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## **OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2**

FINANCIAL STATEMENTS  
Including Independent Auditors' Report

Years Ended December 31, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Participants  
Ohio Municipal Electric Generation Agency Joint Venture 2:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2"), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 2 as of December 31, 2015 and 2014, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016 on our consideration of OMEGA JV2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV2's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
April 20, 2016

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015, 2014 and 2013 (Unaudited)

### Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2") for the years ended December 31, 2015 and 2014. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV2 prepares their basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV2's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets, liabilities and deferred inflow of resources of OMEGA JV2 as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows report cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities.

### Financial Highlights

The following table summarizes the financial position of OMEGA JV2 as of December 31:

<b>Condensed Statements of Net Position</b>			
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>			
Electric Plant & Equipment, net of accumulated depreciation	\$ 16,209,129	\$ 18,054,182	\$ 21,075,074
Regulatory assets	1,506,318	1,451,887	1,437,015
Board Designated Funds	-	-	1,139,344
Current assets	2,727,073	3,397,863	1,424,243
Total Assets	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>	<u>\$ 25,075,676</u>
<b>Net Position, Liabilities, and Deferred Inflow of Resources</b>			
Net investment in capital assets	\$ 16,209,129	\$ 18,054,182	\$ 21,075,074
Net position - unrestricted	378,709	1,702,708	1,709,936
Current liabilities	1,009,302	829,784	399,260
Noncurrent liabilities	1,562,515	1,520,141	1,498,059
Deferred inflow of resources	1,282,865	797,117	393,347
Total Net Position, Liabilities and Deferred Inflow of Resources	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>	<u>\$ 25,075,676</u>

### 2015 vs. 2014

Total assets were \$20,442,520 and \$22,903,932 on December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,461,412. The decrease in total assets was due primarily to a decrease in net capital assets from yearly depreciation, a decrease in receivable from related party of \$638,322 due to collections and a decrease in fuel inventory of \$105,386 due to a decrease in fuel cost per gallon purchased during the year. This decrease was offset by an increase in electric generators of \$1,336,056 from the purchase of diesel oxidation catalysts on

## OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015, 2014 and 2013 (Unaudited)

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the 34 JV2 diesel units to reduce emissions so that the units can comply with EPA standards for peaking units. The spending on the diesel oxidation catalysts was performed so that the unit could be a peaking resource during summer of 2015. Additionally, accounts receivable from participants increased \$175,261 due to the timing of cash collections at the end of the year.

Electric plant and equipment, net of accumulated depreciation was \$16,209,129 and \$18,054,182 at year-end 2015 and 2014, respectively, a decrease of \$1,845,053. This decrease was the result of a \$3,206,059 increase in accumulated depreciation offset by an increase in electric generators of \$1,361,006 from spending on diesel oxidation catalysts to reduce exhaust emissions on the 34 JV2 diesel units so that they may comply with EPA standards for peaking units. The spending on the diesel oxidation catalysts was performed so that the unit could be used as a peaking resource during 2015. Additionally, there was an increase in ARO assets of \$54,431. The cost associated with the ARO included in the cost of electric plant for 2015 was \$848,275 versus \$823,325 in 2014. Estimated values of ARO assets and obligations were prepared by an independent engineering consultant.

Regulatory assets were \$2,293,793 and \$1,973,885 at December 31, 2015 and 2014, respectively, an increase of \$319,908. Regulatory assets contain amounts deferred for ARO and operational and maintenance related expenses. This increase mainly reflects expenses incurred in excess of rates charged and revised estimates of ARO assets and liabilities. These deferred amounts are recorded in the statements of revenues, expenses, and changes in net position as the corresponding expense or revenue is realized.

Current assets were \$2,727,073 and \$3,397,863 as of December 31, 2015 and 2014, respectively, a decrease of \$670,790. This was due to a decrease in receivable from related parties of \$638,322 as this amount was collected in 2015, a decrease in operating cash of \$376,733, and a decrease in inventory of \$105,386 due to the lower cost of fuel year over year. These decreases are partially offset by an increase in current regulatory assets of \$265,477, an increase in receivables from participants of \$175,261, and an increase in prepaid expense of \$8,913.

Total liabilities, deferred inflow of resources and net position were \$20,442,520 and \$22,903,932 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,461,412. This decrease was primarily the result of decreases in investment capital assets.

Total net position was \$16,587,838 and \$19,756,890 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$3,169,052. Net investment in capital assets was \$16,209,129 and \$18,054,182 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$1,845,053. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Unrestricted net position was \$378,709 and \$1,702,708 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$1,323,999 due mainly to spending on the diesel oxygen catalyst project, as cash on hand in prior year was spent on the project in 2015 and shifted the related net position from unrestricted into net investment in capital assets.

## OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015, 2014 and 2013 (Unaudited)

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Noncurrent liabilities, comprised entirely of ARO liabilities were \$1,562,515 and \$1,520,141 at December 31, 2015 and December 31, 2014, respectively, an increase of \$42,374. This was the result of yearly ARO accretion expense and an increase of projected ARO liability versus 2014 levels. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Current liabilities were \$1,009,302 and \$829,784 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$179,518. This increase was primarily the result of increased accounts payable obligations to third party vendors.

Deferred inflows of resources were \$1,282,865 and \$797,117 at December 31, 2015 and December 31, 2014, respectively, an increase of \$485,748. This was mainly a result of an increase in overhaul maintenance amounts billed to participants intended to recover future expenses and capital improvements.

#### **2014 vs. 2013**

Total assets were \$22,903,932 and \$25,075,676 on December 31, 2014 and December 31, 2013, respectively, a decrease of \$2,171,744. The decrease in total assets was due primarily to a decrease in net capital assets due to depreciation and offset by an increase in accounts receivable from participants and related parties.

Electric plant and equipment, net of accumulated depreciation was \$18,054,182 and \$21,075,074 at year-end 2014 and 2013, respectively, a decrease of \$3,020,892. This decrease was the result of a \$3,032,852 increase in accumulated depreciation offset by an increase in ARO assets of \$11,960 increase in utility assets. The cost associated with the ARO included in the cost of electric plant for 2014 was \$823,325 versus \$811,365 in 2013. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Regulatory assets were \$1,973,885 and \$2,176,737 at December 31, 2014 and 2013, respectively, a decrease of \$202,852. Regulatory assets contain amounts deferred for ARO and operational and maintenance related expenses. These deferred amounts are recorded in the statements of revenues, expenses, and changes in net position as the corresponding expense is realized.

Current assets were \$3,397,863 and \$1,424,243 as of December 31, 2014 and 2013, respectively, an increase of \$1,973,620. In 2014, operating cash increased \$838,322, as funds were transferred out of board designated funds as these funds are no longer under bond indenture restrictions. Accounts receivable increased \$1,306,025 due to billings to members, inventories increased \$51,232 and prepaid expenses decreased \$4,235 versus 2013 levels.

Total liabilities, deferred inflow of resources and net position were \$22,903,932 and \$25,075,676 as of December 31, 2014 and December 31, 2013, respectively, a decrease of \$2,171,744. This decrease was primarily the result of decreases in investment capital assets.

## OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015, 2014 and 2013 (Unaudited)

Total net position was \$19,756,890 and \$22,785,010 as of December 31, 2014 and December 31, 2013, respectively, a decrease of \$3,028,120. Net investment in capital assets was \$18,054,182 and \$21,075,074 at December 31, 2014 and December 31, 2013, respectively, a decrease of \$3,020,892. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Unrestricted net position was \$1,702,708 and \$1,709,936 at December 31, 2014 and December 31, 2013, respectively, a decrease of \$7,228.

Noncurrent liabilities, comprised entirely of ARO liabilities were \$1,520,141 and \$1,498,059 at December 31, 2014 and December 31, 2013, respectively, an increase of \$22,082. This was the result of the increase in for ARO liability versus 2013 levels. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Current liabilities were \$829,784 and \$399,260 as of December 31, 2014 and December 31, 2013, respectively, an increase of \$430,524. This increase was primarily the result of increased accounts payable obligations to third party vendors.

Deferred inflows of resources were \$797,117 and \$393,347 at December 31, 2014 and December 31, 2013, respectively, an increase of \$403,770. This was a result of an increase in overhaul maintenance amounts billed to participants which are intended to recover future expenses and capital improvements.

#### Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 11,900,599	\$ 7,330,252	\$ 4,257,839
Operating expenses	15,156,501	10,436,062	7,212,816
Operating Loss	<u>\$ (3,255,902)</u>	<u>\$ (3,105,810)</u>	<u>\$ (2,954,977)</u>
Nonoperating revenue			
Investment income	\$ 697	\$ 587	\$ 4,425
Future recoverable costs	<u>86,153</u>	<u>77,103</u>	<u>73,519</u>
Non operating revenue	<u>86,850</u>	<u>77,690</u>	<u>77,944</u>
Loss before distributions	<u>(3,169,052)</u>	<u>(3,028,120)</u>	<u>(2,877,033)</u>
Distribution to related party	-	-	(521,203)
Change in Net Position	<u>\$ (3,169,052)</u>	<u>\$ (3,028,120)</u>	<u>\$ (3,398,236)</u>

OMEGA JV2's rates are set by the Board of Participants and are intended to cover budgeted operating and capital expenses plus actual fuel expense. OMEGA JV2 revenues do not include any bond payments by OMEGA JV2 financing members in their rates. Financing participants make these payments directly to AMP.

Electric revenues in 2015 were \$11,900,599 versus \$7,330,252 in 2014, an increase of \$4,570,347, mainly due to the increase in capacity revenue of \$4,274,495 from the regional transmission organization (RTO). The capacity rates as determined by the auction process of



## OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015, 2014 and 2013 (Unaudited)

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the RTO were significantly higher in 2015 as compared to 2014. Capacity revenue was \$9,104,655 in 2015 as compared to \$4,830,160 in 2014. Capacity revenue is passed back directly to members as a reduction of their bill and is shown as an expense to the project. Electric revenues in 2014 were \$7,330,252 versus \$4,257,839 in 2013, an increase of \$3,072,413, mainly due to increases in higher rates billed to the members, mainly for capital improvements expected in the next few years as well as higher capacity revenue earned by the project from the RTO.

OMEGA JV2 operating expenses in 2015 were \$15,156,501 versus \$10,436,062 in 2014, an increase of \$4,720,439. This increase in expenses was due mainly to an increase in capacity expense of \$4,407,730 from capacity revenue passed back directly to members, as well as an increase in fuel expense of \$304,105 as the project operated more in the current year vs the prior year. OMEGA JV2 operating expenses in 2014 were \$10,436,062 versus \$7,212,816 in 2013, an increase of \$3,223,246. Expense increases were primarily attributable to an increase in capacity expense of \$3,515,517, offset by decreases in fuel and maintenance expense of \$184,605 and \$267,055, respectively.

Investment income in OMEGA JV2 in 2015 was \$697 versus \$587 in 2014, an increase in \$110. This slight increase is due to higher interest earned on higher average cash balances during the year. Investment income in OMEGA JV2 in 2014 was \$587 versus \$4,425 in 2013, a decrease of \$3,838. This decrease is due to cash amounts being held in checking accounts in 2015 as opposed to higher yielding investment accounts related to trust funds held in accordance with bond indentures in the previous year. Previously, funds were invested in short-term government backed securities, short-term commercial paper or within the trust agency's money market account.

In 2013, \$521,203 of restricted assets was returned to American Municipal Power, Inc. ("AMP") for debt held by AMP related to OMEGA JV2. The distribution was authorized by the board of participants.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

STATEMENTS OF NET POSITION  
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 461,589	\$ 838,322
Receivables from participants	1,070,017	894,756
Receivables from related parties	-	638,322
Regulatory assets	787,475	521,998
Inventory	214,983	320,369
Prepaid expenses	193,009	184,096
Total Current Assets	<u>2,727,073</u>	<u>3,397,863</u>
<b>NONCURRENT ASSETS</b>		
Electric Plant and Equipment		
Electric generators	60,256,515	58,895,509
Accumulated depreciation	(44,047,386)	(40,841,327)
Net Electric Plant and Equipment	16,209,129	18,054,182
Other Assets		
Regulatory assets	1,506,318	1,451,887
Total Non-Current Assets	<u>17,715,447</u>	<u>19,506,069</u>
<b>TOTAL ASSETS</b>	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 919,494	\$ 730,313
Payable to related parties	89,808	99,471
Total Current Liabilities	<u>1,009,302</u>	<u>829,784</u>
<b>NONCURRENT LIABILITIES</b>		
Asset retirement obligation	1,562,515	1,520,141
Total Noncurrent Liabilities	<u>1,562,515</u>	<u>1,520,141</u>
Total Liabilities	<u>2,571,817</u>	<u>2,349,925</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Rates intended to recover future costs	1,282,865	797,117
<b>NET POSITION</b>		
Net investment in capital assets	16,209,129	18,054,182
Unrestricted	378,709	1,702,708
Total Net Position	<u>16,587,838</u>	<u>19,756,890</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Electric revenue	\$ 11,900,599	\$ 7,330,252
<b>OPERATING EXPENSES</b>		
Related party services	945,262	917,768
Capacity	9,234,119	4,826,389
Depreciation	3,185,205	3,032,852
Accretion of asset retirement obligation	70,000	72,354
Fuel	595,308	291,203
Maintenance	377,679	416,688
Utilities	103,707	134,224
Insurance	359,238	355,264
Professional services	22,137	27,562
Other operating expenses	<u>263,846</u>	<u>361,758</u>
Total Operating Expenses	<u>15,156,501</u>	<u>10,436,062</u>
 Operating Loss	 <u>(3,255,902)</u>	 <u>(3,105,810)</u>
<b>NONOPERATING REVENUES</b>		
Investment income	697	587
Future recoverable costs	<u>86,153</u>	<u>77,103</u>
Total Non-Operating Revenues	<u>86,850</u>	<u>77,690</u>
 Change in net position	 (3,169,052)	 (3,028,120)
 NET POSITION, Beginning of Year	 <u>19,756,890</u>	 <u>22,785,010</u>
 <b>NET POSITION, END OF YEAR</b>	 <u>\$ 16,587,838</u>	 <u>\$ 19,756,890</u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from participants	\$ 12,211,086	\$ 6,645,720
Cash paid to related parties for personnel services	(954,925)	(956,018)
Cash payments to suppliers and related parties for goods and services	<u>(10,297,535)</u>	<u>(5,991,311)</u>
Net Cash Provided by (Used in) Operating Activities	<u>958,626</u>	<u>(301,609)</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	<u>(1,336,056)</u>	<u>-</u>
Net Cash Used in Capital and Related Investing Activities	<u>(1,336,056)</u>	<u>-</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	<u>697</u>	<u>587</u>
Net Cash Provided by Financing Activities	<u>697</u>	<u>587</u>
 <b>Net Change in Cash and Cash Equivalents</b>	 (376,733)	 (301,022)
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>838,322</u>	 <u>1,139,344</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <u>\$ 461,589</u>	 <u>\$ 838,322</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$ (3,255,902)	\$ (3,105,810)
Depreciation	3,185,205	3,032,852
Accretion of asset retirement obligation	70,000	72,354
Changes in assets, liabilities and deferred inflow of resources		
Receivables from participants	(175,261)	(667,703)
Receivables from related parties	638,322	(638,322)
Inventory	105,386	(51,232)
Prepaid expenses	(8,913)	4,235
Accounts payable and accrued expenses	189,181	468,774
Payable to related parties	(9,663)	(38,250)
Regulatory assets	(265,477)	217,723
Deferred inflow of resources	<u>485,748</u>	<u>403,770</u>
 <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	 <u>\$ 958,626</u>	 <u>\$ (301,609)</u>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash and temporary investments	<u>\$ 461,589</u>	<u>\$ 838,322</u>
 <b>TOTAL CASH AND CASH EQUIVALENTS</b>	 <u>\$ 461,589</u>	 <u>\$ 838,322</u>
 <b>SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Change in cost of plant due to change in estimated asset retirement obligation	<u>\$ 24,950</u>	<u>\$ 11,960</u>

See accompanying notes to financial statements.

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Ohio Municipal Electric Generation Agency Joint Venture 2 (“OMEGA JV2”) was organized by 36 subdivisions of the State of Ohio (the “Participants”) on November 21, 2000, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code, and commenced operations on December 1, 2000. Its purpose is to provide backup and peaking capacity to the Participants. The Participants are members of American Municipal Power, Inc. (“AMP”). On December 27, 2001, OMEGA JV2 purchased 138.650 MW of electric plant generating units (the “Project”) from AMP. The Project is referred to as “distributed generation” because the units are sited near the Participants’ municipal electric systems where it is anticipated they will serve. The Project consists of two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine and 34 1.825 MW new and one 1.6 MW used oil-fired and diesel turbines. The Agreement continues until 60 days subsequent to the termination or disposition of the Project and for as long as required by the financing agreement; provided, however, that each Participant shall remain obligated to pay to OMEGA JV2 its respective share of the costs of terminating, discontinuing, retiring, disposing of, and decommissioning the Project.

The following summarizes the significant accounting policies followed by OMEGA JV2.

### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

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.

### ***ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION***

#### ***Deposits and Investments***

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (cont.)***

***Deposits and Investments (cont.)***

OMEGA JV2 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV2 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Gains and losses on investment transactions are determined on a specific identification basis. Market values may have changed significantly after year end.

***Receivables/Payables***

Accounts receivable are amounts due from participants at the end of the year. Due to the participant relationship and the high degree of collectability, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

***Inventory***

Inventory consists of fuel used to operate the Project and is stated at the lower of first-in, first-out ("FIFO") cost or market.

***Prepaid Expenses***

Prepaid expenses represent costs of insurance paid during the current calendar year for coverage in subsequent years.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (cont.)***

***Electric Plant and Equipment***

Electric plant generating units and vehicles are recorded at cost. Depreciation is provided on the straight-line method over 20 years for generators and 3 years for vehicles, the estimated useful lives of the assets. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When electric plant assets are retired, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

Electric plant assets are assessed for impairment whenever events or changes in circumstances indicate that the service utility of the capital asset may have significantly and unexpectedly declined. If it is determined that impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

***Asset Retirement Obligations***

OMEGA JV2 records, at fair value, legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the difference between the accrued liability and the amount to settle the liability is recorded as a settlement gain or loss.



**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (cont.)***

***Regulatory Assets***

OMEGA JV2 records regulatory assets (expenses to be recovered in rates in future periods). Regulatory assets include O&M expenses not yet recovered through billings to Participants. Pursuant to the Agreement, Participants are required to pay all costs related to operations, maintenance and retirement of the jointly owned electric plant.

Regulatory assets consisted of the following at December 31:

	2015	2014
Future expenses related to fixed O&M	<u>\$ 787,475</u>	<u>\$ 521,998</u>
	2015	2014
Future expenses related to asset retirement obligations	<u>\$ 1,506,318</u>	<u>\$ 1,451,887</u>

***Deferred Inflow of Resources***

OMEGA JV2 records deferred inflows of resources (rates collected for expenses not yet incurred). The balance consist of revenue related to amounts prepaid by the Participants for major repairs and maintenance and are recorded as income when the related expenditure occurs.

Deferred inflow of resources consisted of the following at December 31:

	2015	2014
Future expenses related to overhaul maintenance and fixed O&M	<u>\$ 1,282,865</u>	<u>\$ 797,117</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (cont.)***

***Net Position***

The Project is owned by the Participants in undivided interests held either directly or in trust. Due to potential legal impediments to their holding of direct interests in the Project, some participants purchase capacity and energy from the Project and have their undivided ownership interests held in trust for them by other Participants acting as trustees. The respective ownership shares are as follows:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Hamilton	32,000	23.87%
Bowling Green	19,198	14.32
Niles	15,400	11.48
Cuyahoga Falls	10,000	7.46
Wadsworth	7,784	5.81
Painesville	7,000	5.22
Dover	7,000	5.22
Galion	5,753	4.29
Amherst	5,000	3.73
St. Mary's	4,000	2.98
Montpelier	4,000	2.98
Shelby	2,536	1.89
Versailles	1,660	1.24
Edgerton	1,460	1.09
Yellow Springs	1,408	1.05
Oberlin	1,217	0.91
Pioneer	1,158	0.86
Seville	1,066	0.80
Grafton	1,056	0.79
Brewster	1,000	0.75
Monroeville	764	0.57
Milan	737	0.55
Oak Harbor	737	0.55
Elmore	364	0.27
Jackson Center	300	0.22
Napoleon	264	0.20
Lodi	218	0.16
Genoa	199	0.15
Pemberville	197	0.15
Lucas	161	0.12

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***ASSETS, LIABILITIES AND NET POSITION*** (cont.)

***Net Position*** (cont.)

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
South Vienna	123	0.09%
Bradner	119	0.09
Woodville	81	0.06
Haskins	73	0.05
Arcanum	44	0.03
Custar	4	0.00*
Totals	134,081	100.00%
Reserves	4,569	
kW Capacity of the Project	138,650	

\* Represents less than 0.01%

***REVENUE AND EXPENSES***

OMEGA JV2 distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the OMEGA JV2's principal ongoing operations. The principal operating revenues of OMEGA JV2 are charges to participants for energy and capacity. Operating expenses include the cost of generation, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Electric revenue is recognized when earned as service is delivered. OMEGA JV2's rates for electric power are designed to cover annual operating costs, excluding depreciation. Rates are set annually by the Board of Participants.

Rates for electric service pursuant to contracts with the Participants are not designed to recover contributed capital used to acquire the electric plant generators. Rates charged to OMEGA JV2 financing participants for debt service are paid to AMP to retire the Project financing obligations. Accordingly, OMEGA JV2 will generate negative operating margins during the operating life of the electric generators.

***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS***

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*, Statement, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. These standards had no effect on OMEGA JV2's financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS**

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31		Risks
	2015	2014	
Checking	<u>\$ 461,589</u>	<u>\$ 838,322</u>	Custodial credit

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for accounts as of December 31, 2015 and 2014.

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, OMEGA JV2's deposits may not be returned to it. OMEGA JV2 has custodial credit risk on its cash and temporary investments balances to the extent the balances exceed the federally insured limit. OMEGA JV2's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2015 and 2014, there were no deposits exposed to custodial credit risk.

***Credit Risk***

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. OMEGA JV2 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV2 to invest in funds in accordance with the ORC. Allowable investments include United States Treasury and federal and state government agency obligations, money market funds, and commercial paper with the highest classification by at least two nationally recognized standard rating services. As of December 31, 2015 and 2014, OMEGA JV2 had no investments with credit risk.

***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV2's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days. As of December 31, 2015 and 2014, OMEGA JV2 had no investments with interest rate risk.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 3 – ELECTRIC PLANT AND EQUIPMENT**

Electric plant and equipment activity for the years ended December 31 is as follows:

	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 58,895,509	\$ 1,336,056	\$ 24,950	\$ 60,256,515
Less: Accumulated depreciation	<u>(40,841,327)</u>	<u>(3,185,205)</u>	<u>(20,854)</u>	<u>(44,047,386)</u>
Electric Plant and Equipment, Net	<u>\$ 18,054,182</u>	<u>\$ (1,849,149)</u>	<u>\$ 4,096</u>	<u>\$ 16,209,129</u>
	2014			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 58,883,549	\$ -	\$ 11,960	\$ 58,895,509
Less: Accumulated depreciation	<u>(37,808,475)</u>	<u>(3,032,852)</u>	<u>-</u>	<u>(40,841,327)</u>
Electric Plant and Equipment, Net	<u>\$ 21,075,074</u>	<u>\$ (3,032,852)</u>	<u>\$ 11,960</u>	<u>\$ 18,054,182</u>

During 2015 and 2014, OMEGA JV2 recorded an adjustment to electric plant and equipment to reflect the revised estimate of the ARO (Note 4).

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 4 – ASSET RETIREMENT OBLIGATIONS**

Under the terms of lease agreements, OMEGA JV2 has an obligation to remove electric generators from the leased sites where the units are located and to perform certain restoration activities at the sites.

Asset retirement obligation activity for the years ended December 31 is as follows:

	2015			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,520,141	\$ (27,626)	\$ 70,000	\$ 1,562,515
	2014			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,498,059	\$ (50,272)	\$ 72,354	\$ 1,520,141

Asset retirement obligations are determined based on detailed cost estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated using an inflation factor to the estimated removal dates, and then discounted using a credit adjusted risk-free interest rate. The removal date for each unit was determined based on the estimated life of the units. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful lives of each unit. OMEGA JV2 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2015 and 2014.

**NOTE 5 – NET POSITION**

GASB No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 5 – NET POSITION (cont.)**

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The following calculation supports the net investment in capital assets:

	2015	2014
Electric Plant and Equipment Assets	\$ 59,408,240	\$ 58,072,184
Asset Retirement Obligation	848,275	823,325
Accumulated Depreciation	(44,047,386)	(40,841,327)
 Total Net Investment in Capital Assets	 \$ 16,209,129	 \$ 18,054,182

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

***ENVIRONMENTAL MATTERS***

The Project is subject to regulation by federal, state and local authorities related to environmental and other matters. Changes in regulations could adversely affect the operations and operating cost of OMEGA JV2.

On February 17, 2010, the US EPA promulgated the RICE NESHAP Rule establishing emission limits and work practice standards for compression ignited diesel engines at area sources. OMEGA JV2's engines were affected by this rule and were in compliance by May 2013.

Many metropolitan and industrialized counties in Ohio have become nonattainment areas under the new fine particulate matter ambient air quality standards and will likely become a nonattainment area for ozone. This may require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide, nitrogen oxides and particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind, neighboring states. Butler (Hamilton) and Medina (Seville) counties are non-attainment areas for fine particulate matter; therefore, the Ohio Environmental Protection Agency may restrict the hours of operations or require additional pollution control equipment for the portions of the Project in these areas.

**NOTE 7 – RISK MANAGEMENT**

OMEGA JV2 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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**NOTE 8 – RELATED PARTY TRANSACTIONS**

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OMEGA JV2 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services, including dispatching electrical control. The cost of these services for the years ended December 31, 2015 and 2014 was \$169,898 and \$205,413, respectively. OMEGA JV2's payables to AMP as of December 31, 2015 and 2014 were \$47,497 and \$23,910, respectively.
- As OMEGA JV2's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were \$775,364 and \$712,355 for the years ended December 31, 2015 and 2014, respectively. OMEGA JV2 had a payable to MESA for \$42,311 and \$75,561 at December 31, 2015 and 2014, respectively.
- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of \$103,707 and \$134,224 for these services for the years ended December 31, 2015 and 2014, respectively.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Participants  
Ohio Municipal Electric Generation Agency Joint Venture 2:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2"), which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 20, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OMEGA JV2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV2's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV2's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the OMEGA JV2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
April 20, 2016