

# **American Municipal Power, Inc.**

**Interim Consolidated Financial Statements  
March 31, 2010**

# American Municipal Power, Inc.

## Index

March 31, 2010 (unaudited)

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**Report of Independent Accountants**

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

We have reviewed the accompanying consolidated balance sheet of American Municipal Power, Inc. and its subsidiaries (the "Organization") as of March 31, 2010, and the related consolidated statements of revenues and expenses, changes in member and patron equities and cash flows for the three-month period ended March 31, 2010. This interim financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Organization as of December 31, 2009, and the related consolidated statements of revenues and expenses, changes in member and patron equities, and of cash flows for the year then ended (not presented herein), and in our report dated March 17, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2009 and the consolidated statement of changes in member and patron equities for the year ended December 31, 2009, is fairly stated in all material respects in relation to the consolidated balance sheet and the consolidated statement of changes in member and patron equities from which they have been derived.

This report is intended solely for the information and use of management and the Board of Trustees of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

June 16, 2010

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**March 31, 2010 and December 31, 2009 (unaudited)**

	March 31, 2010	December 31, 2009
<b>Assets</b>		
Utility plant		
Electric plant in service	\$ 108,340,784	\$ 108,331,813
Accumulated depreciation	(81,560,106)	(80,092,969)
Total utility plant	<u>26,780,678</u>	<u>28,238,844</u>
Nonutility property and equipment		
Nonutility property and equipment	17,142,173	14,643,343
Accumulated depreciation	(3,869,708)	(3,840,268)
Total nonutility property and equipment	<u>13,272,465</u>	<u>10,803,075</u>
Construction work-in-progress	1,033,100,733	918,474,493
Assets held for future use	144,452,369	113,310,685
Coal reserves	26,612,000	26,612,000
Trustee funds and other assets		
Trustee funds	872,782,912	1,060,938,762
Financing receivables - members	41,504,791	42,642,798
Investments	-	4,793,061
Note receivable - long-term	3,075,000	3,075,000
Regulatory assets	37,447,185	37,410,368
Prepaid power purchase asset	101,297,451	115,520,182
Prepaid pension costs	9,142,380	9,319,733
Intangible and other assets, net of accumulated amortization of \$3,846,475 and \$1,327,118 respectively	33,325,524	34,310,812
Total trustee funds and other assets	<u>1,098,575,243</u>	<u>1,308,010,716</u>
Current assets		
Cash and cash equivalents	32,937,221	37,929,850
Cash and cash equivalents - restricted	39,534,349	23,748,485
Trustee funds	136,104,881	169,924,964
Investments	12,554,717	18,962,692
Collateral Postings	72,976,345	20,175,106
Accounts receivable	73,225,016	80,213,312
Financing receivables - members	31,651,454	31,256,326
Emission allowances	11,938,158	12,262,390
Inventories	4,241,183	7,808,540
Regulatory assets - current	17,301,884	15,616,852
Prepaid power purchase asset - current	57,681,076	57,681,076
Prepaid expenses and other assets	2,185,180	1,898,695
Total current assets	<u>492,331,464</u>	<u>477,478,288</u>
Total assets	<u>\$ 2,835,124,952</u>	<u>\$ 2,882,928,101</u>

**American Municipal Power, Inc.**  
**Consolidated Balance Sheets**  
**March 31, 2010 and December 31, 2009 (unaudited)**

	March 31, 2010	December 31, 2009
<b>Equities and Liabilities</b>		
Member and patron equities		
Contributed capital	\$ 790,528	\$ 790,528
Patronage capital	46,465,457	45,217,602
Total member and patron equities	<u>47,255,985</u>	<u>46,008,130</u>
Long-term debt		
Term debt	2,221,991,085	2,308,239,407
Term debt on behalf of members	47,896,000	51,408,000
Line of credit and commercial paper	242,000,000	165,000,000
Total long-term debt	<u>2,511,887,085</u>	<u>2,524,647,407</u>
Current liabilities		
Accounts payable	92,196,794	100,611,273
Accrued salaries and related benefits	1,231,991	1,100,352
Accrued pension and postretirement benefits - current	699,000	699,000
Accrued interest	16,934,191	32,607,185
Term debt - current	83,462,932	93,673,491
Term debt on behalf of members - current	35,014,000	34,913,000
Regulatory liabilities - current	1,973,112	4,282,610
Other liabilities	9,162,487	8,048,185
Total current liabilities	<u>240,674,507</u>	<u>275,935,096</u>
Other noncurrent liabilities		
Accrued pension and postretirement benefits	5,460,958	5,421,045
Deferred gain on sale of real estate	1,276,789	1,276,789
Regulatory liabilities	21,157,386	22,292,026
Asset retirement obligations	7,412,242	7,347,608
Total other noncurrent liabilities	<u>35,307,375</u>	<u>36,337,468</u>
Commitments and contingencies		
Total liabilities	<u>2,787,868,967</u>	<u>2,836,919,971</u>
Total equities and liabilities	<u>\$ 2,835,124,952</u>	<u>\$ 2,882,928,101</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statement of Revenues and Expenses**  
**Three Months Ended March 31, 2010 (unaudited)**

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	<b>March 31, 2010</b>
<b>Revenues</b>	
Electric revenue	\$ 192,773,246
Service fees	1,524,031
Programs and other	<u>2,825,357</u>
Total revenues	<u>197,122,634</u>
<b>Operating Expenses</b>	
Purchased electric power	168,752,345
Production	5,052,733
Fuel	12,908,515
Depreciation	1,780,691
Administrative and general	1,905,029
Interest expense	4,140,543
Property and real estate taxes	309,167
Programs and other	<u>1,175,922</u>
Total operating expenses	<u>196,024,945</u>
Operating margin	1,097,689
<b>Nonoperating Revenues</b>	
Interest income	42,702
Other, net	<u>107,464</u>
Total nonoperating revenues	<u>150,166</u>
Net margin	<u>\$ 1,247,855</u>

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

**American Municipal Power, Inc.**  
**Consolidated Statements of Changes in Member and Patron Equities**  
**Three Months Ended March 31, 2010 and Year Ended December 31, 2009 (unaudited)**

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	Contributed Capital	Patronage Capital	Total
<b>Balances, December 31, 2008</b>	\$ 770,296	\$ 43,111,321	\$ 43,881,617
Capital contributions	20,232	-	20,232
Net margin	-	2,106,281	2,106,281
	<hr/>	<hr/>	<hr/>
<b>Balances, December 31, 2009</b>	790,528	45,217,602	46,008,130
Net margin	-	1,247,855	1,247,855
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<b>Balances, March 31, 2010</b>	\$ 790,528	\$ 46,465,457	\$ 47,255,985

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

**American Municipal Power, Inc.**  
**Consolidated Statement of Cash Flows**  
**Three Months Ended March 31, 2010 (unaudited)**

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	<b>March 31, 2010</b>
<b>Cash flows from operating activities</b>	
Net margin	\$ 1,247,855
Adjustments to reconcile net margin to net cash used in operating activities	
Depreciation	1,780,691
Amortization of bond premium, net of amortization of bond discount	(393,880)
Amortization of deferred financing costs	596,384
Accretion of interest on asset retirement obligations	64,063
Unrealized gain on investments	(309,465)
Changes in assets and liabilities	
Collateral postings	(52,801,239)
Accounts receivable	6,988,296
Emission allowances	324,232
Inventories	3,567,357
Prepaid expenses and other assets	(286,485)
Regulatory assets and liabilities, net	(4,477,083)
Accounts payable	(6,139,646)
Prepaid power purchase asset	14,222,731
Accrued salaries and related benefits	131,639
Accrued pension and post retirement benefits	217,266
Accrued interest	(15,672,994)
Other liabilities	1,114,302
Net cash used in operating activities	<u>(49,825,976)</u>
<b>Cash flows from investing activities</b>	
Proceeds from sale of investments, net of purchases of investments	233,486,434
Purchase of utility property and equipment	(38,131)
Purchase of nonutility property and equipment	(99,363)
Purchase of construction work-in-progress	(150,696,607)
Restricted cash and cash equivalents	(15,785,864)
Net cash provided by investing activities	<u>\$ 66,866,469</u>

**American Municipal Power, Inc.**  
**Consolidated Statement of Cash Flows**  
**Three Months Ended March 31, 2010 (unaudited)**

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	<b>March 31, 2010</b>
<b>Cash flows from financing activities</b>	
Proceeds from revolving credit loan and commercial paper program	586,000,000
Payments on revolving credit loan and commercial paper program	(509,000,000)
Principal payments on term debt	(136,065,001)
Proceeds from issuance of term debt	40,000,000
Cost of issuance of debt	(300,000)
Principal payments on term debt on behalf of members	(6,922,000)
Proceeds from issuance of term debt on behalf of members	3,511,000
Proceeds from financing receivable - members	4,635,921
Funding of financing receivable - members	<u>(3,893,042)</u>
Net cash used in financing activities	<u>(22,033,122)</u>
Net change in cash and cash equivalents	(4,992,629)
Cash and cash equivalents, beginning of year	<u>37,929,850</u>
Cash and cash equivalents, end of period	<u><u>\$ 32,937,221</u></u>

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

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Three Months Ended March 31, 2010 (unaudited)

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#### 1. Description of Business

American Municipal Power, Inc. ("AMP") is a not-for-profit Ohio corporation organized to provide electric capacity and energy and to furnish other services to its members on a cooperative basis. AMP is a tax-exempt organization for federal tax purposes under Section 501(c)(12) of the Internal Revenue Service Code. AMP is a membership organization comprised of 82 municipalities in Ohio, two municipalities in West Virginia, 30 municipalities in Pennsylvania, six municipalities in Michigan, five municipalities in Virginia, and three municipalities in Kentucky, all but one of which own and operate electric systems. AMP purchases and generates electric capacity and energy for sale to its members. AMP'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 serves as a project manager for Ohio members participating in joint venture projects to share ownership of power generation and transmission facilities, known as Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 ("OMEGA" "JV1," "JV2," "JV4," "JV5," and "JV6") (collectively, the "OMEGA Joint Ventures").

AMP is closely aligned with 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, its members, and the OMEGA Joint Ventures.

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

AMP has 100% of the membership interests in AMP 368 LLC ("AMP 368"). AMP 368 is a wholly owned subsidiary of AMP, which through AMP 368, is the owner of a 23.26%, or 368MW, undivided interest in the Prairie State Energy Campus ("PSEC"). The PSEC is a mine-mouth, pulverized coal-fired generating station 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 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 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 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

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Three Months Ended March 31, 2010 (unaudited)

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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 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 nondefaulting AMP 368 Participants to purchase a pro rata share, based upon each nondefaulting AMP 368 Participant's original power sales contract resources share which, together with the shares of the other nondefaulting AMP 368 Participants, is equal to the defaulting AMP 368 Participant's power sales resources share. No nondefaulting participant is obligated to accept step-up power in excess of 25% of its original power sales contract resources share.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all entities in which AMP has control, which are its majority owned subsidiaries. The interim consolidated financial statements have been prepared without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements as of March 31, 2010 should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2009.

The accompanying interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

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

All intercompany transactions and balances have been eliminated.

### Construction Work-in-Progress

AMP records amounts expended in connection with construction work-in-progress projects at cost. Upon completion of a project, AMP places the asset in service and the related costs are recorded as either utility plant or nonutility property and equipment. There is \$3,498,616 of land included in the construction work-in-progress account at March 31, 2010. AMP capitalized interest costs in the amount of \$10,050,340 for the three-month period ended March 31, 2010.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 (unaudited)**

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Construction work-in-progress projects consist of the following at March 31, 2010:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
PSEC	\$ 694,686,597	\$ 630,104,851
Hydro Plants	333,935,242	283,414,749
Other	4,478,894	4,954,893
	<u>\$ 1,033,100,733</u>	<u>\$ 918,474,493</u>

**Plant Held for Future Use**

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

AMP is exploring the option of developing the project as a natural gas combined cycle facility supplemented with market purchases and pursue future enhancements for the project, such as biomass or other advanced energy technology.

A total of 81 member communities in Ohio, Michigan, Virginia and West Virginia are participants in the AMPGS Project, which has been under development approximately six years as a pulverized coal facility with ammonia scrubbing emission control technology. To date, minimal construction of the AMPGS Project has taken place at the Meigs County site.

The potential conversion will allow AMP and its members the option of utilizing the current project site and benefiting from much of the development work performed thus far should that be the best option for participants. AMPGS project participants will have the option of securing needed replacement power from softened wholesale power markets.

The AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the AMPGS Project are obligated to pay any costs incurred for the project at this time. To date it has not been determined what those total final costs are for the project participants. AMP does anticipate that any project costs that are not recovered as part of a replacement project would be financed by AMP and recovered from the participating members over a period of years to be determined.

# American Municipal Power, Inc.

## Notes to Interim Consolidated Financial Statements

### Three Months Ended March 31, 2010 (unaudited)

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As a result of these decisions to date, the AMPGS Project has been classified as plant held for future use as of March 31, 2010 and December 31, 2009 in the consolidated balance sheets. During 2010, the AMPGS Project participants are expected to make a final decision related to the planned use of the site. At that time, these costs may be reclassified to construction work-in-progress. If it is determined that any costs incurred to date will not be able to be used as part of the new project and related technology, these costs will be determined to be impaired and reestablished as a regulatory asset to be recovered from the AMPGS Project participants as part of their obligations under the "take or pay" contracts.

#### **Derivative Instruments**

AMP accounts for derivative instruments on its consolidated balance sheets at fair value unless the instruments qualify to be accounted for as normal 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 has determined each of its power purchase and power sales contracts which meet the definition of a derivative instrument qualifies to be accounted for as normal purchases and normal sales.

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

AMP has entered into three interest rate swap agreements which are carried at their fair value on the consolidated balance sheets. The fair value of the swaps was (\$4,128,747) and (\$3,960,460) at March 31, 2010 and December 31, 2009, respectively, and is included in other liabilities. A corresponding regulatory asset has been recorded equal to the unrealized loss.

#### **New Accounting Standards**

In June 2009, the FASB amended the consolidation guidance applied to variable interest entities. This standard replaces the quantitative approach previously required to determine which entity has a controlling financial interest in a variable interest entity with a qualitative approach. Under the new approach, the primary beneficiary of a variable interest entity is the entity that has both (a) the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could be significant to the variable interest entity. This standard also requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures about an entity's involvement in variable interest entities. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a significant impact on AMP's interim consolidated financial statements.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 (unaudited)**

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**3. Revolving Credit Loan and Term Debt**

**Credit Agreement**

AMP entered into a Credit Agreement dated as of September 24, 2007, as amended, with a syndicate of commercial banks led by JP Morgan Chase Bank, NA, with a total available line of credit of \$550 million. AMP may borrow directly on the line of credit or request the issuance of letters of credit against the line of credit in support of its interim financing arrangements.

**Commercial Paper Program**

On January 22, 2008, AMP initiated a tax-exempt commercial paper program (the "Initial CP Program"), with an authorized par amount of \$350 million secured by a letter of credit issued under its line of credit. On February 12, 2009, AMP's Board of Trustees resolved to increase the authorized par amount of the Initial CP Program to \$400 million. AMP utilized the Initial CP Program to provide interim financing for the costs of its projects. On September 24, 2009, AMP replaced the Initial CP Program with the second tax-exempt commercial program (the "Current CP Program"), with an authorized par amount of \$450 million, secured by a letter of credit secured under its line of credit.

**Term Debt**

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

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 (unaudited)**

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Bonds and notes payable related to financing AMP assets consists of the following March 31, 2010:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
AMP Bond Anticipation Note due October 27, 2010 with interest at 2.00% payable at maturity	\$ 16,072,550	\$ 16,072,550
Unamortized premium of AMP Bond Anticipation Note	35,966	51,529
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2008A	760,655,000	760,655,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009A	166,565,000	166,565,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009B	83,745,000	83,745,000
AMP Prairie State Energy Campus Project Revenue Bonds, Series 2009C	385,835,000	385,835,000
Unamortized discount of Prairie State Campus Revenue Bonds	(12,552,067)	(12,711,453)
AMP Electricity Purchase Revenue Bonds Prepayment Issue, Series 2007A	181,130,000	235,725,000
Unamortized premium on Electricity Purchase Revenue Bonds Prepayment Issue, Series 2007A	3,904,173	4,248,659
AMP Gorsuch Station Credit Agreement	37,999,999	-
AMP Multi-Mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2009A	11,285,000	11,885,000
AMP Multi-Mode Gorsuch Station Taxable Revenue Bonds, Series 2008A and 2008B	-	78,870,000
AMP Hydro Project Revenue Bonds, Series 2009A	24,425,000	24,425,000
AMP Hydro Project Revenue Bonds, Series 2009B	497,005,000	497,005,000
AMP Hydro Project Revenue Bonds, Series 2009C	122,405,000	122,405,000
AMP Hydro Project Revenue Bonds, Series 2009D	21,270,588	21,270,588
Unamortized discount on AMP Hydro Project Revenue Bonds, Series 2009D	(2,937,662)	(2,984,416)
Unamortized premium on AMP Hydro Project Revenue Bonds, Series 2009C	8,610,470	8,850,441
	<u>2,305,454,017</u>	<u>2,401,912,898</u>
Current portion	<u>(83,462,932)</u>	<u>(93,673,491)</u>
Noncurrent portion	<u>\$ 2,221,991,085</u>	<u>\$ 2,308,239,407</u>

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 (unaudited)**

**4. Fair Value of Financial Instruments**

Financial Instruments	March 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets</b>				
Investments	\$ 12,554,717	\$ 12,554,717	\$ 23,755,753	\$ 23,755,753
Trustee funds, AMP	990,620,875	987,448,506	1,221,076,113	1,216,349,886
Trustee funds on behalf of members	18,266,918	18,266,918	9,787,613	9,787,613
<b>Liabilities</b>				
Fixed rate term debt, including current maturities, AMP	2,256,169,018	2,222,658,450	2,311,157,898	2,278,773,234
Fixed rate term debt, including current maturities, on behalf of members	77,494,000	79,264,991	80,422,000	82,552,011
Variable rate term debt, including current maturities, AMP and on behalf of members	54,700,999	54,700,999	96,654,000	96,654,000
Interest rate swaps	4,128,747	4,128,747	3,960,460	3,960,460

The carrying amounts of cash, accounts receivable, accounts payable, the AMP project notes, the Hydro BANs, the Prairie State BANs, the municipal project notes and the line of credit and commercial paper approximate their fair value due to their short maturities. The carrying amount of the Gorsuch 2009 Bonds, the Gorsuch 2008 Bonds, the Combustion Turbine Bonds and the OMEGA JV6 Bonds approximate their fair value due to their variable rates of interest. The fair value of long-term debt reflect the present value of cash outflows relating to those obligations based on the current call price or the yield to maturity as deemed appropriate at the end of each respective year. The yields assumed were based on municipal bond ratings offered by organizations similar to AMP.

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

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those where transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. AMP's Level 1 assets primarily consist of equity securities, mutual funds, debt securities and money market funds that are listed on active exchanges which are included in investments and trustee funds on the consolidated balance sheets. AMP does not have any liabilities that meet the definition of Level 1.

**American Municipal Power, Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 (unaudited)**

Level 2 Pricing inputs are either directly or indirectly observable in the market as of the reporting date, other than quoted prices in active markets included in Level 1. Level 2 includes those financial instruments that are valued using models or other valuation methodologies based on assumptions that are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Instruments in this category include AMP's interest rate swaps. Interest rate swaps are included in other liabilities on AMP's consolidated balance sheets.

Level 3 Pricing inputs include inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. AMP's Level 3 assets consist of its investment in hedge funds, which are included in investments on the consolidated balance sheets.

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

The following tables set forth AMP's financial assets and financial liabilities that are accounted for at fair value by level within the fair value hierarchy as of March 31, 2010 and December 31, 2009. As required by the fair value measurement standard, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. AMP's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures	March 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity securities and mutual funds	\$ 1,957,646	\$ -	\$ -	\$ 1,957,646
Money market funds	151,781	-	-	151,781
Certificates of deposit	498,000	-	-	498,000
Debt securities	5,626,491	-	-	5,626,491
Hedge funds	-	-	4,320,799	4,320,799
Total	\$ 8,233,918	\$ -	\$ 4,320,799	\$ 12,554,717
<b>Liabilities</b>				
Interest rate swaps	-	4,128,747	-	4,128,747
Total	\$ -	\$ 4,128,747	\$ -	\$ 4,128,747

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Recurring Fair Value Measures	December 31, 2009			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Equity securities and mutual funds	\$ 1,983,035	\$ -	\$ -	\$ 1,983,035
Money market funds	93,326	-	-	93,326
Certificates of deposit	12,008,501	-	-	12,008,501
Debt securities	5,489,065	-	-	5,489,065
Hedge funds	-	-	4,181,826	4,181,826
Total	\$ 19,573,927	\$ -	\$ 4,181,826	\$ 23,755,753
<b>Liabilities</b>				
Interest rate swaps	-	3,960,460	-	3,960,460
Total	\$ -	\$ 3,960,460	\$ -	\$ 3,960,460

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

The following table provides a reconciliation of changes in the fair value of hedge fund investments classified as Level 3 in the fair value hierarchy during 2010 and 2009:

<b>Balance as of January 1, 2009</b>	\$ 3,427,377
Settlements	-
Unrealized gains	754,449
<b>Balance as of December 31, 2009</b>	4,181,826
Settlements	-
Unrealized gains	138,973
<b>Balance as of March 31, 2010</b>	<u>\$ 4,320,799</u>

**5. Employee Benefits**

**Pension Plan**

AMP 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. Assets held by the Pension Plan consist primarily of treasury notes, marketable securities, and alternative investments.

**Postretirement Plan**

AMP sponsors a postretirement benefit plan (the "Postretirement Plan") covering salaried and hourly employees at the Gorsuch Project who were hired before November 1, 2003. The Postretirement Plan provides prescription drug and medical, dental, and life insurance benefits. Benefits are available to employees who retire under provisions of the Postretirement Plan. 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. At March 31, 2010 and December 31, 2009, \$12,056,717 and \$11,747,252, respectively, of investments in the accompanying consolidated balance sheets are designated to fund Postretirement Plan benefits.

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The following table sets forth the components of net periodic benefit cost, for the Pension Plan and Postretirement Plan at March 31, 2010:

	<b>Pension Plan</b>	
	<b>March 31, 2010</b>	
<b>Components of net periodic benefit costs</b>		
Service cost	\$	225,000
Interest cost		262,500
Expected return on plan assets		(567,500)
Recognized actuarial loss		257,353
		<hr/>
Net periodic benefit cost	\$	177,353
		<hr/>
	<b>Postretirement Plan</b>	
	<b>March 31, 2010</b>	
<b>Components of net periodic benefit costs</b>		
Service cost	\$	32,500
Interest cost		80,000
Amortization of transition obligation		19,650
Recognized actuarial loss		47,391
		<hr/>
Net periodic benefit cost	\$	179,541
		<hr/>

**6. Commitments and Contingencies**

**Environmental Matters**

AMP is subject to regulation by federal and state authorities with respect to air and water quality control and other environmental matters and is subject to zoning and other regulations by local authorities.

*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. Beginning in 2010, sulfur dioxide allowances must be surrendered at a rate of two allowances for every ton of sulfur dioxide emissions from utility boilers located in the Eastern United States.

The Gorsuch Project is required to comply with provisions of the CAA to reduce nitrogen-oxide emissions. 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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The USEPA sent a request pursuant to Clean Air Act ("CAA") Section 114 for information regarding historic operations and maintenance at the Gorsuch Project. To the extent the USEPA finds probable violations in reviewing records obtained from utilities pursuant to Section 114, enforcement actions for alleged violations of the CAA are sometimes initiated. AMP made its first response to the USEPA Section 114 request on July 28, 2008. AMP subsequently submitted additional information on September 12, 2008 and a final submission on October 24, 2008. On February 9, 2009, USEPA requested additional information regarding two projects: 1981 to 1986 (Boiler Replacement Project), a period before AMP acquired an interest in Gorsuch Project and 1988 to 1991 (Station Improvement Uprate Program). AMP tendered responsive documents.

#### *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 began in 2009. Phase I sulfur dioxide reductions began 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 Project 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 through 2002. Phase I nitrogen oxide allowances in 2010 will be calculated on a 0.15 lbs/mmBtu basis. The allocation factor is further reduced to 0.125 lbs/mmBtu in 2015.

On July 11, 2008, the D.C. Circuit Court of Appeals vacated CAIR. However, upon petition by USEPA, the Court of Appeals reversed its decision and remanded CAIR to USEPA without vacatur. As such, CAIR became effective for nitrogen oxide in 2009, as set forth in the paragraphs above. However, CAIR will only remain effective until such time that USEPA reissues a modified CAIR (or a replacement regulatory program). Thus, the lifespan of CAIR and the allowance trading program is not known at this time.

#### *Hazardous Air Pollutants*

The four utility boilers at Gorsuch Project, will be subject to a CAA Section 112 Maximum Achievable Control Technology ("MACT") standard for mercury and potentially other hazardous air pollutants ("HAPs"). MACT requires USEPA to set a standard to control mercury and potentially other HAPs at the level equivalent to the top twelve percent of operating sources in the utility category. USEPA has not yet proposed a MACT for utility sources.

On February 17, 2010, EPA promulgated a final rule establishing emission limits and work practice standards for combustion ignited diesel engines at APCA sources. AMP has several engines supported by this rule and compliance must be demonstrated by April 2013. AMP is evaluating the rule and assessing the impact on its engine fleet.

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#### *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 2013. The Gorsuch Project participated in an ecosystem study to determine the impact of electric utility cooling water intake structures 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.

#### *Fly Ash Disposal*

Gorsuch Project does not use fly ash disposal methods similar to the TVA Kingston Plant. However, the accident at Kingston has prompted increased regulatory scrutiny of fly ash disposal operations at all utility plants. AMP believes it is compliant with all fly ash handling and disposal regulations. However increased scrutiny could result in additional regulatory requirements that are not possible to quantify at this time.

#### *Other Regulatory Matters*

Most metropolitan and industrialized counties in Ohio are nonattainment 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 nonattainment area for ozone and fine particulate matter. The impact on the Gorsuch Project is uncertain at this time.

Washington County (Marietta – Parkersburg) may also become a non-attainment area under recently revised ambient air quality standards for lead. Ohio EPA, in a letter dated January 2009, notified AMP of its concern about lead emissions from its Gorsuch Project. AMP has responded to this letter and believes the concern is unfounded.

Pursuant to Section 114 (a) of the CAA, AMP 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 is cooperating fully with the USEPA's investigation.

#### **Power Purchase Commitments**

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

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

#### **Other Commitments**

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

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**7. Subsequent Events**

On May 19, 2010, AMP announced plans to begin cessation of operations at the Gorsuch Project, a 1950's vintage coal-fired power plant located near Marietta, Ohio. AMP determined it to be in the best interest of the participating member communities to cease operations at the facility by December 15, 2010. The decision stems from a consent decree reached between the U.S. EPA and AMP that resolves all issues related to a Notice of Violation (NOV) issued by the U.S. EPA that alleged that certain work performed at Gorsuch Project from 1981 to 1986 (before AMP had an interest in Gorsuch Project) and from 1988 to 1991 (after AMP had an interest in the plant) should have triggered a New Source Review. The settlement includes a binding obligation that AMP cease coal-fired generation operations at Gorsuch Project no later than December 31, 2012 and also requires AMP to spend \$15 million on an environmental mitigation project over several years and pay a civil penalty of \$850,000. AMP has accordingly established a liability of \$850,000 in its consolidated balance sheets at March 31, 2010 for the civil penalty. The \$15 million required spend on the environmental mitigation project will be expensed as project expenditures are incurred. The environmental mitigation project will be in the form of a robust energy efficiency initiative administered by a third party, the Vermont Energy Investment Corp. This project will include services for residential, commercial and industrial customers and will be designed to help participating AMP member communities save 70,000 megawatt hours over a set period of time. As a result of the decision to cease operations at the Gorsuch Project, during the second quarter of 2010, management is evaluating the recoverability of the utility plant, materials and supplies, inventories and emission allowances related to the Gorsuch Project totaling \$29,607,098 as of March 31, 2010. When this evaluation is complete, AMP may record an impairment during the second quarter of 2010. Gorsuch Project participants are responsible for all plant costs including closing costs. As such, any impairment will be reflected as a regulatory asset, with no impact to the consolidated statements of revenues and expenses. AMP will determine the appropriate period to recover this regulatory asset from the Gorsuch Project participants.

AMP has considered subsequent events through June 16, 2010, the date the interim consolidated financial statements were available to be issued.