

**Ohio Municipal Electric  
Generation Agency  
Joint Venture 4**

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

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
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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 4

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 4 ("OMEGA JV4") 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 JV4'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 JV4'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 4 Management's Discussion and Analysis

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## Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 4 ("OMEGA JV4") 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 JV4 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 JV4'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 JV4 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 JV4 as of December 31:

### Condensed Balance Sheets

|  | 2006                | 2005                | 2004                |
|--|---------------------|---------------------|---------------------|
| <b>Assets</b>                                      |                     |                     |                     |
| Transmission line, net of accumulated depreciation | \$ 1,864,674        | \$ 1,926,768        | \$ 1,457,914        |
| Current assets                                     | 677,335             | 819,238             | 1,180,753           |
| Total assets                                       | <u>\$ 2,542,009</u> | <u>\$ 2,746,006</u> | <u>\$ 2,638,667</u> |
| <b>Net Assets and Liabilities</b>                  |                     |                     |                     |
| Net assets   | \$ 2,493,929        | \$ 2,711,723        | \$ 2,622,025        |
| Current liabilities                                | 48,080              | 34,283              | 16,642              |
| Total net assets and liabilities                   | <u>\$ 2,542,009</u> | <u>\$ 2,746,006</u> | <u>\$ 2,638,667</u> |

Total assets of \$2,542,009 decreased \$203,997 or 7.4% in 2006. This decrease is a result of a decrease in transmission line, net of accumulated depreciation, of \$62,094, and a net decrease in current assets of \$141,903.

Total assets of \$2,746,006 increased \$107,339 or 4.1% in 2005. This increase is a result of an increase in transmission line, net of accumulated depreciation, of \$468,854, partially offset by a net decrease in current assets of \$361,515.

Transmission line, net of accumulated depreciation at December 31, 2006 was \$1,864,674. This was a decrease of \$62,094, or 3.2%. In 2006, capital expenditures were \$34,428, while depreciation expense was \$96,522.

Transmission line, net of accumulated depreciation at December 31, 2005 was \$1,926,768. This was an increase of \$468,854, or 32.2%. The increase of \$468,854 was the result of capitalizing three projects for a total of \$544,872: 1) 69kV Underground Improvements \$286,241; 2) 69kV Reconductor Project \$244,486; and 3) obtaining a right-of-way over Norfolk Southern's railroad line for \$14,145, offset by depreciation.

## Ohio Municipal Electric Generation Agency Joint Venture 4 Management's Discussion and Analysis

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Current assets decreased \$141,903 or 17.3% in 2006. Cash decreased \$126,609 primarily due to capital expenditures of \$34,428 and distributions to participants of \$344,700, offset by income less depreciation expense of \$223,428. Accounts receivable decreased by \$15,330. Prepaid insurance increased \$36.

Current assets decreased \$361,515 or 30.6% in 2005. Cash decreased \$304,293 primarily due to capital expenditures of \$544,872 and distributions to participants of \$344,700, offset in part by income before distributions, net of depreciation expense, of \$358,380. Accounts receivable decreased \$26,168, due primarily to a decrease in rates in the fourth quarter of 2005. Accounts receivable from a related party decreased primarily as a result of a decrease in transmission rates in December 2005. Prepaid insurance decreased \$12,407 primarily as a result of timing of payments. The 2005 insurance premiums were paid in December 2004.

Total net assets and liabilities decreased \$203,997 or 7.4% in 2006. Net assets as of December 31, 2006 were \$2,493,929; this was a decrease of \$217,794 in 2006. The 2006 decrease of \$217,794 was attributable to earnings of \$126,906 offset by distributions to participants of \$344,700.

Total net assets and liabilities increased \$107,339 or 4.1% in 2005. Net assets as of December 31, 2005 were \$2,711,723; this was an increase of \$89,698 in 2005. The 2005 increase of \$89,698 was attributable to earnings of \$434,398 offset by distributions to participants of \$344,700.

Current liabilities as of December 31, 2006 were \$48,080, this was an increase of \$13,797 in 2006 due primarily to an increase in accounts payable to a related party of \$18,256 and an increase in accrued expenses of \$32,053.

Current liabilities as of December 31, 2005 were \$34,283, this was an increase of \$17,641 in 2005 due primarily to an increase in accounts payable to a related party of \$16,715 and an increase in accrued expenses of \$926.

The following table summarizes the changes in revenues, expenses and net assets of OMEGA JV4 for the year ended December 31:

### Condensed Statement of Revenues, Expenses and Changes in Net Assets

|                               | 2006                | 2005             | 2004              |
|-------------------------------|---------------------|------------------|-------------------|
| Operating revenues            | \$ 270,000          | \$ 639,534       | \$ 784,428        |
| Operating expenses            | <u>178,476</u>      | <u>235,330</u>   | <u>182,392</u>    |
| Operating income              | <u>91,524</u>       | <u>404,204</u>   | <u>602,036</u>    |
| Nonoperating revenues         |                     |                  |                   |
| Investment income             | <u>35,382</u>       | <u>30,194</u>    | <u>13,810</u>     |
| Income before distributions   | <u>126,906</u>      | <u>434,398</u>   | <u>615,846</u>    |
| Distributions to participants | <u>(344,700)</u>    | <u>344,700</u>   | <u>368,021</u>    |
| Change in net assets          | <u>\$ (217,794)</u> | <u>\$ 89,698</u> | <u>\$ 247,825</u> |

## Ohio Municipal Electric Generation Agency Joint Venture 4 Management's Discussion and Analysis

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Transmission revenues in 2006 were \$270,000; this was a decrease of \$369,534 or 57.8% compared to 2005. This reduction was the result of renegotiated contracts in the fourth quarter of 2005.

Transmission revenues in 2005 were \$639,534; this was a decrease of \$144,894 or 18.5% compared to 2004. In 2005, OMEGA JV4 renegotiated contracts and rates with participants and the primary customer. The renegotiated contracts became effective in the fourth quarter of 2005. Rates for revenue were set at \$22,500 per month. Previous rates were variable based on actual transmission line usage. This resulted in a decrease in operating revenues in 2005.

Operating expenses in 2006 were \$178,476, a decrease of \$56,854 or 24.2% compared to 2005. Four primary factors affected the \$56,854 decrease in operating expenses for 2006: 1) Maintenance expense decreased \$35,325; 2) services to Municipal Energy Services Agency decreased \$32,529; 3) depreciation expense increased \$20,504; and 4) other operating expenses decreased \$9,549.

Operating expenses in 2005 were \$235,330, an increase of \$52,938 or 29.0% compared to 2004. Three primary factors affected the \$52,938 increase in operating expenses for 2005: 1) Maintenance expense increased \$30,279 (this increase related to clearing brush under the transmission lines); 2) services to Municipal Energy Services Agency increased \$12,128 (related to management of the construction projects); and 3) depreciation expense increased \$6,579 relating to the \$544,872 in new assets purchased in 2005. The \$105,490 reduction in operating expenses in 2004 was primarily related to writing off obsolete repair parts inventory in 2003 of \$130,808. Maintenance expense in 2004 was \$120,281 less than in 2003.

Investment income in 2006 was \$35,382, which was an increase of \$5,188 or 17.2% compared to 2005. The 2006 increase was a result of higher investment rates.

Investment income in 2005 was \$30,194, which was an increase of \$16,384 or 118.6% compared to 2004. The 2005 increase was a result of higher investment rates.

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
**Balance Sheets**  
**December 31, 2006 and 2005**

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|  | 2006                | 2005                |
|--|---------------------|---------------------|
| <b>Assets</b>                          |                     |                     |
| Utility plant                          |                     |                     |
| Transmission line                      | \$ 2,640,938        | \$ 2,606,510        |
| Accumulated depreciation               | <u>(776,264)</u>    | <u>(679,742)</u>    |
| Total utility plant                    | <u>1,864,674</u>    | <u>1,926,768</u>    |
| Current assets                         |                     |                     |
| Cash and cash equivalents              | 652,343             | 778,952             |
| Receivables                            | 22,500              | 37,830              |
| Prepaid expenses                       | <u>2,492</u>        | <u>2,456</u>        |
| Total current assets                   | <u>677,335</u>      | <u>819,238</u>      |
| Total assets                           | <u>\$ 2,542,009</u> | <u>\$ 2,746,006</u> |
| <b>Net Assets and Liabilities</b>      |                     |                     |
| Net assets                             |                     |                     |
| Invested in capital assets             | \$ 1,864,674        | \$ 1,926,768        |
| Unrestricted                           | <u>629,255</u>      | <u>784,955</u>      |
| Total net assets                       | <u>2,493,929</u>    | <u>2,711,723</u>    |
| Commitments and contingencies (Note 7) |                     |                     |
| Current liabilities                    |                     |                     |
| Accrued expenses                       | 45,995              | 13,942              |
| Payable to related party               | <u>2,085</u>        | <u>20,341</u>       |
| Total current liabilities              | <u>48,080</u>       | <u>34,283</u>       |
| Total net assets and liabilities       | <u>\$ 2,542,009</u> | <u>\$ 2,746,006</u> |

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

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2006 and 2005**

|                                  | 2006                | 2005                |
|----------------------------------|---------------------|---------------------|
| <b>Operating Revenues</b>        |                     |                     |
| Transmission revenue             | \$ 270,000          | \$ 639,534          |
| <b>Operating Expenses</b>        |                     |                     |
| Related party personnel services | 42,210              | 74,739              |
| Depreciation                     | 96,522              | 76,018              |
| Maintenance                      | 5,630               | 40,955              |
| Professional services            | 15,869              | 15,824              |
| Other operating expenses         | 18,245              | 27,794              |
| Total operating expenses         | <u>178,476</u>      | <u>235,330</u>      |
| Operating income                 | 91,524              | 404,204             |
| <b>Nonoperating Revenues</b>     |                     |                     |
| Investment income                | <u>35,382</u>       | <u>30,194</u>       |
| Income before distributions      | <u>126,906</u>      | <u>434,398</u>      |
| Distributions to participants    |                     |                     |
| Bryan                            | (144,774)           | (144,774)           |
| Pioneer                          | (103,410)           | (103,410)           |
| Montpelier                       | (86,175)            | (86,175)            |
| Edgerton                         | (10,341)            | (10,341)            |
| Total distributions              | <u>(344,700)</u>    | <u>(344,700)</u>    |
| Change in net assets             | (217,794)           | 89,698              |
| Net assets, beginning of year    | <u>2,711,723</u>    | <u>2,622,025</u>    |
| Net assets, end of year          | <u>\$ 2,493,929</u> | <u>\$ 2,711,723</u> |

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

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
**Statements of Cash Flows**  
**Years Ended December 31, 2006 and 2005**

|  | 2006              | 2005              |
|--|-------------------|-------------------|
| <b>Cash flows from operating activities</b>  |                   |                   |
| Cash received from participants and customers  | \$ 285,330        | \$ 665,702        |
| Cash paid to related parties for personnel services  | (45,079)          | (73,502)          |
| Cash paid to suppliers and related parties<br>for goods and services                       | <u>(57,542)</u>   | <u>(37,115)</u>   |
| Net cash provided by operating activities  | <u>182,709</u>    | <u>555,085</u>    |
| <b>Cash flows from noncapital financing activities</b>                                     |                   |                   |
| Distributions to participants  | <u>(344,700)</u>  | <u>(344,700)</u>  |
| Net cash used in noncapital financing activities   | <u>(344,700)</u>  | <u>(344,700)</u>  |
| <b>Cash flows from capital and related financing activities</b>                            |                   |                   |
| Capital expenditures   | <u>-</u>          | <u>(544,872)</u>  |
| Net cash used in capital and<br>related financing activities                               | <u>-</u>          | <u>(544,872)</u>  |
| <b>Cash flows from investing activities</b>  |                   |                   |
| Investment income received   | <u>35,382</u>     | <u>30,194</u>     |
| Net cash provided by investing activities  | <u>35,382</u>     | <u>30,194</u>     |
| Net change in cash and cash equivalents  | (126,609)         | (304,293)         |
| Cash and cash equivalents, beginning of year   | <u>778,952</u>    | <u>1,083,245</u>  |
| Cash and cash equivalents, end of year   | <u>\$ 652,343</u> | <u>\$ 778,952</u> |
| <b>Reconciliation of operating income to net cash<br/>provided by operating activities</b> |                   |                   |
| Operating income   | \$ 91,524         | \$ 404,204        |
| Depreciation   | 96,522            | 76,018            |
| Changes in assets and liabilities  |                   |                   |
| Receivables  | 15,330            | 26,168            |
| Receivable from related party  | -                 | 18,647            |
| Prepaid expenses   | (36)              | 12,407            |
| Accrued expenses   | (2,375)           | 926               |
| Payable to related party   | <u>(18,256)</u>   | <u>16,715</u>     |
| Net cash provided by operating activities  | <u>\$ 182,709</u> | <u>\$ 555,085</u> |
| <b>Supplemental disclosure of noncash capital and related<br/>financing activities</b>     |                   |                   |
| Capital addition and related accrued expenses  | \$ 34,428         | \$ -              |

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

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements

### December 31, 2006 and 2005

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#### 1. Organization

Ohio Municipal Electric Generation Agency Joint Venture 4 (“OMEGA JV4”) was organized by four subdivisions of the State of Ohio (the “Participants”) on December 1, 1995, 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 undertake the Williams County Transmission Project (the “Project”). The Participants are members of American Municipal Power-Ohio, Inc. (“AMP-Ohio”). OMEGA JV4 owns and operates the Project. The Project consists of a 69-kW three-phase transmission line located in Williams County, Ohio. During 2006 and 2005 OMEGA JV4 derived a majority of its revenue from two customers. The Agreement continues until 60 days subsequent to the termination or disposition of the Project; provided, however, that each Participant shall remain obligated to pay to OMEGA JV4 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 JV4.

##### **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 JV4 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 the 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.

##### **Utility Plant**

The transmission line is recorded at cost. Depreciation is provided on the straight-line method over 30 years, the estimated useful life of the asset. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When utility plant assets are retired, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

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

##### **Asset Retirement Obligations**

OMEGA JV4 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 cost of the related long-lived asset is increased. 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. Depreciation expense and accretion expense incurred, but not yet recovered through rates, are offset by regulatory assets to be recovered through future billings to Participants. OMEGA JV4 has determined that the asset retirement obligation associated with the transmission line has an

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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indeterminate settlement date, and, therefore, its fair value is not reasonably estimable. As a result, OMEGA JV4 has not recorded an asset retirement obligation for the transmission line. An obligation will be recorded when a range of possible settlement dates and the fair value can be determined. Additionally, no asset retirement obligation exists in relation to the utility poles owned by OMEGA JV4 as OMEGA JV4 determined there were no legal requirements currently in place that would mandate special disposal of the utility poles as they are replaced.

**Net Assets**

All property constituting OMEGA JV4 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:

| <b>Municipality</b> | <b>Percent Project<br/>Ownership<br/>and Entitlement</b> |
|---------------------|--|
| Bryan               | 42.00 %  |
| Pioneer             | 30.00 %  |
| Montpelier          | 25.00 %  |
| Edgerton            | 3.00 %   |
| Total               | <u>100.00 %</u>  |

**Operating Revenue and Expenses**

Operating revenues are recognized when transmission service is delivered. OMEGA JV4's rates for transmission service are set by contracts with the customers.

**Use of Estimates**

The preparation of the 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.

**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 JV4 does use fair value measurements in applying its current accounting principles, and is evaluating the effect this standard may have on its financial statements.

**Ohio Municipal Electric Generation Agency Joint Venture 4**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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**3. Utility Plant**

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

|                                | <b>2006</b>                  |                    |                           |
|--------------------------------|------------------------------|--------------------|---------------------------|
|                                | <b>Beginning<br/>Balance</b> | <b>Additions</b>   | <b>Ending<br/>Balance</b> |
| Transmission line              | \$ 2,606,510                 | \$ 34,428          | \$ 2,640,938              |
| Less: Accumulated depreciation | <u>(679,742)</u>             | <u>(96,522)</u>    | <u>(776,264)</u>          |
| Utility plant, net             | <u>\$ 1,926,768</u>          | <u>\$ (62,094)</u> | <u>\$ 1,864,674</u>       |
|                                | <b>2005</b>                  |                    |                           |
|                                | <b>Beginning<br/>Balance</b> | <b>Additions</b>   | <b>Ending<br/>Balance</b> |
| Transmission line              | \$ 2,061,638                 | \$ 544,872         | \$ 2,606,510              |
| Less: Accumulated depreciation | <u>(603,724)</u>             | <u>(76,018)</u>    | <u>(679,742)</u>          |
| Utility plant, net             | <u>\$ 1,457,914</u>          | <u>\$ 468,854</u>  | <u>\$ 1,926,768</u>       |

**4. Related Party Transactions**

OMEGA JV4 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 JV4 had a payable due to AMP-Ohio in the amount of \$91 and \$15,478 at December 31, 2006 and 2005, respectively.
- As OMEGA JV4's agent, AMP-Ohio entered into an agreement with the Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services to OMEGA JV4. The expenses related to these services were \$42,210 and \$74,739 for the years ended December 31, 2006 and 2005, respectively. Additionally, OMEGA JV4 capitalized \$25,398 of labor provided by MESA into the cost of the transmission line during the year ended December 31, 2005. OMEGA JV4 had a payable to MESA of \$1,994 and \$4,863 at December 31, 2006 and 2005, respectively.

**5. Cash and Cash Equivalents**

**Deposits**

Custodial risk is the risk that in the event of a bank failure, JV4's deposits may not be returned to it. JV4 does not have a custodial credit risk policy. JV4 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 JV4 invests in instruments allowed under the Ohio Revised Code, Chapter 135. At December 31, 2006 and 2005, JV4 had investments of \$652,343 and \$778,952, respectively, in a public funds money market account. In general, money market funds are not rated.

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements

### December 31, 2006 and 2005

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#### 6. Risk Management

OMEGA JV4 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. OMEGA JV4 is self-insured for property damage risks related to its transmission line.

#### 7. Commitments and Contingencies

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 JV4.

Transmission revenue in 2006 and 2005 was derived primarily from sales to two municipalities; 68% and 82%, respectively, from a nonparticipant, and 32% and 18%, respectively, from a Participant. The contract with the nonparticipant can be cancelled on October 31, 2007 upon written notice six months prior to cancellation. A decision by the nonparticipant to purchase transmission service from a different provider would cause a significant decline in OMEGA JV4's transmission revenue and possibly impair the carrying value of the transmission line if replacement sales could not be found.

**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 4

We have audited the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 4 ("OMEGA JV4") 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 JV4'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 JV4's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV4'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 JV4'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 the 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