

**American Municipal
Power-Ohio, Inc.**
Consolidated Financial Statements
December 31, 2007 and 2006

American Municipal Power-Ohio, Inc.

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December 31, 2007 and 2006

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenues and expenses, of changes in member and patron equities, and of cash flows present fairly, in all material respects, the financial position of American Municipal Power-Ohio, Inc. and its subsidiary (the "Organization") at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, as of December 31, 2007, the Organization changed its method of accounting for pension and other postretirement benefits.

PricewaterhouseCoopers LLP

April 25, 2008

American Municipal Power-Ohio, Inc.
Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets		
Utility plant		
Electric plant in service (Note 3)	\$ 106,120,404	\$ 105,078,511
Accumulated depreciation	<u>(68,647,311)</u>	<u>(62,752,964)</u>
Total utility plant	<u>37,473,093</u>	<u>42,325,547</u>
Nonutility property and equipment		
Nonutility property and equipment (Note 4)	8,488,500	8,403,252
Accumulated depreciation	<u>(4,923,001)</u>	<u>(4,575,753)</u>
Total nonutility property and equipment	<u>3,565,499</u>	<u>3,827,499</u>
Construction work-in-progress	144,495,149	6,000,069
Coal reserves	26,612,000	-
Trustee funds and other assets		
Trustee funds (Notes 9 & 10)	5,609,507	15,070,307
Long-term financing receivables—members (Note 8)	49,992,033	57,735,135
Regulatory assets (Note 5)	10,560,049	5,820,027
Prepaid power purchase asset	230,882,334	-
Prepaid pension costs (Note 12)	18,698,617	-
Intangible and other assets, net of accumulated amortization of \$425,761 and \$3,654,342, respectively	<u>3,192,844</u>	<u>918,475</u>
Total trustee funds and other assets	<u>318,935,384</u>	<u>79,543,944</u>
Current assets		
Cash and cash equivalents	88,646,642	43,219,122
Cash and cash equivalents—restricted (Note 6)	13,121,282	10,188,995
Trustee funds (Notes 9 & 10)	26,757,496	13,404,334
Investments	12,350,469	1,239,467
Accounts receivable	50,749,869	48,045,253
Financing receivables—members (Note 8)	44,888,983	50,469,641
Emission allowances (Note 15)	6,924,949	9,478,992
Inventories	2,380,718	4,184,430
Regulatory assets—current (Note 5)	5,423,191	1,602,198
Prepaid power purchase asset—current	57,839,106	-
Prepaid expenses and other assets	<u>733,163</u>	<u>2,034,728</u>
Total current assets	<u>309,815,868</u>	<u>183,867,160</u>
Total assets	<u>\$ 840,896,993</u>	<u>\$ 315,564,219</u>

American Municipal Power-Ohio, Inc.
Consolidated Balance Sheets
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	2007	2006
Equities and Liabilities		
Member and patron equities		
Contributed capital	\$ 746,556	\$ 732,606
Patronage capital	34,998,541	34,097,856
Accumulated other comprehensive loss	<u>(8,261,247)</u>	<u>(10,199,036)</u>
Total member and patron equities	<u>27,483,850</u>	<u>24,631,426</u>
Long-term debt		
Term debt (Notes 8 & 10)	357,395,449	23,727,000
Term debt on behalf of members (Notes 8 & 10)	58,933,000	62,355,000
Line of credit (Note 8)	<u>173,328,000</u>	<u>40,315,000</u>
Total long-term debt	<u>589,656,449</u>	<u>126,397,000</u>
Current liabilities		
Accounts payable	41,522,339	40,235,272
Accrued salaries and related benefits	1,110,778	1,023,649
Accrued pension and postretirement benefits—current (Note 12)	365,000	9,895,588
Accrued interest	8,512,603	2,543,112
Term debt—current (Notes 8 & 10)	24,982,550	14,139,000
Term debt on behalf of members—current (Notes 8 & 10)	48,851,400	54,554,350
Regulatory liabilities—current (Note 5)	7,431,361	12,861,443
Margin funds on deposit	57,800,000	-
Other liabilities	<u>6,270,291</u>	<u>9,502,285</u>
Total current liabilities	<u>196,846,322</u>	<u>144,754,699</u>
Other noncurrent liabilities		
Accrued pension and postretirement benefits (Note 12)	4,392,904	-
Asset retirement obligations (Note 11)	4,932,820	4,249,947
Regulatory liabilities (Note 5)	<u>17,584,648</u>	<u>15,531,147</u>
Total other noncurrent liabilities	<u>26,910,372</u>	<u>19,781,094</u>
Commitments and contingencies (Note 16)		
Total liabilities	<u>813,413,143</u>	<u>290,932,793</u>
Total equities and liabilities	<u>\$ 840,896,993</u>	<u>\$ 315,564,219</u>

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

American Municipal Power-Ohio, Inc.
Consolidated Statements of Revenues and Expenses
Years Ended December 31, 2007 and 2006

	2007	2006
Revenues		
Electric revenue	\$ 527,620,743	\$ 449,287,981
Service fees	5,594,034	5,311,881
Programs and other	8,253,207	7,250,044
Total revenues	<u>541,467,984</u>	<u>461,849,906</u>
Operating Expenses		
Purchased electric power	449,114,126	368,293,431
Production	21,246,663	20,079,265
Fuel	41,751,285	45,517,532
Depreciation and amortization	6,301,072	6,713,095
Administrative and general	5,224,342	4,510,441
Interest expense	10,115,661	3,708,127
Property and real estate taxes	950,168	946,805
Programs and other	6,633,677	6,059,071
Total operating expenses	<u>541,336,994</u>	<u>455,827,767</u>
Operating margin	130,990	6,022,139
Nonoperating Revenues		
Interest income	1,303,878	1,562,015
Other, net	1,058,609	104,410
Total nonoperating revenues	<u>2,362,487</u>	<u>1,666,425</u>
Net margin	<u>\$ 2,493,477</u>	<u>\$ 7,688,564</u>

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

American Municipal Power-Ohio, Inc.
Consolidated Statements of Changes in Member and Patron Equities
Years Ended December 31, 2007 and 2006

	Contributed Capital	Patronage Capital	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2005	\$ 665,676	\$ 26,409,292	\$ (5,621,022)	\$ 21,453,946
Capital contributions	66,930	-	-	66,930
Net margin	-	7,688,564	-	7,688,564
Minimum pension liability adjustment	-	-	(4,578,014)	<u>(4,578,014)</u>
Comprehensive net margin	-	-	-	<u>3,110,550</u>
Balances, December 31, 2006	732,606	34,097,856	(10,199,036)	24,631,426
Capital contributions	13,950	-	-	13,950
Capital distributions	-	(1,592,792)	-	(1,592,792)
Net margin	-	2,493,477	-	2,493,477
Adjustment to additional minimum liability	-	-	10,199,036	<u>10,199,036</u>
Comprehensive net margin				12,692,513
Adoption of SFAS 158 Pension Plan	-	-	(6,445,558)	(6,445,558)
Postretirement Plan	-	-	(1,815,689)	<u>(1,815,689)</u>
Balances, December 31, 2007	<u>\$ 746,556</u>	<u>\$ 34,998,541</u>	<u>\$ (8,261,247)</u>	<u>\$ 27,483,850</u>

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

American Municipal Power-Ohio, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Net margin	\$ 2,493,477	\$ 7,688,564
Adjustments to reconcile net margin to net cash (used in) provided by operating activities		
Depreciation and amortization	6,301,072	6,713,095
Amortization of bond premium	(574,123)	-
Amortization of deferred financing costs	531,717	175,383
Accretion of interest on asset retirement obligations	170,868	164,219
Unrealized gain on investments	(584,030)	(52,126)
Unrealized loss on interest rate swap	460,408	98,001
Changes in assets and liabilities		
Investments	(10,526,972)	(600,000)
Accounts receivable	(2,704,616)	384,566
Emission allowances	2,554,043	(5,187,212)
Inventories	1,803,712	(1,542,209)
Prepaid expenses and other assets	1,301,565	(325,971)
Regulatory assets and liabilities, net	(11,937,596)	(7,257,569)
Accounts payable	(99,067)	2,369,810
Prepaid power purchase asset	(288,721,440)	-
Margin deposits	57,800,000	-
Accrued salaries and related benefits	87,129	(143,930)
Accrued pension and postretirement benefits	(21,898,512)	(4,379)
Accrued interest	5,969,491	(159,332)
Other liabilities	(3,692,402)	(203,857)
Net cash (used in) provided by operating activities	<u>(261,265,276)</u>	<u>2,117,053</u>
Cash flows from investing activities		
Purchases of investments	(98,320,872)	(64,979,371)
Proceeds from sale of investments	94,428,510	64,927,281
Purchase of utility property and equipment	(529,891)	(1,911,103)
Purchase of nonutility property and equipment	(144,722)	(1,050,296)
Purchase of construction work-in-progress	(113,690,042)	(2,940,150)
Restricted cash and cash equivalents	(2,932,287)	(2,923,909)
Net cash used in investing activities	<u>(121,189,304)</u>	<u>(8,877,548)</u>

American Municipal Power-Ohio, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from financing activities		
Proceeds from revolving credit loan	836,107,000	359,343,000
Payments on revolving credit loan	(703,094,000)	(337,153,000)
Principal payments on term debt	(24,746,000)	(18,982,000)
Proceeds from issuance of term debt	319,801,218	21,735,000
Cost of issuance of term debt	(2,806,086)	(377,581)
Principal payments on term debt on behalf of members	(54,528,350)	(53,453,371)
Proceeds from issuance of term debt on behalf of members	45,403,400	48,686,788
Proceeds from financing receivable—members	54,457,743	46,068,964
Funding of financing receivable—members	(41,133,983)	(39,951,872)
Capital distributions	(1,592,792)	-
Capital contributions	13,950	66,930
	<u>427,882,100</u>	<u>25,982,858</u>
Net cash provided by financing activities	427,882,100	25,982,858
Net change in cash and cash equivalents	45,427,520	19,222,363
Cash and cash equivalents, beginning of year	<u>43,219,122</u>	<u>23,996,759</u>
Cash and cash equivalents, end of year	<u>\$ 88,646,642</u>	<u>\$ 43,219,122</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 3,685,762	\$ 3,867,459
Supplemental disclosure of noncash investing and financing activities		
Capital expenditures included in		
accounts payable	1,386,134	-
Assets acquired directly with term debt	50,030,904	-

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

American Municipal Power-Ohio, Inc.

Notes to Consolidated Financial Statements

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1. Description of Business

American Municipal Power-Ohio, Inc. ("AMP-Ohio") 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-Ohio is a tax-exempt organization for federal tax purposes under Section 501(c)(12) of the Internal Revenue Service Code. AMP-Ohio is a membership organization comprised of 81 municipalities throughout Ohio, two municipalities in West Virginia, 27 municipalities in Pennsylvania, seven municipalities in Michigan, four municipalities in Virginia, and one municipality in Kentucky that own and operate electric systems. AMP-Ohio purchases and generates electric capacity and energy for sale to its members. AMP-Ohio's primary base load electric generating facility, known as the Richard H. Gorsuch Generating Station ("Gorsuch Project"), is located near Marietta, Ohio. AMPO, 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-Ohio 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-Ohio is closely aligned with two other statewide municipal power organizations. Ohio Municipal Electric Association ("OMEA") is the legislative liaison for the state's municipal electric systems. Ohio Public Power Educational Institute ("OPPEI") is a nonprofit educational foundation dedicated to informing the public about municipal electric utilities as well as member communities. 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-Ohio, its members, and the OMEGA Joint Ventures.

AMP-Ohio 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-Ohio has issued tax-exempt debt on behalf of the communities.

On December 20, 2007, AMP-Ohio acquired 100% of the membership interests of Marigold Energy, LLC and formed AMP 368 LLC ("AMP 368"). AMP 368 is a wholly owned subsidiary of AMP-Ohio, which through AMP 368 is the owner of a 23.26%, or 368MW, undivided interest in the Prairie State Energy Campus ("PSEC"). The book value of the acquired assets from the business combination represent the PSEC construction costs to date of the acquired entity. Accordingly, there were no intangible assets or goodwill recorded in conjunction with this business combination. The PSEC is a mine-mouth, pulverized coal-fired generating station under construction in southwest Illinois. The PSEC includes adjacent coal reserves and all associated mine, rail, water, coal combustion waste storage and ancillary support. The generating station will consist of two supercritical units with a nominal net output capacity of 800MW each. The plant will incorporate state-of-the-art emissions control technology consistent with other plants that have been successfully permitted. All permits required for the construction of the power plant have been issued.

AMP-Ohio has entered into a power sales contract dated November 1, 2007 with 68 of its members (the "AMP 368 Participants") for its share of the electric output of the PSEC (the "AMP-Ohio Entitlement"). The AMP 368 Participants' obligations to make payments pursuant to the power sales contract are limited obligations payable solely out of the revenues, and, with two exceptions, as an operating expense, of their respective electric systems. Each AMP 368 Participant's

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obligation to make payments pursuant to the power sales contract is a take-or-pay obligation. Therefore, such payments shall not be subject to any reduction, whether by offset, counterclaim, or otherwise; and such payments shall be made whether or not either unit of PSEC or any other power sales contract resource is completed, operable, operating and notwithstanding the suspension, interruption, interference, reduction or curtailment, in whole or in part, for any reason whatsoever, of the AMP-Ohio Entitlement or the AMP 368 Participants' power sales contract resource share, including step-up power. The power sales contract contains a step-up provision that requires, in the event of default by an AMP 368 Participant, the non-defaulting AMP 368 Participants to purchase a pro rata share, based upon each non-defaulting AMP 368 Participants original power sales contract resources share which, together with the shares of the other non-defaulting AMP 368 Participants is equal to the defaulting AMP 368 Participants power sales resources share. No non-defaulting Participant is obligated to accept step-up power in excess of 25% of such AMP 368 Participant's original power sales contract resources share.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of AMP-Ohio and its wholly owned subsidiary, AMPO, Inc. All intercompany transactions have been eliminated in the preparation of the consolidated financial statements.

AMP-Ohio purchases power from two limited liability companies engaged in methane recovery to generate electricity. Their activities are primarily conducted on behalf of AMP-Ohio. AMP-Ohio was unable to obtain the necessary financial information from the limited liability companies to calculate the expected losses under Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities-an interpretation of ARB No. 51* ("FIN 46(R)"). AMP-Ohio does not have an equity interest in these limited liability companies. Power purchases from these companies for the years ended December 31, 2007 and 2006, were approximately \$6,270,300 and \$6,417,387, respectively. Management does not believe that the amount of these purchases is material to its operations.

Utility Plant

AMP-Ohio 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.

Depreciation on utility plant assets is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined primarily by the use of functional composite rates as follows:

Production plant	5%-10%
Transmission plant	5%
General plant	5%-33%
Station equipment	4.4%-20%

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Depreciation expense for utility plant for the years ended December 31, 2007 and 2006, was \$5,894,350 and \$5,987,059, respectively.

Periodically, AMP-Ohio acquires and finances utility plants with the intent to sell the property to entities owned by its members. The cost of utility plants purchased for resale is capitalized at cost. The related financing is recorded as a liability.

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.

AMP-Ohio capitalizes costs incurred in the acquisition or development of software for internal use, including the costs of the software, materials and consultants incurred in developing internal-use computer software. Amortization expense recorded for the years ended December 31, 2007 and 2006 was \$0 and \$275,897, respectively.

Depreciation on nonutility property and equipment is provided for on the straight-line method over the estimated useful lives of the property as follows:

Building	25 years
Furniture and equipment	5-10 years
Computer software	3 years
Vehicles	3-5 years

Depreciation expense for nonutility property and equipment, excluding computer software, for the years ended December 31, 2007 and 2006, was \$406,722 and \$274,756, respectively.

Construction Work-in-Progress

AMP-Ohio records amounts expended in connection with construction work-in-progress projects at cost. Upon completion of a project, AMP-Ohio places the asset in service and the related costs are recorded as either utility plant or non-utility property and equipment. There is \$3,498,616 of land included in the construction work-in-progress account at December 31, 2007. AMP-Ohio capitalized interest costs in the amount of \$1,311,344 for the year ended December 31, 2007. No interest costs were capitalized for the year ended December 31, 2006.

Coal Reserves

AMP-Ohio has purchased coal reserves in conjunction with the construction of a power generating plant. The coal reserves are recorded at cost.

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.

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Trustee Funds

AMP-Ohio maintains trustee funds as described in the trust indentures executed by AMP-Ohio (Note 9). The trustee funds include money market funds, debt securities, and guaranteed investment contracts. The debt securities are classified as held-to-maturity under Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and are recorded at amortized cost. The fair value of the trustee funds' investments, as determined using prevailing market prices, approximates the carrying amount at December 31, 2007 and 2006. The debt securities mature at various dates through March 2008. Realized gains and losses on investment transactions are determined on the basis of specific identification. Gross unrealized holding gains at December 31, 2007 and 2006 were \$196,879 and \$210,841, respectively. Gross unrealized holding losses at December 31, 2007 and 2006 were \$0 and \$74,194, respectively.

Prepaid Power Purchase Asset

AMP-Ohio prepaid for a long-term power supply agreement (the "Prepaid Agreement") in August 2007. The total amount of the Prepaid Agreement was \$312,900,083, and it is for a 65-month period. AMP-Ohio is amortizing the cost of the power over the life of the Prepaid Agreement. AMP-Ohio records the amount expected to be amortized over the next twelve months as a current asset in the accompanying consolidated balance sheets.

Investments

Investments include equity securities, debt securities and alternative investments. The equity securities and debt securities are classified as trading under SFAS No. 115. These investments are recorded at fair value, which represents quoted market prices. Realized gains and losses on investment transactions are determined on the basis of specific identification. Gross unrealized holding gains at December 31, 2007 and 2006 were \$426,272 and \$52,126, respectively. Gross unrealized holding losses at December 31, 2007 and 2006 were \$142,604 and \$0, respectively.

Investments in alternative investments consist of hedge funds. These investments are recorded at fair value, with changes in unrealized holding gains and losses impacting current year net margin. The total fair market value of hedge funds included in investments at December 31, 2007 was \$4,300,362. Gross unrealized holding gains at December 31, 2007 were \$300,362, and are included in other, net in the consolidated statements of revenues and expenses. There were no alternative investments at December 31, 2006.

Financing Receivable—Members

Financing receivable—members is comprised of debt service obligations of tax-exempt debt issued by AMP-Ohio on behalf of its members (Note 8).

In connection with the issuance of municipal project notes, AMP-Ohio has entered into loan agreements with individual member communities. The terms of the loan agreements provide that the member community will issue its note to AMP-Ohio in the amount of the AMP-Ohio municipal project note equal to the principal amount of the municipal project note that is payable solely from the net revenues of its electric system. Certain of these loan agreements also provide that a portion of the proceeds from the issuance of municipal project notes shall be deposited in a project fund held for the purpose of making payments of project costs as designated by the member community. The project fund amounts are invested at the direction of the member community and are disbursed by AMP-Ohio upon submission of a payment requisition satisfactory to AMP-Ohio. Project fund deposits are restricted for the payment of designated project costs.

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Intangible and Other Assets

Intangible and other assets consist primarily of deferred financing costs. Deferred financing costs are amortized on the effective interest method. Amortization expense was \$531,717 and \$175,383 for the years ended December 31, 2007 and 2006, respectively.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents consist of highly-liquid cash and short-term investments with original maturities of three months or less.

Concentration of Credit Risk and Accounts Receivable

AMP-Ohio periodically maintains cash balances in excess of the federally insured limit. At December 31, 2007 and 2006, 13.9% and 27.5% of accounts receivable was due from one customer and two customers, respectively.

Emission Allowances

Emission allowances are valued at the lower of historical cost or net realizable value and charged to operations as used on the first-in, first-out ("FIFO") method.

Inventories

Inventories of coal, fuel, materials and supplies are stated at the lower of cost or market using the FIFO method.

Member and Patron Equities

Contributed capital represents initial capital contributions made by members. Should AMP-Ohio cease business, these amounts, if available, will be returned to the members. In addition, any available patronage capital will also be distributed to members and former members based on their patronage of AMP-Ohio while they were members.

Margin Funds on Deposit

AMP-Ohio has collected collateral deposits from one of its power suppliers related to a long-term power supply agreement with the supplier. The funds collected are included in cash and cash equivalents. AMP-Ohio has recorded a corresponding liability as Margin Funds on Deposit included in current liabilities in the accompanying consolidating balance sheets.

Asset Retirement Obligations

AMP-Ohio records, at fair value, legal obligations associated with the retirement or removal of long-lived assets that can be reasonably estimated. The recognition of a liability is accompanied by a corresponding increase in utility plant. The liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to utility plant) and for accretion due to the passage of time. Accretion of the liability and additional depreciation for utility plant are recognized in net margin in the consolidated statements of revenue and expenses (Note 11).

Revenue Recognition and Rates

Revenues are recognized when service is delivered. AMP-Ohio's rates for capacity and energy billed to members are designed by the board of trustees to recover actual costs. In general, costs are defined to include AMP-Ohio's costs of purchased power and operations (except for depreciation and amortization) and debt service requirements.

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Rates charged to member communities participating in the Gorsuch Project include debt service requirements of Project One Revenue Bonds. The rates for the Gorsuch Project are set by the board of trustees and are reviewed periodically. Operating expenses in the statements of revenues and expenses for the Gorsuch Project include interest on these bonds, depreciation of utility plant and amortization of intangible assets.

For the Gorsuch Project, AMP-Ohio's practice is to bill participating members all costs incurred unless the expenditures were financed by long-term debt. Capital expenditures not externally financed are generally included in current rates billed to participating members.

Rates charged to members for non-Gorsuch Project power are based on the actual cost of purchased power. Members also pay a service fee based on kilowatt hours purchased through AMP-Ohio and retail sales of kilowatt hours in each member electric system.

Programs and other revenues consist of the reimbursement for expenses incurred from programs that AMP-Ohio offers to its members. These programs include energy control center expenses, certain feasibility studies and other services. Revenue from these programs is recorded as costs are incurred.

Accounts receivable includes \$38,384,602 and \$39,451,402 for capacity and energy delivered to members during the years ended December 31, 2007 and 2006, respectively, which were not billed until the subsequent year.

Regulatory Assets and Liabilities

In accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, AMP-Ohio 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, coal inventories and other capital expenditures not yet recovered through rates approved by the 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 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 (Note 5).

Taxes

The IRS ruled that AMP-Ohio is tax-exempt under Section 501(a) as an organization described in Section 501(c)(12) of the Internal Revenue Code ("IRC"), provided 85% of its total revenue consists of amounts collected from its members for the sole purpose of meeting losses and expenses. For the years ended December 31, 2007 and 2006, AMP-Ohio complied with this requirement. Accordingly, no provision for federal or state income taxes has been made. AMP-Ohio is subject to State of Ohio personal property, real estate and sales taxes.

AMPO, Inc. is a for-profit entity subject to federal, state and local income taxes. Deferred taxes result from temporary differences between the book and tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. AMPO, Inc. has deferred tax assets of approximately \$462,000 and \$581,000 at December 31, 2007 and 2006, respectively, arising primarily from operating loss carryforwards. A full valuation allowance has been established due to

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the uncertainty of realizing the net operating loss carryforwards at December 31, 2007 and 2006. At December 31, 2007, AMPO, Inc. had federal and state net operating loss carryforwards of approximately \$1,081,000 that expire on various dates through 2023. Effective July 1, 2005, businesses operating in Ohio are subject to the Commercial Activity Tax ("CAT"). The CAT is levied on an entity's gross receipts. The CAT is being phased in over a five-year period with the Ohio franchise tax being phased out over the same period. As a result of this phase-out, certain credit and loss carryforwards expire when the franchise tax is fully phased out in 2009.

Market and Credit Risk

AMP-Ohio is potentially exposed to market risk associated with commodity prices for electricity, gas and coal. AMP-Ohio manages this risk through the use of long-term power purchase contracts and long-term coal supply arrangements.

AMP-Ohio has credit risk associated with the ability of members to repay amounts due from power sales and other services and with counterparties to long-term power supply arrangements. AMP-Ohio regularly monitors receivables from its members. AMP-Ohio does not require collateral with its trade receivables.

AMP-Ohio has established a risk management function that regularly monitors the credit quality of counterparties to its power purchase arrangements including the Prepaid Agreement. The risk management function uses multiple sources of information in evaluating credit risk including credit reports, published credit ratings of the counterparty and its historical experience with the counterparty. Credit limits are established depending on the risk evaluation and, when warranted, AMP-Ohio requires credit protection through letters of credit or other guarantees. The inability of counterparties to deliver power under power supply arrangements could cause the cost of power to members to be in excess of prices in the power supply arrangements. Management believes recent events in the credit markets have not significantly increased credit risk relating to counterparties to power purchase arrangements, including the Prepaid Agreement at December 31, 2007.

Derivative Instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires recognition of all qualifying derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value unless the instruments qualify to be accounted for as normal purchase 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-Ohio has determined each of its power purchase and power sales contracts which meets the definition of a derivative instrument qualifies to be accounted for as normal purchases and normal sales.

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AMP-Ohio holds firm transmission rights ("FTRs") with the PJM Interconnection and the Midwest ISO, regional transmission organizations, that do not qualify to be accounted for as normal purchases and normal sales and have been included in prepaid and other assets on the consolidated balance sheet at their estimated fair value. The fair value of FTRs was \$202,000 and \$1,491,000 at December 31, 2007 and 2006, respectively. A corresponding regulatory liability has been recorded for this unrealized gain. The impact of utilizing FTRs is included in the transmission cost of purchased power.

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

In December 2006, AMP-Ohio entered into an interest rate swap agreement which is carried at its fair value on the balance sheet, with changes in its fair value recognized in current earnings. The fair value of the swap was \$(558,409) and \$(98,001) at December 31, 2007 and 2006, respectively, and is included in other liabilities. The resulting loss is classified as an increase to interest expense.

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.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value and establishes a framework for measuring fair value. The standard affects other accounting standards that require fair value accounting. The standard is effective January 1, 2008. AMP-Ohio has not determined the impact, if any, SFAS No. 157 will have on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which is effective for fiscal years beginning after November 15, 2007. This standard provides companies with an option to report selected financial assets and liabilities at fair value and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS No. 159 also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This guidance does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157 and SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. AMP-Ohio has not determined the impact, if any, SFAS No. 159 will have on the consolidated financial statements.

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3. Utility Plant

Utility plant cost consists of the following at December 31:

	2007	2006
Land	\$ 1,490,582	\$ 1,490,582
Production plant	95,723,704	94,681,811
Station equipment	1,248,750	1,248,750
Transmission plant	7,124,094	7,124,094
General plant	533,274	533,274
	<u>\$ 106,120,404</u>	<u>\$ 105,078,511</u>

4. Nonutility Property and Equipment

Nonutility property and equipment cost consists of the following at December 31:

	2007	2006
Land	\$ 685,000	\$ 685,000
Building	3,407,205	3,407,205
Furniture and equipment	481,921	428,640
Computer software	2,518,840	2,518,840
Vehicles	1,395,534	1,363,567
	<u>\$ 8,488,500</u>	<u>\$ 8,403,252</u>

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5. Regulatory Assets and Liabilities

Regulatory assets and liabilities consist of the following at December 31:

	2007		
	AMP-Ohio		Total
	General Fund	Gorsuch Station Project Fund	
Regulatory assets			
Amounts due from members - asset retirement cost	\$ 115,221	\$ 3,408,717	\$ 3,523,938
Amounts due from members - power purchases	8,292,223	-	8,292,223
Fuel costs	-	4,167,079	4,167,079
Total regulatory assets	8,407,444	7,575,796	15,983,240
Current portion	(1,256,112)	(4,167,079)	(5,423,191)
Noncurrent portion	\$ 7,151,332	\$ 3,408,717	\$ 10,560,049
Regulatory liabilities			
Amounts collected from members to fund future expenditures for:			
Capital expenditures	\$ 5,329,773	\$ 11,994,122	\$ 17,323,895
Gains on early termination of power purchase contracts	617,799	-	617,799
Operating and maintenance expenditures	303,503	2,626,653	2,930,156
Production expense	-	2,115,011	2,115,011
Fair value of derivative instruments	153,000	49,000	202,000
Rate stabilization funding	1,821,358	-	1,821,358
Other	5,790	-	5,790
Total regulatory liabilities	8,231,223	16,784,786	25,016,009
Current portion	(776,589)	(6,654,772)	(7,431,361)
Noncurrent portion	\$ 7,454,634	\$ 10,130,014	\$ 17,584,648

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	2006		
	AMP-Ohio		
	General Fund	Gorsuch Station Project Fund	Total
Regulatory assets			
Amounts due from members - asset retirement cost	\$ 95,318	\$ 3,096,709	\$ 3,192,027
Amounts due from members - power purchases	2,628,000	-	2,628,000
Fuel costs	-	1,442,990	1,442,990
Interest costs not yet recovered through billings	-	159,208	159,208
Total regulatory assets	<u>2,723,318</u>	<u>4,698,907</u>	<u>7,422,225</u>
Current portion	-	(1,602,198)	(1,602,198)
Noncurrent portion	<u>\$ 2,723,318</u>	<u>\$ 3,096,709</u>	<u>\$ 5,820,027</u>
Regulatory liabilities			
Amounts collected from members to fund future expenditures for:			
Capital expenditures	\$ 4,144,223	\$ 11,251,237	\$ 15,395,460
Gains on early termination of power purchase contracts	4,827,320	-	4,827,320
Operating and maintenance expenditures	236,453	1,874,038	2,110,491
Production expense	-	2,935,486	2,935,486
Fair value of derivative instruments	303,000	1,188,000	1,491,000
Rate stabilization funding	1,271,506	-	1,271,506
Other	361,327	-	361,327
Total regulatory liabilities	<u>11,143,829</u>	<u>17,248,761</u>	<u>28,392,590</u>
Current portion	<u>(4,999,811)</u>	<u>(7,861,632)</u>	<u>(12,861,443)</u>
Noncurrent portion	<u>\$ 6,144,018</u>	<u>\$ 9,387,129</u>	<u>\$ 15,531,147</u>

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6. Restricted Cash

Restricted cash consists of the following at December 31:

	2007	2006
Cash from issuance of bond anticipation notes on behalf of members	\$ 4,148,835	\$ 8,112,423
Restricted for funds held in escrow	6,206,820	-
Contractual restrictions	<u>2,765,627</u>	<u>2,076,572</u>
	<u>\$ 13,121,282</u>	<u>\$ 10,188,995</u>

The restricted cash for funds held in escrow balance consists of a deposit AMP-Ohio has made for a potential fixed asset acquisition. Contractual restrictions represent cash from members for rate stabilization, cash held in conjunction with reserve and contingency trustee funds, future major maintenance and an employee savings plan at the Gorsuch Project. Cash from members for rate stabilization is held in trusts for the benefit of the members.

7. Related Parties

AMP-Ohio has entered into agreements for management and agency services ("Service Agreements") with the OMEGA Joint Ventures, MESA, OMEA, and OPPEI. Participants in these organizations are all members of AMP-Ohio. The AMP-Ohio board of trustees has established a joint venture oversight committee that is responsible for reviewing financial information and operating matters related to the OMEGA Joint Ventures. Under these Service Agreements, AMP-Ohio serves as agent and provides planning, construction and financial management, operations, and other professional and technical services. AMP-Ohio is compensated based on an allocation of direct expenses and overhead. Compensation for these services for the years ended December 31, 2007 and 2006 was \$943,424 and \$747,904, respectively.

MESA provides engineering, administrative and other services to AMP-Ohio. The expense related to these services for the years ended December 31, 2007 and 2006, was \$9,152,965 and \$7,352,491, respectively.

Certain members of AMP-Ohio are also members of OMEGA: JV1, JV2, JV4, and JV6. In addition, 42 of AMP-Ohio's members are members of OMEGA JV5, the Belleville hydroelectric project, which includes backup diesel generation. At December 31, 2007, OMEGA JV5 had \$160,560,000 in principal amount of beneficial interest certificates. Substantially all OMEGA JV5 generation is delivered to OMEGA JV5 members. AMP-Ohio purchases power and fuel on behalf of OMEGA JV5. Power and fuel purchases for the years ended December 31, 2007 and 2006, were \$9,839,068 and \$7,768,052, respectively.

For the years ending December 31, 2007 and 2006, AMP-Ohio made contributions of \$150,000 to OMEA.

At December 31, 2007, accounts receivable and accounts payable include \$39,570 and \$646,072, respectively, of amounts due to/from affiliates. At December 31, 2006, accounts receivable and accounts payable include \$140,678 and \$211,945, respectively, of amounts due to/from affiliates.

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8. Revolving Credit Loan and Term Debt

Revolving Credit Loan

On September 24, 2007, AMP-Ohio entered into a \$350,000,000 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.; Depfa Bank; Union Bank of California, N.A.; Wachovia Bank, N.A.; Suntrust Bank; U.S. Bank, N.A.; Bank of America, N.A.; and Huntington National Bank N.A. The Facility allows for different types of loans with different interest rates and terms and includes the ability to issue letters of credit. At the discretion of management, the interest rate on borrowings is at prime or London Inter Bank Offered Rate ("LIBOR") plus .40% to .60%, depending on the Organization's credit rating or, if the Organization has not received a credit rating, depending on the interest coverage ratio. AMP-Ohio is required to pay a facility fee on the Facility ranging from .10% to .15%, depending on the interest coverage ratio. The Facility can be increased to \$450,000,000 at any time during the term subject to the existing lenders' agreement to increase their commitment or participation by new lenders. The Facility expires on September 24, 2012.

The Facility contains various restrictions including: a) proceeds of loans and letters of credit will be used only i) to refinance the existing revolving credit loan, ii) for general working capital purposes and iii) for transitional financing to bond financing and bond anticipation notes; b) notice of certain ERISA events over \$500,000; c) notice of events causing a material adverse effect on the business, assets or condition of AMP-Ohio or the rights or benefits of the lenders under the Facility; d) AMP-Ohio will not incur indebtedness or make guarantees of indebtedness except for i) indebtedness to finance any prepayment for power supply, or indebtedness or capital lease obligations for acquisition, construction or improvement of assets up to \$25,000,000 or ii) other unsecured indebtedness up to \$20,000,000; e) AMP-Ohio will not make loans to i) AMPO, Inc. in excess of \$500,000 or to ii) joint ventures in excess of \$5,000,000; f) prohibits cash dividends to members; g) annual lease payments may not exceed \$1,000,000 and sale and leaseback transactions are limited to \$5,000,000; h) maintenance of financial covenants including i) minimum consolidated tangible net worth and ii) interest coverage ratio in excess of 2.50 to 1.00 measured on a trailing four quarter basis.

On December 19, 2007, AMP-Ohio amended the Facility to increase the base borrowing capacity from \$350,000,000 to \$450,000,000, and to increase the maximum borrowing capacity from \$450,000,000 to \$550,000,000.

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Term Debt

AMP-Ohio 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-Ohio is the primary obligor on term debt issued to finance its assets.

Bonds and notes payable related to financing AMP-Ohio assets consists of the following at December 31:

	2007	2006
Gorsuch Project One Revenue Bonds Basic Contract Municipalities, Series 1988A	\$ -	\$ 14,724,000
Gorsuch Project One Revenue Bonds City of Columbus, Series 1988A	-	1,407,000
Gorsuch Station Improvement and Refunding Revenue Notes, Subordinate Series 2005A	-	4,260,000
AMP-Ohio project note due October 30, 2008, with interest at 3.50% at December 31, 2007 (3.65% at December 31, 2006) payable at maturity	4,567,550	4,355,000
AMP-Ohio Multi-mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2006	13,120,000	13,120,000
AMP-Ohio Electricity Purchase Revenue Bonds Prepayment Issue, Series 2007 A	307,655,000	-
Unamortized premium on Electricity Purchase Revenue Bonds	7,004,545	-
AMP-Ohio Peabody Promissory Note	50,030,904	-
	<u>382,377,999</u>	<u>37,866,000</u>
Current portion	<u>(24,982,550)</u>	<u>(14,139,000)</u>
Noncurrent portion	<u>\$ 357,395,449</u>	<u>\$ 23,727,000</u>

Gorsuch Project Bonds

The Project One Revenue Bonds Basic Contract Municipalities, Series 1988A and Project One Revenue Bonds City of Columbus, Series 1988A (collectively, the "Gorsuch Bonds") were issued August 31, 1988, in the form of serial bonds. Interest is payable semiannually at 10.85% per annum. The Gorsuch Bonds were paid in full by AMP-Ohio in April 2007, which was one year earlier than the maturity date of the bonds. AMP-Ohio paid an early redemption maintenance premium in the amount of \$485,370 at the time of repayment of the Gorsuch Bonds. The charge is classified as an increase to interest expense in the consolidated statements of revenues and expenses.

On April 1, 2005, AMP-Ohio issued \$6,395,000 Gorsuch Station Improvement and Refunding Revenue Notes, Subordinate Series 2005A (the "2005 Subordinate Notes"). The 2005 Subordinate Notes were retired in April 2007 with funds drawn on the Facility.

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American Municipal Power-Ohio, Inc. Multi-Mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2006

The American Municipal Power-Ohio, Inc. Multi-Mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2006 (the "Combustion Turbine Bonds") were issued December 1, 2006, in the form of term bonds. The Combustion Turbine Bonds mature on March 1, 2023. Interest on the bonds is payable monthly. The interest rate is variable and resets on a weekly basis. AMP-Ohio entered into an interest rate swap on the same date as the bond issuance. Under the interest rate swap agreement, AMP-Ohio pays interest at a fixed rate of 3.89% and receives interest at a variable rate equivalent to the variable interest rate on the Combustion Turbine Bonds.

In order to secure the Combustion Turbine Bonds, AMP-Ohio applied to KeyBank National Association ("KeyBank") for the issuance of a letter of credit in favor of the trustee holding the Combustion Turbine Bonds. AMP-Ohio agreed to reimburse KeyBank for any payments made pursuant to such letter of credit and, as of December 1, 2006 entered into a Letter of Credit Reimbursement Agreement with KeyBank (the "KeyBank Facility") in the amount of \$13,217,771.

The KeyBank Facility contains various restrictions which are identical or very similar to the restrictions in the Facility described in Note 8 above.

Electricity Purchase Revenue Bonds

The Electricity Purchase Revenue Bonds, Series 2007A (the "Revenue Bonds") were issued on August 1, 2007 with an aggregate par amount of \$307,655,000. The Revenue Bonds were issued at a premium of \$7,578,668. The premium will be amortized over the life of the bonds as a reduction to interest expense in the accompanying consolidated statements of revenues and expenses. The Revenue Bonds bear interest at a fixed rate of 5% payable semiannually. The Revenue Bonds outstanding at December 31, 2007 are as follows:

Maturity Date	Principal Amount
February 1,	
2008	\$ 19,790,000
2009	52,140,000
2010	54,595,000
2011	57,360,000
2012	60,265,000
2013	63,505,000
	<u>\$ 307,655,000</u>

The proceeds from the Revenue Bonds were used to prepay a long-term power supply agreement (the "Electricity Purchase Agreement") with J. Aron & Company. AMP-Ohio has entered into separate power schedules (the "Power Schedules") with 41 of its members (the "Participants") whereby the Participants have agreed to take and pay for the power supplied by the Electricity Purchase Agreement. The Participants are obligated to purchase and pay for electricity made available by AMP-Ohio. AMP-Ohio is obligated to pay the scheduled principal and interest on the Revenue Bonds, but solely from amounts received from the Participants under the Power Schedules. AMP-Ohio has a \$10,000,000 contingent obligation to reimburse the entity insuring the Participants' payments under the Power Schedules.

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The Revenue Bonds are not subject to optional redemption. Upon occurrence of a cancellation event, as defined in bond agreement, the Revenue Bonds are subject to extraordinary mandatory redemption prior to the maturity date in whole at a predetermined redemption price.

The Participants in the Electricity Purchase Agreement have covenanted to fix, charge and collect rates, fees and charges for electric power and energy at least sufficient to provide revenues to meet, or with other available funds, to provide in each year the sum of its operating and maintenance expenses, including the Participant's share or revenue requirements under the Electricity Purchase Agreement, debt service on the Participant's outstanding revenue obligations, if any, and any other amounts payable from such revenues.

AMP-Ohio Peabody Promissory Note

On December 20, 2007, AMP-Ohio entered into a \$50,030,904 promissory note with Peabody Electricity, LLC (the "Peabody Note"). The Peabody Note matured and was repaid in full on January 25, 2008.

AMP-Ohio has classified the Peabody Note as a noncurrent liability in the accompanying consolidated balance sheets, as AMP-Ohio has entered into an agreement to refinance the entire balance through the proceeds from a long-term debt offering entered into in 2008.

Term Debt on Behalf of Members

The individual municipality is the primary obligor on term debt issued on its behalf. On behalf of financings are presented in the consolidated balance sheets with a corresponding receivable from the project or member to which the on behalf of financing relates. The receivables are typically less than the on behalf of financings as principal on the on behalf of financings is collected monthly in advance of the annual due date and is held in trust by AMP-Ohio. Bonds and notes payable issued on behalf of member communities consist of the following at December 31:

	2007	2006
OMEGA JV2 Project Distributive Generation Bonds, Series 2001	\$ 39,810,000	\$ 41,750,000
AMP-Ohio City of Wadsworth Project Electric System Improvement Bonds, Series 2002	9,570,000	10,015,000
AMP-Ohio Village of Genoa Project Electric System Improvement Bonds, Series 2004	5,370,000	5,520,000
OMEGA JV6 Adjustable Rate Revenue Bonds, Series 2004	7,631,000	8,325,000
Municipal project notes due on various dates through December 5, 2008 with interest from 3.45% to 4.35% at December 31, 2007 (3.6% to 4.5% at December 31, 2006) payable at maturity.	<u>45,403,400</u>	<u>51,299,350</u>
	107,784,400	116,909,350
Current portion of on behalf of financings	<u>(48,851,400)</u>	<u>(54,554,350)</u>
Noncurrent portion of on behalf of financings	<u>\$ 58,933,000</u>	<u>\$ 62,355,000</u>

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At December 31, 2007 and 2006, amounts included in accrued interest in the consolidated balance sheets that related to nonrecourse notes payables issued on behalf of members were \$1,992,573 and \$1,789,862, respectively. Interest expense related to nonrecourse term debt issued on behalf of members was \$4,788,566 and \$5,220,074 for the years ended December 31, 2007 and 2006, respectively.

The following is a summary of financing receivables from members related to on behalf of debt at December 31:

	2007	2006
Financing receivable—OMEGA JV2 members	\$ 33,494,402	\$ 35,352,092
Financing receivable—Wadsworth	8,139,942	8,570,018
Financing receivable—Genoa	4,790,313	4,922,483
Financing receivable—OMEGA JV6 members	7,322,376	7,868,542
Notes receivable—members	40,570,437	50,909,641
Interest receivable	563,546	582,000
	<u>94,881,016</u>	<u>108,204,776</u>
Current portion of on behalf of notes receivable	<u>(44,888,983)</u>	<u>(50,469,641)</u>
Noncurrent portion of on behalf of notes receivable	<u>\$ 49,992,033</u>	<u>\$ 57,735,135</u>

Interest income related to financing receivables from members was \$5,140,811 and \$5,343,736 for the years ended December 31, 2007 and 2006, respectively. Interest income from financing receivables and interest expense on term debt issued on behalf of members are classified in program and other revenue.

OMEGA JV2 Project Distributive Generation Bonds

The OMEGA JV2 Project Distributive Generation Bonds, Series 2001 (the “OMEGA JV2 Bonds”) outstanding at December 31, 2007, are as follows:

Maturity Date	Principal	Interest
January 1,	Amount	Rate
2008	\$ 2,020,000	5.00 %
2009	2,120,000	5.00 %
2010	2,225,000	5.00 %
2011	2,335,000	5.25 %
2012	2,460,000	5.25 %
2013	2,590,000	5.25 %
2014	2,725,000	5.25 %
2015	2,865,000	5.25 %
2016	3,015,000	5.25 %
2017	3,175,000	5.25 %
2021	<u>14,280,000</u>	4.75 %
	<u>\$ 39,810,000</u>	

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The OMEGA JV2 Bonds were issued by AMP-Ohio on January 1, 2001, in the form of serial and term bonds on behalf of certain of its members who are financing participants in OMEGA JV2. The OMEGA JV2 Bonds mature in various annual installments through January 1, 2021. Interest is payable semiannually at fixed interest rates.

The OMEGA JV2 Bonds are payable solely from the municipal electric utility system revenues of OMEGA JV2 financing members. The OMEGA JV2 Bonds require compliance by the financing members with the OMEGA JV2 joint venture agreement, which requires that each financing member maintain a debt service coverage ratio of 1.1 or greater. There is no recourse to AMP-Ohio, other than from such revenues. AMP-Ohio will not be obligated to pay debt service on the OMEGA JV2 Bonds, except from debt service payments received from the OMEGA JV2 financing members and other funds pledged or assigned therefor under the trust agreement.

The OMEGA JV2 Bonds are not subject to optional redemption before January 11, 2011. The OMEGA JV2 Bonds maturing after January 11, 2011 are subject to redemption in whole or in part on any date on or after January 11, 2011, at a redemption price of 100% of the outstanding principal plus accrued interest.

AMP-Ohio City of Wadsworth Project Electric System Improvement Bonds

The AMP-Ohio City of Wadsworth Project Electric System Improvement Bonds, Series 2002 (the "Wadsworth Bonds") outstanding at December 31, 2007, are as follows:

Maturity Date	Principal Amount	Interest Rate
February 15,		
2008	\$ 460,000	3.70 %
2009	475,000	3.90 %
2010	495,000	4.00 %
2011	515,000	4.20 %
2012	535,000	4.20 %
2017	3,090,000	5.25 %
2022	4,000,000	5.00 %
	<u>\$ 9,570,000</u>	

The Wadsworth Bonds were issued by AMP-Ohio on March 1, 2002 in the form of serial and term bonds on behalf of the City of Wadsworth which is a member of AMP-Ohio. The Wadsworth Bonds mature in various annual installments through February 15, 2022. Interest is payable semiannually at fixed interest rates.

The Wadsworth Bonds are payable solely from the municipal electric system revenues of the City of Wadsworth. There is no recourse to AMP-Ohio regarding the bonds, other than from such revenues. AMP-Ohio will not be obligated to pay debt service on the Wadsworth Bonds, except from debt service payments received from the City of Wadsworth and other funds pledged or assigned therefor under the trust agreement.

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The Wadsworth Bonds are not subject to optional redemption prior to February 15, 2012. The Wadsworth Bonds maturing after February 15, 2012 are subject to redemption in whole or in part on any date on or after February 15, 2012, at a redemption price of 100% of the outstanding principal plus accrued interest.

The Wadsworth Bonds require that the City of Wadsworth maintain a debt service coverage ratio of net electric system revenues to debt service of 1.1 or greater.

AMP-Ohio Village of Genoa Project Electric System Improvement Bonds

The AMP-Ohio Village of Genoa Project System Improvement Bonds, Series 2004 (the "Genoa Bonds"), outstanding at December 31, 2007, are as follows:

Maturity Date	Principal Amount	Interest Rate
February 15,		
2008	\$ 155,000	2.50 %
2009	160,000	2.80 %
2010	165,000	3.00 %
2011	165,000	3.25 %
2012	175,000	3.25 %
2013	180,000	3.40 %
2014	185,000	3.50 %
2024	2,435,000	5.25 %
2029	<u>1,750,000</u>	4.63 %
	<u>\$ 5,370,000</u>	

The Genoa Bonds were issued by AMP-Ohio on October 1, 2004 in the form of serial and term bonds on behalf of the Village of Genoa which is a member of AMP-Ohio. The Genoa Bonds mature in various installments through February 15, 2029. Interest is paid semiannually at fixed interest rates.

The Genoa Bonds are payable solely from the municipal electric system revenues of the Village of Genoa. There is no recourse to AMP-Ohio regarding these bonds, other than from such revenues. AMP-Ohio will not be obligated to pay debt service on the Genoa Bonds, except from debt service payments received from the Village of Genoa and other funds pledged or assigned therefor under the trust agreement.

The Genoa Bonds are not subject to optional redemption prior to February 15, 2014. Genoa Bonds maturing on or after February 15, 2015 are subject to redemption in whole or in part, on any date on or after February 15, 2014, at a redemption price of par, plus accrued interest to the date of redemption.

The Genoa Bonds require that the Village of Genoa maintain a debt service coverage ratio of net electric system revenues to debt service of 1.1 or greater.

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OMEGA JV6 Adjustable Rate Revenue Bonds

The OMEGA JV6 Bonds were issued by AMP-Ohio on July 1, 2004 in the form of serial bonds on behalf of certain of its members who are financing participants in OMEGA JV6. Principal and interest on the OMEGA JV6 Bonds are payable in \$500,000 semi-annual installments on February 15 and August 15, beginning February 15, 2005. The OMEGA JV6 Bonds bear interest at an adjustable rate, which shall be established by reference to the Six-Month Municipal Market Data High Grade Index Rate (the "MMD Index Rate") plus 15 basis points. The adjustable rate will automatically be reset semi-annually, based on the MMD Index Rate as of two business days prior to the beginning of the next interest period. On August 15, 2019, the balance of the principal of the OMEGA JV6 Bonds, if not theretofore paid or provided for, shall become due and payable.

OMEGA JV6 Adjustable Rate Revenue Bonds, Series 2004 (the "OMEGA JV6 Bonds") outstanding at December 31, 2007, are as follows:

Maturity Date	Principal Amount	Interest Rate
February 15 and August 15,		
2008	\$ 813,000	1.15 %
2009	924,000	1.15 %
2010	935,000	1.15 %
2011	945,000	1.15 %
2012	957,000	1.15 %
2013	967,000	1.15 %
2014	979,000	1.15 %
2015	990,000	1.15 %
2016	121,000	1.15 %
	<u>\$ 7,631,000</u>	

The maturity table assumes a constant interest rate of 1.15%, which is equal to the interest rate used to calculate the August 15, 2008 and subsequent principal payments.

The OMEGA JV6 Bonds are payable solely from the basic and additional demand charges payable by the OMEGA JV6 financing members. The OMEGA JV6 Bonds require compliance by the financing members with the OMEGA JV6 joint venture agreement, which requires that each financing member maintain a debt service coverage ratio of 1.1 or greater. There is no recourse to AMP-Ohio regarding these bonds, other than from such revenues. AMP-Ohio will not be obligated to pay debt service on the OMEGA JV6 Bonds, except from demand charges received from OMEGA JV6 financing participants and other funds pledged or assigned therefor under the trust agreement.

The OMEGA JV6 Bonds are subject to optional redemption at any time, at the sole discretion of participants of OMEGA JV6, at the price of par plus accrued interest.

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Municipal Project Notes

The municipal project notes are payable solely from revenues received by AMP-Ohio pursuant to its agreements with municipal members for construction of various electric utility projects. There is no recourse to AMP-Ohio regarding these notes, other than from such revenues.

The aggregate amounts of future maturities for revolving credit loan and term debt are as follows:

Years Ending December 31,	AMP-Ohio Debt	On Behalf of Financings
2008	\$ 24,982,550	\$ 48,851,400
2009	52,750,000	3,679,000
2010	55,195,000	3,820,000
2011	58,025,000	3,960,000
2012	284,313,904	4,127,000
Thereafter	73,435,000	43,347,000
	<u>\$ 548,701,454</u>	<u>\$ 107,784,400</u>

9. Trustee Funds

Funds collected in advance of contractually scheduled principal and interest payments for certain bond offerings are held in trust. Trustee funds related to these bond offerings consist of the following at December 31:

	2007	2006
Gorsuch Project Bonds	\$ -	\$ 18,280,586
Combustion Turbine Bonds	581,414	107,341
Revenue Bonds	21,783,051	-
OMEGA JV2 Bonds	7,308,224	7,254,888
Wadsworth Bonds	1,602,991	1,590,181
Genoa Bonds	671,833	669,365
OMEGA JV6 Bonds	419,490	572,280
	<u>32,367,003</u>	<u>28,474,641</u>
Current portion	<u>(26,757,496)</u>	<u>(13,404,334)</u>
Noncurrent portion	<u>\$ 5,609,507</u>	<u>\$ 15,070,307</u>

American Municipal Power-Ohio, Inc. Multi-Mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2006

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the Combustion Turbine Bonds dated December 1, 2006 contains, among others, the following provisions:

- AMP-Ohio will sell the output of the combustion turbine project to 33 of its member municipalities (the "Municipalities").

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- AMP-Ohio is obligated to fix rates and charges sufficient to pay debt service on the Combustion Turbine Bonds, and the Municipalities are obligated to fix rates and charges sufficient, with other available funds, to make monthly payments to AMP-Ohio that include amounts sufficient for AMP-Ohio to pay debt service on the Combustion Turbine Bonds.
- The following funds are established: (a) Project Fund (containing amounts from bond proceeds); (b) Bond Fund (containing all debt service payments); (c) Rebate Fund (containing amounts required to be paid, if necessary, to the United States as provided by the IRC of 1986, as applicable; to be maintained in AMP-Ohio's general accounts); (d) Overhaul Fund (containing amounts for the payment of principal and interest and for major repairs, replacements, renovations, rehabilitation and improvements to the project; and to the extent funds in the Bond Fund are not sufficient to make such payments, for reimbursements of draws under the Credit Facility, and for payments owed for the swap agreement); (e) Reserve and Contingency Fund (containing amounts for principal and interest on the Combustion Turbine Bonds to the extent funds in the Bond Fund are not sufficient to make such payments, for reimbursements of draws under the Credit Facility, for payments owed for the swap agreement and for operating and maintenance expenses of the project).

Funds held by the trustee for the Combustion Turbine Bonds at December 31 are as follows:

	2007	2006
Bond Fund	\$ 581,414	\$ 50,000
Project Fund	-	57,341
	<u>581,414</u>	<u>107,341</u>
Current portion	<u>(581,414)</u>	<u>(107,341)</u>
	<u>\$ -</u>	<u>\$ -</u>

Electricity Purchase Revenue Bonds

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the Revenue Bonds dated August 1, 2007 contains, among others, the following provisions:

- AMP-Ohio will at all times fix, establish, maintain and collect fees and charges to the extent permitted under the provisions of the Power Schedules for the sale of electricity. These fees and charges should be equal to the amounts required to be paid during the year for debt service and other costs associated with the Revenue Bonds.
- The following subfunds are established: (a) Project Subfund (consisting of the Costs of Issuance Account and the Electricity Purchase Account; containing amounts to be paid for costs incurred by AMP-Ohio in connection with the issuance of the Revenue Bonds and the proceeds from the Revenue Bonds offering); (b) Revenue Subfund (containing the monthly payments from the Participants due under the Participants' Power Schedules); (c) Debt Service Subfund (consisting of the Debt Service Account and the Redemption Account, containing amounts to be paid for debt service and amounts to be paid should a redemption be triggered); (d) Trust Indenture Expense Subfund (containing amounts to be paid for trust indenture expenses); (e) General Subfund (containing amounts to be maintained in AMP-Ohio's general accounts).

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- Amounts deposited into the Debt Service Account will be invested into a guaranteed investment contract (the "GIC"). The GIC is effective on August 1, 2007, and it guarantees AMP-Ohio a rate of return of 5.216% on the funds invested. The GIC expires on February 1, 2013, which coincides with the date of the final principal payment of the Revenue Bonds.

Funds held by the trustee for the Revenue Bonds at December 31, 2007, are as follows:

Cost of Issuance Account	\$ 12,319
Revenue Subfund	10,902,434
Debt Service Account	<u>10,868,298</u>
	21,783,051
Current portion	<u>(21,783,051)</u>
	<u>\$ -</u>

OMEGA JV2 Project Distributive Generation Bonds

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the OMEGA JV2 Bonds dated January 1, 2001 contains, among others, the following provisions:

- The OMEGA JV2 Bonds are payable solely from payments to be made by the OMEGA JV2 financing participants pursuant to a financing agreement dated January 1, 2001. The payment obligations of each financing participant are payable from the revenues of its municipal electric utility system.
- The following funds are established: (a) AMP-Ohio Proceeds Fund (containing amounts from bond proceeds); (b) Acquisition Fund (consisting of the Bond Proceeds Subfund, the Contributions Subfund and the Costs of Issuance Account; containing the amounts from bond proceeds, proceeds from contributions by nonfinancing participants and costs of bond issuance, respectively); (c) Debt Service Fund (consisting of the Bond Payment Fund and Debt Service Reserve Fund, containing the monthly payments for annual debt service requirements); (d) Reserve and Contingency Fund (containing amounts for improvements and extraordinary operation and maintenance costs to be held by OMEGA JV2); (e) General Reserve Fund (consisting of amounts to be maintained in AMP-Ohio's general accounts).
- The trustee is to receive on or before the last business day (but not before the twenty-sixth day) of each month, the full bond debt service payments for each month during the term of the financing agreement from AMP-Ohio. In the event the amounts in the Bond Payment Fund are not sufficient to make scheduled payments, such deficiency would be drawn first from the Reserve and Contingency Fund and then the Debt Service Reserve Fund.

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Funds held by the trustee for the OMEGA JV2 Bonds at December 31 are as follows:

	2007	2006
Bond Payment Fund	\$ 3,089,871	\$ 3,049,453
Debt Service Reserve Fund	4,218,353	4,205,435
	<u>7,308,224</u>	<u>7,254,888</u>
Current portion	<u>(3,089,871)</u>	<u>(3,049,453)</u>
	<u>\$ 4,218,353</u>	<u>\$ 4,205,435</u>

The Bond Payment Fund and the Debt Service Reserve Fund are restricted for payment of principal and interest on outstanding OMEGA JV2 Bond obligations. Debt service payments are to be made by the trustee in accordance with the trust agreement. Reserve and Contingency Fund amounts held by OMEGA JV2 at December 31, 2007 and 2006, are \$516,916 and \$251,056, respectively.

AMP-Ohio City of Wadsworth Project Electric System Improvement Bonds

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the Wadsworth Bonds dated March 1, 2002 contains, among others, the following provisions:

- The Wadsworth Bonds are payable solely from the revenues of the City of Wadsworth's municipal electric utility system, pursuant to a financing agreement dated March 1, 2002.
- The following funds are established: (a) AMP-Ohio Proceeds Fund (containing amounts from the bond proceeds); (b) Payment Fund (consisting of the Note Repayment Account, the Improvement Account and the Cost of Issuance Account, containing amounts for the repayment of principal, the costs of new improvements and the costs of bond issuance, respectively); (c) Bond Fund (containing the monthly payments for annual debt service requirements); (d) Rebate Fund (containing amounts required to be paid, if necessary, to the United States as provided by the IRC of 1986, as applicable); (e) Debt Service Reserve Fund (containing reserve amounts to the extent that the Bond Fund has deficiencies); (f) General Reserve Fund (amounts to be held and maintained in AMP-Ohio's general accounts).
- The trustee is to receive on or before the twenty-sixth day of each month, the full bond debt service payments for each month during the term of the financing agreement from AMP-Ohio. In the event the amounts in the Bond Fund are not sufficient to make scheduled payments, such deficiency would be drawn from the Debt Service Reserve Fund.

Funds held by the trustee for the Wadsworth Bonds at December 31 are as follows:

	2007	2006
Bond Fund	\$ 633,294	\$ 622,844
Debt Service Reserve Fund	969,697	967,337
	<u>1,602,991</u>	<u>1,590,181</u>
Current portion	<u>(633,294)</u>	<u>(622,844)</u>
	<u>\$ 969,697</u>	<u>\$ 967,337</u>

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The Bond Fund and the Debt Service Reserve Fund are restricted for payment of principal and interest on outstanding Wadsworth Bond obligations. Debt service payments are to be made by the trustee in accordance with the trust agreement. There were no amounts held by AMP-Ohio for the General Reserve Fund at December 31, 2007 and 2006.

AMP-Ohio Village of Genoa Project Electric System Improvement Bonds

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the Genoa Bonds, dated October 1, 2004 contains, among others, the following provisions:

- The Genoa Bonds are payable solely from the revenues from the Village of Genoa's municipal electric utility system, pursuant to a financing agreement date October 1, 2004.
- The following funds are established: (a) Proceeds Fund (containing amount from bond proceeds); (b) Payment Fund (consisting of the Note Repayment Account and the Cost of Issuance Account, containing amounts for the repayment of principal and the costs of bond issuance, respectively); (c) Bond Fund (containing the monthly payments for annual debt service requirements); (d) Debt Service Reserve Fund (containing reserve amounts to the extent that the Bond Fund has deficiencies); (e) General Reserve Fund (containing amounts to be held and maintained in AMP-Ohio's general accounts).
- The trustee is to receive on or before the twenty-fifth day of each month, the full bond debt service payments for each month during the term of the financing agreement from AMP-Ohio. In the event the amounts in the Bond Fund are not sufficient to make scheduled payments, such deficiency would be drawn from the Debt Service Reserve Fund.

Funds held by the trustee for the Genoa Bonds at December 31 are as follows:

	2007	2006
Bond Fund	\$ 250,376	\$ 249,117
Debt Service Reserve Fund	421,457	420,248
	<u>671,833</u>	<u>669,365</u>
Current portion	<u>(250,376)</u>	<u>(249,117)</u>
	<u>\$ 421,457</u>	<u>\$ 420,248</u>

The Bond Fund and the Debt Service Reserve Fund are restricted for payment of principal and interest (and redemption premium, if any) on outstanding Genoa Bond obligations. Debt service payments are to be made by the trustee in accordance with the trust agreement. There were no amounts held by AMP-Ohio for the General Reserve Fund at December 31, 2007 and 2006.

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OMEGA JV6 Adjustable Rate Revenue Bonds

The trust agreement executed by AMP-Ohio in conjunction with the issuance of the OMEGA JV6 Bonds dated July 1, 2004, contains, among others, the following provisions:

- The OMEGA JV6 Bonds are payable solely from payments to be made by the OMEGA JV6 financing participants pursuant to a financing agreement dated July 1, 2004.
- The following funds are established: (a) Acquisition Fund (consisting of the Bond Proceeds Sub-Fund, the Contributions Sub-Fund and the Cost of Issuance Account; containing the amounts from bond proceeds, proceeds from contributions by nonfinancing participants, and costs of bond issuance, respectively); (b) Bond Payment Fund (containing the monthly payments for annual debt service requirements); (c) Rebate Fund (containing amounts required to be paid, if necessary, to the United States as provided by the IRC of 1986, as applicable; to be maintained in AMP-Ohio's general accounts); (d) Reserve and Contingency Fund (containing amounts for improvements and extraordinary operation and maintenance costs to be held by OMEGA JV6); (e) General Reserve Fund (consisting of amounts to be maintained in AMP-Ohio's general accounts).
- The trustee is to receive on or before the twenty-sixth day of each month, full bond debt service payments for each month during the term of the financing agreement from AMP-Ohio. In the event the amounts in the Bond Payment Fund are not sufficient to make scheduled payments, such deficiency would be drawn first from the General Reserve Fund and then the Reserve and Contingency Fund.

Funds held by the trustee for the OMEGA JV6 Bonds at December 31 are as follows:

	2007	2006
Bond Payment Fund	\$ 419,490	\$ 572,280
	419,490	572,280
Current portion	(419,490)	(572,280)
	<u>\$ -</u>	<u>\$ -</u>

Reserve and Contingency Fund amounts held by OMEGA JV6 at December 31, 2007 and 2006 are \$66,591 and \$55,400, respectively. There were no amounts held by AMP-Ohio for the Rebate Fund and General Reserve Fund at December 31, 2007 and 2006.

Investments held in the trustee funds consist of the following at December 31:

	2007	2006
Money market funds	\$ 6,073,307	\$ 9,335,227
Debt securities	9,903,092	19,139,414
Guaranteed investment contracts	16,390,604	-
	<u>\$ 32,367,003</u>	<u>\$ 28,474,641</u>

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10. Fair Value of Financial Instruments

Financial Instruments	December 31, 2007		December 31, 2006	
	Carry Value	Estimated Fair Value	Carry Value	Estimated Fair Value
Assets				
Investments	\$ 12,350,469	\$ 12,350,469	\$ 1,239,467	\$ 1,239,467
Trustee funds, AMP-Ohio	21,783,051	21,783,051	18,280,586	18,280,586
Trustee funds on behalf of members	10,583,952	10,583,952	10,194,055	10,194,055
Liabilities				
Fixed rate term debt, including current maturities, AMP-Ohio	\$ 357,685,904	\$ 363,504,540	\$ 20,391,000	\$ 20,796,421
Fixed rate term debt, including current maturities, on behalf of members	54,750,000	57,048,430	57,285,000	59,663,428
Variable rate term debt, including current maturities, AMP-Ohio and on behalf of members	70,721,950	70,721,950	77,099,350	77,099,350

The carrying amounts of cash, accounts receivable, accounts payable, the AMP-Ohio project note, the municipal project notes, the revolving credit loan, and the 2005 Subordinate Notes 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 long-term debt was estimated by using quoted market prices or discounted cash flows using interest rates currently available for debt with similar terms and maturities.

11. Asset Retirement Obligations

Asset retirement obligations consist of the following:

	AMP-Ohio		Total
	General Fund	Gorsuch Station Project Fund	
Asset retirement obligation at December 31, 2005	\$ 227,507	\$ 3,858,221	\$ 4,085,728
Accretion	10,786	153,433	164,219
Asset retirement obligation at December 31, 2006	238,293	4,011,654	4,249,947
Revisions to estimated cash flow	131,566	380,439	512,005
Accretion	11,310	159,558	170,868
Asset retirement obligation at December 31, 2007	\$ 381,169	\$ 4,551,651	\$ 4,932,820

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12. Employee Benefits

Pension Plan

AMP-Ohio has a defined benefit pension plan (the "Pension Plan") covering substantially all hourly employees at the Gorsuch Project. Benefits for eligible employees at retirement are based primarily on years of service and compensation rates. AMP-Ohio's funding policy is to make contributions as required by applicable government regulations. Assets held by the Pension Plan consist primarily of treasury notes, marketable securities, and alternative investments.

Postretirement Plan

AMP-Ohio 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. The eligible employees' share of the medical insurance premiums in the postretirement period is increased on the basis of the provisions of the Postretirement Plan. As of February 1, 2005, AMP-Ohio began billing and collecting \$600,000 annually through rates to fund the Postretirement Plan. At December 31, 2007 and 2006, \$12,530,469 and \$1,239,467, respectively, of investments in the accompanying consolidated balance sheets are designated to fund Postretirement Plan benefits.

The following table sets forth the benefit obligations, change in plan assets, funded status, amounts recognized in the consolidated balance sheets, components of net periodic benefit cost, and weighted average assumptions for the Pension Plan and Postretirement Plan at December 31:

	Pension Plan		Postretirement Plan	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 24,996,000	\$ 21,090,573	\$ 4,934,232	\$ 7,332,931
Service cost	787,014	747,704	161,851	141,720
Interest cost	1,292,540	1,178,063	260,718	391,800
Actuarial (gain) loss	(1,271,310)	3,184,714	(194,387)	(2,645,176)
Benefits paid	(5,034,096)	(1,205,054)	(404,510)	(287,043)
Benefit obligation at end of year	20,770,148	24,996,000	4,757,904	4,934,232
Change in plan assets				
Fair value of plan assets at beginning of year	17,001,000	14,504,744	-	-
Actual return on plan assets	3,101,861	1,701,310	-	-
Employer contributions	24,400,000	2,000,000	404,510	287,043
Benefits paid	(5,034,096)	(1,205,054)	(404,510)	(287,043)
Fair value of plan assets at end of year	39,468,765	17,001,000	-	-
Funded status	\$ 18,698,617	\$ (7,995,000)	\$ (4,757,904)	\$ (4,934,232)

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	Pension Plan		Postretirement Plan	
	2007	2006	2007	2006
Amounts recognized in the consolidated balance sheets				
Prepaid pension costs	\$ 18,698,617	\$ -	\$ -	\$ -
Current liabilities	-	(7,140,091)	(365,000)	(2,754,897)
Noncurrent liabilities	-	-	(4,392,904)	-
Net amount recognized	\$ 18,698,617	\$ (7,140,091)	\$ (4,757,904)	\$ (2,754,897)
Amounts recognized in accumulated other comprehensive income				
Prior service cost	\$ -	\$ -	\$ -	\$ -
Actuarial loss	6,445,558	-	1,241,889	-
Transition obligation	-	-	573,800	-
Net amount recognized	\$ 6,445,558	\$ -	\$ 1,815,689	\$ -
Components of net periodic benefit cost				
Service cost	\$ 787,014	\$ 747,704	\$ 161,851	\$ 141,720
Interest cost	1,292,540	1,178,063	260,718	391,800
Expected return on plan assets	(2,278,761)	(1,267,000)	-	-
Amortization of transition obligation	-	-	78,600	78,600
Amortization of prior service cost	-	8,410	-	-
Recognized actuarial loss	855,375	688,209	90,659	315,158
Settlement loss	1,658,002	-	-	-
Net periodic benefit cost	\$ 2,314,170	\$ 1,355,386	\$ 591,828	\$ 927,278
Weighted average assumptions				
Discount rate	6.25%	5.75%	6.25%	5.75%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%
Health care trend rate	N/A	N/A	8.40%	9.20%

In accordance with the transition requirements of SFAS No. 158, AMP-Ohio has determined that the incremental effect of applying SFAS No. 158 at December 31, 2007, was to decrease prepaid pension costs by \$6,445,558, increase accrued pension and postretirement benefits by \$365,000, increase accrued pension and postretirement benefits—noncurrent by \$1,450,689 and increase accumulated other comprehensive income by \$8,261,247.

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Amounts included in accumulated other comprehensive income as of December 31, 2007, that are expected to be recognized as components of net periodic benefit cost during 2008, are:

	Pension Plan	Postretirement Plan
Actuarial loss	\$ 249,868	\$ 84,660
Transition obligation	-	78,600

The accumulated benefit obligation for the Pension Plan was \$20,429,125 and \$24,141,691 at December 31, 2007 and 2006, respectively. The accumulated benefit obligation for the Postretirement Plan was \$4,757,904 and \$4,934,232 at December 31, 2007 and 2006, respectively.

AMP-Ohio has adjusted the initial unrecognized transition obligation for the Postretirement Plan for the effect of plan amendments. The remaining net unrecognized transition obligation for the Postretirement Plan is being amortized over the remaining transition period (8 years at December 31, 2007).

AMP-Ohio's expected long-term rate of return on plan assets is based on the expected long-term performance of a portfolio with the current asset mix.

The Pension Plan's weighted-average asset allocations by asset category are as follows at December 31:

Asset Category	2007	2006
Equity securities	32%	68%
Debt securities	30%	18%
Other	38%	14%

AMP-Ohio does not expect to make any contributions to the Pension Plan for the year ended December 31, 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan	Postretirement Plan
2008	\$ 3,569,000	\$ 365,000
2009	2,320,000	396,000
2010	1,264,000	426,000
2011	2,346,000	439,000
2012	1,903,000	442,000
2013-2017	9,638,000	2,600,000

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Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement health care plans. A one-percentage point change in assumed health care cost trend rate would have the following impact on the Postretirement Plan:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of service and interest cost components	\$ 20,393	\$ (18,127)
Effect on postretirement benefit obligation	493,423	(468,752)

The assumed rate of increase in per capita cost of health care benefits is 8.4% in 2007. This rate is assumed to decrease gradually to 5.25% by 2011 and remain at that rate thereafter.

13. Power Sales Contracts

AMP-Ohio's member power sales contracts for Gorsuch Project energy are long-term take-and-pay agreements. Under these agreements, member communities must take, and pay for, contracted power and energy when made available by AMP-Ohio. Accordingly, AMP-Ohio must make available such contracted power and energy from the Gorsuch Project or replacement power over the same period.

14. Distributive Generation Agreement

In 1996, AMP-Ohio entered into a 20-year distributive generation agreement with a member. Under the agreement, AMP-Ohio agreed to install six generating units in the member's community, directly connected to the member's electric utility system. The member has agreed to pay AMP-Ohio a demand charge per megawatt hour of available capacity commencing from the date the units are installed plus operating expenses. At the end of the term of the agreement, the member has the right, at its option, to acquire the units for AMP-Ohio's remaining book cost plus \$1.

The generating units were initially financed by AMP-Ohio with a project note payable. In August 2003, \$4,442,444 of the project note was refinanced with a municipal project note from the member. The demand charge received under the distributive generation agreement is applied to the municipal project note from the member.

15. Emission Allowances

The Gorsuch Project is required to comply with provisions of the Clean Air Act Amendments of 1990 (the "CAA"). The Environmental Protection Agency ("EPA"), under the CAA, has awarded the Gorsuch Project, as a Phase II plant, 19,494 sulfur dioxide emission allowances per year through 2009, and 19,530 per year for the years 2010 to 2030. The EPA's allocated sulfur dioxide allowances are recorded at zero cost. The Gorsuch Project also purchases sulfur dioxide emission allowances on the open market.

The Gorsuch Project is required to comply with provisions of the CAA to reduce nitrogen-oxide emissions. AMP-Ohio was allocated 574 nitrogen-oxide emission allowances in 2005 and 562 nitrogen-oxide emission allowances in both 2006 and 2007 from the EPA. The EPA allocated nitrogen-oxide emission allowances are recorded at zero cost. The Gorsuch Project also purchases nitrogen-oxide emission allowances on the open market.

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16. Commitments and Contingencies

Environmental Matters

AMP-Ohio 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.

Clean Air Act

The United States EPA ("USEPA") has determined that Ohio and several other states contribute significantly to nonattainment, or interfere with maintenance, of NAAQS for fine particulates and eight-hour ozone in downwind states and has promulgated the Clean Air Interstate Rule ("CAIR") to further control nitrogen oxide and sulfur dioxide emission from electric utility boilers. Phase I nitrogen oxide reductions will begin in 2009. Phase I sulfur dioxide reductions will begin in 2010. Phase II reductions for both nitrogen oxide and sulfur dioxide begin in 2015.

CAIR mandates a 50% reduction in the sulfur dioxide cap in 2010, effectively reducing the Gorsuch baseline allocation from 19,500 to 9,750. At 2015, the cap is further reduced by another 30%, leaving the Gorsuch Project with an effective baseline allocation of 6,825.

Nitrogen oxide allowances will be distributed to Ohio and allocated to existing sources based on the highest year of heat input during 1999-2002. Phase I nitrogen oxide allowances in 2009 will be calculated on a 0.15 lbs/mm Btu basis. The allocation factor is further reduced to 0.125 lbs/mm Btu in 2015.

AMP-Ohio is studying the impacts of these proposed rules on the operations at the Gorsuch Project.

Mercury Emissions

In December 2000, the EPA issued a determination that coal and oil-fired electric generating units should be regulated for emission of mercury. The EPA issued final Clean Air Mercury Rules ("CAMR") in May 2005, establishing a cap and trade program that will take effect in 2009. The Phase I cap of 38 tons per year becomes effective in 2010, and a second phase cap of 15 tons per year is effective beginning in 2018. On February 7, 2008, a federal court vacated the CAMR. This decision has been appealed. Since litigation is on-going, the resulting impacts on the Gorsuch Project cannot be determined at this time.

Clean Water Act

Under court order pursuant to Section 316(b) of the Clean Water Act, the EPA issued regulations for cooling water intake structures applicable to the Gorsuch Project. The EPA's implementation schedule calls for imposing the Section 316(b) Best Available Technology ("BAT") requirements at the time of National Pollutant Discharge Elimination System ("NPDES") permit renewal. Gorsuch Project's NPDES permit does not expire until 2008. The Gorsuch Project performed ecosystem studies to determine its impact on aquatic wildlife. If new BAT requirements are implemented, it is possible that the cooling water intake structure may require an upgrade; the cost of which is unknown at this time.

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Other Regulatory Matters

Most metropolitan and industrialized counties in Ohio are non-attainment areas under the new ozone and fine particulate matter ambient air quality standards. This will require substantial local reduction of nitrogen oxides, volatile organic compounds, sulfur dioxide and particulate matter. In addition to emissions reductions required to achieve compliance in down-wind neighboring states, the site of the Gorsuch Project is a non-attainment area for ozone and fine particulate matter. The impact on the Gorsuch Project is uncertain at this time.

Pursuant to Section 114 (a) of the CAA, AMP-Ohio received a request from the USEPA to provide certain emissions information and emissions dispersion characteristics associated with the Gorsuch Project. Based on our discussions with USEPA staff, the Agency is attempting to determine the source(s) of higher than normal toxic metal deposition in the Marietta area. AMP-Ohio is cooperating fully with the USEPA's investigation

Power Purchase Commitments

AMP-Ohio'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 SFAS 133. All such purchases are "covered" by corresponding power sales arrangements either with individual members or one of AMP-Ohio's power pools.

Energy purchase commitments at December 31, 2007, are as follows:

2008	\$ 362,103,690
2009	282,790,092
2010	261,314,205
2011	202,653,423
2012	184,573,469
2013-2017	45,543,127
	<hr/>
	\$ 1,338,978,006

AMP-Ohio has certain power supply agreements that include provisions that would require collateral in the form of letters of credit upon a decrease in AMP-Ohio's credit rating below investment grade.

AMP-Ohio has entered into multiple agreements with coal suppliers to meet the coal requirements of the Gorsuch Project. The terms of these contracts extend through December 31, 2008. Under the terms of these contracts, AMP-Ohio has a commitment to purchase a set amount of coal at a fixed price. If AMP-Ohio or the supplier is unable to take or deliver the coal, adjustments are to be made in the fixed price to pay the other party the difference between market price and the fixed purchase price. AMP-Ohio has committed to purchase \$24,384,450 of coal through the year ended December 31, 2008.

Other Commitments

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

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17. Subsequent Events

On January 22, 2008, AMP-Ohio initiated a tax-exempt commercial paper ("CP") program, with an authorized par amount of \$350,000,000, which is secured by a letter of credit drawn under its Facility. The CP has been and will be utilized to provide interim financing for AMP-Ohio's PSEC related payment obligations and capital expenditures for AMP-Ohio's Hydroelectric Projects and American Municipal Power Generating Station ("AMPGS") that are eligible for tax-exempt financing, pending AMP-Ohio's issuance of long-term debt for these projects.

On February 7, 2008, the Ohio Environmental Protection Agency ("OEPA") issued an Air Permit to Install ("Permit") for AMPGS. The National Resources Defense Council, Sierra Club and the Ohio Environmental Council ("Activist Groups"), along with the National Parks Conservation Association, and one individual (in a separate appeal), have filed appeals of the OEPA issuance of this Permit to the Environmental Review Appeals Commission. A hearing has been tentatively set for the Activist Groups' appeal for February 2009. There is no automatic stay of the Power Siting Order on the Permit.

On March 3, 2008, the Ohio Power Siting Board ("Board") granted AMP-Ohio a Certificate of Environmental Compatibility and Public Need regarding AMPGS. The Activist Groups, who have intervened in opposition, have timely filed an application for rehearing with the Board, the procedural prerequisite for an appeal, which is a direct appeal as of right to the Ohio Supreme Court. There is no automatic stay of the Power Siting Order either on rehearing or on appeal.

On April 2, 2008, AMP-Ohio issued \$120,000,000 of Prairie State Revenue Bond Anticipation Notes ("Prairie State Notes"). The Prairie State Notes were issued to (i) refund a portion of AMP-Ohio's CP program, and/or (ii) fund a portion of AMP-Ohio's allocable share of the additional costs of constructing and placing the PSEC into service, and (iii) pay the costs of issuance of the Prairie State Notes. The Prairie State Notes mature on April 1, 2009, and bear interest at the rate of 3.50% per annum.