

# **American Municipal Power, Inc.**

**Interim Consolidated Financial Statements and  
Supplementary Information  
June 30, 2015**

**American Municipal Power, Inc.**  
**Index**  
**Six Months Through and Ended June 30, 2015 (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 June 30, 2015, and the related consolidated statements of revenues and expenses, of changes in member and patron equities, and of cash flows for the six-month periods ended June 30, 2015 and 2014.

### ***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.



***Other 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, 2014, 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, 2015. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

*PricewaterhouseCoopers LLP*

Columbus, Ohio  
December 1, 2015

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**June 30, 2015 (unaudited) and December 31, 2014**

	June 30, 2015	December 31, 2014
<b>Assets</b>		
Utility plant		
Electric plant in service	\$ 1,952,339,091	\$ 1,952,276,566
Accumulated depreciation	(181,806,029)	(154,691,827)
Total utility plant	<u>1,770,533,062</u>	<u>1,797,584,739</u>
Nonutility property and equipment		
Nonutility property and equipment	24,827,326	24,766,761
Accumulated depreciation	(13,984,101)	(12,748,680)
Total nonutility property and equipment	<u>10,843,225</u>	<u>12,018,081</u>
Construction work-in-process	2,357,114,086	2,193,559,995
Plant held for future use	35,307,558	35,115,838
Coal reserves	24,651,661	25,045,650
Trustee funds and other assets		
Trustee funds	279,466,747	571,454,907
Trustee funds - restricted	800,366,378	-
Financing receivables - members	12,243,249	14,878,755
Notes receivable	48,807,008	50,759,327
Regulatory assets	282,260,771	263,745,272
Investment in The Energy Authority	10,211,442	10,211,442
Intangible and other assets, net of accumulated amortization of \$25,535,603 and \$23,513,508, respectively	<u>76,075,220</u>	<u>74,742,555</u>
Total trustee funds and other assets	<u>1,509,430,815</u>	<u>985,792,258</u>
Current assets		
Cash and cash equivalents	79,286,089	70,570,137
Cash and cash equivalents - restricted	30,981,389	25,267,618
Trustee funds	342,051,113	309,926,968
Trustee funds - restricted	21,516,318	-
Investments	14,958,097	14,872,390
Collateral postings	25,864,937	20,789,600
Accounts receivable	94,172,407	75,082,328
Interest receivable	37,088,531	29,565,866
Financing receivables - members	17,279,231	14,438,195
Notes receivable	7,909,082	9,956,514
Inventories	9,782,738	7,361,057
Regulatory assets	34,439,452	23,433,943
Prepaid expenses and other assets	<u>6,197,753</u>	<u>5,816,293</u>
Total current assets	<u>721,527,136</u>	<u>607,080,909</u>
Total assets	<u>\$ 6,429,407,544</u>	<u>\$ 5,656,197,470</u>

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**June 30, 2015 (unaudited) and December 31, 2014**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Equities and Liabilities</b>		
Member and patron equities		
Contributed capital	\$ 806,248	\$ 806,248
Patronage capital	<u>66,210,530</u>	<u>60,990,058</u>
Total member and patron equities	<u>67,016,778</u>	<u>61,796,306</u>
Long-term debt		
Term debt	5,556,165,499	4,796,401,675
Term debt on behalf of Central Virginia		
Electric Cooperative	21,916,666	22,770,833
Revolving credit loan	<u>335,800,000</u>	<u>316,000,000</u>
Total long-term debt	<u>5,913,882,165</u>	<u>5,135,172,508</u>
Current liabilities		
Accounts payable	112,317,199	165,997,415
Accrued postretirement benefits	703,326	682,061
Accrued interest	128,673,571	114,510,827
Term debt	77,485,843	64,650,843
Term debt on behalf of members	11,518,500	12,113,000
Term debt on behalf of Central Virginia		
Electric Cooperative	854,167	854,167
Regulatory liabilities	675,848	645,779
Other liabilities	<u>18,721,658</u>	<u>24,927,413</u>
Total current liabilities	<u>350,950,111</u>	<u>384,381,505</u>
Other noncurrent liabilities		
Accrued postretirement benefits	100,000	100,000
Deferred gain on sale of real estate	1,236,410	1,260,748
Other liabilities	49,888,206	31,400,728
Asset retirement obligations	7,738,820	7,728,419
Regulatory liabilities	<u>38,595,053</u>	<u>34,357,256</u>
Total other noncurrent liabilities	<u>97,558,489</u>	<u>74,847,151</u>
Total liabilities	<u>6,362,390,766</u>	<u>5,594,401,164</u>
Total equities and liabilities	<u>\$ 6,429,407,544</u>	<u>\$ 5,656,197,470</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statements of Revenues and Expenses**  
**Six Months Ended June 30, 2015 and 2014 (unaudited)**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Revenues</b>		
Electric revenue	\$ 531,761,693	\$ 497,596,204
Service fees	5,831,828	5,269,221
Programs and other	5,505,006	10,480,545
Total revenues	<u>543,098,527</u>	<u>513,345,970</u>
<b>Operating expenses</b>		
Purchased electric power	313,726,825	309,696,737
Production	66,270,445	38,758,633
Fuel	66,407,897	67,550,857
Depreciation and amortization	29,228,937	29,219,155
Administrative and general	5,505,550	4,818,546
Property and real estate taxes	1,950,531	1,303,744
Programs and other	5,721,295	9,767,215
Total operating expenses	<u>488,811,480</u>	<u>461,114,887</u>
Operating margin	<u>54,287,047</u>	<u>52,231,083</u>
<b>Nonoperating revenues (expenses)</b>		
Interest expense	(66,283,635)	(60,878,553)
Interest income, subsidy	6,757,046	6,764,337
Interest income, other	3,033,624	2,420,599
Other, net	7,426,390	1,063,890
Total nonoperating expenses	<u>(49,066,575)</u>	<u>(50,629,727)</u>
Net margin	<u>\$ 5,220,472</u>	<u>\$ 1,601,356</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statements of Changes in Members and Patron Equities**  
**Six Months Ended June 30, 2015 (unaudited) and December 31, 2014**

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	Contributed Capital	Patronage Capital	Total
<b>Balances at December 31, 2013</b>	\$ 806,248	\$ 58,412,402	\$ 59,218,650
Net margin	-	2,577,656	2,577,656
<b>Balances at December 31, 2014</b>	806,248	60,990,058	61,796,306
Net margin	-	5,220,472	5,220,472
<b>Balances at June 30, 2015</b>	<u>\$ 806,248</u>	<u>\$ 66,210,530</u>	<u>\$ 67,016,778</u>

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



**American Municipal Power, Inc.**  
**Consolidated Statements of Cash Flows**  
**Six Months Ended June 30, 2015 and 2014 (unaudited)**

	June 30, 2015	June 30, 2014
<b>Cash flows from operating activities</b>		
Net margin	\$ 5,220,472	\$ 1,601,356
Adjustments to reconcile net margin to net cash (used in) provided by operating activities		
Depreciation and amortization	28,834,948	28,925,880
Depletion of coal reserves	393,989	289,854
Amortization of deferred financing costs	2,099,524	2,386,841
Amortization of bond premium, net of amortization of bond discount	(3,340,433)	(563,868)
Accretion of interest on asset retirement obligations	86,659	75,641
Unrealized gain on investments	(6,632,494)	(1,699,971)
Changes in assets and liabilities		
Collateral postings	(5,075,337)	(4,250,336)
Accounts receivable	(19,090,079)	(2,888,140)
Interest receivable	(8,379,484)	(60)
Inventories	(2,421,681)	(86,592)
Regulatory assets and liabilities, net	(9,401,172)	(10,514,306)
Prepaid expenses and other assets	206,399	2,731,583
Accounts payable	7,864,310	11,170,974
Accrued postretirement benefits	21,265	(5,040,894)
Accrued interest	14,433,253	(851,546)
Asset retirement obligations	(76,258)	(94,190)
Other liabilities	(3,594,986)	(2,673,767)
Net cash (used in) provided by operating activities	<u>1,148,895</u>	<u>18,518,459</u>
<b>Cash flows from investing activities</b>		
Purchase of utility property and equipment	(165,646)	(1,680,178)
Purchase of nonutility property and equipment	(60,165)	(253,339)
Proceeds from insurance claim	-	1,628,200
Proceeds due to repayments of loans made to related parties	3,999,751	4,078,394
Purchase of construction work-in-progress	(224,512,308)	(184,081,920)
Proceeds from sale of investments	285,602,669	715,252,472
Purchase of investments	(841,074,563)	(478,358,547)
Purchase of plant held for future use	(191,720)	-
Loans made to related parties	-	(66,685,783)
Investment in The Energy Authority	-	(10,211,442)
Changes in restricted cash and cash equivalents	(5,713,771)	15,290,780
Net cash used in investing activities	<u>(782,115,753)</u>	<u>(5,021,363)</u>

**American Municipal Power, Inc.**  
**Consolidated Statements of Cash Flows**  
**Six Months Ended June 30, 2015 and 2014 (unaudited)**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Cash flows from financing activities</b>		
Proceeds from revolving credit loan	63,700,000	271,000,000
Payments on revolving credit loan	(43,900,000)	(196,000,000)
Cost of issuance of debt	(4,402,250)	-
Principal payments on term debt	(48,260,000)	(77,070,000)
Principal payments on term debt on behalf of members	(4,829,000)	(8,485,000)
Proceeds from issuance of term debt	824,199,257	-
Proceeds from issuance of term debt on behalf of members	4,234,500	4,333,000
Principal payments on term debt on behalf of Central Virginia Electric Cooperative	(854,167)	(854,167)
Proceeds from financing receivables - members	(3,105,121)	5,038,862
Funding of financing receivables - members	2,899,591	(3,440,395)
	<u>789,682,810</u>	<u>(5,477,700)</u>
Net cash provided by (used in) financing activities		
Net change in cash and cash equivalents	8,715,952	8,019,396
<b>Cash and cash equivalents</b>		
Beginning of year	<u>70,570,137</u>	<u>44,668,388</u>
End of year	<u>\$ 79,286,089</u>	<u>\$ 52,687,784</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest, net of amount capitalized	\$ 51,850,382	\$ 61,730,100
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Capital expenditures included in accounts payable and other liabilities	\$ 32,437,657	\$ 49,067,463
Capital expenditures included in accrued interest, net of interest receivable	47,947,480	47,232,493

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

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Six Months Through and Ended June 30, 2015 (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 83 municipalities throughout Ohio, 29 municipalities in Pennsylvania, six municipalities in Michigan, five municipalities in Virginia, four municipalities in Kentucky, 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") is a wholly owned and consolidated subsidiary of AMP, which through AMP 368 is the owner of a 23.26%, or 368MW, undivided interest in the Prairie State Energy Campus ("PSEC"). The PSEC is a mine-mouth, pulverized coal-fired generating station in southwest Illinois.

Meldahl LLC is a wholly owned and consolidated subsidiary of AMP, which through Meldahl LLC, is the owner of the 105 MW Meldahl project under construction as a run-of-the river hydroelectric facility on the Ohio River.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Through and Ended June 30, 2015 (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 June 30, 2015 should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2014. 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 six-months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

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 net margin in the consolidated statements of revenues and expenses.

**Jointly-Owned Utility Plant**

Under ownership agreements with other joint owners, AMP has 23.26% undivided ownership interests in PSEC. Each of the respective owners is responsible for its portion of construction costs. 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's ownership interest in PSEC includes the proportionate share of PSEC's balance sheet as provided for under Accounting Standards Codification ("ASC") 970-810-45, *Undivided Interests*. This Accounting Standard requires the recording of undivided interests in assets and liabilities when given conditions are met.

Information relative to AMP's ownership interest in these facilities is as follows:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Utility plant in service	\$ 1,135,442,653	\$ 1,135,417,577
Construction work-in-progress	9,131,209	5,888,279

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Through and Ended June 30, 2015 (unaudited)**

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AMP's ownership interest in PSEC includes an interest in nearby coal reserves, valued at \$24,651,661 and \$25,045,650 (net of depletion) as of June 30, 2015 and December 31, 2014, respectively.

**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 net margin 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 at June 30, 2015 and December 31, 2014:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Prairie State Energy Campus	\$ 9,131,209	\$ 5,888,279
Hydro Plants	2,334,729,228	2,177,741,690
AMP Fremont Energy Center	6,411,594	5,493,753
Information Technology	5,947,911	3,840,759
Other	894,144	595,514
	<u>\$ 2,357,114,086</u>	<u>\$ 2,193,559,995</u>

There is \$1,074,625 of land included in the construction work-in-progress account at both June 30, 2015 and December 31, 2014. There is \$498,831,368 and \$437,568,663 of capitalized interest included in the construction work-in-progress account at June 30, 2015 and December 31, 2014, respectively. AMP capitalized interest costs in the amount of \$61,262,705 and \$61,422,195 for the six-month periods ended June 30, 2015 and 2014, respectively.

**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.

## **American Municipal Power, Inc.**

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

#### **Six Months Through and Ended June 30, 2015 (unaudited)**

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In August 2010, the 81 AMPGS participants voted to pursue conversion of the AMPGS Project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended, when AMP determined to pursue the purchase of the AMP Fremont Center ("AFEC") instead, AMP still intends to develop this site for the construction of a generating asset; however, at December 31, 2014, the type of future generating asset had not been determined.

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 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. At June 30, 2015, AMP has a regulatory asset of \$42,074,404 for the recovery of these abandoned construction costs.

On April 15, 2014, the AMP Board of Trustees voted to approve collection of \$39,947,959 of stranded costs, related to the cancelled AMPGS coal project, from the AMPGS Participants pursuant to the AMPGS take-or-pay power sales contract, subject to the approval of the Participants. The Board of Trustees also voted to have AMP repay \$11,674,131 of AMPGS stranded costs from service fee and other member related revenues over the same term. On April 16, 2014 the AMPGS Participants voted to approve these collections from Participants and Members, respectively, over a 15 year term.

#### **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.

Realized gains and losses on investment transactions are determined on the basis of specific identification. Gross unrealized holding gains at June 30, 2015 and December 31, 2014 were \$6,546,787 and \$2,100,194, respectively. Gross unrealized holding gains and losses are included in other income in the consolidated statements of revenues and expenses.

On January 14, 2015, AMP issued, pursuant to the PSEC Master Trust Indenture (MTI), its Prairie State Energy Campus Project 2015 Revenue Bonds (see Note 3). A portion of the proceeds of the PSEC 2015 Bonds and other available funds under the Indenture, were applied to refund the PSEC 2008A Bonds and PSEC 2009A Bonds. To effect the refunding, a sufficient amount of the proceeds of the Series 2015 Bonds and certain other available funds under the Indenture were deposited in an escrow account (the "Escrow Fund") established by AMP with U.S. Bank National Association (the "Escrow Agent"), and were invested in certain noncallable direct obligations or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("Defeasance Obligations") that mature in amounts and pay interest at rates sufficient to pay, when due, the principal, applicable redemption premiums, if any, and interest on the above-referenced bonds through their respective maturity or redemption dates, as applicable.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Through and Ended June 30, 2015 (unaudited)**

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The sufficiency of the Escrow Fund, including Defeasance Obligations and the income thereon, to pay such amounts were verified by a third party CPA firm. On the date of issuance of the PSEC 2015 Bonds, the Escrow Agent was given irrevocable instructions to call the callable PSEC 2008A Bonds for redemption on February 15, 2018 and the callable 2009A Bonds for redemption on February 15, 2019, each at the redemption prices of 100%.

**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**

In 2011, American Municipal Power Inc. entered into an asset purchase agreement with FirstEnergy Generation Corporation for the acquisition of AFEC and acquired all assigned contracts and permits relating to that facility. AFEC is a 707 MW natural gas fired combined cycle generation plant located in the City of Fremont, Ohio. On January 21, 2012, AFEC began commercial operation. In June 2012, AMP sold 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output associated with a 4.15% undivided ownership interest in AFEC held by AMP. AMP has sold the output of the remaining 90.69% undivided ownership interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

Included in the approximately \$596 million investment for the AFEC project, were two interconnections contracts for off-site facilities: 1) electric interconnections and other necessary improvements to the electric grid, and the legal rights and contractual terms associated with them and 2) water/waste water interconnections and other necessary improvements to the City of Fremont's water and waste water systems, and the legal rights and contractual terms associated with them. At the time of the acquisition, these interconnection contracts were recorded as part of the utility plant. These contracts were valued at \$28,665,190, and were net of \$2,675,418 and \$2,293,215 of accumulated amortization as of June 30, 2015 and December 31, 2014, respectively. Amortization for these contracts is determined using the straight-line method.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Through and Ended June 30, 2015 (unaudited)**

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**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's interest rate management strategy uses derivative instruments to minimize earnings fluctuations caused by interest rate volatility associated with AMP's variable rate debt. The derivative instruments used to meet AMP's risk management objectives are interest rate swaps.

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 the time frame through December 2023. Under such agreements, AMP pays the counterparty at a fixed rate and receives from the counterparty a floating rate per MMBtu ("dekatherm" 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.

On the short term agreements, there was an unrealized loss of \$10,588,342 and \$12,990,410 at June 30, 2015 and December 31, 2014, respectively, which is included in other liabilities. On the long-term agreements, there was an unrealized loss of \$49,564,385 and \$31,310,347 at June 30, 2015 and December 31, 2014, respectively, which is included in other liabilities. A net loss of \$15,851,970 and \$6,872,961 was recognized in fuel on AMP's consolidated statements of revenues and expenses for the six-month periods ending June 30, 2015 and 2014, 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

### Six Months Through and Ended June 30, 2015 (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.

#### **Presentation**

Certain prior year balances have been reclassified to conform with current year presentation.

### **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. AMP's base borrowing capacity under the Facility is \$750,000,000, with an accordion feature to expand to \$1 billion. At June 30, 2015, AMP had \$335,800,000 outstanding under the Facility and the effective interest rate was 1.0625%. At December 31, 2014, AMP had \$316,000,000 outstanding under the Facility and the effective interest rate was 1.0625%.

#### **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.

#### ***Advance Refunding of Portion of Prairie State Energy Campus Debt***

On January 14, 2015, AMP issued, pursuant to the PSEC MTI, its Prairie State Energy Campus Project Revenue Bonds, consisting of three series: \$507,875,000 Refunding Series 2015A (the "PSEC 2015A Bonds"), \$135,350,000 Refunding Series 2015B (the "PSEC 2015B Bonds") and \$95,100,000 Refunding Series 2015C (the "PSEC 2015C Bonds" and, together with the PSEC 2015A Bonds and the PSEC 2015B Bonds, the "PSEC 2015 Bonds"). The PSEC 2015 Bonds were issued to (i) refund a portion of AMP's Prairie State Energy Campus Project Revenue Bonds, Series 2008A (the "PSEC 2008A Bonds"), issued on July 2, 2008 in the aggregate principal amount of \$760,655,000, (ii) refund a portion of AMP's Prairie State Energy Campus Revenue Bonds, Series 2009A (the "PSEC 2009A Bonds"), issued on June 30, 2009 in the aggregate principal amount of \$166,565,000, and (iii) pay the costs of issuance of the PSEC 2015 Bonds. Specifically, a portion of the proceeds of the PSEC 2015 Bonds and other available funds under the Indenture, were applied to refund the PSEC 2008A Bonds and PSEC 2009A Bonds.

To effect the refunding, a sufficient amount of the proceeds of the Series 2015 Bonds and certain other available funds under the Indenture were deposited in the Escrow Fund established by AMP with the Escrow Agent. The funds held in escrow are presented in Trustee funds – restricted in the consolidated balance sheets (see Note 2).

**American Municipal Power, Inc.**  
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Bonds and notes payable related to financing AMP assets consists of the following June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
AMP project note due in October 2015 with interest at 1.00% both at June 30, 2015 and December 31, 2014, respectively, payable at maturity	\$ 15,061,431	\$ 15,061,431
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2008A	737,865,000	743,495,000
Unamortized discount Prairie State Campus Revenue Bonds, Series 2008A	(10,032,524)	(11,467,407)
Unamortized premium Prairie State Campus Revenue Bonds, Series 2008A	3,410,385	3,898,149
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009A	118,545,000	118,545,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009B	44,495,000	60,360,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009C	385,835,000	385,835,000
Unamortized discount Prairie State Campus Revenue Bonds, Series 2009	(1,311,322)	(1,394,484)
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	-
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2015B	135,350,000	-
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2015C	95,100,000	-
Unamortized premium Prairie State Campus Revenue Bonds, Series 2015A	65,051,191	-
Unamortized premium Prairie State Campus Revenue Bonds, Series 2015B	17,917,682	-
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009A	6,135,000	24,425,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009B	497,005,000	497,005,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009C	122,405,000	122,405,000
AMP Combined Hydroelectric Project Revenue Bonds, Series 2009D	14,623,529	14,623,529
Unamortized discount AMP Combined Hydroelectric Project Revenue Bonds, Series 2009D	(1,955,844)	(2,049,350)
Unamortized premium AMP Combined Hydroelectric Project Revenue Bonds, Series 2009C	3,571,071	4,051,014
AMP Combined Hydroelectric Project Revenue Bonds, Series 2010A	152,995,000	152,995,000
Unamortized discount AMP Combined Hydroelectric Project Revenue Bonds, Series 2010A	(602,019)	(623,917)
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	45,495,000	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
Unamortized premium Meldahl Hydroelectric Revenue Bonds, Series 2010	146,433	159,449
AMP Fremont Energy Center Project Revenue Bonds, Series 2012A	8,605,000	12,155,000
AMP Fremont Energy Center Project Revenue Bonds, Series 2012B	520,620,000	525,545,000
Unamortized premium Fremont Energy Center Revenue Bonds, Series 2012	38,881,327	39,969,104
	<u>5,633,651,342</u>	<u>4,861,052,518</u>
Current portion	(77,485,843)	(64,650,843)
Noncurrent portion	<u>\$ 5,556,165,499</u>	<u>\$ 4,796,401,675</u>

**American Municipal Power, Inc.**  
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**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 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's Level 3 assets consist of its investment in hedge funds, which are included in investments on the consolidated balance sheets.

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.

**American Municipal Power, Inc.**  
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The following table presents the carrying amounts and fair values of AMP's trustee funds, term debt, term debt on behalf of members, and term debt on behalf of Central Virginia Electric Cooperative as of June 30, 2015 and December 31, 2014.

Financial Instruments	June 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets</b>				
Trustee funds, restricted and non-restricted	\$ 1,443,400,556	\$ 1,471,440,913	\$ 881,381,875	\$ 914,370,907
<b>Liabilities</b>				
Fixed rate term debt, including current maturities, AMP	5,633,651,342	6,553,687,198	4,861,052,518	6,266,017,050
Fixed rate term debt, including current maturities, on behalf of members	11,039,500	11,039,500	11,138,000	11,138,000
Fixed rate term debt, including current maturities, on behalf of Central Virginia Electric Cooperative	22,770,833	22,770,833	23,625,000	23,625,000
Variable rate term debt, including current maturities, on behalf of members	479,000	479,000	975,000	975,000

The carrying amounts of cash, accounts receivable, accounts payable, the AMP project notes, the municipal project notes and the revolving credit loan approximate their fair value due to their short maturities. The carrying amount of the OMEGA JV6 Bonds approximates their fair value due to their variable rates of interest. The fair value of trustee funds is determined based on market observable inputs that include, but are not limited to, benchmark yields, reportable trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, and offers. The fair value of long-term debt reflect the present value of cash outflows relating to those obligations based on the current call price or the yield to maturity as deemed appropriate at the end of each respective year. The yields assumed were based on municipal bond ratings offered by organizations similar to AMP. The fair value of long-term debt is within Level 2 of the fair value hierarchy.

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 June 30, 2015 and December 31, 2014. 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>June 30, 2015</b>				
<b>Recurring Fair Value Measures</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Equity securities and mutual funds	\$ 8,315,079	\$ -	\$ -	\$ 8,315,079
Money market funds	200,044	-	-	200,044
Debt securities	-	6,403,753	-	6,403,753
Hedge funds	-	-	39,222	39,222
	<u>\$ 8,515,123</u>	<u>\$ 6,403,753</u>	<u>\$ 39,222</u>	<u>\$ 14,958,097</u>
<b>Liabilities</b>				
Natural gas swaps	\$ -	\$ 60,152,727	\$ -	\$ 60,152,727
	<u>\$ -</u>	<u>\$ 60,152,727</u>	<u>\$ -</u>	<u>\$ 60,152,727</u>
<b>December 31, 2014</b>				
<b>Recurring Fair Value Measures</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Equity securities and mutual funds	\$ 8,213,117	\$ -	\$ -	\$ 8,213,117
Money market funds	256,041	-	-	256,041
Debt securities	-	6,355,042	-	6,355,042
Hedge funds	-	-	48,190	48,190
	<u>\$ 8,469,158</u>	<u>\$ 6,355,042</u>	<u>\$ 48,190</u>	<u>\$ 14,872,390</u>
<b>Liabilities</b>				
Natural gas swaps	\$ -	\$ 44,300,757	\$ -	\$ 44,300,757
	<u>\$ -</u>	<u>\$ 44,300,757</u>	<u>\$ -</u>	<u>\$ 44,300,757</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 associated with asset retirement costs, the costs associated with the abandoned AMPGS Project, funds for member rate stabilization plans, unrecognized actuarial losses associated with the pension and postretirement healthcare plans 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, emission allowances, and other differences between the rates collected from members and

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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 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:

	June 30, 2015	December 31, 2014
<b>Regulatory assets</b>		
Asset retirement costs	\$ 4,655,231	\$ 4,427,672
Debt service costs	134,777,583	112,661,090
Abandoned construction costs	42,074,404	45,125,226
Projects on behalf of	9,719,451	10,443,933
Operating and maintenance expenditures	9,288,352	8,548,238
Fair value of derivative instruments	60,251,498	44,300,357
Rate stabilization programs	29,171,966	35,064,552
Pension plan and postretirement healthcare plan obligations	8,887,661	8,884,942
Interest rate lock expense	5,480,791	5,480,791
Closure of Gorsuch Project costs	12,393,286	12,242,414
Total regulatory assets	<u>316,700,223</u>	<u>287,179,215</u>
Current portion	<u>(34,439,452)</u>	<u>(23,433,943)</u>
Noncurrent portion	<u>\$ 282,260,771</u>	<u>\$ 263,745,272</u>
<b>Regulatory liabilities</b>		
Capital improvement expenditures	\$ 764,742	\$ 790,756
Debt service costs	8,770,510	6,198,320
Operating and maintenance expenditures	4,430,621	2,401,766
Working capital expenditures	14,944,589	14,944,588
Rate stabilization programs	8,076,557	8,120,857
Gains on early termination of power purchase contracts	1,603,868	1,884,224
Other	680,014	662,524
Total regulatory liabilities	<u>39,270,901</u>	<u>35,003,035</u>
Current portion	<u>(675,848)</u>	<u>(645,779)</u>
Noncurrent portion	<u>\$ 38,595,053</u>	<u>\$ 34,357,256</u>

**6. Employee Benefits**

**Pension Plan**

AMP has a defined benefit pension plan (the "Pension Plan") which covers substantially all former hourly employees of Gorsuch. Due to the closure of the Gorsuch plant in 2010, there are no active plan participants as of June 30, 2015. Benefits for eligible employees are based primarily on years of service and compensation rates. Assets held by the Pension Plan consist primarily of treasury notes and marketable securities. 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.

On October 22, 2014, AMP filed an application for 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, which was approved on November 12, 2015. This plan covered substantially all former hourly employees of Gorsuch. No action has since been taken to terminate the plan.

# American Municipal Power, Inc.

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#### **Postretirement Plan**

AMP sponsors a postretirement benefit plan (the "Postretirement Plan") covering salaried and hourly employees at the Gorsuch Project who were hired before November 1, 2003. The Postretirement Plan provides prescription drug and medical, dental, and life insurance benefits. Benefits are available to employees who retire 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. AMP is considering, or has considered, compliance with the following regulations:

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

Announced on June 25, 2013, the President's Climate Action Plan establishes for the United States Environmental Protection Agency ("USEPA") certain specific rulemaking requirements and a timetable relative to emission reductions of carbon dioxide ("CO<sub>2</sub>") and other greenhouse gases ("GHGs"). USEPA proposed its rule to establish New Source Performance Standards ("NSPS") for CO<sub>2</sub> for new fossil-fueled power plants on September 20, 2013, and was 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, it 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 the new unit GHG NSPS proposed rule on May 9, 2014. Separately, the agency issued proposed regulations, to reduce CO<sub>2</sub> emissions from modified, reconstructed, and existing 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.

On August 3, 2015, the USEPA issued final versions of its rules governing carbon dioxide emissions from new and modified and reconstructed fossil fuel units [under Clean Air Act Section 111(b)] and existing fossil fuel units [under CAA Section 111(d)]. The agency also issued a draft federal implementation plan for comment. The documents were formally published in the Federal Register October 23, 2015. States must develop implementation plans by September 2016, with the potential for extensions until September 2018.

In addition to compliance obligations (PSGC and AFEC), AMP's renewable resources and energy efficiency program are expected to provide beneficial credits for project participants. In 2014 and 2015, AMP officials met with USEPA and state agency officials to discuss AMP's key areas of interest in the draft 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 as 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 has been under reconsideration, settlement discussions, and proposal since 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-

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ignited engines at area and major sources nationwide. The diesel engines owned by AMP are affected by this rule and are in compliance either through the installation of control equipment or operational limitations.

On May 1, 2015, the D.C. Circuit 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 the court's 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.

#### ***NAAQS for Various Pollutants***

Every five years, USEPA is required to propose new National Ambient Air Quality Standards ("NAAQS") for various criteria pollutants. USEPA's NAAQS for ozone was to have been issued in 2010, having missed that and other subsequent deadlines, the ozone NAAQS was withdrawn by the Obama Administration in September 2011 (see below).

In addition, the USEPA proposed new NAAQS for fine particulate matter ("PM2.5") in June 2012 and issued final NAAQS for PM on December 14, 2012, lowering the allowable annual limit from 15 micrograms per cubic meter to 12 micrograms per cubic meter.

Both the ozone and PM NAAQS can have significant impacts on general economic development throughout AMP's footprint states, based on the final standards. For example, many metropolitan or industrialized counties would be expected to become nonattainment areas under the new ozone and PM standards if the levels are set low enough. This could require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide, and particulate matter.

#### ***Ozone NAAQS***

On July 23, 2013, the U.S. Court of Appeals upheld the 2008 primary standard for ozone (at 0.075 parts per million) but remanded the 2008 secondary standard for ozone to USEPA for reconsideration. On December 17, 2014 the USEPA proposed NAAQS for ozone was published in the Federal Register. On October 26, 2015, final ozone NAAQS was published in the Federal Register. The rule was signed October 1, 2015 and becomes effective December 28, 2015. The USEPA is revising the levels of both the primary health base standard and the secondary, welfare based standards to 70 parts per billion. Many states will face an increase in areas designated non-attainment. Industrial and utility sectors may see ozone precursors such as NOx and volatile organic compounds become targets for increased reductions in order to meet the new standard.

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

In addition to emission reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind neighboring states. AMP managed facilities received an appropriate amount of emission allowances based upon 2014 operation.

#### ***New Source Performance Standards ("NSPS") for Combustion Turbines***

USEPA proposed NSPS for natural gas combustion turbines in June 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



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the proposed revisions could limit unit operation and add compliance costs. The timing of USEPA issuing final NSPS for combustion turbines is unknown at this time.

#### ***Effluent Limitation Guidelines***

USEPA published its proposed rule on June 6, 2013. USEPA agreed to take final action on the rulemaking by September 30, 2015 (per a consent decree). The rule limits pollutants discharged in effluent to regulated waterways from steam-electric generating units (including combined cycle natural gas). AMP filed comments on September 19, 2013. The final Steam Electric Effluent Limitations Guidelines (“ELG”) rule was issued on September 30, 2015. Impacts to AMP facilities are expected to be limited.

#### ***Waters of the U.S.***

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

The Final Rule was published in the Federal Register on June 29, 2015 and 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. EPA 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, the US Court of Appeals for the Sixth Circuit issued a nationwide stay on October 9, 2015 against the “waters of the United States” Final Rule.

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

Two proposed rules and a draft policy related to the designation 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 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 (“CCR”) or Coal Combustion Waste Disposal Rule***

On December 19, 2014 USEPA issued a final rule regulating CCR, which includes fly ash, bottom ash, boiler slag, and flue gas desulfurization materials, as nonhazardous under subtitle D of the Resource Conservation and Recovery Act. On October 19, 2015 the rule became effective, six months after publication.

The final rule impacts coal-fired power plants with ash storage ponds or landfills due to heightened design criteria. Active storage ponds and landfills face enhanced monitoring and assessments. Inactive surface impoundments that still contain water and CCRs are subject to the regulation unless it completes closure within 36 months of the rule’s publication. Impacts to AMP assets are expected to be limited.

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#### **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. As a result of the Supreme Court's ruling, the litigation between AMP and Bechtel will be stayed until the Supreme Court renders its decision. Oral argument was held on October 27, 2015. A decision from the Court is expected within ninety days, after which the case will return to the U.S. District Court for further proceedings.

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 Prairie State Energy Campus. AMP is fully cooperating with the SEC's investigation which is nonpublic in nature. Based upon current information, AMP believes that 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 to additional construction activities on Smithland. AMP's reply to the IHP complaint is due December 4, 2015, and AMP's reply to the CJMahan cross claim is due December 14, 2015. 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.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Through and Ended June 30, 2015 (unaudited)**

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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**

The Company has evaluated subsequent events through December 1, 2015 as this was the date the interim 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 June 30, 2015 for the six 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 June 30, 2015 and the consolidating statements of revenues and expenses and of cash flows for the six-months ended June 30, 2015 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 1, 2015

**American Municipal Power, Inc.**  
**Consolidating Balance Sheet**  
**June 30, 2015 (unaudited)**

	AMP*	PSEC	AFEC	Eliminating	Total
<b>Assets</b>					
Utility plant					
Electric plant in service	\$ 35,022,805	\$ 1,374,887,412	\$ 542,428,874	\$ -	1,952,339,091
Accumulated depreciation	(17,979,893)	(107,818,637)	(56,007,499)	-	(181,806,029)
Total utility plant	17,042,912	1,267,068,775	486,421,375	-	1,770,533,062
Nonutility property and equipment					
Nonutility property and equipment	24,827,326	-	-	-	24,827,326
Accumulated depreciation	(13,984,101)	-	-	-	(13,984,101)
Total nonutility property and equipment	10,843,225	-	-	-	10,843,225
Construction work-in-process	2,341,571,284	9,131,209	6,411,594	-	2,357,114,086
Plant held for future use	35,307,558	-	-	-	35,307,558
Coal reserves	-	24,651,661	-	-	24,651,661
Trustee funds and other assets					
Trustee funds	195,126,434	45,399,830	38,940,483	-	279,466,747
Trustee funds - restricted	-	800,366,378	-	-	800,366,378
Financing receivables - members	12,243,249	-	-	-	12,243,249
Notes receivable	48,807,008	-	-	-	48,807,008
Regulatory assets	94,669,015	105,424,269	82,167,487	-	282,260,771
Investment in The Energy Authority	10,211,442	-	-	-	10,211,442
Intangible and other assets	24,519,625	21,583,478	29,972,117	-	76,075,220
Total trustee funds and other assets	385,576,773	972,773,955	151,080,087	-	1,509,430,815
Current assets					
Cash and cash equivalents	42,364,132	16,183,855	20,738,102	-	79,286,089
Cash and cash equivalents - restricted	30,981,389	-	-	-	30,981,389
Trustee funds	200,881,008	125,774,285	15,395,820	-	342,051,113
Trustee funds - restricted	-	21,516,318	-	-	21,516,318
Investments	14,958,097	-	-	-	14,958,097
Collateral postings	14,164,937	11,700,000	-	-	25,864,937
Accounts receivable	112,029,921	26,850,971	34,807,802	(79,516,287)	94,172,407
Interest receivable	22,613,725	14,434,930	39,876	-	37,088,531
Financing receivables - members	17,279,231	-	-	-	17,279,231
Notes receivable	7,909,082	-	-	-	7,909,082
Inventories	58,687	9,724,051	-	-	9,782,738
Regulatory assets	9,719,451	14,132,059	10,587,942	-	34,439,452
Prepaid expenses and other assets	3,735,384	650,489	1,811,880	-	6,197,753
Total current assets	476,695,043	240,966,958	83,381,422	(79,516,287)	721,527,136
Total assets	\$ 3,267,036,795	\$ 2,514,592,558	\$ 727,294,478	\$ (79,516,287)	\$ 6,429,407,544

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

**American Municipal Power, Inc.**  
**Consolidating Balance Sheet**  
**June 30, 2015 (unaudited)**

	AMP*	PSEC	AFEC	Eliminating	Total
<b>Equities and Liabilities</b>					
Member and patron equities					
Contributed capital	\$ 806,248	\$ -	\$ -	\$ -	\$ 806,248
Patronage capital	66,210,530	-	-	-	66,210,530
Total member and patron equities	67,016,778	-	-	-	67,016,778
Long-term debt					
Term debt	2,619,008,759	2,377,655,413	559,501,327	-	5,556,165,499
Term debt on behalf of Central Virginia Electric Cooperative	-	-	21,916,666	-	21,916,666
Revolving credit loan	315,604,334	20,195,666	-	-	335,800,000
Total long-term debt	2,934,613,093	2,397,851,079	581,417,993	-	5,913,882,165
Current liabilities					
Accounts payable	120,977,322	34,413,653	36,442,511	(79,516,287)	112,317,199
Accrued postretirement benefits	703,326	-	-	-	703,326
Accrued interest	70,835,410	47,866,136	9,972,025	-	128,673,571
Term debt	46,435,843	22,445,000	8,605,000	-	77,485,843
Term debt on behalf of members	11,518,500	-	-	-	11,518,500
Term debt on behalf of Central Virginia Electric Cooperative	-	-	854,167	-	854,167
Regulatory liabilities	675,848	-	-	-	675,848
Other liabilities	2,017,700	5,408,540	11,295,418	-	18,721,658
Total current liabilities	253,163,949	110,133,329	67,169,121	(79,516,287)	350,950,111
Other noncurrent liabilities					
Accrued postretirement benefits	100,000	-	-	-	100,000
Deferred gain on sale of real estate	1,236,410	-	-	-	1,236,410
Other liabilities	135,725	188,096	49,564,385	-	49,888,206
Asset retirement obligations	2,865,045	4,770,951	102,824	-	7,738,820
Regulatory liabilities	7,905,795	1,649,103	29,040,155	-	38,595,053
Total other noncurrent liabilities	12,242,975	6,608,150	78,707,364	-	97,558,489
Total liabilities	3,200,020,017	2,514,592,558	727,294,478	(79,516,287)	6,362,390,766
Total equities and liabilities	\$ 3,267,036,795	\$ 2,514,592,558	\$ 727,294,478	\$ (79,516,287)	\$ 6,429,407,544

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

**American Municipal Power, Inc.**  
**Consolidating Statement of Revenues and Expenses**  
**Six Months Ended June 30, 2015 (unaudited)**

	AMP*	PSEC	AFEC	Eliminating	Total
<b>Revenues</b>					
Electric revenue	\$ 309,017,276	\$ 117,666,933	\$ 105,714,873	\$ (637,389)	\$ 531,761,693
Service fees	5,831,828	-	-	-	5,831,828
Programs and other	7,104,931	-	-	(1,599,925)	5,505,006
Total revenues	<u>321,954,035</u>	<u>117,666,933</u>	<u>105,714,873</u>	<u>(2,237,314)</u>	<u>543,098,527</u>
<b>Operating expenses</b>					
Purchased electric power	298,403,602	15,271,631	51,592	-	313,726,825
Production	4,244,783	33,993,396	30,340,265	(2,307,999)	66,270,445
Fuel	50,942	11,956,572	54,400,383	-	66,407,897
Depreciation and amortization	1,981,141	18,827,733	8,420,063	-	29,228,937
Administrative and general	4,265,382	162,457	615,526	462,185	5,505,550
Property and real estate taxes	1,816,395	39,850	94,286	-	1,950,531
Programs and other	6,112,795	-	-	(391,500)	5,721,295
Total operating expenses	<u>316,875,040</u>	<u>80,251,639</u>	<u>93,922,115</u>	<u>(2,237,314)</u>	<u>488,811,480</u>
Operating margin	<u>5,078,995</u>	<u>37,415,294</u>	<u>11,792,758</u>	<u>-</u>	<u>54,287,047</u>
<b>Nonoperating revenues (expenses)</b>					
Interest expense	(886,175)	(53,062,770)	(12,334,690)	-	(66,283,635)
Interest income, subsidy	-	6,757,046	-	-	6,757,046
Interest income, other	150,449	2,761,245	121,930	-	3,033,624
Other, net	877,203	6,129,185	420,002	-	7,426,390
Total nonoperating revenue (expenses)	<u>141,477</u>	<u>(37,415,294)</u>	<u>(11,792,758)</u>	<u>-</u>	<u>(49,066,575)</u>
Net margin	<u>\$ 5,220,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,220,472</u>

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



# American Municipal Power, Inc.

## Consolidating Statement of Cash Flows

### Six Months Ended June 30, 2015 (unaudited)

	AMP*	PSEC	AFEC	Eliminations	Total
<b>Cash flows from operating activities</b>					
Net margin	\$ 5,220,472	\$ -	\$ -	\$ -	\$ 5,220,472
Adjustments to reconcile net margin to net cash (used in) provided by operating activities					
Depreciation and amortization	1,981,141	18,433,743	8,420,064	-	28,834,948
Depletion of coal reserves	-	393,989	-	-	393,989
Amortization of deferred financing costs	763,459	1,194,105	141,960	-	2,099,524
Amortization of bond premium, net of amortization of bond discount	(377,555)	(1,875,102)	(1,087,776)	-	(3,340,433)
Accretion of interest on asset retirement obligations	10,922	74,183	1,554	-	86,659
Unrealized gain on investments	(85,707)	(6,129,185)	(417,602)	-	(6,632,494)
Changes in assets and liabilities					
Collateral postings	(4,375,337)	(700,000)	-	-	(5,075,337)
Accounts receivable	(57,512,407)	(6,316,534)	(19,362,189)	64,101,051	(19,090,079)
Interest receivable	-	(8,379,517)	33	-	(8,379,484)
Inventories	3,765	(2,425,446)	-	-	(2,421,681)
Regulatory assets and liabilities, net	9,888,384	(20,322,865)	1,033,309	-	(9,401,172)
Prepaid expenses and other assets	(1,917,028)	1,032,271	1,091,156	-	206,399
Accounts payable	24,032,635	21,359,130	26,573,596	(64,101,051)	7,864,310
Accrued postretirement benefits	21,265	-	-	-	21,265
Accrued interest	81,834	14,408,541	(57,122)	-	14,433,253
Asset retirement obligations	(2,075)	(74,183)	-	-	(76,258)
Other liabilities	(2,696,807)	119,598	(1,017,777)	-	(3,594,986)
Net cash (used in) provided by operating activities	(24,963,039)	10,792,728	15,319,206	-	1,148,895
<b>Cash flows from investing activities</b>					
Purchase of utility property and equipment	-	(165,646)	-	-	(165,646)
Purchase of nonutility property and equipment	(60,165)	-	-	-	(60,165)
Proceeds due to repayments on loans made to related parties	3,999,751	-	-	-	3,999,751
Purchase of construction work-in-progress	(219,979,471)	(3,510,976)	(1,021,861)	-	(224,512,308)
Proceeds from sale of investments	247,074,471	45,525,191	(6,996,993)	-	285,602,669
Purchase of investments	(11,552,006)	(841,074,563)	11,552,006	-	(841,074,563)
Purchase of plant held for future use	(191,720)	-	-	-	(191,720)
Changes in restricted cash and cash equivalents	(5,713,771)	-	-	-	(5,713,771)
Net cash provided by (used in) investing activities	13,577,089	(799,225,994)	3,533,152	-	(782,115,753)
<b>Cash flows from financing activities</b>					
Proceeds from revolving credit loan	62,107,979	1,592,021	-	-	63,700,000
Payments on revolving credit loan	(38,102,543)	(5,797,457)	-	-	(43,900,000)
Cost of Issuance of debt	-	(4,402,250)	-	-	(4,402,250)
Principal payments on term debt	(18,290,000)	(21,495,000)	(8,475,000)	-	(48,260,000)
Principal payments on term debt on behalf of members	(4,829,000)	-	-	-	(4,829,000)
Proceeds from issuance of term debt	-	824,199,257	-	-	824,199,257
Proceeds from issuance of term debt on behalf of members	4,234,500	-	-	-	4,234,500
Principal payments on term debt on behalf of Central Virginia Electric Cooperative	-	-	(854,167)	-	(854,167)
Proceeds from financing receivables - members	(3,105,121)	-	-	-	(3,105,121)
Funding of financing receivables - members	2,899,591	-	-	-	2,899,591
Net cash provided by (used in) financing activities	4,915,406	794,096,571	(9,329,167)	-	789,682,810
Net change in cash and cash equivalents	(6,470,544)	5,663,305	9,523,191	-	8,715,952
<b>Cash and cash equivalents</b>					
Beginning of year	48,834,676	10,520,550	11,214,911	-	70,570,137
End of year	\$ 42,364,132	\$ 16,183,855	\$ 20,738,102	\$ -	\$ 79,286,089

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