015
<b>Cash flows from financing activities</b>		
Proceeds from revolving credit loan	202,200,000	70,700,000
Payments on revolving credit loan	(194,100,000)	(69,200,000)
Cost of issuance of debt	(2,795,852)	(4,517,800)
Principal payments on term debt	(61,095,000)	(48,260,000)
Principal payments on term debt on behalf of members	(6,809,500)	(8,503,000)
Proceeds from issuance of term debt	240,760,237	824,199,257
Proceeds from issuance of term debt on behalf of members	18,503,500	6,809,500
Principal payments on term debt on behalf of Central Virginia Electric Cooperative	(854,167)	(854,167)
Proceeds from financing receivables - members	4,036,570	7,048,327
Funding of financing receivables - members	(10,470,273)	(5,910,213)
Capital contributions	13,950	6,770
	<u>189,389,465</u>	<u>771,518,674</u>
Net cash provided by financing activities	189,389,465	771,518,674
Net change in cash and cash equivalents	23,480,464	(4,401,834)
<b>Cash and cash equivalents</b>		
Beginning of period	107,158,983	70,570,137
End of period	<u>\$ 130,639,447</u>	<u>\$ 66,168,303</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for interest, net of amount capitalized	\$ 210,954,139	\$ 115,546,182
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Capital expenditures included in accounts payable	\$ 95,634,680	\$ 36,156,318
Capital expenditures included in accrued interest, net of interest receivable	\$ 3,442,887	\$ 15,810,646

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

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Nine Months Through and Ended September 30, 2016 (unaudited)

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#### 1. Description of Business

American Municipal Power, Inc. ("AMP") is a not-for-profit Ohio corporation organized to provide electric capacity and energy and to furnish other services to its members on a cooperative basis. AMP is a tax-exempt organization for federal tax purposes under Section 501(c)(12) of the Internal Revenue Service Code ("IRC"). As AMP derives its income from the exercise of an essential government function and will accrue to a state or a political subdivision thereof; AMP's income is excludable from gross income under IRC Section 115. AMP is a membership organization comprised of 84 municipalities throughout Ohio, 29 municipalities in Pennsylvania, six municipalities in Michigan, six municipalities in Kentucky, five municipalities in Virginia, two municipalities in West Virginia, one municipality in Indiana, one municipality in Maryland, and one joint action agency in Delaware, all but one of which own and operate electric systems. AMP purchases and generates electric capacity and energy for sale to its members. AMPPO, Inc. is a for-profit subsidiary that provides electric and natural gas aggregation consulting services to both members and nonmembers in Ohio.

In addition, AMP serves as a project manager for Ohio members participating in joint venture projects to share ownership of power generation and transmission facilities, known as Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 ("OMEGA" "JV1," "JV2," "JV4," "JV5," and "JV6") (collectively, the "OMEGA Joint Ventures").

AMP is closely aligned with Ohio Municipal Electric Association ("OMEA"), the legislative liaison for the state's municipal electric systems. In addition to the OMEGA Joint Ventures, Municipal Energy Services Agency ("MESA") has also been formed by the members. MESA provides management and technical services to AMP, its members, and the OMEGA Joint Ventures.

AMP has received approval pursuant to a private letter ruling from the Internal Revenue Service ("IRS") to issue tax-exempt securities on behalf of its members. In connection with the financing of projects undertaken by the electric systems of certain member communities, AMP has issued tax-exempt debt on their behalf. Additionally, AMP has issued tax-exempt bonds to finance the construction of its generating projects.

AMP 368 LLC ("AMP 368"), a wholly owned and consolidated subsidiary of AMP, is the owner of a 23.26%, or 368 MW, undivided interest in the Prairie State Energy Campus ("PSEC"). PSEC, located in Washington County, Illinois, includes a coal-fired generating plant and adjacent coal mine.

Meldahl LLC, a wholly owned and consolidated subsidiary of AMP, is the owner of the 105 MW Meldahl project, a run-of-the river hydroelectric facility on the Ohio River near Maysville, Kentucky.

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Nine Months Through and Ended September 30, 2016 (unaudited)

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#### 2. Summary of Significant Accounting Policies

##### Basis of Consolidation

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all entities in which AMP has control, which are its majority-owned subsidiaries. The interim consolidated financial statements have been prepared without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements as of September 30, 2016 should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2015. The accompanying interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the nine-months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates. All intercompany transactions and balances have been eliminated.

##### Utility Plant

AMP records amounts expended in connection with the purchase or construction of utility plant assets at cost. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. Operations are charged with labor, material, supervision and other costs incurred to maintain the utility plant. When utility plant assets are retired, accumulated depreciation is charged with the cost of assets, plus removal costs, less any salvage value, and any resulting gain or loss is reflected in other nonoperating revenues (expenses), net in the consolidated statements of revenues and expenses.

##### Jointly-Owned Utility Plant

In April 2016, under an ownership agreement with the City of Hamilton, AMP acquired a 48.6% undivided ownership in the Greenup Hydroelectric Power Plant ("Greenup"), a 70.2 MW hydroelectric plant located on the Ohio River near Franklin Furnace, Ohio. AMP's ownership interest in Greenup is recorded in accordance with Accounting Standards Codification ("ASC") 970-810-45, Undivided Interests. Each owner is obligated to pay its share of the costs of this jointly-owned facility in the same proportion as its ownership interest. Operating costs associated with Greenup are included in AMP's consolidated statements of revenues and expenses and the assets are reflected in AMP's consolidated balance sheets under Total utility plant as follows:

	<b>September 30, 2016</b>
Greenup	
Utility plant in service	\$ 140,854,872

AMP 368 has a 23.26% undivided joint ownership interest in PSEC. Kilowatt-hour generation and variable operating expenses are divided on an owner's percentage of dispatched power and fixed operating expenses are allocated by project ownership with each owner reflecting its respective costs in its statements of revenue and expenses. AMP 368's ownership interest in PSEC includes the proportionate share of PSEC's balance sheet as provided for under ASC 970-810-45, Undivided Interests. This Accounting Standard requires the recording of undivided interests in assets and liabilities when given conditions are met.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Nine Months Through and Ended September 30, 2016 (unaudited)**

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Information relative to AMP's ownership interest in the PSEC is as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Prairie State		
Utility plant in service	\$ 1,147,540,771	\$ 1,140,591,607
Construction work-in-progress	5,834,352	6,037,061

AMP owns coal reserves at Lively Grove coal mine, the only source of coal for PSEC. The coal reserves are recorded at cost. AMP also had a contractual right of first refusal for additional coal reserves. AMP's reserves are valued at \$23,702,883 and \$24,289,252 (net of depletion) as of September 30, 2016 and December 31, 2015, respectively. Depletion occurs as the coal reserves are mined.

**Nonutility Property and Equipment**

Nonutility property and equipment is recorded at cost. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When nonutility property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and the related gains or losses are reflected in other nonoperating revenues (expenses), net in the consolidated statements of revenues and expenses.

**Construction Work-in-Progress**

AMP records amounts expended in connection with construction work-in-progress projects at cost. Upon completion of a project, AMP places the asset in service and the related costs are recorded as either utility plant or nonutility property and equipment.

Construction work-in-progress projects consist of the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Prairie State Energy Campus	\$ 5,834,352	\$ 6,037,061
Hydro Plants	812,810,138	2,525,067,982
AMP Fremont Energy Center	7,191,086	4,462,422
Information Technology	7,919,890	6,665,849
Other	3,115,555	750,754
	<u>\$ 836,871,021</u>	<u>\$ 2,542,984,068</u>

There is \$221,969 and \$1,074,625 of land included in the construction work-in-progress account at September 30, 2016 and December 31, 2015, respectively. During the nine-months ended September 30, 2016, \$1,821,534,084 of Hydro Plant assets were placed into service as there were several Hydro Plants that reached commercial operation during the period, including Willow Island, Cannelton, and Meldahl.

There is \$191,101,356 and \$562,246,303 of capitalized interest included in the construction work-in-progress account at September 30, 2016 and December 31, 2015, respectively. AMP capitalized interest costs in the amount of \$40,353,433 and \$92,089,483 for the nine-month periods ended September 30, 2016 and 2015, respectively.

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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#### **Plant Held for Future Use**

In November 2009, the participants in the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's targeted capital costs increased by 37% and the engineer, procure and construct contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

The AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay any costs incurred for the project.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the consolidated balance sheets. At December 31, 2010, AMP reclassified \$34,881,075 of costs to plant held for future use in the consolidated balance sheets as these costs were determined to be associated with the undeveloped Meigs County site regardless of the type of generating asset ultimately developed on the site.

The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. These stranded costs are being recovered through collections from Participants and Members over a 15 year term and from service fee and other member related revenues over the same term. At September 30, 2016, AMP has a remaining regulatory asset of \$33,731,935 for the recovery of these abandoned construction costs.

#### **Trustee Funds**

AMP maintains funds on deposit with the trustees ("trustee funds") under its various trust indentures securing bonds issued for its various projects. Investments of the trustee funds include money market funds and debt securities. The debt securities are classified as held-to-maturity under the Financial Accounting Standards Board's ("FASB's") standard for debt and equity securities, and are recorded at amortized cost. The debt securities mature at various dates through January 2030. The money market funds are valued at the net asset value of the underlying fund determined on the valuation date.

Realized gains and losses on investment transactions are determined on the basis of specific identification. Gross unrealized holding loss at September 30, 2016 and 2015 were \$10,154,750 and \$2,339,067, respectively. Gross unrealized holding gains and losses are included in other, net in the consolidated statements of revenues and expenses.

#### **Impairment of Long-lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is the excess of the carrying value of the assets over fair value of the assets.

#### **Intangible and Other Assets**

Included in intangible assets are two interconnections contracts for offsite facilities which were a part of the acquisition cost for the AMP Fremont Energy Center ("AFEC") project. These contracts were valued at \$28,665,190, and were net of \$3,630,924 and \$3,057,620 of accumulated

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Nine Months Through and Ended September 30, 2016 (unaudited)

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amortization as of September 30, 2016 and December 31, 2015, respectively. The contracts are being amortized over a 37.5 year period at a rate of \$764,405 per year, which is recognized in depreciation and amortization.

#### **Derivative Instruments**

AMP accounts for derivative instruments on its consolidated balance sheets at fair value unless the instruments qualify to be accounted for as normal purchases and normal sales. The fair values of derivative instruments accounted for using mark-to-market accounting are based on exchange prices and broker quotes, when available. If a quoted market price is not available, the estimate of fair value is based on the best information available including valuation models that estimate future energy prices based on existing market and broker quotes and supply and demand market data and other assumptions. The fair values determined are reduced by the appropriate valuation adjustments for items such as discounting, liquidity, credit quality and modeling risk. There is inherent risk in valuation modeling given the complexity and volatility of energy markets. Therefore, it is possible that results in future periods may be materially different as contracts are ultimately settled.

AMP has determined each of its power purchase and power sales contracts which meet the definition of a derivative instrument qualifies to be accounted for as normal purchases and normal sales.

AMP has adopted a fuel procurement and hedging program which contemplates that AMP will, subject to market conditions, undertake to secure, at times when AMP deems such advantageous and prudent, contracts with fuel providers and financial institutions, the effect which will be to hedge, on a rolling 36-month basis, the price of up to 80% of the natural gas volume that AMP projects will be consumed by AFEC operating at its base capacity. AMP has entered into a number of International Swaps and Derivatives Association agreements that are specific to AFEC in managing its natural gas supply requirements. All of these agreements are with investment grade or higher counterparties (Baa3/BBB-). AMP utilizes fixed-for-floating swap contracts to economically hedge the total natural gas fuel expense and records them at fair value. AMP does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

The maturities of the swaps highly correlate to forecasted purchases of natural gas, during time frames through December 2026. Under such agreements, AMP pays the counterparty at a fixed rate and receives from the counterparty a floating rate per MMBtu ("decatherm" or "Dth") of natural gas. Only the net differential is actually paid or received. The differential is calculated based on the notional amounts under the agreements. Notional amounts under contracts were \$262,551,600 and \$282,605,575 at September 30, 2016 and December 31, 2015, respectively.

On the short term agreements, there was an unrealized loss of \$11,219,236 and \$17,503,204 at September 30, 2016 and December 31, 2015, respectively, which is included in other liabilities. On the long-term agreements, there was an unrealized loss of \$63,293,660 and \$66,176,438 at September 30, 2016 and December 31, 2015, respectively, which is included in other liabilities. A net gain of \$9,166,746 and \$38,199,075 was recognized in fuel on AMP's consolidated statements of revenues and expenses for the nine-month periods ending September 30, 2016 and 2015, respectively. The losses from the natural gas contracts do not result from other-than-temporary declines in market value. Corresponding regulatory assets have been recorded equal to the unrealized loss.

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), subsequently superseded by ASU 2015-14 which deferred the effective date. The objective of this revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. This standard is effective for the Company’s 2019 fiscal year however early adoption as of the Company’s 2017 fiscal year is permitted. The Company has not completed an assessment of the impact that adopting this standard will have on its internal systems or its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30) and ASU 2015-15 in August 2015 as an amendment. This standard simplifies the presentation of debt issuance costs by requiring debt issuance costs, other than those related to lines of credit arrangements, to be recognized as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts and premiums. Debt issuance costs related to lines of credit arrangements will continue to be presented as an asset and subsequently amortized ratably over the term of the line of credit arrangement, regardless of if there are any borrowings on the line of credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this standard. The Company adopted this standard during the current year with retrospective presentation. This resulted in a reduction of both intangible and other assets and term debt by \$37,723,614 and \$39,484,425 in the Company’s consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments-Overall (Topic 825-10). This standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company elected to early adopt this amendment in 2015, resulting in the elimination of disclosures relating to the fair value of financial instruments measured at amortized cost, namely trustee funds and long-term debt.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard is intended to improve financial reporting about leasing transactions. Amongst other changes, the standard will require both operating and capital leases to be recognized on the balance sheet and require incremental disclosures around the amount, timing and uncertainty of cash flows arising from leases. This standard is effective for the Company’s 2020 fiscal year however early adoption of the standard is permitted. The Company has not yet assessed the impact that adopting this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The new guidance is intended to reduce diversity in practice of how certain transactions are classified in the statement of cash flows. This standard is effective for the Company’s 2019 fiscal year although early adoption is permitted, provided that all of the amendments of the standard are adopted in the same period. The Company has not yet assessed the impact that adopting this standard will have on its consolidated statement of cash flows.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
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**3. Revolving Credit Loan and Term Debt**

**Revolving Credit Loan**

AMP has a revolving credit loan facility ("Facility") with a syndicate of lenders led by JPMorgan Chase Bank, N.A. Other members of the syndicate include KeyBank, N.A.; Wells Fargo Bank, N.A.; U.S. Bank, N.A.; Bank of America, N.A.; The Huntington National Bank; Royal Bank of Canada; and Bank of Montreal. The Facility allows AMP to obtain loans with different interest rates and terms and letters of credit. The Facility expires on January 10, 2020. AMP's base borrowing capacity under the Facility is \$750,000,000, with an accordion feature to expand to \$1 billion. At September 30, 2016, AMP had \$359,000,000 outstanding under the Facility and the effective interest rate was 1.3750%. At December 31, 2015, AMP had \$350,900,000 outstanding under the Facility and the effective interest rate was 1.3125%.

**Term Debt**

AMP has issued term debt in the form of notes payable and bonds for the financing of its own assets and on behalf of specific members. AMP is the primary obligor on term debt issued to finance its assets.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
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Bonds and notes payable related to financing AMP assets consists of the following:

	September 30, 2016	December 31, 2015
AMP project note due in October 2016 with interest at 1.00% both at September 30, 2016 and December 31, 2015, respectively, payable at maturity	\$ 15,263,000	\$ 15,263,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2008A	86,145,000	95,815,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009A	26,120,000	26,120,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009B	40,420,000	44,495,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009C	385,835,000	385,835,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2010	300,000,000	300,000,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2015A	507,875,000	507,875,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2015B	135,350,000	135,350,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2015C	95,100,000	95,100,000
AMP Prairie State Energy Campus Project Revenue Bonds, Escrow	725,775,000	734,475,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009A	-	6,135,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009B	497,005,000	497,005,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009C	118,865,000	122,405,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009D	13,294,118	13,294,118
AMP Combined Hydroelectric Project Revenue Bonds, Series 2010A	140,370,000	152,995,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2010B	1,109,995,000	1,109,995,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2010C	116,000,000	116,000,000
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2010A	37,750,000	45,495,000
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2010B	260,000,000	260,000,000
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2010C	20,000,000	20,000,000
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2010D	4,570,000	4,570,000
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2010E	300,000,000	300,000,000
AMP Fremont Energy Center Project Revenue Bonds, Series 2012A	-	3,680,000
AMP Fremont Energy Center Project Revenue Bonds, Series 2012B	520,620,000	525,545,000
AMP Greenup Hydroelectric Project Revenue Bonds, Series 2016A	125,630,000	-
AMP Meldahl Hydroelectric Project Revenue Bonds, Series 2016A	80,050,000	-
Subtotal	<u>5,662,032,118</u>	<u>5,517,447,118</u>
Less: Current portion	(78,682,412)	(77,687,412)
Plus: Unamortized premium and discount, net	140,654,827	112,354,483
Plus: Unamortized debt issuance costs, net	(36,767,451)	(39,484,425)
Long-term debt	<u>\$ 5,687,237,082</u>	<u>\$ 5,512,629,764</u>

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
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**Greenup Hydroelectric Project 2016A Revenue Bonds**

The Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the "Greenup 2016A Bonds") were issued May 11, 2016 in the form of serial and term bonds with an aggregate par amount of \$125,630,000. The Greenup 2016A Bonds were issued at an aggregate premium of \$21,832,548. The bonds will mature between 2018 and 2046 and bear interest at fixed rates between 3.00% and 5.00%. Interest is payable semiannually beginning August 15, 2016. AMP has the option to redeem the Greenup 2016A Bonds on any date in whole or in part, at the make-whole premium on or after February 15, 2026.

The Greenup 2016A Bonds outstanding at September 30, 2016 are as follows:

<b>Maturity Date - February 15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2018	\$ 330,000	3.00%
2019	1,265,000	3.00%
2020	1,685,000	4.00%
2021	1,750,000	5.00%
2022	1,840,000	5.00%
2023	1,930,000	5.00%
2024	2,030,000	5.00%
2025	2,130,000	5.00%
2026	3,235,000	5.00%
2027	3,395,000	5.00%
2028	3,565,000	5.00%
2029	3,745,000	5.00%
2030	3,930,000	5.00%
2031	4,130,000	5.00%
2032	4,335,000	5.00%
2033	4,550,000	5.00%
2034	4,780,000	3.00%
2035	4,920,000	4.00%
2036	5,120,000	4.00%
2041	29,420,000	5.00%
2046	37,545,000	5.00%
	<u>\$ 125,630,000</u>	

The Greenup 2016A Bonds due on February 15, 2041 and February 15, 2046 are term bonds subject to mandatory sinking fund redemption on the principal payment date in the following years in the following principal amounts at a redemption price equal to par, together with interest accrued to the date of redemption.

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Greenup 2016A Bonds bearing interest at 5.00% and maturing on February 15, 2041:

<b>Year</b>	<b>Principal Amount</b>
2037	\$ 5,325,000
2038	5,590,000
2039	5,870,000
2040	6,165,000
2041	6,470,000
	<u>\$ 29,420,000</u>

Greenup 2016A Bonds bearing interest at 5.00% and maturing on February 15, 2046:

<b>Year</b>	<b>Principal Amount</b>
2042	\$ 6,795,000
2043	7,135,000
2044	7,490,000
2045	7,865,000
2046	8,260,000
	<u>\$ 37,545,000</u>

**American Municipal Power, Inc.**  
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**Meldahl Hydroelectric 2016A Bonds**

The Meldahl Hydroelectric Project Revenue Bonds, Series 2016A (the "Meldahl 2016A Bonds"), were issued on July 27, 2016, pursuant to the terms of a Master Trust Indenture, dated as of December 20, 2010, with an aggregate par amount of \$80,050,000. The Meldahl 2016A Bonds were issued at an aggregate premium of \$13,247,689. The Meldahl 2016A Bonds mature between 2018 and 2046 and bear interest at fixed rates ranging from 3.00% to 5.00%. Interest is payable semiannually, beginning February 15, 2017. AMP has the option to redeem the Meldahl 2016A Bonds on any date in whole or in part, at the make-whole premium on or after February 15, 2026.

The Meldahl 2016A Bonds outstanding at September 30, 2016 are as follows:

<b>Maturity Date - February 15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2018	\$ 595,000	3.00%
2019	630,000	3.00%
2020	675,000	4.00%
2021	1,035,000	4.00%
2022	2,185,000	5.00%
2023	2,240,000	5.00%
2024	1,735,000	5.00%
2025	1,780,000	5.00%
2026	2,735,000	5.00%
2027	1,780,000	5.00%
2028	1,305,000	2.00%
2029	3,000,000	5.00%
2030	3,080,000	5.00%
2031	3,160,000	5.00%
2032	3,235,000	5.00%
2033	3,320,000	5.00%
2034	3,385,000	4.00%
2035	3,060,000	4.00%
2036	3,550,000	3.00%
2041	18,225,000	4.00%
2046	19,340,000	5.00%
	<u>\$ 80,050,000</u>	

The Meldahl 2016A Bonds due on February 15, 2041 and February 15, 2046 are term bonds subject to mandatory sinking fund redemption on the principal payment date in the following years in the following principal amounts at a redemption price equal to par, together with interest accrued to the date of redemption.

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Meldahl 2016A Bonds bearing interest at 4.00% and maturing on February 15, 2041:

Year	Principal Amount
2037	\$ 3,580,000
2038	3,610,000
2039	3,645,000
2040	3,680,000
2041	3,710,000
	<u>\$ 18,225,000</u>

Meldahl 2016A Bonds bearing interest at 5.00% and maturing on February 15, 2046:

Year	Principal Amount
2042	\$ 3,750,000
2043	3,815,000
2044	3,870,000
2045	3,925,000
2046	3,980,000
	<u>\$ 19,340,000</u>

**4. Fair Value of Financial Instruments**

As defined in the fair value measurements standard, fair value is the price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date. This standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy defined by the fair value measurement standard are as follows:

- Level 1      Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those where transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. AMP's Level 1 assets primarily consist of equity securities, mutual funds and money market funds that are listed on active exchanges which are included in investments on the consolidated balance sheets. AMP does not have any liabilities that meet the definition of Level 1.
  
- Level 2      Pricing inputs are either directly or indirectly observable in the market as of the reporting date, other than quoted prices in active markets included in Level 1. Level 2 includes those financial instruments that are valued using models or other valuation methodologies based on assumptions that are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are

**American Municipal Power, Inc.**  
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supported by observable levels at which transactions are executed in the marketplace. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. AMP's Level 2 assets consist primarily of debt securities. Liabilities in this category include natural gas swaps.

Level 3 Pricing inputs include inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. AMP does not have any assets or liabilities that met the definition of Level 3.

AMP utilizes market data and assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. AMP primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, AMP maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The carrying amounts of cash, accounts receivable, and accounts payable approximate their fair value due to their short maturities.

The estimated fair values of the natural gas swaps were determined using New York Mercantile Exchange ("NYMEX") futures settlement prices for delivery of natural gas at Henry Hub adjusted by the price of NYMEX ClearPort basis swaps, which reflect the difference between the price of natural gas at a given delivery basin and the Henry Hub pricing points.

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The following tables set forth AMP's financial assets and financial liabilities that are accounted for on a recurring basis at fair value by level within the fair value hierarchy as of September 30, 2016 and December 31, 2015. As required by the fair value measurement standard, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. AMP's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	<b>September 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Liabilities</b>				
Natural gas swaps	\$ -	\$ 74,512,896	\$ -	\$ 74,512,896
	<u>\$ -</u>	<u>\$ 74,512,896</u>	<u>\$ -</u>	<u>\$ 74,512,896</u>
	<b>December 31, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Equity securities and mutual funds	\$ 7,926,817	\$ -	\$ -	\$ 7,926,817
Money market funds	95,131	-	-	95,131
Debt securities	-	6,521,032	-	6,521,032
	<u>\$ 8,021,948</u>	<u>\$ 6,521,032</u>	<u>\$ -</u>	<u>\$ 14,542,980</u>
<b>Liabilities</b>				
Natural gas swaps	\$ -	\$ 83,680,871	\$ -	\$ 83,680,871
	<u>\$ -</u>	<u>\$ 83,680,871</u>	<u>\$ -</u>	<u>\$ 83,680,871</u>

The determination of the above fair value measures takes into consideration various factors required under the fair value measurement standard. These factors include nonperformance risk, including counterparty credit risk and the impact of credit enhancements (such as cash deposits, line of credit and priority interests). The impact of nonperformance risk was immaterial in the fair value measurements.

**5. Regulatory Assets and Liabilities**

In accordance with the FASB standard for accounting for regulated entities, AMP records regulatory assets (capitalized expenses to be recovered in rates in future periods) and regulatory liabilities (deferred revenues for rates collected for expenses not yet incurred). Regulatory assets include the deferral of depreciation expense, the costs associated with the abandoned AMPGS Project, funds for member rate stabilization plans, unrecognized actuarial losses associated with the pension plan and other capital expenditures not yet recovered through rates approved by the AMP board of trustees. Regulatory liabilities include revenues collected and intended to fund future capital expenditures, funds for member rate stabilization plans, and other differences between the rates collected from members and expense recognition. As the capital expenditures are depreciated and inventories are used, regulatory assets and liabilities are amortized to match revenues with the related expenditures. Regulatory liabilities or regulatory assets are also

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recognized for unrealized mark-to-market gains and losses on derivative instruments that are subject to the ratemaking process when realized.

Regulatory assets and liabilities consist of the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Regulatory assets</b>		
Asset retirement costs	\$ 3,080,537	\$ 2,455,164
Debt service costs	215,056,441	176,682,351
Abandoned construction costs	33,731,935	38,338,600
Projects on behalf of	6,548,524	7,177,482
Operating and maintenance expenditures	30,348,714	6,703,592
Fair value of derivative instruments	74,512,896	83,679,642
Rate stabilization programs	10,842,614	11,387,116
Pension plan and postretirement healthcare plan obligations	11,669,416	11,668,120
Interest rate lock expense	5,480,791	5,480,791
Closure of Gorsuch Project costs	13,496,857	13,035,468
Total regulatory assets	<u>404,768,725</u>	<u>356,608,326</u>
Current portion	(20,647,688)	(24,680,286)
Noncurrent portion	<u>\$ 384,121,037</u>	<u>\$ 331,928,040</u>
<b>Regulatory liabilities</b>		
Capital improvement expenditures	\$ 998,417	\$ 738,782
Debt service costs	18,183,863	10,512,607
Operating and maintenance expenditures	16,434,834	4,762,621
Working capital expenditures	14,944,588	14,944,588
Rate stabilization programs	25,371,617	19,567,415
Gains on early termination of power purchase contracts	897,104	1,321,992
Other	2,587,914	987,338
Total regulatory liabilities	<u>79,418,337</u>	<u>52,835,343</u>
Current portion	(8,496,393)	(5,724,815)
Noncurrent portion	<u>\$ 70,921,944</u>	<u>\$ 47,110,528</u>

**6. Employee Benefits**

**Pension Plan**

AMP had a defined benefit pension plan (the "Pension Plan") which covered substantially all former hourly employees of Gorsuch. Due to the closure of the Gorsuch plant in 2010, there were no active plan participants as of December 31, 2015. Benefits for eligible employees are based primarily on years of service and compensation rates. In November 2015, AMP received a favorable determination for termination of the American Municipal Power, Inc. Defined Benefit Pension Plan under section 401(a) and 501(a) of the Internal Revenue Code of 1986. In January 2016, AMP executed a non-participating single premium group annuity contract sales agreement with a third party life insurance company and the pension liability was transferred for \$12,777,695.

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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Effective December 1, 2013, AMP adopted a qualified, defined contribution retirement plan under code section 414(h)(2), commonly referred to as a Money Purchase Pension Plan. AMP employees hired after December 1, 2013 will be enrolled in this Money Purchase Pension Plan.

#### **Postretirement Plan**

AMP sponsored a postretirement benefit plan (the "Postretirement Plan") which covered all salaried and hourly employees at the Gorsuch Project who were hired before November 1, 2003. The Postretirement Plan provided prescription drug and medical, dental, and life insurance benefits. Benefits are available to employees who retired under provisions of the Postretirement Plan. In 2014, AMP settled all outstanding obligations associated with the Gorsuch Postretirement Plan by offering lump sum cash payments to retirees in lieu of the insurance coverage.

## **7. Commitments and Contingencies**

### **Environmental Matters**

AMP is subject to regulation by federal and state authorities with respect to air and water quality control and other environmental matters, and is subject to zoning and other regulations by local authorities. All referenced legislative and regulatory comment filings can be found on AMP's website. AMP is considering, or has considered, compliance with the following environmental laws:

#### **President's Climate Action Plan**

Announced on June 25, 2013, the President's Climate Action Plan consists of a timetable and several components governing the United States Environmental Protection Agency's ("USEPA's") efforts to reduce carbon dioxide ("CO<sub>2</sub>") and other greenhouse gases ("GHGs").

USEPA first proposed Carbon Pollution Standards for fossil-fueled power plants through the New Source Performance Standards ("NSPS") in Section 111(b) of the Clean Air Act ("CAA"). The agency proposed NSPS for new fossil-fueled power plants on September 20, 2013, which were published in the Federal Register on January 8, 2014. While AMP has no units that will be impacted by the "new" unit NSPS for GHGs, the agency's decision is expected to influence future decisions about generation additions, as well as have possible implications for the agency's existing source rule (see below). Thus, AMP filed comments on May 9, 2014. Separately, the agency proposed NSPS to reduce CO<sub>2</sub> emissions from modified and reconstructed fossil-fueled power plants on June 18, 2014. AMP has reviewed potential compliance obligations as a result of the proposed rule, and submitted comments to USEPA on December 1, 2014. Rules finalizing the NSPS for both types of fossil-fueled power plants under Section 111(b) NSPS authority were published in the Federal Register on October 23, 2015. A group of 24 states petitioned for review of the NSPS rules in a pending case before the D.C. Circuit Court of Appeals.

USEPA has also proposed its Clean Power Plan, which would limit CO<sub>2</sub> emissions from existing fossil fuel units pursuant to NSPS Section 111(d) authority. Under the Plan, states must develop implementation plans by September 2016, with the potential for extensions until September 2018. USEPA formally published the plan on October 23, 2015. However, on February 9, 2016, the U.S. Supreme Court stayed implementation of the Plan pending judicial review by the D.C. Circuit Court of Appeals and potential appeal to the U.S. Supreme Court. On September 27, 2016, the D.C. Circuit Court of Appeals heard oral arguments en banc and a decision is expected by in spring of 2017 followed by an expected appeal to the U.S. Supreme Court.

While they may create compliance obligations for PSGC and AFEC, AMP's renewable resources and energy efficiency program are expected to provide beneficial credits for project participants. In

# **American Municipal Power, Inc.**

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2014, 2015 and 2016 AMP officials met with USEPA and state agency officials to discuss AMP's key areas of interest impacted by the rule. The final rule included language supported by AMP that clarifies the eligibility of AMP's new hydroelectric projects to be used for compliance credit. AMP is participating in various stakeholder processes and will continue to work with key states when they draft implementation plans.

#### **RICE NESHAP**

USEPA originally proposed National Emission Standards for Hazardous Air Pollutants ("NESHAP") for certain reciprocating internal combustion engines ("RICE") units in February 2010. While the rule was finalized by the agency in August 2010, the rule was under reconsideration, settlement discussions, and proposal after January 2011. On January 30, 2013, the final reconsidered rule was published in the Federal Register. The RICE NESHAP Rule establishes emission limits and work practice standards for compression-ignited diesel engines and spark-ignited engines at area and major sources nationwide. The diesel engines owned by AMP are affected by this rule and have achieved compliance either through installing control equipment allowing them to operate for demand response and peak shaving purposes or adopting operational limitations which limit them to emergency use.

On May 1, 2015, the D.C. Circuit Court of Appeals vacated USEPA's regulations providing that stationary emergency Reciprocating Internal Combustion Engines may operate for up to 100 hours per calendar year for purposes of emergency demand response. USEPA moved for a stay of the issuance of the court's mandate until May 1, 2016, to allow USEPA time to promulgate a replacement rule. The court granted USEPA's motion, staying the issuance of its mandate until May 1, 2016. AMP is supporting the American Public Power Association's ("APPA's") effort on behalf of its members to oppose the challenges to the rule.

On May 4, 2016 USEPA issued a mandate preventing emergency engines from operating for emergency demand response and deviations in voltage or frequency.

#### **New National Ambient Air Quality Standards**

Every five years, the CAA requires USEPA to revise the National Ambient Air Quality Standards ("NAAQS") for criteria pollutants. Recent NAAQS revisions for ozone and particulate matter ("PM") have implications for AMP.

USEPA had revised the primary and secondary ozone NAAQS in 2008. On July 23, 2013, the D.C. Circuit Court of Appeals upheld the 2008 NAAQS revision of 0.075 parts per million ("ppm") as a primary standard but remanded it as a secondary standard. By this time, however, USEPA had begun revising the ozone standard under its 2010 deadline. On December 17, 2014 the USEPA proposed new primary and secondary NAAQS for ozone, and on October 26, 2015, the final ozone NAAQS was published in the Federal Register, effective December 28, 2015. USEPA has revised the levels of both the primary health-based standard and the secondary, welfare-based standard to 70 ppm. Many states will face an increase in areas designated non-attainment. Industrial and utility sectors may see ozone precursors such as nitrogen oxides ("NOx") and volatile organic compounds become targets for increased reductions in order to meet the new standard. As a result, the new ozone NAAQS is currently being challenged in multiple petitions by environmental and industry groups in the D.C. Circuit Court of Appeals.

USEPA also proposed new NAAQS for fine particulate matter ("PM2.5") in June 2012 and finalized the NAAQS on December 14, 2012. This action lowered the primary annual PM2.5 NAAQS from

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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15 micrograms per cubic meter (“µg/m<sup>3</sup>”) to 12 µg/m<sup>3</sup>. The D.C. Circuit Court of Appeals upheld this revision on May 9, 2014.

Both the ozone and PM<sub>2.5</sub> revised NAAQS may have an impact on general economic development throughout AMP’s footprint states, based on the final standards. For example, metropolitan or industrialized counties could become nonattainment areas under the new ozone and PM standard. This could require local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide, and particulate matter.

#### **Cross-State Air Pollution Rule**

On April 29, 2014, the U.S. Supreme Court upheld the Cross-State Air Pollution Rule (“CSAPR”), which requires eastern states to reduce sulfur dioxide and nitrogen oxides from coal-fired power plants. In addition to requiring emissions reductions to achieve local compliance, CSAPR imposes additional reductions to achieve compliance in down-wind neighboring states. AMP-managed facilities received an appropriate amount of emission allowances based upon 2014 operations.

In late 2015, USEPA proposed an update to CSAPR to account for additional regional downwind impacts as a result of the revised 2008 ozone NAAQS. The update proposed to substantially reduce the annual and seasonal NO<sub>x</sub> emission allocations from several Midwestern states, including Ohio. The proposal also requested comment on additional controls on those few days per year when ozone impacts are severe. AMP filed comments on this proposal and met with legislative and state agency officials to discuss AMP’s key areas of interest impacted by the draft rule.

On September 7, 2016, USEPA released its final CSAPR Update rule for the 2008 ozone NAAQS. Prior to finalization, USEPA made key refinements to allocation methodologies which resulted in positive changes to state budgets for both Ohio and Illinois.

#### **New Source Performance Standards for Stationary Gas Combustion Turbines**

USEPA published proposed revisions to the NSPS for natural gas combustion turbines on August 29, 2012. The agency took comments on the proposal until December 28, 2012. The proposed revised NSPS would cover combustion turbines located at power plants, pipeline compressor stations, chemical and manufacturing plants, oil fields, landfills, and institutional facilities. AMP filed comments noting that the proposed revisions could limit unit operation and add compliance costs. The timing of USEPA finalizing the NSPS revisions is unknown at this time.

#### **Mercury and Air Toxics Standards Rule**

On December 21, 2011, USEPA finalized the Mercury and Air Toxics Standards (“MATS”) rule, which seeks to reduce mercury emissions from power plants through the NESHAP. On June 29, 2015, the U.S. Supreme Court ruled that USEPA interpreted the CAA unreasonably in assessing its legal authority under the statute. The D.C. Circuit Court of Appeals on December 15, 2015, remanded the rule back to USEPA without vacating it, so it remains in effect while it is undergoing revision. On April 14, 2016 USEPA issued a final finding that it is appropriate and necessary to set standards for emissions of air toxics from coal- and oil-fired power plants. This finding responds to a decision by the U.S. Supreme Court that the EPA must consider cost in the appropriate and necessary finding supporting the Mercury and Air Toxics Standards. The PSEC has demonstrated compliance with this rule.

Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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On June 6, 2013, USEPA proposed a rule under the Clean Water Act (“CWA”) that would limit effluent discharges from steam electric generating units (including combined cycle natural gas). AMP filed comments on the proposed rule on September 19, 2013. USEPA agreed to take final action on the rulemaking by September 30, 2015 (per a consent decree), and ultimately issued the final Steam Electric Effluent Limitations Guidelines rule on that date. Impacts to AMP facilities are expected to be limited.

#### **Clean Water Rule**

In April 2014, USEPA and the U.S. Army Corps of Engineers jointly proposed the Clean Water Rule to redefine and “clarify” certain definitions and applicability of definitions to various “waters of the United States,” a term used in the CWA. The rule would greatly expand the scope of the CWA to impact a variety of development and construction activities, including electric system transmission and distribution lines. Comments on the proposed rule were due on November 14, 2014; AMP worked with the APPA to provide comment.

The final Clean Water Rule was published in the Federal Register on June 29, 2015, and was set to become effective August 28, 2015. However, on August 27, a North Dakota federal judge temporarily blocked the rule’s implementation, ruling that the states would likely suffer if it took effect and that they are likely to succeed when their underlying lawsuit against the rule is decided. USEPA interpreted the decision to only apply to the 13 states that requested the injunction (none of which are in AMP’s footprint), and started to move forward with enforcement of the rule in remaining states. However, on October 9, 2015, the U.S. Court of Appeals for the Sixth Circuit issued a nationwide stay on the Clean Water Rule pending judicial review of the rule. On April 21, 2016, The U.S. Court of Appeals for the Sixth Circuit issued an order that challenges to the water rule belong with it, rather than to first be heard in district courts.

On November 1, 2016, opening briefs were due to the U.S. Court of Appeals for the Sixth Circuit.

#### **FWS and NMFS Proposed Rules/Policy on Critical Habitat**

Two proposed rules and a draft policy related to designations of critical habitat under the Endangered Species Act (“ESA”) were issued on May 12, 2014, jointly by the U.S. Fish and Wildlife Service (“FWS”) and the National Marine Fisheries Service (“NMFS”).

Together, the three proposals could expand the discretion of the FWS and NMFS to designate areas as “critical habitat” under the Endangered Species Act, including actions that could change designations after certain development. AMP is monitoring the proposed changes for any potential impacts on projects and development.

#### **Coal Combustion Residuals or Coal Combustion Waste Disposal Rule**

On December 19, 2014, USEPA issued a final rule under Subtitle D of the Resource Conservation and Recovery Act that would regulate Coal Combustion Residuals (“CCR”), which includes fly ash, bottom ash, boiler slag, and flue gas desulfurization materials, as nonhazardous. On October 19, 2015, the rule became effective, six months after publication.

# **American Municipal Power, Inc.**

## **Notes to Interim Consolidated Financial Statements**

### **Nine Months Through and Ended September 30, 2016 (unaudited)**

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The final rule impacts coal-fired power plants with ash storage ponds or landfills due to heightened design criteria. Surface impoundments and landfills containing CCR face enhanced monitoring and assessments. Impacts to AMP assets are expected to be limited.

#### **Power Purchase Commitments**

AMP's general practice is to enter into long-term power purchase contracts only when such contracts are supported by corresponding sales contracts to its members. All such contracts are considered normal pursuant to the FASB's guidance on derivative instruments. All such purchases are "covered" by corresponding power sales arrangements either with individual members or one of AMP's power pools.

AMP has certain power supply agreements that include provisions that would require collateral upon a decrease in AMP's credit rating below investment grade, or power prices below certain thresholds.

#### **Other Commitments**

In February 2011, AMP filed a complaint against Bechtel Power Corporation ("Bechtel") stemming from cancellation of the proposed AMPGS project. In the complaint, AMP alleges breach of contract, gross negligence and breach of fiduciary duty on the part of Bechtel and seeks to recover, among other things, approximately \$100 million of cost that AMP incurred with respect to the AMPGS project prior to its cancellation. Bechtel filed an answer denying any liability and a counterclaim seeking \$383,566 from AMP related to a termination payment that Bechtel alleges it is entitled to as a result of AMP terminating the AMPGS project for convenience. All costs associated with the litigation, as well as Bechtel's counterclaim, are project costs recoverable from the project participants under their power sales agreement with AMP, although the AMP Board of Trustees has determined it appropriate to pay a portion of those costs, to be recovered from the proceeds, if any, of the sale of project assets. On June 30, 2014, AMP received an adverse decision, denying in part and granting in part Bechtel's Motion for Summary Judgment. The Board and the Participants have voted to authorize AMP's General Counsel to continue legal action related to the cancellation of the project. As a result of that continued action, on October 21, 2014, AMP received an Order granting AMP's request to certify a key issue of state law to the Ohio Supreme Court. On December 24, 2014, the Ohio Supreme Court agreed to hear AMP's request that that Court determine whether, under Ohio law, reckless conduct by a breaching party renders a contractual limitation of liability clause unenforceable. After the matter was briefed and oral argument presented, on June 16, 2016 the Ohio Supreme Court reversed itself and issued an order declining to answer the state law question. As a result, the matter returned to the U.S. District Court. AMP subsequently filed a motion with that Court asking that it certify its order granting summary judgment to Bechtel to the U.S. Court of Appeals for the Sixth Circuit for an interlocutory appeal. In addition, at the request of the District Judge the parties participated in a mediation conducted by a U.S. Magistrate on August 31, 2016. To date, the litigation remains pending.

In January 2013, the staff of the Division of Enforcement of the Securities and Exchange Commission ("SEC") issued a subpoena to AMP seeking information and documents relating to the PSEC. AMP is fully cooperating with the SEC's investigation which is nonpublic in nature. Based upon current information, AMP believes that the investigation will likely be resolved without a material adverse effect on its financial condition.

On October 20, 2015 IHP Industrial, Inc. ("IHP") filed a complaint against C.J. Mahan Construction Company, LLC ("CJMahan") and AMP in connection with AMP's Smithland Hydroelectric Project ("Smithland"). The complaint was filed in U.S. District Court, Southern District of Ohio, Eastern Division. On October 29, 2015, CJMahan filed its answer and a cross claim against AMP relating

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Nine Months Through and Ended September 30, 2016 (unaudited)

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to additional construction activities and potential latent defects by CJMahan on Smithland. AMP has filed its answer to IHP's claims denying liability to IHP. AMP has also denied liability with respect to CJMahan's cross claims and has filed its own cross claims against CJMahan related to potential latent defects by CJMahan and CJMahan's claims against AMP. AMP has also filed a motion to dismiss all of CJMahan's cross claims except for those related to the potential latent defects by CJMahan at Smithland. A Preliminary Pretrial Order setting forth the case schedule was issued January 27, 2016 and has been subsequently amended. That schedule includes separate case deadlines for the IHP claims and the AMP/CJMahan cross claims. Dispositive motions on the IHP claims are expected to be due first quarter of 2017 and on the AMP/CJMahan cross claims by May 31, 2017, with trial anticipated in late 2017 or early 2018. The aggregate value of all claims asserted is uncertain but does represent a material amount, however all costs associated with the litigation are project costs recoverable from the project participants under their power sales contract with AMP. AMP management believes the claims to be without merit and intends to vigorously defend all claims.

On September 21, 2016 Aldridge Electric, Inc. ("AE") filed a complaint against AMP in Kentucky state court seeking the enforcement of a mechanics lien and damages for alleged non-payment of amounts owed of approximately \$3.2 million to AE for work it performed on Smithland. On October 13, 2016, AMP removed the case to the United States District Court, Western District of Kentucky and AE has stated it will not contest this removal. Subsequent to this removal, AE and AMP entered into an agreement in which both parties would ask the District Court to stay the proceeding to allow time for Smithland to be completed, at which time the parties would either resolve their project-related claims against one another or proceed with the litigation. It is expected that this joint motion to stay will be filed in the very near future. On October 31, 2016, AMP filed its answer denying AE's claims and filed its counterclaim against AE for breach of contract and breach of warranty. On November 7, 2016, AMP filed a motion to transfer this case from the United States District Court, Western District of Kentucky to the United States District Court, Southern District of Ohio. It is expected that a decision on this motion to transfer will be held in abeyance in the event this lawsuit is stayed by the court. AE has stated it will oppose AMP's motion to transfer. AMP believes AE's claims are without merit and intends to vigorously defend itself from AE's claims and pursue its counterclaims against AE.

AMP is also a party to various legal actions and complaints arising in the ordinary course of business. AMP does not believe that the ultimate resolution of such matters will have a material adverse effect on AMP's financial position or results of operations.

## 8. Subsequent Events

### Combined Hydroelectric 2016A Bonds

The Combined Hydroelectric Project Revenue Bonds, Series 2016A ("Combined Hydro 2016A Bonds"), were issued on October 6, 2016, pursuant to the terms of a Master Trust Indenture, dated as of November 1, 2009, with an aggregate par amount of \$209,530,000. The Combined Hydro 2016A Bonds were issued at an aggregate premium of \$34,152,726. The Combined Hydro 2016A Bonds mature between 2020 and 2046 and bear interest at fixed rates ranging from 3.00% to 5.00%. Interest is payable semiannually, beginning February 15, 2017. The bonds were issued to in order to finance construction of the Combined Hydroelectric Projects, repay draws on the line of credit used as interim financing, fund a Parity Common Reserve Account, refund a portion of AMP's Combined Hydroelectric Series 2009C Bonds, and pay the cost of issuance.

The Company has evaluated subsequent events through December 21, 2016 as this was the date the consolidated financial statements were available to be issued.

## **Consolidating Supplementary Information**



## Independent Auditor's Report on Supplementary Information

To the Board of Trustees and Members of  
American Municipal Power, Inc.

We have reviewed the consolidated interim financial statements of American Municipal Power, Inc. and its subsidiaries as of September 30, 2016 for the nine-months then ended and our report thereon appears on page one of this document. That review was conducted for the purpose of identifying any material modifications that should be made to the consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America. The consolidating balance sheet at September 30, 2016 and the consolidating statements of revenues and expenses and of cash flows for the nine-months ended September 30, 2016 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating interim information has been subjected to the review procedures applied in the review of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

December 21, 2016

**American Municipal Power, Inc.**  
**Consolidating Balance Sheet**  
**September 30, 2016 (unaudited)**

	AMP*	PSEC	AFEC	Elims	Total
<b>Assets</b>					
Utility plant					
Electric plant in service	\$ 2,024,138,962	\$ 1,386,844,962	\$ 546,852,749	\$ -	\$ 3,957,836,673
Accumulated depreciation	(48,667,175)	(156,522,576)	(76,182,591)	-	(281,372,342)
Total utility plant	1,975,471,787	1,230,322,386	470,670,158	-	3,676,464,331
Nonutility property and equipment					
Nonutility property and equipment	28,356,976	-	-	-	28,356,976
Accumulated depreciation	(16,633,946)	-	-	-	(16,633,946)
Total nonutility property and equipment	11,723,030	-	-	-	11,723,030
Construction work-in-process	823,845,583	5,834,352	7,191,086	-	836,871,021
Plant held for future use	35,753,841	-	-	-	35,753,841
Coal reserves	-	23,702,883	-	-	23,702,883
Trustee funds and other assets					
Trustee funds	210,306,193	100,397,878	39,229,152	-	349,933,223
Trustee funds - restricted	-	752,960,838	-	-	752,960,838
Financing receivables - members	6,180,950	-	-	-	6,180,950
Notes receivable	2,827,647	-	-	-	2,827,647
Regulatory assets	108,838,591	172,650,914	102,631,532	-	384,121,037
Investment in The Energy Authority	10,211,442	-	-	-	10,211,442
Intangible and other assets	2,038,239	2,423,910	25,246,321	-	29,708,470
Total trustee funds and other assets	340,403,062	1,028,433,540	167,107,005	-	1,535,943,607
Current assets					
Cash and cash equivalents	81,179,482	30,110,669	19,349,296	-	130,639,447
Cash and cash equivalents - restricted	8,136,581	5,326,656	-	-	13,463,237
Trustee funds	59,660,182	50,361,486	11,244,467	-	121,266,135
Trustee funds - restricted	-	21,508,369	-	-	21,508,369
Investments	66,232	-	-	-	66,232
Collateral postings	15,816,865	9,400,000	-	-	25,216,865
Accounts receivable	68,688,580	16,500,519	14,837,011	(5,808,358)	94,217,752
Interest receivable	14,780,482	5,078,412	61,989	-	19,920,883
Financing receivables - members	27,568,383	-	-	-	27,568,383
Inventories	37,445	8,978,386	-	-	9,015,831
Regulatory assets	9,205,095	223,357	11,219,236	-	20,647,688
Prepaid expenses and other assets	2,219,923	725,834	1,220,806	-	4,166,563
Total current assets	287,359,250	148,213,688	57,932,805	(5,808,358)	487,697,385
Total assets	\$ 3,474,556,553	\$ 2,436,506,849	\$ 702,901,054	\$ (5,808,358)	\$ 6,608,156,098

\*This column represents all consolidated AMP entities except for AFEC and PSEC.

**American Municipal Power, Inc.**  
**Consolidating Balance Sheet**  
**September 30, 2016 (unaudited)**

	AMP*	PSEC	AFEC	Elims	Total
<b>Equities and Liabilities</b>					
Member and patron equities					
Contributed capital	\$ 826,968	\$ -	\$ -	\$ -	\$ 826,968
Patronage capital	76,495,087	-	-	-	76,495,087
Total member and patron equities	77,322,055	-	-	-	77,322,055
Long-term debt					
Term debt	2,803,365,394	2,337,878,217	544,454,865	-	5,685,698,476
Term debt on behalf of Central Virginia Electric Cooperative	-	-	21,062,499	-	21,062,499
Revolving credit loan	349,600,000	9,400,000	-	-	359,000,000
Total long-term debt	3,152,965,394	2,347,278,217	565,517,364	-	6,065,760,975
Current liabilities					
Accounts payable	117,854,967	24,570,767	8,792,760	(5,808,358)	145,410,136
Accrued interest	25,409,464	16,559,146	3,292,809	-	45,261,419
Term debt	48,067,412	21,705,000	8,910,000	-	78,682,412
Term debt on behalf of members	20,738,500	-	-	-	20,738,500
Term debt on behalf of Central Virginia Electric Cooperative	-	-	854,167	-	854,167
Regulatory liabilities	6,831,612	1,664,781	-	-	8,496,393
Other liabilities	4,823,977	4,599,000	12,231,019	-	21,653,996
Total current liabilities	223,725,932	69,098,694	34,080,755	(5,808,358)	321,097,023
Other noncurrent liabilities					
Accrued postretirement benefits	100,000	-	-	-	100,000
Deferred gain on sale of real estate	1,174,093	-	-	-	1,174,093
Other liabilities	563,890	188,096	63,293,660	-	64,045,646
Asset retirement obligations	1,526,077	6,109,053	99,232	-	7,734,362
Regulatory liabilities	17,179,112	13,832,789	39,910,043	-	70,921,944
Total other noncurrent liabilities	20,543,172	20,129,938	103,302,935	-	143,976,045
Total liabilities	3,397,234,498	2,436,506,849	702,901,054	(5,808,358)	6,530,834,043
Total equities and liabilities	\$ 3,474,556,553	\$ 2,436,506,849	\$ 702,901,054	\$ (5,808,358)	\$ 6,608,156,098

\*This column represents all consolidated AMP entities except for AFEC and PSEC.

**American Municipal Power, Inc.**  
**Consolidating Statement of Revenues and Expenses**  
**Nine Months Ended September 30, 2016 (unaudited)**

	AMP*	PSEC	AFEC	Elims	Total
<b>Revenues</b>					
Electric revenue	\$ 542,182,107	\$ 181,141,855	\$ 167,213,306	\$ (1,551,207)	\$ 888,986,061
Service fees	8,925,272	-	-	-	8,925,272
Programs and other	11,786,042	-	-	(2,448,961)	9,337,081
Total revenues	<u>562,893,421</u>	<u>181,141,855</u>	<u>167,213,306</u>	<u>(4,000,168)</u>	<u>907,248,414</u>
<b>Operating expenses</b>					
Purchased electric power	425,343,000	18,419,079	94,161	-	443,856,240
Production	24,058,211	44,371,055	63,794,978	(4,146,559)	128,077,685
Fuel	704,399	21,965,025	70,835,907	-	93,505,331
Depreciation and amortization	31,425,551	28,458,554	12,680,095	-	72,564,200
Administrative and general	5,083,476	399,418	1,292,853	145,063	6,920,810
Property and real estate taxes	5,082,693	49,334	1,026,064	-	6,158,091
Programs and other	12,359,191	-	-	1,328	12,360,519
Total operating expenses	<u>504,056,521</u>	<u>113,662,465</u>	<u>149,724,058</u>	<u>(4,000,168)</u>	<u>763,442,876</u>
Operating margin	<u>58,836,900</u>	<u>67,479,390</u>	<u>17,489,248</u>	<u>-</u>	<u>143,805,538</u>
<b>Nonoperating revenues (expenses)</b>					
Interest expense	(83,999,726)	(89,902,505)	(18,293,407)	-	(192,195,638)
Interest income, subsidy	28,485,396	10,190,237	-	-	38,675,633
Interest income, other	1,993,589	25,060,755	143,507	-	27,197,851
Other, net	4,365,030	(12,827,877)	660,652	-	(7,802,195)
Total nonoperating revenue (expenses)	<u>(49,155,711)</u>	<u>(67,479,390)</u>	<u>(17,489,248)</u>	<u>-</u>	<u>(134,124,349)</u>
Net margin	<u>\$ 9,681,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,681,189</u>

\*This column represents all consolidated AMP entities except for AFEC and PSEC.

# American Municipal Power, Inc.

## Consolidating Statement of Cash Flows

### Nine Months Ended September 30, 2016 (unaudited)

	AMP*	PSEC	AFEC	Elims	Total
<b>Cash flows from operating activities</b>					
Net margin	\$ 9,681,189	\$ -	\$ -	\$ -	\$ 9,681,189
Net cash provided by (used in) operating activities					
Depreciation and amortization	30,839,175	28,458,561	12,680,095	-	71,977,831
Depletion of coal reserves	-	586,369	-	-	586,369
Amortization of deferred financing costs	2,286,028	1,822,413	249,962	-	4,358,403
Amortization of bond premium, net of					
Amortization of bond discount	(2,583,831)	(2,577,351)	(1,618,711)	-	(6,779,893)
Accretion of interest on asset retirement obligations	180,225	-	756	-	180,981
Loss (gain) on sale of utility property and equipment	(42,292)	232,351	-	-	190,059
Unrealized gain on investments	(1,784,139)	12,595,526	(656,637)	-	10,154,750
Changes in assets and liabilities					
Collateral postings	(201,008)	(1,700,000)	-	-	(1,901,008)
Accounts receivable	(4,514,164)	(6,813,192)	4,898,585	(137,683)	(6,566,453)
Interest receivable	(10,569,272)	9,651,869	142,524	-	(774,879)
Inventories	10,664	(1,016,055)	-	-	(1,005,391)
Regulatory assets and liabilities, net	(12,772,340)	(23,094,121)	5,122,310	-	(30,744,151)
Prepaid expenses and other assets	2,514,978	1,256,069	(215,063)	-	3,555,984
Accounts payable	(31,118,352)	11,977,795	(8,758,674)	137,683	(27,761,548)
Accrued postretirement benefits	(3,509,648)	-	-	-	(3,509,648)
Accrued interest	17,669,940	(29,549,226)	(6,679,215)	-	(18,558,501)
Asset retirement obligations	(142,633)	-	-	-	(142,633)
Other liabilities	(309,452)	(280,200)	(296,318)	-	(885,970)
Net cash (used in) provided by operating activities	<u>(4,364,931)</u>	<u>1,550,808</u>	<u>4,869,614</u>	<u>-</u>	<u>2,055,491</u>
<b>Cash flows from investing activities</b>					
Purchase of utility property and equipment	(138,286,651)	(4,895,053)	-	-	(143,181,704)
Purchase of nonutility property and equipment	(1,669,610)	-	-	-	(1,669,610)
Proceeds due to repayments on loans made to related parties	49,796,786	-	-	-	49,796,786
Purchase of construction work-in-progress	(146,097,445)	(701,459)	(4,387,646)	-	(151,186,550)
Proceeds from sale of investments	428,559,256	166,041,004	42,494,580	-	637,094,840
Purchase of investments	(420,864,814)	(124,234,726)	(33,533,979)	-	(578,633,519)
Purchase of plant held for future use	(308,881)	-	-	-	(308,881)
Changes in restricted cash and cash equivalents	21,676,872	(1,552,726)	-	-	20,124,146
Net cash (used in) provided by investing activities	<u>(207,194,487)</u>	<u>34,657,040</u>	<u>4,572,955</u>	<u>-</u>	<u>(167,964,492)</u>
<b>Cash flows from financing activities</b>					
Proceeds from revolving credit loan	199,200,000	3,000,000	-	-	202,200,000
Payments on revolving credit loan	(192,800,000)	(1,300,000)	-	-	(194,100,000)
Cost of issuance of debt	(2,795,852)	-	-	-	(2,795,852)
Principal payments on term debt	(30,045,000)	(22,445,000)	(8,605,000)	-	(61,095,000)
Principal payments on term debt on behalf of members	(6,809,500)	-	-	-	(6,809,500)
Proceeds from issuance of term debt	240,760,237	-	-	-	240,760,237
Proceeds from issuance of term debt on behalf of members	18,503,500	-	-	-	18,503,500
Principal payments on term debt on behalf of Central Virginia Electric Cooperative	-	-	(854,167)	-	(854,167)
Proceeds from financing receivables - members	4,036,570	-	-	-	4,036,570
Funding of financing receivables - members	(10,470,273)	-	-	-	(10,470,273)
Capital contributions	13,950	-	-	-	13,950
Net cash provided by (used in) financing activities	<u>219,593,632</u>	<u>(20,745,000)</u>	<u>(9,459,167)</u>	<u>-</u>	<u>189,389,465</u>
Net change in cash and cash equivalents	8,034,214	15,462,848	(16,598)	-	23,480,464
<b>Cash and cash equivalents</b>					
Beginning of year	73,145,268	14,647,821	19,365,894	-	107,158,983
End of year	\$ 81,179,482	\$ 30,110,669	\$ 19,349,296	\$ -	\$ 130,639,447

\*This column represents all consolidated AMP entities except for AFEC and PSEC.