

**Ohio Municipal Electric
Generation Agency
Joint Venture 2**

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

Ohio Municipal Electric Generation Agency Joint Venture 2

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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 2

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 2 ("OMEGA JV2") 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 JV2'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 JV2'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 2 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 2 ("OMEGA JV2") 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 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 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 JV2 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 JV2 as of December 31:

Condensed Balance Sheets

	2006	2005	2004
Assets			
Electric Plant, net of accumulated depreciation	\$ 40,509,111	\$ 43,422,472	\$ 46,318,184
Regulatory assets	737,842	605,782	477,961
Restricted assets	527,236	473,603	406,969
Current assets	<u>2,095,756</u>	<u>1,864,723</u>	<u>1,484,032</u>
Total assets	<u>\$ 43,869,945</u>	<u>\$ 46,366,580</u>	<u>\$ 48,687,146</u>
Net Assets and Liabilities			
Net assets	\$ 41,895,804	\$ 44,379,656	\$ 46,886,266
Current liabilities	135,600	252,525	202,552
Noncurrent liabilities	<u>1,838,541</u>	<u>1,734,399</u>	<u>1,598,328</u>
Total net assets and liabilities	<u>\$ 43,869,945</u>	<u>\$ 46,366,580</u>	<u>\$ 48,687,146</u>

Total assets of \$43,869,945 decreased \$2,496,635 or 5.4% in 2006. This compares to a decrease of total assets of \$2,320,566 or 4.8% in 2005, over 2004.

Electric plant, net of accumulated depreciation decreased \$2,913,361 for 2006 and \$2,895,712 for 2005. The cost of electric plant assets, excluding the cost associated with asset retirement obligations, was \$56,874,136, which has remained the same for the years 2006, 2005 and 2004.

Regulatory assets at December 31, 2006 were \$737,842. This was an increase of \$132,060 in 2006 compared to 2005. Regulatory assets in 2005 increased \$127,821 over 2004. The increases were due primarily to increases in accretion expense related to asset retirement obligations.

Ohio Municipal Electric Generation Agency Joint Venture 2 Management's Discussion and Analysis

Restricted assets at December 31, 2006 were \$527,236. This was an increase of \$53,633 in 2006 compared to 2005, and an increase of \$66,634 in 2005 compared to 2004. The increase in both years was due to increased deposits to the overhaul fund of \$41,733 and \$59,336, respectively.

Current assets as of December 31, 2006 were \$2,095,756. This was an increase in 2006 of \$231,033 compared to 2005, and an increase of \$380,691 in 2005 compared to 2004. In 2006, cash increased \$57,400 primarily due to a net loss on operations of \$2,569,487 offset in part by depreciation expense of \$2,903,318, and inventory purchases of \$360,411. Accounts receivables increased \$57,864 primarily as a result of increased accounts receivable of \$70,881 from participants. Inventories increased \$111,842 primarily as a result of higher inventory levels and increases in diesel fuel costs. In 2005, cash increased \$278,285 primarily due to a net loss on operations of \$2,506,610, offset in part by non cash depreciation expense of \$2,903,704, and inventory purchases of \$102,301. Accounts receivables increased \$72,834 primarily as a result of increased accounts receivable of \$93,417 from related parties. Inventories increased \$102,301 primarily as a result of higher inventory levels and increases in diesel fuel costs. Prepaid expenses decreased \$72,729 primarily as a result of timing of payments. The 2005 insurance premium was paid in December 2004.

Net assets as of December 31, 2006 were \$41,895,804. This was a decrease of \$2,483,852 in 2006, while in 2005 net assets decreased \$2,506,610. These reductions are equal to net operating losses for these periods.

Current liabilities as of December 31, 2006 were \$135,600. This was a decrease of \$116,925 in 2006, while 2005 had an increase of \$49,973. The decrease from 2005 to 2006 was primarily due to a decrease in accounts payable of \$130,674. The increase from 2004 to 2005 was primarily due to an increase in accounts payable of \$41,761.

Noncurrent liabilities as of December 31, 2006 were \$1,833,541. This was an increase of \$104,142 in 2006, while 2005 had an increase of \$136,071. These increases were primarily due to increases in deposits by the Participants to the overhaul fund for major repairs and maintenance and increases in asset retirement obligations of \$72,451 in 2006 compared to 2005, and an increase of \$76,735 in 2005 compared to 2004.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005	2004
Operating revenues	\$ 2,546,329	\$ 2,757,613	\$ 2,329,762
Operating expenses	<u>5,115,816</u>	<u>5,315,985</u>	<u>4,802,075</u>
Operating loss	<u>(2,569,487)</u>	<u>(2,558,372)</u>	<u>(2,472,313)</u>
Nonoperating revenue			
Investment income	<u>85,635</u>	<u>51,762</u>	<u>18,240</u>
Change in net assets	<u>\$ (2,483,852)</u>	<u>\$ (2,506,610)</u>	<u>\$ (2,454,073)</u>

Electric revenues in 2006 were \$2,546,329; this was a decrease of \$211,284 for 2006, while 2005 increased by \$427,851 over 2004. 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 does not include in their rates any bond payments by OMEGA JV2 financing participants that are made directly to AMP-Ohio. The 2006 operating revenue decrease of \$211,284 is attributable to the decrease in energy production from the generating units. In 2006, the energy production was 5,144 megawatt hours compared to 7,467 megawatt hours in 2005.

Ohio Municipal Electric Generation Agency Joint Venture 2 Management's Discussion and Analysis

Operating expenses in 2006 were \$5,115,816. This was a decrease of \$200,169 in 2006 compared to 2005. In 2005, operating expenses increased \$513,910 compared to 2004. Diesel fuel expense for 2006 was \$619,956, in 2005 it was \$830,185 and in 2004 it was \$406,333. In 2006, the \$200,169 decrease in operating expenses over 2005 was primarily due to a decrease in diesel fuel expense of \$210,229, a decrease in related party services of \$28,815, and a decrease in utilities of \$28,225, offset by an increase in maintenance expense of \$42,144 and an increase in other expenses of \$18,158. In 2005, the \$513,910 increase in operating expenses over 2004 was due primarily to an increase in diesel fuel expense of \$423,852, an increase in utilities of \$75,357, and an increase in other expenses of \$13,634.

Investment income in 2006 was \$85,635, which was an increase of \$33,873 for 2006 and 2005 had an increase of \$33,522. Investment income of \$73,734 was earned on the checking account for the Operating Funds held at the bank. Interest income of \$11,899 was on funds held by trustee as a requirement of the bond obligation for benefit of the OMEGA JV2 financing participants, these funds were invested in short-term government backed securities, double rated short term commercial paper, or the trust agency's money market account.

Ohio Municipal Electric Generation Agency Joint Venture 2
Balance Sheets
December 31, 2006 and 2005

	2006	2005
Assets		
Electric plant and equipment		
Electric generators	\$ 58,051,835	\$ 58,061,878
Vehicles	33,100	33,100
Accumulated depreciation	<u>(17,575,824)</u>	<u>(14,672,506)</u>
Total electric plant and equipment	<u>40,509,111</u>	<u>43,422,472</u>
Regulatory assets	<u>737,842</u>	<u>605,782</u>
Restricted assets		
Funds held by trustee	251,056	239,156
Overhaul fund	<u>276,180</u>	<u>234,447</u>
Total restricted assets	<u>527,236</u>	<u>473,603</u>
Current assets		
Cash and cash equivalents	1,253,888	1,196,488
Receivables from participants	301,379	230,498
Receivables from related parties	87,895	100,912
Inventory	360,411	248,569
Prepaid expenses	<u>92,183</u>	<u>88,256</u>
Total current assets	<u>2,095,756</u>	<u>1,864,723</u>
Total assets	<u>\$ 43,869,945</u>	<u>\$ 46,366,580</u>
Net Assets and Liabilities		
Net assets		
Invested in capital assets	\$ 40,509,111	\$ 43,422,472
Restricted	527,236	473,603
Unrestricted	<u>859,457</u>	<u>483,581</u>
Total net assets	<u>41,895,804</u>	<u>44,379,656</u>
Commitments and contingencies (Note 9)		
Current liabilities		
Accounts payable and accrued expenses	89,601	220,275
Payable to related parties	<u>45,999</u>	<u>32,250</u>
Total current liabilities	<u>135,600</u>	<u>252,525</u>
Noncurrent liabilities		
Regulatory liabilities	276,180	234,447
Asset retirement obligations	<u>1,562,361</u>	<u>1,499,952</u>
Total noncurrent liabilities	<u>1,838,541</u>	<u>1,734,399</u>
Total liabilities	<u>1,974,141</u>	<u>1,986,924</u>
Total net assets and liabilities	<u>\$ 43,869,945</u>	<u>\$ 46,366,580</u>

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

Ohio Municipal Electric Generation Agency Joint Venture 2
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Operating Revenues		
Electric revenue	<u>\$ 2,546,329</u>	<u>\$ 2,757,613</u>
Operating Expenses		
Related party services	610,196	639,011
Depreciation	2,903,318	2,903,704
Accretion of asset retirement obligation	72,451	68,743
Fuel	619,956	830,185
Maintenance	521,088	478,944
Utilities	143,096	171,321
Insurance	198,738	199,113
Professional services	106,504	98,414
Other operating expenses	72,529	54,371
Future recoverable costs	<u>(132,060)</u>	<u>(127,821)</u>
Total operating expenses	<u>5,115,816</u>	<u>5,315,985</u>
Operating loss	(2,569,487)	(2,558,372)
Nonoperating Revenues		
Investment income	<u>85,635</u>	<u>51,762</u>
Change in net assets	(2,483,852)	(2,506,610)
Net assets, beginning of year	<u>44,379,656</u>	<u>46,886,266</u>
Net assets, end of year	<u>\$ 41,895,804</u>	<u>\$ 44,379,656</u>

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

Ohio Municipal Electric Generation Agency Joint Venture 2
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Cash received from participants	\$ 2,517,181	\$ 2,837,532
Cash paid to related parties for personnel services	(510,100)	(487,639)
Cash payments to suppliers and related parties for goods and services	<u>(1,981,684)</u>	<u>(2,056,736)</u>
Net cash provided by operating activities	<u>25,397</u>	<u>293,157</u>
Cash flows from investing activities		
Deposit to overhaul fund	(41,733)	(59,336)
Purchases of investments	(978,393)	(701,287)
Proceeds from sale of investments	966,494	693,989
Investment income received	<u>85,635</u>	<u>51,762</u>
Net cash provided by (used in) investing activities	<u>32,003</u>	<u>(14,872)</u>
Net change in cash and cash equivalents	57,400	278,285
Cash and cash equivalents, beginning of year	<u>1,196,488</u>	<u>918,203</u>
Cash and cash equivalents, end of year	<u>\$ 1,253,888</u>	<u>\$ 1,196,488</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (2,569,487)	\$ (2,558,372)
Depreciation	2,903,318	2,903,704
Accretion of asset retirement obligation	72,451	68,743
Future recoverable costs	(132,060)	(127,821)
Deferred revenue	41,733	59,336
Changes in assets and liabilities		
Receivables from participants	(70,881)	20,583
Receivables from related parties	13,017	(93,417)
Inventory	(111,842)	(102,301)
Prepaid expenses	(3,927)	72,729
Accounts payable and accrued expenses	(130,674)	67,946
Payable to related parties	<u>13,749</u>	<u>(17,973)</u>
Net cash provided by operating activities	<u>\$ 25,397</u>	<u>\$ 293,157</u>
Supplemental disclosure of noncash capital and related financing activities		
Adjustment to electric plant from asset retirement obligations	\$ (10,042)	\$ 7,992

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

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements

December 31, 2006 and 2005

1. Organization

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-Ohio, Inc. (“AMP-Ohio”). On December 27, 2001, OMEGA JV2 purchased 138.650 MW of electric plant generating units (the “Project”) from AMP-Ohio. 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.

2. Summary of Significant Accounting Policies

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

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 JV2 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 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 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 2

Notes to Financial Statements

December 31, 2006 and 2005

Investments

Investments of restricted assets are recorded at market value with unrealized and realized gains and losses included in nonoperating revenues in the statements of revenues, expenses and changes in net assets. Gains and losses on investment transactions are determined on a specific-identification basis.

Inventory

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

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.

Regulatory Assets and Liabilities

OMEGA JV2 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. Regulatory liabilities consist of deferred revenue related to amounts prepaid by the Participants for major repairs and maintenance and is recorded as income when the related expenditure occurs.

Ohio Municipal Electric Generation Agency Joint Venture 2
Notes to Financial Statements
December 31, 2006 and 2005

Net Assets

The Project is owned by the Participants in undivided interests held either directly or in trust. Due to potential legal impediments to their holding 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. Marys	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
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
	<hr/>	<hr/>
	134,081	100.00 %
Reserves	4,569	
kW capacity of the Project	<hr/> \$ 138,650 <hr/>	

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements

December 31, 2006 and 2005

Operating Revenue 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, except 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-Ohio to retire the Project financing obligations (Note 5). Accordingly, OMEGA JV2 will generate negative operating margins during the operating life of the electric generators.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 JV2 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 and Equipment

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

	2006		
	Beginning Balance	Additions (Reductions)	Ending Balance
Electric generators	\$ 58,061,878	\$ (10,043)	\$ 58,051,835
Vehicles	33,100	-	33,100
Total electric plant and equipment in service	58,094,978	(10,043)	58,084,935
Less: Accumulated depreciation	(14,672,506)	(2,903,318)	(17,575,824)
Electric plant and equipment, net	<u>\$ 43,422,472</u>	<u>\$ (2,913,361)</u>	<u>\$ 40,509,111</u>

Ohio Municipal Electric Generation Agency Joint Venture 2
Notes to Financial Statements
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	2005		
	Beginning Balance	Additions	Ending Balance
Electric generators	\$ 58,053,886	\$ 7,992	\$ 58,061,878
Vehicles	33,100	-	33,100
Total electric plant and equipment in service	58,086,986	7,992	58,094,978
Less: Accumulated depreciation	(11,768,802)	(2,903,704)	(14,672,506)
Electric plant and equipment, net	<u>\$ 46,318,184</u>	<u>\$ (2,895,712)</u>	<u>\$ 43,422,472</u>

4. Related Party Transactions

OMEGA JV2 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 JV2 incurred expenses related to these services in the amount of \$96,359 and \$153,461 for the years ended December 31, 2006 and 2005, respectively, and had a payable due to Amp-Ohio of \$10,012 at December 31, 2006, for these services. OMEGA JV2 had a receivable due from AMP-Ohio in the amount of \$83,184 at December 31, 2005 for payment of charges related to AMP-Ohio. At December 31, 2006, OMEGA JV2 had a receivable due from AMP-Ohio in the amount of \$87,895.
- As OMEGA JV2'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 \$513,837 and \$485,550 for the years ended December 31, 2006 and 2005, respectively, and had a payable to MESA for \$35,987 and \$32,250 at December 31, 2006 and 2005, respectively.
- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of \$143,096 and \$171,321 for these services for the years ended December 31, 2006 and 2005, respectively.
- OMEGA JV2 had a receivable from OMEGA JV5 in the amount of \$17,728 at December 31, 2005 for payment of charges related to OMEGA JV5.

5. Acquisition of the Project

Pursuant to the Agreement, OMEGA JV2 purchased the Project and assumed related contracts from AMP-Ohio for a total purchase price of \$58,570,598, less capacity payments received prior to the purchase of \$1,761,557.

The Participants in OMEGA JV2 consist of financing and nonfinancing participants. On January 1, 2001, AMP-Ohio issued \$50,260,000 of OMEGA JV2 Project Distributive Generation Bonds, Series 2001 (the "OMEGA JV2 Bonds"), in the form of serial bonds on behalf of the financing participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The nonfinancing participants contributed \$12,665,886.

Ohio Municipal Electric Generation Agency Joint Venture 2
Notes to Financial Statements
December 31, 2006 and 2005

The OMEGA JV2 Bonds were not issued by OMEGA JV2 and the financing participants make debt service payments directly to AMP-Ohio. Therefore, the OMEGA JV2 Bonds are not recorded in the financial statements of OMEGA JV2. The OMEGA JV2 Bonds outstanding at December 31, 2005, are as follows:

Maturity Date January 1,	Principal Amount	Interest Rate
2007	\$ 1,940,000	4.05 %
2008	2,020,000	4.10 %
2009	2,120,000	4.15 %
2010	2,225,000	5.00 %
2011	2,335,000	5.25 %
2012	2,460,000	5.25 %
2013	2,590,000	5.25 %
2014	2,725,000	5.25 %
2015	2,865,000	5.25 %
2016	3,015,000	5.25 %
2017	3,175,000	5.25 %
2021	14,280,000	4.75 %
	<u>\$ 41,750,000</u>	

The OMEGA JV2 Bonds mature in various annual installments through January 1, 2021. Interest is payable semiannually at fixed interest rates.

The OMEGA JV2 Bonds are payable solely from the municipal electric utility system revenues of OMEGA JV2 financing participants. The OMEGA JV2 Bonds require compliance by the financing participants with the Agreement, which requires that each financing participant maintain a debt service coverage ratio of 1.1 or greater.

Based upon audited financial information for the year 2005, one Participant was not in compliance with the debt service coverage ratio requirement. The Participant represented that it is in compliance with the debt service coverage requirement in 2006 and expects to be in compliance in 2007 and beyond. Based on these representations, OMEGA JV2 took action to waive the noncompliance.

The OMEGA JV2 Bonds are not subject to optional redemption before January 11, 2011. The OMEGA JV2 Bonds maturing after January 11, 2011 are subject to redemption in whole or in part on any date on or after January 11, 2011, at a redemption price of 100% of the outstanding principal plus accrued interest.

6. Cash and Cash Equivalents and Restricted Assets

Deposits

Custodial risk is the risk that in the event of a bank failure, JV2's deposits may not be returned to it. JV2 does not have a custodial credit risk policy. JV2 has custodial credit risk on its cash and cash equivalent balances to the extent the balances exceed the federally insured limit of \$100,000.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements

December 31, 2006 and 2005

Credit Risk

OMEGA JV2 invests in instruments approved under the entity's investment policy. The board of participants has authorized JV2 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. At December 31, 2006 and 2005, JV2 had investments of \$1,253,888 and \$1,196,488, respectively, in a public funds money market account. In general, money market funds are not rated.

Restricted Assets

Restricted assets include those assets comprising the Reserve and Contingency Fund and the Overhaul 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.

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

The Agreement requires OMEGA JV2 to maintain the Overhaul Fund for periodic overhauls of the electric generation and related facilities.

The certificates' trust agreement limits permissible restricted investments to those authorized for municipalities by Chapter 135 of the Ohio Revised Code. The trust agreement does not restrict the duration of investments to the limitations imposed by Chapter 135. At December 31, 2006 and 2005, all investments were purchased in the name of the restricted funds' trustee and are held by the trustee. The investments held by the trustee are uninsured and unregistered.

At December 31, 2006 the Reserve and Contingency Fund was invested primarily in commercial paper of entities with credit ratings of A1+ by Standard & Poor's. The Overhaul Fund was invested in a public funds money market account. In general, money market funds are not rated.

Ohio Municipal Electric Generation Agency Joint Venture 2
Notes to Financial Statements
December 31, 2006 and 2005

7. 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 of the sites.

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

	2006			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,499,952	\$ (10,042)	\$ 72,451	\$ 1,562,361

	2005			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,423,217	\$ 7,992	\$ 68,743	\$ 1,499,952

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.

8. Risk Management

OMEGA JV2 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.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements

December 31, 2006 and 2005

9. Commitments and Contingencies

Participant Credit Risk

In March 2004, OMEGA JV2 became aware that the City of Galion ("Galion") was experiencing financial difficulties. Galion is an all requirements member participating in the Project to the extent of approximately 4% 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 JV2 continues to monitor Galion's ability to stay current with its obligations to OMEGA JV2 and the project financing.

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.

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, 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), Medina (Seville), and Wood (Bowling Green) counties are non-attainment areas for ozone and 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.

**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 2

We have audited the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2") 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 JV2'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 JV2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV2'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.

We consider the deficiencies described in the accompanying schedule of findings and responses (item 06-1) to be significant deficiencies in internal control over financial reporting.

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 and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

OMEGA JV2's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit OMEGA JV2's response and, accordingly, we express no opinion on it.

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.

Pricewaterhouse Coopers LLP

Columbus, Ohio
April 18, 2007

Ohio Municipal Electric Generation Agency Joint Venture 2 Schedule of Finding and Responses December 31, 2006

Finding 06-1 Revenue Controls Should be Strengthened

Currently, the billing program is a series of spreadsheets. There is no security function enabled within the software to prevent unauthorized or inadvertent changes. There is minimal or no documentation of changes made to the spreadsheet program. Changes can and are made to the program logic and calculations by the same individuals who enter billing data into the spreadsheet. There is no detailed, independent review of billing adjustments.

Because of the complexity of the billing process, management should ensure there are robust controls in place to monitor revenue and approve billing adjustments. At a minimum, management should specifically consider the following:

- A periodic comparison (at least quarterly) of revenue billed to rates approved by the Board of Participants should be performed. This comparison should either be done or reviewed by someone independent of the individual processing bills in order to obtain an objective view point. The individual should perform an independent calculation of expected revenue based on rates approved by the Board of Participants, compare that expectation to actual year-to-date revenue, and investigate differences from expectation.
- To the extent a significant billing adjustment is deemed necessary, the adjustment should be reviewed and approved by an individual other than the person proposing the adjustment in order to obtain an objective point of view.

Management's Views and Corrective Action Plan

At the end of each quarter, the Director of Energy Accounting will prepare a report of revenue billed to rates approved by the Board of Participants for OMEGA JV2. The report will be reviewed for content and accuracy by the Assistant Vice President Generation Services. In addition, any billing adjustment over \$10,000 proposed by the Billing Department will be reviewed and approved by the Assistant Vice President Generation Services prior to executing the billing adjustment.

Prior to the preparation of the 2008 budget, the Generation Services Department will review with the Finance Department the process of how fuel is procured and charged through rates back to the participants. This review process will be conducted each year prior to the annual budget preparation period.