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# **OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1**

FINANCIAL STATEMENTS  
Including Independent Auditors' Report

Years Ended December 31, 2011 and 2010

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Participants  
Ohio Municipal Electric Generation Agency Joint Venture 1:

We have audited the accompanying statement of net assets of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the OMEGA JV1's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of OMEGA JV1 as of December 31, 2010, were audited by other auditors whose report dated March 17, 2011, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 1 as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012 on our consideration of the Ohio Municipal Electric Generation Agency Joint Venture 1'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
April 19, 2012

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011, 2010 and 2009  
(Unaudited)

## Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") for the years ended December 31, 2011 and 2010. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV1 prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV1's basic financial statements include the statements of net assets; the statements of revenues, expenses and changes in net assets; and the statements of cash flows.

The statements of net assets provide information about the nature and amount of assets and liabilities of OMEGA JV1 as of the end of the year. The statements of revenues, expenses and changes in net assets 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 and investing activities.

## Financial Highlights

The following table summarizes the financial position of OMEGA JV1 as of December 31:

### Condensed Statements of Net Assets

	2011	2010	2009
<b>Assets</b>			
Electric plant, net of accumulated depreciation	\$ 227,325	\$ 251,505	\$ 245,354
Board designated funds	76,977	76,642	-
Regulatory assets	62,539	57,861	68,631
Current assets	191,313	182,736	247,488
Total Assets	\$ 558,154	\$ 568,744	\$ 561,473
<b>Net Assets and Liabilities</b>			
Net assets - invested in capital assets	\$ 227,325	\$ 251,505	\$ 245,354
Net assets - unrestricted	237,404	221,979	241,258
Total net assets	464,729	473,484	486,612
Current liabilities	16,448	18,618	13,438
Noncurrent liabilities	76,977	76,642	61,423
Total Net Assets and Liabilities	\$ 558,154	\$ 568,744	\$ 561,473

See accompanying notes to financial statements.

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011, 2010 and 2009 (Unaudited)

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### 2011 vs. 2010

Total assets were \$558,154 and \$568,744 as of December 31, 2011 and December 31, 2010, respectively, a decrease of \$10,590. The decrease in 2011 total assets is due primarily to a decrease in cash and an increase in accumulated depreciation.

Electric plant, net of accumulated depreciation was \$227,325 and \$251,505 at year-end 2011 and 2010, respectively, a decrease of \$24,180. The decrease was primarily the result of a decrease in ARO asset values of \$1,213 and an increase in accumulated depreciation of \$22,967. The cost associated with the asset retirement obligation included in the cost of electric plant for 2011 was \$40,409, versus \$41,622 in 2010. ARO obligations for OMEGA JV1 were prepared internally.

Regulatory assets were \$62,539 and \$57,861 at December 31, 2011 and December 31, 2010, respectively, an increase of \$4,678. Regulatory assets contain amounts deferred for ARO expenses. These deferred amounts are recorded in the statements of revenues, expenses and changes in net assets as the corresponding expense is realized.

Current assets were \$191,313 and \$182,736 at December 31, 2011 and December 31, 2010, respectively, an increase of \$8,577. Compared to 2010 levels, cash and temporary investments and accrued interest receivable decreased \$16,125, accounts receivable increased \$9,317, inventory increased \$18,169, and prepaid assets decreased \$2,784.

Total net assets and liabilities were \$558,154 and \$568,744 as of December 31, 2011 and December 31, 2010, respectively, a decrease of \$10,590.

Total net assets were \$464,729 and \$473,484 at December 31, 2011 and December 31, 2010, respectively, a decrease of \$8,755, which resulted from the 2011 net loss. Net assets – invested in capital assets were \$227,325 and \$251,505 at December 31, 2011 and December 31, 2010, respectively, a decrease of \$24,180. This decrease resulted from the decrease in electric plant, net of depreciation. Unrestricted net assets were \$237,404 and \$221,979 at December 31, 2011 and December 31, 2010, respectively, an increase of \$15,425.

Current liabilities were \$16,448 and \$18,618 at December 31, 2011 and December 31, 2010, respectively, a decrease of \$2,170. This resulted from a decrease in accounts payable of \$2,680 and increases in payables to related parties of \$386 and accruals of \$124.

Noncurrent liabilities were \$76,977 and \$76,642 as of December 31, 2011 and December 31, 2010, respectively, an increase of \$335. This increase was due to the increase in the net present value of estimated ARO obligations for the project, based on an internal analysis.

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011, 2010 and 2009 (Unaudited)

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### 2010 vs. 2009

Total assets were \$568,744 and \$561,473 as of December 31, 2010 and December 31, 2009, respectively, an increase of \$7,271. The increase in 2010 total assets is due primarily to the establishment of an asset retirement maintenance reserve in 2010 and temporary investments, partially offset by a decrease in cash.

Electric plant, net of accumulated depreciation was \$251,505 and \$245,354 at year-end 2010 and 2009, respectively, an increase of \$6,151. The increase was primarily the result of an increase in ARO asset values of \$25,463 offset, in part, by an increase in accumulated depreciation of \$19,312. The cost associated with the asset retirement obligation included in the cost of electric plant for 2010 was \$41,622, versus \$16,159 in 2009. ARO obligations for OMEGA JV1 were prepared by independent engineering consultants. These projections increased over prior year estimates due to higher projected cleanup and restoration expenses. The net present value of these obligations increased further as a result of decreased interest rates at year end 2010 versus 2009.

Regulatory assets were \$57,861 and \$68,631 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$10,770. Regulatory assets contain amounts deferred for ARO expenses. These deferred amounts are recorded in the statements of revenues, expenses and changes in net assets as the corresponding expense is realized.

Current assets were \$182,736 and \$247,488 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$64,752. In 2010, cash and temporary investments decreased \$53,053, primarily as a result of the establishment of an asset retirement maintenance cash reserve of \$76,642 during the year. Compared to 2009 levels, accounts receivable decreased \$4,518, inventory decreased \$9,931, and prepaid assets increased \$2,750.

Total net assets and liabilities were \$568,744 and \$561,473 as of December 31, 2010 and December 31, 2009, respectively, an increase of \$7,271.

Total net assets were \$473,484 and \$486,612 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$13,128, which resulted from the 2010 net loss. Net assets – invested in capital assets were \$251,505 and \$245,354 at December 31, 2010 and December 31, 2009, respectively, an increase of \$6,151. This increase resulted from the increase in electric plant, net of depreciation. Unrestricted net assets were \$221,979 and \$241,258 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$19,279.

Current liabilities were \$18,618 and \$13,438 at December 31, 2010 and December 31, 2009, respectively, an increase of \$5,180. This resulted from increases in accounts payable of \$1,972, payables to related parties of \$2,484 and accruals of \$724.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011, 2010 and 2009  
(Unaudited)

Noncurrent liabilities were \$76,642 and \$61,423 as of December 31, 2010 December 31, 2009, respectively, an increase of \$15,219. This increase was due to the increase in the net present value of estimated ARO obligations for the project, based on the analysis of independent engineering consultants. As discussed previously, the increase is due to the combined impact of an increase in estimated asset retirement costs and lower interest rates prevailing at year-end 2010 versus 2009.

The following table summarizes the changes in revenues, expenses and net assets of OMEGA JV1 for the year ended December 31:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 192,105	\$ 150,331	\$ 144,685
Operating expenses	<u>207,033</u>	<u>166,627</u>	<u>141,459</u>
Operating Income/(Loss)	<u>(14,928)</u>	<u>(16,296)</u>	<u>3,226</u>
Nonoperating revenue			
Investment income	403	730	446
Future recoverable costs	<u>5,770</u>	<u>2,438</u>	<u>5,459</u>
Nonoperating Revenue	<u>6,173</u>	<u>3,168</u>	<u>5,905</u>
Change in Net Assets	<u>\$ (8,755)</u>	<u>\$ (13,128)</u>	<u>\$ 9,131</u>

**Operating results**

Electric revenues in 2011 were \$192,105, an increase of \$41,774 from 2010. Electric rates are set by the Board of Participants based on budgets and are intended to cover budgeted operating expenses, actual fuel expense and debt service, if any. Electric revenues in 2010 were \$150,331, an increase of \$5,646 from 2009.

Operating expenses in 2011 were \$207,033 is an increase of \$40,406 compared to 2010. The increase in operating expenses in 2011 is due to increases in related party services, fuel, insurance, other operating expense and professional services, which were partially offset by decreases in maintenance and ARO accretion expense. Operating expenses in 2010 were \$166,627. This is an increase of \$25,168 compared to 2009. The increase in operating expenses in 2010 is primarily due to increases in related party services, ARO accretion expense, fuel, maintenance, insurance and professional services, which were partially offset by decreases in depreciation expense, utilities and other operating expenses.

Investment income in 2011 was \$403 versus \$730 in 2010 which is a decrease of \$327.



**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011, 2010 and 2009  
(Unaudited)

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Investment income in 2010 was \$730 versus \$446 in 2009 which is an increase of \$284. Investment income for OMEGA JV1 is interest earned on checking account balances and short term CDs.

There were no distributions to participants of OMEGA JV1 in 2011 or 2010.

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 1**

STATEMENTS OF NET ASSETS  
December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 126,880	\$ 143,004
Receivables from participants	12,094	2,777
Accrued interest receivable	4	5
Inventory	48,002	29,833
Prepaid expenses	4,333	7,117
Total Current Assets	191,313	182,736
<b>NON-CURRENT ASSETS</b>		
Electric Plant		
Electric generators	526,722	527,935
Fuel tank	35,000	35,000
Accumulated depreciation	(334,397)	(311,430)
Other Assets		
Board designated funds	76,977	76,642
Regulatory assets	62,539	57,861
Total Non-Current Assets	366,841	386,008
<b>TOTAL ASSETS</b>	<b>\$ 558,154</b>	<b>\$ 568,744</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 9,867	\$ 12,423
Payable to related parties	6,581	6,195
Total Current Liabilities	16,448	18,618
<b>NONCURRENT LIABILITIES</b>		
Asset retirement obligation	76,977	76,642
Total Noncurrent Liabilities	76,977	76,642
Total Liabilities	93,425	95,260
<b>NET ASSETS</b>		
Invested in capital assets	227,325	251,505
Unrestricted	237,404	221,979
Total Net Assets	464,729	473,484
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 558,154</b>	<b>\$ 568,744</b>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Electric revenue	\$ 192,105	\$ 150,331
<b>OPERATING EXPENSES</b>		
Related party services	82,905	77,668
Depreciation	22,967	19,312
Accretion of asset retirement obligation	2,640	2,964
Fuel	39,826	9,931
Maintenance	8,695	15,131
Utilities	9,907	8,226
Insurance	24,797	22,150
Professional services	12,231	9,775
Other operating expenses	<u>3,065</u>	<u>1,470</u>
Total Operating Expenses	<u>207,033</u>	<u>166,627</u>
Operating Loss	<u>(14,928)</u>	<u>(16,296)</u>
<b>NON-OPERATING REVENUES</b>		
Investment income	403	730
Future recoverable costs	<u>5,770</u>	<u>2,438</u>
Total Non-Operating Revenues	<u>6,173</u>	<u>3,168</u>
<b>Change in net assets</b>	(8,755)	(13,128)
NET ASSETS, Beginning of Year	<u>473,484</u>	<u>486,612</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 464,729</u></u>	<u><u>\$ 473,484</u></u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from participants	\$ 182,788	\$ 154,833
Cash paid to related parties for personnel services	(82,519)	(64,497)
Cash payments to suppliers and related parties for goods and services	<u>(116,462)</u>	<u>(67,493)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(16,193)</u>	<u>22,843</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(35,416)	(35,351)
Investments sold and matured	35,351	35,000
Investment income received	<u>404</u>	<u>746</u>
Net Cash Provided by Investing Activities	<u>339</u>	<u>395</u>
 <b>Net Change in Cash and Cash Equivalents</b>	 (15,854)	 23,238
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>184,295</u>	 <u>161,057</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <u>\$ 168,441</u>	 <u>\$ 184,295</u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (14,928)	\$ (16,296)
Depreciation	22,967	19,312
Accretion of asset retirement obligation	2,640	2,964
Changes in assets and liabilities		
Receivables from participants	(9,317)	4,502
Inventory	(18,169)	9,931
Prepaid expenses	2,784	(2,750)
Accounts payable and accrued expenses	(2,556)	2,696
Payable to related parties	<u>386</u>	<u>2,484</u>
 <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	 <u>\$ (16,193)</u>	 <u>\$ 22,843</u>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS</b>		
Cash and temporary investments	\$ 126,880	\$ 143,004
Board designated funds	76,977	76,642
Less: Noncash equivalents	<u>(35,416)</u>	<u>(35,351)</u>
 <b>TOTAL CASH AND CASH EQUIVALENTS</b>	 <u>\$ 168,441</u>	 <u>\$ 184,295</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>\$ 1,213</u>	<u>\$ 25,463</u>

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

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Ohio Municipal Electric Generation Agency Joint Venture 1 (“OMEGA JV1”) was organized by 21 subdivisions of the State of Ohio (the “Participants”) on April 1, 1992, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the Participants. The Participants are members of American Municipal Power, Inc. (“AMP”) Northeast Area Service Group. The Participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV1 purchased its electric generating facilities (the “Project”), known as the Engle Units, from AMP in September 1992. The electric generating facilities consist of six diesel-fired turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio. The Agreement continues until 60 days subsequent to the disposition of the Project, provided, however, that each Participant shall remain obligated to pay to OMEGA JV1 its respective share of the costs of termination, discontinuing, disposing of, and decommissioning the Project.

The following summarizes the significant accounting policies followed by OMEGA JV1.

### ***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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in OMEGA JV1's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. OMEGA JV1 also has the option of following subsequent private-sector guidance subject to this same limitation. OMEGA JV1 has elected to follow subsequent private-sector guidance.

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.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

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***ASSETS, LIABILITIES AND NET ASSETS***

***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.

OMEGA JV1 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 JV1 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. 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 collectibility, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

***Inventory***

Inventory consists of fuel 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 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

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

***Electric Plant***

Electric plant is recorded at cost. Depreciation is provided on the straight-line method from 15 to 30 years, based on 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 an 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 JV1 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.

***Board Designated Funds***

Due to new environmental regulations that may affect the operation of the units, OMEGA JV1's Board of Participants designated funds from existing operating cash for the current value of the asset retirement obligation.

***Regulatory Assets***

In accordance with FASB guidance, *Accounting for the Effects of Certain Types of Regulation*, OMEGA JV1 records regulatory assets (deferred expenses to be recovered in rates in future periods). Regulatory assets include the deferral of depreciation expense and accretion expense associated with asset retirement obligations not yet recovered through billings to Participants. As interest is accreted related to the asset retirement obligation and depreciation is expensed related to the capitalized cost, future recoverable costs are recognized to match revenues with the related costs in future periods. 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:

	2011	2010
Deferral of expenses related to asset retirement obligations	<u>\$ 62,539</u>	<u>\$ 57,861</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

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

**Net Assets**

All property constituting OMEGA JV1 is owned by the Participants as tenants in common in undivided shares, each share being equal to that Participant's percentage ownership interest as follows:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Cuyahoga Falls	1,894	21.05%
Niles	1,593	17.71
Wadsworth	1,011	11.24
Hudson	934	10.37
Galion	588	6.53
Oberlin	497	5.52
Amherst	488	5.42
Hubbard	341	3.79
Columbiana	272	3.03
Wellington	265	2.95
Newton Falls	228	2.53
Monroeville	167	1.85
Lodi	155	1.72
Seville	135	1.50
Brewster	130	1.45
Grafton	105	1.16
Milan	64	0.71
Beach City	50	0.55
Prospect	45	0.50
Lucas	21	0.23
South Vienna	17	0.19
Totals	<u>9,000</u>	<u>100.00%</u>



**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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

***REVENUES AND EXPENSES***

OMEGA JV1 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with OMEGA JV1's principal ongoing operations. The principal operating revenues of OMEGA JV1 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 nonoperating revenues and expenses.

Electric revenue is recognized when earned as electric service is delivered. OMEGA JV1's rates for electric power are designed to cover annual operating costs. Rates are set annually by the Board of Participants. Periodically OMEGA JV1 will distribute earnings to its participants based on available operating cash. These distributions are approved by the Board of Participants.

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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53). Future application of these standards may restate portions of these financial statements.

**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
	2011	2010	
Checking	\$ 145,786	\$ 161,643	Custodial credit
Certificate of Deposit	35,416	35,351	Custodial credit
Government Money Market Mutual Fund	<u>22,655</u>	<u>22,652</u>	Interest rate, credit
Totals	<u>\$ 203,857</u>	<u>\$ 219,646</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited for noninterest bearing accounts as of December 31, 2011 and 2010.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)**

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, OMEGA JV1's deposits may not be returned to it. OMEGA JV1 has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit as stated above. OMEGA JV1's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2011 and 2010, there were no deposits or temporary investments exposed to custodial credit risk, as amounts do not exceed FDIC limits.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

OMEGA JV1 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV1 to invest in funds in accordance with the Ohio Revised Code. 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, 2011 and 2010, OMEGA JV1's investments were rated as follows:

Investment Type	Standard & Poors	Fitch Ratings	Moody's Investors Services
Government Money Market Mutual Fund	AAAm	AAA	Aaa

***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV1's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

As of December 31, 2011, OMEGA JV1's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	\$ <u>22,655</u>	36

As of December 31, 2010, OMEGA JV1's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	\$ <u>22,652</u>	38

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE 3 – ELECTRIC PLANT**

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

	2011			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 527,935	\$ -	\$ (1,213)	\$ 526,722
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	562,935	-	(1,213)	561,722
Less: Accumulated depreciation	(311,430)	(22,967)	-	(334,397)
Electric Plant, Net	\$ 251,505	\$ (22,967)	\$ (1,213)	\$ 227,325
	2010			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 502,472	\$ -	\$ 25,463	\$ 527,935
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	537,472	-	25,463	562,935
Less: Accumulated depreciation	(292,118)	(19,312)	-	(311,430)
Electric Plant, Net	\$ 245,354	\$ (19,312)	\$ 25,463	\$ 251,505

During 2011 and 2010, OMEGA JV1 recorded an adjustment to electric plant to reflect the revised estimate of the ARO (Note 4).

**NOTE 4 – ASSET RETIREMENT OBLIGATIONS**

Under the terms of lease agreements, OMEGA JV1 has an obligation to remove electric generators from the leased sites on which the units are located and to perform certain restoration of the sites.

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

	2011			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 76,642	\$ 2,640	\$ (2,305)	\$ 76,977
	2010			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 61,423	\$ 2,964	\$ 12,255	\$ 76,642

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE 4 – ASSET RETIREMENT OBLIGATIONS (cont.)**

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 unit. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful life of each unit. OMEGA JV1 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2011 and 2010.

**NOTE 5 – NET ASSETS**

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset 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.

Unrestricted net assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is OMEGA JV1's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net assets invested in capital assets:

	2011	2010
Plant in service	\$ 561,722	\$ 562,935
Accumulated depreciation	(334,397)	(311,430)
Total Net Assets Invested in Capital Assets	\$ 227,325	\$ 251,505

# OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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### NOTE 6 – COMMITMENTS AND CONTINGENCIES

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#### *ENVIRONMENTAL MATTERS*

OMEGA JV1 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 JV1.

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 JV1's engines are affected by this rule and compliance must be demonstrated by May 2013. OMEGA JV1 is evaluating its compliance options and assessing the impact on the project. Total costs are estimated at \$200,000 to \$300,000.

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 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. Summit County has been designated a nonattainment area for fine particulate matter, therefore, the Ohio EPA may restrict the hours of operations or require additional pollution control equipment for the OMEGA JV1 generating facilities.

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### NOTE 7 – RISK MANAGEMENT

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OMEGA JV1 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.

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### NOTE 8 – RELATED PARTY TRANSACTIONS

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OMEGA JV1 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services. OMEGA JV1 had a payable to AMP of \$9 and \$9 at December 31, 2011 and 2010, respectively.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY  
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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**NOTE 8 – RELATED PARTY TRANSACTIONS (cont.)**

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- As OMEGA JV1'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 \$72,450 and \$65,486 for the years ended December 31, 2011 and 2010, respectively. OMEGA JV1 had a payable to MESA for \$5,484 and \$4,700 at December 31, 2011 and 2010, respectively.
- OMEGA JV1 uses the Energy Control Center for dispatching electrical control. OMEGA JV1 had a payable to the Energy Control Center for \$1,088 and \$1,487 at December 31, 2011 and 2010, respectively. The expenses related to dispatching electrical control were \$10,455 and \$12,182 for the years ended December 31, 2011 and 2010, respectively.
- The City of Cuyahoga Falls, Ohio, agreed to provide a suitable site for the generating facilities, and OMEGA JV1 agreed to lease such site for the period of the Agreement plus one year, for the sum of one dollar. OMEGA JV1 incurred expenses of \$9,907 and \$8,226 for the years ended December 31, 2011 and 2010, respectively, for utilities provided by Cuyahoga Falls to the site. Cuyahoga Falls also has agreed to perform operational tasks and routine maintenance on the generating facilities at no charge to OMEGA JV1 in exchange for the availability of the electric generation project to Cuyahoga Falls for electric system emergency backup.

**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**

To the Board of Participants  
Ohio Municipal Electric Generation Agency Joint Venture 1:

We have audited the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 (“OMEGA JV1”) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012, wherein we noted the financial statements for the year ended December 31, 2010 were audited by other auditors. 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.

**Internal Control Over Financial Reporting**

Management of OMEGA JV1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the OMEGA JV1’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OMEGA JV1’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OMEGA JV1’s internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the OMEGA JV1'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*.

This report is intended solely for the information and use of the Board of Participants, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Clark, Schaefer, Haskett & Co.*

Cincinnati, Ohio  
April 19, 2012



**Ohio Municipal Electric Generation Agency Joint Venture 1**  
Schedule of Prior Audit Findings  
Year Ended December 31, 2011

**Finding 1 – Internal Control Over Financial Reporting**

During the prior audit, it was noted that OMEGA JV1 was not able to prepare a complete set of financial statements and had material adjusting journal entries.

**Status:** *Corrected during 2011.*