

**Ohio Municipal Electric
Generation Agency
Joint Venture 1**

**Financial Statements
December 31, 2006 and 2005**

Ohio Municipal Electric Generation Agency Joint Venture 1
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December 31, 2006 and 2005

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Report of Independent Auditors

Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 1

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") at December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of OMEGA JV1's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The management's discussion and analysis on pages 2 through 4 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 18, 2007 on our consideration of OMEGA JV1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended December 31, 2006. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

Columbus, Ohio
April 18, 2007

Ohio Municipal Electric Generation Agency Joint Venture 1

Management's Discussion and Analysis

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, 2006 and 2005. 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 balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows.

The balance sheet provides information about the nature and amount of assets and liabilities of OMEGA JV1 as of the end of the year. The statement of revenues, expenses and changes in net assets reports revenues and expenses for the year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, investing and capital and related financing activities.

Financial Highlights

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

Condensed Balance Sheets

	2006	2005	2004
Assets			
Electric plant, net of accumulated depreciation	\$ 266,668	\$ 267,447	\$ 283,419
Regulatory assets	48,917	59,461	246,814
Current assets	354,483	214,881	230,938
Total assets	<u>\$ 670,068</u>	<u>\$ 541,789</u>	<u>\$ 761,171</u>
Net Assets and Liabilities			
Net assets	\$ 586,819	\$ 455,421	\$ 463,386
Current liabilities	16,603	22,793	37,139
Noncurrent liabilities	66,646	63,575	260,646
Total net assets and liabilities	<u>\$ 670,068</u>	<u>\$ 541,789</u>	<u>\$ 761,171</u>

Total assets of \$670,068 increased \$128,279 or 23.7% in 2006, this compares to a decrease of total assets of \$219,832 or 28.8% in 2005, over 2004. The increase in 2006 is due primarily to an increase in cash and cash equivalents, which is discussed in more detail below.

Electric plant, net of accumulated depreciation, decreased \$779 from 2005, while the cost of electric plant assets increased \$15,517 or 3% from the prior year. The increase of \$15,517 was the result of capital expenditures for a site grounding grid improvement for lightning or surge protection. The cost associated with the asset retirement obligation ("ARO") included in the cost of electric plant for 2004, 2005 and 2006 remained the same at \$33,949. The decrease of \$15,972 for 2005 and 2004 was reflective of recognizing depreciation expense of \$14,841 for electric plant assets and \$1,131 for recognition of depreciation expense on the AROs, in each of these years.

Ohio Municipal Electric Generation Agency Joint Venture 1

Management's Discussion and Analysis

Regulatory assets at December 31, 2006 were \$48,917. This was a decrease of \$10,544 for 2006 while 2005 had a decrease of \$187,353 from 2004. These changes were directly related to a lightning strike that occurred in 2003 to three diesel units in that revenues were collected from JV1 members beginning in September 2004 through 2006 to repair the units. This collection includes approximately \$55,000 for new capital equipment, some of which was purchased in 2006. In 2005 and 2004, maintenance expense was \$23,623 and \$190,598 respectively. This was primarily related to the repair of these three units. Regulatory assets contain amounts deferred for ARO costs. These deferred amounts are recorded in the statements of revenues, expenses and changes in net assets as the corresponding expense is realized.

Current assets as of December 31, 2006 were \$354,483. This was an increase in 2006 of \$139,602 or 65.0%. In 2006, cash increased \$178,285, primarily related to increased billings to recover costs related to damages from the lightning strike, while accounts receivable decreased \$46,867. Fuel inventory increased \$9,224 in 2006 as a result of higher inventory levels and higher diesel fuel costs. In 2005, cash decreased \$47,620, primarily due to the repayment of a loan to AMP-Ohio while receivables increased \$37,077, primarily related to increased billings to recover costs related to damages from the lightning strike. Fuel inventory increased \$5,555 in 2005 as a result of higher inventory levels and higher diesel fuel costs. Prepaid expenses decreased \$11,069 in 2005, primarily as a result of the timing of payments. The 2005 insurance premium was paid in 2004.

Total net assets and liabilities increased \$128,279 or 23.7 % in 2006 compared to 2005. Total net assets and liabilities decreased \$219,382 in 2005. These changes in total net assets and liabilities are explained in the categories below.

Net assets increased \$131,398 or 28.9% in 2006 compared to 2005. This increase in 2006 is primarily due to the total operating gain. Net assets decreased \$7,965 or 1.7% in 2005 compared to 2004. This increase is the result of the total operating loss.

Current liabilities as of December 31, 2006 were \$16,603. This was a decrease of \$6,190, or 27.2% in 2006. The decrease in 2006 was primarily related to a decrease in accounts payable. Current liabilities of \$22,793 decreased \$14,346 or 38.6% in 2005. The decrease in 2005 was primarily related to a decrease in accounts payable.

Noncurrent liabilities as of December 31, 2006 were \$66,646. This was an increase of \$3,071, or 4.8% in 2006. This increase is due primarily to accretion expense related to asset retirement obligations. Noncurrent liabilities of \$63,575 decreased \$197,071 or 75.6% in 2005. The decrease was primarily the result of repayment of a \$200,000 loan from AMP-Ohio to repair the units damaged in the lightning strike.

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005	2004
Operating revenues	\$ 299,753	\$ 363,708	\$ 245,225
Operating expenses	<u>178,584</u>	<u>376,753</u>	<u>237,064</u>
Operating (loss) income	<u>121,169</u>	<u>(13,045)</u>	<u>8,161</u>
Nonoperating revenue			
Investment income	<u>10,229</u>	<u>5,080</u>	<u>3,094</u>
Change in net assets	<u>\$ 131,398</u>	<u>\$ (7,965)</u>	<u>\$ 11,255</u>

Ohio Municipal Electric Generation Agency Joint Venture 1 Management's Discussion and Analysis

Electric revenues in 2006 were \$299,753. This was a decrease of \$63,955 or 17.6% for 2006. 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. Generation decreased to 135 megawatt hours in 2006 versus 306 megawatt hours produced in 2005. All units were fully operational in 2006 for the entire year. Revenue increased in 2005 as a result of increased billings to collect funds to repair the three units damaged in the lightning strike. Operating revenues increased \$118,483 or 48.3% in 2005. Energy production significantly increased in 2005 with a total of 306 megawatt hours produced in 2005 versus 122 megawatt hours produced in 2004. The increased production was due to the units not operating during 2004 due to damage from the lightning strike. The three units were down from August 2003 through September 2004 and were fully operational in October 2004.

Operating expenses in 2006 were \$178,584. This is a decrease of \$198,169 or 52.6% compared to 2005. The decrease in operating expenses in 2006 is primarily due to a decrease in future recoverable costs of \$176,809, and a decrease in diesel fuel expense of \$12,941. The increases in operating expenses in 2005 were a result of an increase in future recoverable costs related to the storm damage of \$256,058, an increase in diesel fuel expense of \$24,350 due to increased prices and increased generation, offset by a decrease in repairs and maintenance expenses of \$166,975.

Investment income in 2006 was \$10,229, which was an increase of \$5,149 or 101.4% for 2006. Investment income for OMEGA JV1 is interest earned on checking account for the Operating Funds held at a bank. Increases in 2006 were the result of higher average cash balances at higher interest rates. Investment income increased \$1,986 or 64.2% in 2005 due to an increased operating cash balance and a steadily increasing interest rate during 2005.

Ohio Municipal Electric Generation Agency Joint Venture 1
Balance Sheets
December 31, 2006 and 2005

	2006	2005
Assets		
Electric plant		
Electric generators	\$ 459,695	\$ 444,178
Fuel tank	35,000	35,000
Accumulated depreciation	<u>(228,027)</u>	<u>(211,731)</u>
Total electric plant	<u>266,668</u>	<u>267,447</u>
Regulatory assets	<u>48,917</u>	<u>59,461</u>
Current assets		
Cash and cash equivalents	294,313	116,028
Receivables from participants	7,880	3,994
Receivables from related parties	11,610	62,363
Fuel inventory	35,288	26,064
Prepaid expenses	<u>5,392</u>	<u>6,432</u>
Total current assets	<u>354,483</u>	<u>214,881</u>
Total assets	<u>\$ 670,068</u>	<u>\$ 541,789</u>
Net Assets and Liabilities		
Net assets		
Invested in capital assets, net of related debt	\$ 266,668	\$ 267,447
Unrestricted	<u>320,151</u>	<u>187,974</u>
Total net assets	<u>586,819</u>	<u>455,421</u>
Commitments and contingencies (Note 8)		
Current liabilities		
Accounts payable and accrued expenses	10,708	13,926
Payable to related parties	<u>5,895</u>	<u>8,867</u>
Total current liabilities	<u>16,603</u>	<u>22,793</u>
Noncurrent liabilities		
Asset retirement obligation	<u>66,646</u>	<u>63,575</u>
Total noncurrent liabilities	<u>66,646</u>	<u>63,575</u>
Total liabilities	<u>83,249</u>	<u>86,368</u>
Total net assets and liabilities	<u>\$ 670,068</u>	<u>\$ 541,789</u>

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

Ohio Municipal Electric Generation Agency Joint Venture 1
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Operating Revenues		
Electric revenue	\$ 299,753	\$ 363,708
Operating Expenses		
Related party services	61,134	65,172
Depreciation	16,296	15,972
Accretion of asset retirement obligation	3,071	2,929
Fuel	18,953	31,894
Maintenance	27,909	23,623
Utilities	7,615	11,417
Insurance	20,066	19,952
Professional services	11,102	11,358
Interest expense	-	5,236
Other operating expenses	1,894	1,847
Future recoverable costs	10,544	187,353
Total operating expenses	<u>178,584</u>	<u>376,753</u>
Operating income (loss)	121,169	(13,045)
Nonoperating Revenues		
Investment income	10,229	5,080
Change in net assets	131,398	(7,965)
Net assets, beginning of year	<u>455,421</u>	<u>463,386</u>
Net assets, end of year	<u>\$ 586,819</u>	<u>\$ 455,421</u>

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

Ohio Municipal Electric Generation Agency Joint Venture 1
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Cash received from participants	\$ 295,867	\$ 377,302
Cash paid to related parties for personnel services	(61,132)	(62,455)
Cash payments to suppliers and related parties for goods and services	(51,162)	(167,547)
Net cash provided by operating activities	<u>183,573</u>	<u>147,300</u>
Cash flows from capital and related financing activities		
Capital expenditures	(15,517)	-
Net cash used in capital and related financing activities	<u>(15,517)</u>	<u>-</u>
Cash flows from investing activities		
Investment income	10,229	5,080
Net cash provided by investing activities	<u>10,229</u>	<u>5,080</u>
Cash flows from noncapital financing activities		
Payments of notes payable to related party	-	(200,000)
Net cash used in noncapital financing activities	<u>-</u>	<u>(200,000)</u>
Net change in cash and cash equivalents	178,285	(47,620)
Cash and cash equivalents, beginning of year	<u>116,028</u>	<u>163,648</u>
Cash and cash equivalents, end of year	<u>\$ 294,313</u>	<u>\$ 116,028</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 121,169	\$ (13,045)
Depreciation	16,296	15,972
Accretion of asset retirement obligation	3,071	2,929
Future recoverable costs	10,544	187,353
Changes in assets and liabilities		
Receivables from participants	(3,886)	13,594
Receivables from related parties	50,753	(50,671)
Fuel inventory	(9,224)	(5,555)
Prepaid expenses	1,040	11,069
Accounts payable and accrued expenses	(3,218)	(12,542)
Payable to related parties	(2,972)	(1,804)
Net cash provided by operating activities	<u>\$ 183,573</u>	<u>\$ 147,300</u>

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

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements

December 31, 2006 and 2005

1. Organization

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-Ohio, Inc. ("AMP-Ohio") 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-Ohio 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.

2. Summary of Significant Accounting Policies

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

Basis of Accounting

The accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV1 applies all Financial Accounting Standards Board ("FASB") statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements.

Cash and Cash Equivalents

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.

Electric Plant

Electric plant is recorded at cost. Depreciation is provided on the straight-line method over 30 years, the estimated useful life 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.

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements

December 31, 2006 and 2005

Fuel Inventory

Fuel inventory is stated at the lower of first-in, first-out ("FIFO") cost or market.

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.

Regulatory Assets

In accordance with SFAS No. 71, *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 and storm damage costs 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:

	2006	2005
Regulatory assets		
Deferral of expenses related to asset retirement obligations	\$ 48,917	\$ 44,714
Deferral of storm damage costs	-	14,747
Total	<u>\$ 48,917</u>	<u>\$ 59,461</u>

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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:

Municipality	Project kW Entitlement	Percent Project Ownership and Entitlement
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
Total	9,000	100.00 %

Operating Revenue 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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, 2006 and 2005

New Accounting Standards

In September 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements. This standard is effective for financial standards issued for fiscal years beginning after November 15, 2007. OMEGA JV1 does use fair value measurements in applying its current accounting principles, and is evaluating the effect this standard may have on its financial statements.

3. Electric Plant

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

	2006		
	Beginning Balance	Additions	Ending Balance
Electric generators	\$ 444,178	\$ 15,517	\$ 459,695
Fuel tank	35,000	-	35,000
Total electric plant in service	479,178	15,517	494,695
Less: Accumulated depreciation	(211,731)	(16,296)	(228,027)
Electric plant, net	<u>\$ 267,447</u>	<u>\$ (779)</u>	<u>\$ 266,668</u>
	2005		
	Beginning Balance	Additions	Ending Balance
Electric generators	\$ 444,178	\$ -	\$ 444,178
Fuel tank	35,000	-	35,000
Total electric plant in service	479,178	-	479,178
Less: Accumulated depreciation	(195,759)	(15,972)	(211,731)
Electric plant, net	<u>\$ 283,419</u>	<u>\$ (15,972)</u>	<u>\$ 267,447</u>

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements

December 31, 2006 and 2005

4. Related Party Transactions

OMEGA JV1 has entered into the following agreements:

- Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. OMEGA JV1 had a receivable from AMP-Ohio of \$11,610 and \$62,363 at December 31, 2006 and 2005, respectively.
- As OMEGA JV1's agent, AMP-Ohio 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 \$61,134 and \$65,172 for the years ended December 31, 2006 and 2005, respectively. OMEGA JV1 had a payable to MESA for \$5,895 and \$5,893 at December 31, 2006 and 2005, 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 \$7,615 and \$11,417 for the years ended December 31, 2006 and 2005, 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.
- On April 24, 2004, OMEGA JV1 borrowed \$300,000 under a promissory note from AMP-Ohio that bears interest at AMP-Ohio's interest rate on its revolving credit loan up to 7% per annum. The loan was paid in full in 2005.
- OMEGA JV1 purchased fuel from OMEGA JV5. OMEGA JV1 had a payable to OMEGA JV5 for \$2,974 at December 31, 2005.

5. Cash and Cash Equivalents

Deposits

Custodial risk is the risk that in the event of a bank failure, JV1's deposits may not be returned to it. JV1 does not have a custodial credit risk policy. JV1 has custodial credit risk on its cash and cash equivalent balance to the extent the balance exceeds the federally insured limit of \$100,000.

Credit Risk

OMEGA JV1 invests in instruments allowed under the Ohio Revised Code, Chapter 135. At December 31, 2006 and 2005, JV1 had investments of \$294,313 and \$116,028, respectively, in a public funds money market account. In general, money market funds are not rated.

6. Risk Management

OMEGA JV1 is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio 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.

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Notes to Financial Statements
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7. 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:

	2006		
	Beginning Balance	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 63,575	\$ 3,071	\$ 66,646

	2005		
	Beginning Balance	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 60,646	\$ 2,929	\$ 63,575

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.

8. Commitments and Contingencies

Participant Credit Risk

In March 2004, OMEGA JV1 became aware that the City of Galion ("Galion") was experiencing financial difficulties. Galion is an all requirements member participating in OMEGA JV1 to the extent of approximately 6% of output. In a report dated August 9, 2004, the Auditor of State of Ohio declared that a state of fiscal emergency exists at Galion as defined under the Ohio Revised Code ("ORC"). In accordance with the ORC, the Galion Financial Planning and Supervision Commission (the "Commission") was formed. The Galion City Council adopted a fiscal recovery plan and submitted the plan to the Commission. At December 31, 2006, Galion is still in a state of fiscal emergency. OMEGA JV1 continues to monitor Galion's ability to stay current with its obligations to OMEGA JV1.

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.

Most metropolitan and industrialized counties in Ohio have become nonattainment areas under the new ozone and fine particulate matter ambient air quality standards. This will 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 ozone and 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.

**Report of Independent Auditors 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***

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, 2006, and have issued our report thereon dated April 18, 2007. 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

In planning and performing our audit, we considered 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 OMEGA JV1's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

Columbus, Ohio
April 18, 2007