OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2013 and 2012

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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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, 2013 and 2012, 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.

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, 2013 and 2012, 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.

Effect of Adopting New Accounting Standards

As discussed in Note 1, OMEGA JV2 adopted the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. Our opinions were not modified with respect to this matter.

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 16, 2014 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 16, 2014

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013, 2012 and 2011
(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, 2013 and 2012. 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 and liabilities 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:

Condensed Statements of Net Position

	2013	2012	2011
Assets			
Electric Plant & Equipment, net of accumulated depreciation	$ 21,075,074	$ 23,293,330	$ 26,526,010
Regulatory assets	1,437,015	1,359,567	1,276,791
Restricted assets	-	521,203	521,585
Board Designated Funds	1,139,344	1,420,860	1,859,701
Current assets	1,424,243	1,981,617	1,498,958
Total Assets	$ 25,075,676	$ 28,576,577	$ 31,683,045
Net Position, Liabilities and Deferred Inflow of Resources			
Net investment in capital assets	$ 21,075,074	$ 23,293,330	$ 26,526,010
Net position - restricted	-	521,203	521,585
Net position - unrestricted	1,709,936	2,368,713	2,151,179
Total net position	22,785,010	26,183,246	29,198,774
Current liabilities	399,260	597,225	269,990
Noncurrent liabilities	1,498,059	1,420,860	1,859,701
Deferred inflow of resources	393,347	375,246	354,580
Total Net Position, Liabilities and Deferred Inflow of Resources	$ 25,075,676	$ 28,576,577	$ 31,683,045

2013 vs. 2012

Total assets were $25,075,676 and $28,576,577 on December 31, 2013 and December 31, 2012, respectively, a decrease of $3,500,901. The decrease in total assets was due primarily to a decrease in net capital assets due to depreciation and decrease in operating cash offset by an increase in regulatory assets.

Electric plant and equipment, net of accumulated depreciation was $21,075,074 and $23,293,330 at year-end 2013 and 2012, respectively, a decrease of $2,218,256. This decrease was the result of a $2,881,923 increase in accumulated depreciation and $766,100 decrease in construction-in-process offset by a $1,429,767 increase in utility assets. The cost associated with the ARO included in the cost of electric plant for 2013 was $811,365 versus $806,722 in 2012. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Regulatory assets were $2,176,737 and $1,359,567 at December 31, 2013 and 2012, respectively, an increase of $817,170. 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.

Restricted assets totaled $0 and $521,203 at December 31, 2013 and December 31, 2012, respectively. This was a decrease of $521,203 and was the result of the OMEGA JV2 financing members requesting their cash back to pay down their debt.

Current assets were $1,424,243 and $1,981,617 as of December 31, 2013 and 2012, respectively, a decrease of $557,374. In 2013, cash decreased $1,324,913, accounts receivable increased $59,937, inventories decreased $39,331 and prepaid expenses increased $7,211 versus 2012 levels.

Total liabilities, deferred inflow of resources and net position were $25,075,676 and $28,576,577 as of December 31, 2013 and December 31, 2012, respectively, a decrease of $3,500,901. This decrease was primarily the result decreases in investment capital and restricted assets.

Total net position was $22,785,010 and $26,183,246 as of December 31, 2013 and December 31, 2012, respectively, a decrease of $3,398,236. Net investment in capital assets was $21,075,074 and $23,293,330 at December 31, 2013 and December 31, 2012, respectively, a decrease of $2,218,256. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Restricted net position was $0 and $521,203 at December 31, 2013 and December 31, 2012, respectively, a decrease of $521,203, as the result of the OMEGA JV2 financing members requesting their cash back to pay down their debt. Unrestricted net position was $1,709,936 and $2,368,713 at December 31, 2013 and December 31, 2012, respectively, a decrease of $658,777.

Noncurrent liabilities were $1,498,059 and $1,420,860 at December 31, 2013 and December 31, 2012, respectively, an increase of $77,199. This was primarily a result of the $86,536 increase in regulatory liabilities for ARO expenses versus 2012 levels. AROs were estimated to be $1,498,059 and $1,420,860 at year end 2013 and 2012, respectively.

Current liabilities were $399,260 and $597,225 as of December 31, 2013 and December 31, 2012, respectively, a decrease of $197,965. This decrease was primarily the result of decreased accounts payable obligations to third party vendors.

Deferred inflows of resources were $393,347 and $375,246 at December 31, 2013 and December 31, 2012, respectively, an increase of $18,101. This was a result of an increase in overhaul maintenance intended to be recovered in future costs.

2012 vs. 2011

Total assets were $28,576,577 and $31,683,045 on December 31, 2012 and December 31, 2011, respectively, a decrease of $3,106,468. The decrease in total assets was due primarily to a decrease in net capital assets due to depreciation.

Electric plant and equipment, net of accumulated depreciation was $23,293,330 and $26,526,010 at year-end 2012 and 2011, respectively, a decrease of $3,232,680. This decrease was the result of a $656,366 decrease in utility assets and a $2,868,554 increase in accumulated depreciation offset, in part by a decrease of $473,860 in the estimated value of Asset Retirement Obligation (ARO) assets and an increase in CIP assets of $766,100. The cost associated with the ARO included in the cost of electric plant for 2012 was $806,722 versus $1,280,582 in 2011. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Regulatory assets were $1,359,567 and $1,276,791 at December 31, 2012 and 2011, respectively, an increase of $82,776. Regulatory assets contain amounts deferred for ARO expenses. These deferred amounts are recorded in the statements of revenues, expenses, and changes in net position as the corresponding expense is realized.

Restricted assets totaled $521,203 and $521,585 at December 31, 2012 and December 31, 2011, respectively. This was a decrease of $382.

Current assets were $1,981,617 and $1,498,958 as of December 31, 2012 and 2011, respectively, an increase of $482,659. In 2012, cash and temporary investments and accrued interest receivable increased $107,413, accounts receivable decreased $47,199, inventories decreased $83,758 and prepaid expenses increased $111,503 versus 2011 levels. Cash collected from generation revenues to cover future overhaul expenses increased $374,864.

Total liabilities, deferred inflow of resources and net position were $28,576,577 and $31,683,045 as of December 31, 2012 and December 31, 2011, respectively, a decrease of $3,106,468. This decrease was primarily the result of current period losses.

Total net position was $26,183,246 and $29,198,774 as of December 31, 2012 and December 31, 2011, respectively, a decrease of $3,015,528. Net investment in capital assets was $23,293,330 and $26,526,010 at December 31, 2012 and December 31, 2011, respectively, a decrease of $3,232,680. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Restricted net position was $521,203 and $521,585 at December 31, 2012 and December 31, 2011, respectively, a decrease of $382, reflecting the increase in cash-restricted overhaul and short term trust investments. Unrestricted net position was $2,368,713 and $2,151,179 at December 31, 2012 and December 31, 2011, respectively, an increase of $217,534.

Noncurrent liabilities were $1,420,860 and $1,859,701 at December 31, 2012 and December 31, 2011, respectively, a decrease of $438,841. This was a result of a decrease in estimated ARO versus 2011 levels. AROs were estimated to be $1,420,860 and $1,859,701 at year end 2012 and 2011, respectively.

Current liabilities were $597,225 and $269,989 as of December 31, 2012 and December 31, 2011, respectively, an increase of $327,235. This increase was primarily the result of increased accounts payable obligations to third party vendors.

Deferred inflows of resources were $375,246 and $354,580 at December 31, 2012 and December 31, 2011, respectively, an increase of $20,666. This was a result of an increase in overhaul maintenance regulatory liability.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues	$ 4,257,839	$ 2,453,869	$ 2,305,361
Operating expenses	7,212,816	5,903,966	5,201,771
Operating Loss	$ (2,954,977)	$ (3,450,097)	$ (2,896,410)
Nonoperating revenue			
Investment income	$ 4,425	$ 2,972	$ 3,459
Gain on insurance proceeds	-	319,680	-
Future recoverable costs	73,519	111,917	114,799
Non operating revenue	77,944	434,569	118,258
Loss before distributions	(2,877,033)	(3,015,528)	(2,778,152)
Distribution to related party	(521,203)	-	-
Change in Net Position	$ (3,398,236)	$ (3,015,528)	$ (2,778,152)

OMEGA JV2's rates are set by the Board of Participants and are intended to cover budgeted operating 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 2013 were $4,257,839 versus $2,453,869 in 2012, an increase of $1,803,970 due to the increase in capacity sales $1,310,872. Electric revenues in 2012 were $2,453,869 versus $2,305,361 in 2011, an increase of $148,508.

OMEGA JV2 operating expenses in 2013 were $7,212,816 versus $5,903,966 in 2012, an increase of $1,308,850. This increase in expenses was due to an increase in capacity expense of $1,310,872, Rice Neshap allocation of $228,936 and IT allocation of $63,000 offset, in part by a $81,444 decrease in fuel, an $20,541 decrease in utilities and a $418,380 decrease in maintenance. OMEGA JV2 operating expenses in 2012 were $5,903,966 versus $5,201,771 in 2011, an increase of $702,195. This increase in expenses was due to an increase in maintenance expense of $628,474, a $29,233 increase in professional services, a $140,174 increase in MESA services and a $47,748 increase in insurance offset, in part, by a $9,550 decrease in fuel, an $82,067 decrease in utilities and a $14,750 decrease in banking fees.

Investment income in OMEGA JV2 in 2013 was $4,425 versus $2,972 in 2012, an increase of $1,453. Investment income in OMEGA JV2 in 2012 was $2,972 versus $3,459 in 2011, a decrease of $487. Investment income is earned on funds held by trustee as a requirement of the bond obligation for benefit of the OMEGA JV2 financing members. These 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, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ -	$ 1,324,913
Receivables from participants	227,053	167,116
Regulatory Asset	739,722	-
Inventory	269,137	308,468
Prepaid expenses	188,331	181,120
Total Current Assets	1,424,243	1,981,617
NONCURRENT ASSETS		
Restricted Assets		
Restricted Cash	-	521,203
Electric Plant and Equipment		
Electric generators	58,883,549	57,453,782
Construction work in progress	-	766,100
Accumulated depreciation	(37,808,475)	(34,926,552)
Net Electric Plant and Equipment	21,075,074	23,293,330
Other Assets		
Board designated funds	1,139,344	1,420,860
Regulatory assets	1,437,015	1,359,567
Total Non-Current Assets	23,651,433	26,594,960
TOTAL ASSETS	$ 25,075,676	$ 28,576,577
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 261,539	$ 515,654
Payable to related parties	137,721	81,571
Total Current Liabilities	399,260	597,225
NONCURRENT LIABILITIES		
Asset retirement obligations	1,498,059	1,420,860
Total Noncurrent Liabilities	1,498,059	1,420,860
Total Liabilities	1,897,319	2,018,085
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	393,347	375,246
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	$ 2,290,666	$ 2,393,331
NET POSITION		
Net investment in capital assets	21,075,074	23,293,330
Restricted	-	521,203
Unrestricted	1,709,936	2,368,713
Total Net Position	22,785,010	26,183,246
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 25,075,676	$ 28,576,577

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, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Electric revenue	$ 4,257,839	$ 2,453,869
OPERATING EXPENSES		
Related party services	953,400	846,987
Capacity	1,310,872	-
Depreciation	2,881,923	2,868,554
Accretion of asset retirement obligation	68,628	64,160
Fuel	475,808	557,252
Maintenance	683,743	1,102,123
Utilities	108,439	128,980
Insurance	353,589	274,981
Professional services	30,325	44,696
Other operating expenses	346,089	16,233
Total Operating Expenses	7,212,816	5,903,966
Operating Loss	(2,954,977)	(3,450,097)
NONOPERATING REVENUES		
Investment income	4,425	2,972
Gain on insurance proceeds	-	319,680
Future recoverable costs	73,519	111,917
Total Non-Operating Revenues	77,944	434,569
Loss Before Distribution	(2,877,033)	(3,015,528)
DISTRIBUTION TO RELATED PARTY	(521,203)	-
Change in net position	(3,398,237)	(3,015,528)
NET POSITION, Beginning of Year	26,183,246	29,198,774
NET POSITION, END OF YEAR	$ 22,785,010	$ 26,183,246

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	$ 3,458,180	$ 2,501,068
Cash paid to related parties for personnel services	(897,250)	(819,110)
Cash payments to suppliers and related parties for goods and services	(3,512,759)	(1,831,986)
Net Cash Used in Operating Activities	(951,829)	(150,028)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(659,025)	(109,734)
Proceeds from insurance	-	319,680
Net Cash Provided (Used in) Capital and Related Financing Activities	(659,025)	209,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments sold and matured	-	50,000
Investment income received	4,425	2,977
Net Cash Provided by Investing Activities	4,425	52,977
Net Change in Cash and Cash Equivalents	(1,606,429)	112,895
CASH AND CASH EQUIVALENTS, Beginning of Year	2,745,773	2,632,878
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,139,344	$ 2,745,773

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (2,954,977)	$ (3,450,097)
Depreciation	2,881,923	2,868,554
Accretion of asset retirement obligation	68,628	64,160
Changes in assets and liabilities		
Receivables from participants	(59,937)	47,199
Inventory	39,331	83,758
Prepaid expenses	(7,211)	(111,503)
Accounts payable and accrued expenses	(254,115)	299,358
Payable to related parties	56,150	27,877
Regulatory assets	(739,722)	-
Regulatory liabilities	18,101	20,666
NET CASH USED IN OPERATING ACTIVITIES	$ (951,829)	$ (150,028)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	$ -	$ 1,324,913
Restricted	-	521,203
Board designated funds	1,139,344	1,420,860
Total Cash Accounts	1,139,344	3,266,976
Less: Non-cash equivalents		
Restricted	-	(521,203)
Total Non-cash equivalents	-	(521,203)
TOTAL CASH AND CASH EQUIVALENTS	$ 1,139,344	$ 2,745,773
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	$ 4,643	$ (473,860)

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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 collectibility, 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.

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

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

Prepaid Expenses

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

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.

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

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

Board Designated Funds

Due to new environmental regulations that may affect the operation of the units, OMEGA JV2's Board of Participants designated funds from existing operating cash for the current value of the asset retirement obligation.

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:

	2013	2012
Future expenses related to fixed O&M	$ 739,722	$ -

	2013	2012
Future expenses related to asset retirement obligations	$ 1,437,015	$ 1,359,567

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:

	2013	2012
Future expenses related to overhaul maintenance	$ 393,347	$ 375,246

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:

Municipality	Project kW Entitlement	Percent Project Ownership and Entitlement
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

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Net Position (cont.)

Municipality	Project kW Entitlement	Percent Project Ownership and Entitlement
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 nonoperating 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 nonoperating 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 (Note 10). 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. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 65, *Items Previously Reported as Assets and Liabilities,* Statement No. 66, *Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62.* These standards were implemented in 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		
	2013	2012	Risks
Checking	$ 1,139,344	$ 3,266,976	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, 2013 and 2012.

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, OMEGA JV2 had no investments with interest rate risk.

NOTE 3 – RESTRICTED ASSETS

Restricted assets include those assets comprising the Reserve and Contingency Fund, which are established and maintained pursuant to the Agreement.

The Agreement requires OMEGA JV2 to maintain a minimum funding in the Reserve and Contingency Fund of $225,000. This amount was collected from the Participants in January 2001.

Of this amount, $176,355 was collected from OMEGA JV2 participants who financed their capital contribution by participating in the bond issue. The fund is held by the bond trustee. In accordance with the trust indenture related to the bonds issued on behalf of OMEGA JV2 financing participants, amounts collected from financing participants may be used in the event of nonpayment of bond debt service.

At the end of 2013, OMEGA JV2 has $0 in restricted assets as these were paid to participants.

Under the terms of the Agreement, if the balance of the fund is less than the required minimum, then AMP shall direct OMEGA JV2 to increase billings to financing participants such that the deficiency in the balance is funded within twelve months.

Restricted Assets

The following calculation supports the amount of OMEGA JV2 restricted assets:

	2013	2012
Restricted Assets		
Reserve and Contingency Fund	$ -	$ 521,203

NOTE 4 – ELECTRIC PLANT AND EQUIPMENT

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

	2013				
	Beginning Balance	Additions	Adjustments	Change in Estimate	Ending Balance
Electric generators	$ 57,453,782	$ 1,425,124	$ -	$ 4,643	$ 58,883,549
Construction Work-in-Progress	766,100	-	(766,100)		-
Total Electric Plant and Equipment in Service	58,219,882	1,425,124	(766,100)	4,643	58,883,549
Less: Accumulated depreciation	(34,926,552)	(2,881,923)	-	-	(37,808,475)
Electric Plant and Equipment, Net	$ 23,293,330	$ (1,456,799)	$ (766,100)	$ 4,643	$ 21,075,074

	2012				
	Beginning Balance	Additions	Retirements	Change in Estimate	Ending Balance
Electric generators	$ 58,584,008	$ -	$ (656,366)	$(473,860)	$ 57,453,782
Construction Work-in-Progress	-	766,100	-	-	766,100
Total Electric Plant and Equipment in Service	58,584,008	766,100	(656,366)	(473,860)	58,219,882
Less: Accumulated depreciation	(32,057,998)	(2,868,554)	-	-	(34,926,552)
Electric Plant and Equipment, Net	$ 26,526,010	$ (2,102,454)	$ (656,366)	$(473,860)	$ 23,293,330

During 2013 and 2012, OMEGA JV2 recorded an adjustment to electric plant and equipment to reflect the revised estimate of the ARO (Note 5).

NOTE 5 – 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:

	2013			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	$ 1,420,860	$ 8,571	$ 68,628	$ 1,498,059

	2012			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	$ 1,859,701	$ (503,001)	$ 64,160	$ 1,420,860

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 2013 and 2012.

NOTE 6 – 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.

NOTE 6 – 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:

	2013	2012
Electric Plant and Equipment Assets	$ 58,072,184	$ 57,413,160
Asset Retirement Obligation	811,365	806,722
Accumulated Depreciation	(37,808,475)	(34,926,552)
Total Net Investment in Capital Assets	$ 21,075,074	$ 23,293,330

NOTE 7 – 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 8 – 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.

NOTE 9 – Related Party Transactions

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. OMEGA JV2 incurred expenses related to these services in the amount of $200,049 and $214,324 for the years ended December 31, 2013 and 2012, respectively, and had a payable due to AMP of $94,941 and $20,080 at December 31, 2013 and 2012, respectively, for these services.

- 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 $753,351 and $632,663 for the years ended December 31, 2013 and 2012, respectively. OMEGA JV2 had a payable to MESA for $42,780 and $61,491 at December 31, 2013 and 2012, respectively.

- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of $108,439 and $128,980 for these services for the years ended December 31, 2013 and 2012, 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, 2013, 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 16, 2014, wherein we noted OMEGA JV2 implemented Governmental Accounting Standards Board Statements No. 61, 65, and 66.

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.

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

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 16, 2014