

**OHIO MUNICIPAL ELECTRIC
GENERATION AGENCY
JOINT VENTURE 2**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

December 31, 2007 and 2006

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

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December 31, 2007 and 2006

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency
Joint Venture 2

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2") as of December 31, 2007 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of OMEGA JV2 management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV2") as of and for the year ended December 31, 2006 were audited by other auditors whose report, dated April 18, 2007, expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OMEGA JV2 as of December 31, 2007 and changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 9, 2008 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the 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.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 9, 2008

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OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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, 2007 and 2006. 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 statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows.

The statement of net assets 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 Statement of Net Assets

	2007	2006	2005
Assets			
Electric Plant, net of accumulated depreciation	\$ 37,738,833	\$ 40,509,111	\$ 43,422,472
Regulatory assets	872,199	737,842	605,782
Restricted assets	816,198	527,236	473,603
Current assets	2,351,970	2,095,756	1,864,723
Total assets	\$ 41,779,200	\$ 43,869,945	\$ 46,366,580
Net Assets and Liabilities			
Net assets - invested in capital assets	\$ 37,738,833	\$ 40,509,111	\$ 43,422,472
Net assets - restricted	816,198	527,236	473,603
Net assets - unrestricted	795,241	859,457	483,581
Current liabilities	129,722	135,600	252,525
Noncurrent liabilities	2,299,206	1,838,541	1,734,399
Total net assets and liabilities	\$ 41,779,200	\$ 43,869,945	\$ 46,366,580

Total assets of \$41,779,200 decreased \$2,090,745 or 5.0% in 2007. This compares to a decrease of total assets of \$2,496,635 or 5.4% in 2006, over 2005.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

Condensed Statement of Net Assets (cont.)

Electric plant and equipment, net of accumulated depreciation decreased \$2,770,278 for 2007 and \$2,913,361 for 2006. The cost of electric plant and equipment assets, excluding the cost associated with asset retirement obligations, was \$58,194,419 in 2007, an increase of \$109,484 from 2006. The cost of electric plant and equipment assets, excluding the cost associated with asset retirement obligations, was \$58,084,935 in 2006, a decrease of \$ 10,043 from 2005.

Regulatory assets at December 31, 2006 were \$872,199. This was an increase of \$134,357 in 2007 compared to 2006. Regulatory assets in 2006 increased \$132,060 over 2005. The increases were due primarily to increases in accretion expense related to asset retirement obligations.

Restricted assets at December 31, 2007 were \$816,198. This was an increase of \$288,962 in 2007 compared to 2006, and an increase of \$53,633 in 2006 compared to 2005. The increase in 2007 was due to AMP-Ohio releasing \$252,617 related to the 2001 purchase of the diesel-powered generation units and sending the money into the OMEGA JV2 Repair and Contingency fund. The increase in 2006 was due to increased deposits to the overhaul fund of \$41,733.

Current assets as of December 31, 2007 were \$2,351,970. This was an increase in 2007 of \$256,214 compared to 2006, and an increase of \$231,033 in 2006 compared to 2005. In 2007, cash increased \$489,422 primarily due to a net loss on operations of \$2,777,282 offset in part by non cash depreciation expense of \$2,879,762, and a reduction in accounts receivable balances from both participants and related parties of \$202,126. Accounts receivables decreased \$202,126 primarily as a result of decreased accounts receivable of \$118,639 from participants. Inventories decreased \$32,217 primarily as a result of lower inventory levels more than offsetting increases in diesel fuel costs. In 2006, cash increased \$57,400 primarily due to a net loss on operations of \$2,701,547 offset in part by non cash 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.

Current liabilities as of December 31, 2007 were \$127,510. This was a decrease of \$8,090 in 2007, while 2006 had an increase of \$116,925. The decrease from 2006 to 2007 was primarily due to a decrease in accounts payable of \$6,359. The decrease from 2005 to 2006 was primarily due to a decrease in accounts payable of \$130,674.

Noncurrent liabilities as of December 31, 2007 were \$2,299,206. This was an increase of \$460,665 in 2007, while 2006 had an increase of \$104,142. The 2007 increases were driven by increases in asset retirement obligations of \$437,563 compared to 2006. The 2006 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.

Net assets as of December 31, 2007 were \$39,350,272. This was a decrease of \$2,545,532 in 2007, while in 2006 net assets decreased \$2,483,852. These reductions are equal to net operating losses for these periods plus investment income.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 2,169,304	\$ 2,546,329	\$ 2,757,613
Operating expenses	<u>4,946,586</u>	<u>5,247,876</u>	<u>5,443,806</u>
Operating loss	<u>\$ (2,777,282)</u>	<u>\$ (2,701,547)</u>	<u>\$ (2,686,193)</u>
Nonoperating revenue			
Investment income	\$ 97,394	\$ 85,635	\$ 51,762
Future recoverable costs	134,356	132,060	127,821
Nonoperating revenue	<u>231,750</u>	<u>217,695</u>	<u>179,583</u>
Change in net assets	<u>\$ (2,545,532)</u>	<u>\$ (2,483,852)</u>	<u>\$ (2,506,610)</u>

Electric revenues in 2007 were \$2,169,304; this was a decrease of \$377,025 for 2007, while 2006 decreased by \$211,284 over 2005. 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 members that are made directly to AMP-Ohio. The 2007 operating revenue decrease of \$377,025 is attributable to the decrease in energy production from the generating units and a \$353,779 reduction in the fixed revenue received from participants. In 2007, the energy production was 3,086 megawatt hours compared to 5,144 megawatt hours in 2006. 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.

Operating expenses in 2007 were \$4,946,586. This was a decrease of \$301,290 in 2007 compared to 2006. In 2006, operating expenses decreased \$195,930 compared to 2005. Fuel expense for 2007 was \$431,420, in 2006 it was \$619,956, and in 2005 it was \$830,185. In 2007, the \$301,290 decrease in operating expenses from 2006 was primarily due to a decrease in fuel expense of \$188,536, a decrease in maintenance expense of \$99,293, and a decrease in professional services of \$33,439, offset by an increase in related party services of \$16,563. In 2006, the \$200,169 decrease in operating expenses over 2005 was primarily due to a decrease in fuel expense of \$195,930, 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 \$18,159.

Investment income in 2007 was \$97,394, which was an increase of \$11,759 from 2006. Investment income in 2006 was \$85,635, which was an increase of \$33,873 from 2005. During 2007, investment income of \$84,150 was earned on the checking account for the operating funds held at the bank. Interest income of \$13,244 was on funds held by trustee as a requirement of the bond obligation for benefit of the OMEGA JV2 financing members, these funds were invested in short-term government backed securities, double rated short term commercial paper, or the trust agency's money market account. During 2006, 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 members, 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**

STATEMENT OF NET ASSETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
Current Assets		
Cash and temporary investments	\$ 1,743,310	\$ 1,253,888
Receivables from participants	182,740	301,379
Receivables from related parties	4,408	87,895
Inventory	328,194	360,411
Prepaid expenses	93,318	92,183
Total Current Assets	2,351,970	2,095,756
Non-Current Assets		
Restricted Assets		
Funds held by trustee	516,916	251,056
Overhaul fund	299,282	276,180
Other Assets		
Regulatory assets	872,199	737,842
Electric Plant and Equipment		
Electric generators	58,161,319	58,051,835
Vehicles	33,100	33,100
Accumulated depreciation	(20,455,586)	(17,575,824)
Total Non-Current Assets	39,427,230	41,774,189
TOTAL ASSETS	\$ 41,779,200	\$ 43,869,945
TOTAL NET ASSETS AND LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 85,454	\$ 89,601
Payable to related parties	44,268	45,999
Total Current Liabilities	129,722	135,600
Noncurrent Liabilities		
Regulatory liabilities	299,282	276,180
Asset retirement obligations	1,999,924	1,562,361
Total Noncurrent Liabilities	2,299,206	1,838,541
Total Liabilities	2,428,928	1,974,141
Net Assets		
Invested in capital assets	37,738,833	40,509,111
Restricted	816,198	527,236
Unrestricted	795,241	859,457
Total Net Assets	39,350,272	41,895,804
TOTAL LIABILITIES AND NET ASSETS	\$ 41,779,200	\$ 43,869,945

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Electric revenue	\$ 2,169,304	\$ 2,546,329
OPERATING EXPENSES		
Related party services	626,759	610,196
Depreciation	2,879,762	2,903,318
Accretion of asset retirement obligation	75,462	72,451
Fuel	431,420	619,956
Maintenance	421,795	521,088
Utilities	151,209	143,096
Insurance	202,165	198,738
Professional services	73,065	106,504
Other operating expenses	84,949	72,529
Total Operating Expenses	4,946,586	5,247,876
Operating Loss	(2,777,282)	(2,701,547)
NONOPERATING REVENUES		
Investment income	97,394	85,635
Future recoverable costs	134,356	132,060
Total Non-Operating Revenues	231,750	217,695
Change in net assets	(2,545,532)	(2,483,852)
NET ASSETS, Beginning of Year	41,895,804	44,379,656
NET ASSETS, END OF YEAR	\$ 39,350,272	\$ 41,895,804

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

STATEMENT OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 2,371,430	\$ 2,517,181
Cash paid to related parties for personnel services	(628,490)	(510,100)
Cash payments to suppliers and related parties for goods and services	(1,314,566)	(1,981,684)
Net Cash Provided by Operating Activities	428,374	25,397
 CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit to overhaul fund	(23,102)	(41,733)
Purchases of investments	(265,860)	(978,393)
Proceeds from sale of investments	252,616	966,494
Investment income received	97,394	85,635
Net Cash Provided by (Used in) Investing Activities	61,048	32,003
 Net Change in Cash and Cash Equivalents	489,422	57,400
 CASH AND CASH EQUIVALENTS, Beginning of Year	1,253,888	1,196,488
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,743,310	\$ 1,253,888

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (2,777,282)	\$ (2,701,547)
Depreciation	2,879,762	2,903,318
Accretion of asset retirement obligation	75,462	72,451
Deferred revenue	23,102	41,733
Changes in assets and liabilities		
Receivables from participants	118,639	(70,881)
Receivables from related parties	83,487	13,017
Inventory	32,217	(111,842)
Prepaid expenses	(1,135)	(3,927)
Accounts payable and accrued expenses	(4,147)	(130,674)
Payable to related parties	(1,731)	13,749
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 428,374</u>	<u>\$ 25,397</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and temporary investments	\$ 1,743,310	\$ 1,253,888
Funds held by trustee	516,916	251,056
Overhaul fund	<u>299,282</u>	<u>276,180</u>
Total cash accounts	2,559,508	1,781,124
Less Non-cash equivalents	<u>(816,198)</u>	<u>(527,236)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,743,310</u>	<u>\$ 1,253,888</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in estimated cost of plant	<u>\$ 362,101</u>	<u>\$ -</u>

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 2 (“OMEGA JV2”) was organized by 36 subdivisions of the State of Ohio (the “Participants”) on November 21, 2000, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code, and commenced operations on December 1, 2000. Its purpose is to provide backup and peaking capacity to the Participants. The Participants are members of American Municipal Power-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.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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.

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 statements 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.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition. Restricted cash accounts, if any, are treated as non-cash equivalent investments for the cash flow statement.

Investments of OMEGA JV2 are restricted by Ohio Revised Code (ORC) section 135.14. Investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08 & 09.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Commercial paper, with certain conditions.
6. All investments must have an original maturity of 5 years or less.
7. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV2 has adopted an investment policy. That policy follows the state statute for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Gains and losses on investment transactions are determined on a specific identification basis.

Receivables

Accounts receivable are amounts due from participants at the end of the year. Due to the participant relationship and the high degree of collectibility, no allowance for uncollectible accounts is necessary.

Inventory

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

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Prepays

Prepays consists of insurance premiums in the current fiscal year benefiting future periods.

Electric Plant and Equipment

Electric plant generating units and vehicles are recorded at cost. Depreciation is provided on the straight-line method over 20 years for generators and 3 years for vehicles, the estimated useful lives of the assets. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When electric plant assets are retired, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

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

Asset Retirement Obligations

OMEGA JV2 records, at fair value, legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the difference between the accrued liability and the amount to settle the liability is recorded as a settlement gain or loss.

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 are recorded as income when the related expenditure occurs.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Hamilton	32,000	23.87%
Bowling Green	19,198	14.32
Niles	15,400	11.48
Cuyahoga Falls	10,000	7.46
Wadsworth	7,784	5.81
Painesville	7,000	5.22
Dover	7,000	5.22
Galion	5,753	4.29
Amherst	5,000	3.73
St. Mary's	4,000	2.98
Montpelier	4,000	2.98
Shelby	2,536	1.89
Versailles	1,660	1.24
Edgerton	1,460	1.09
Yellow Springs	1,408	1.05
Oberlin	1,217	0.91
Pioneer	1,158	0.86
Seville	1,066	0.80
Grafton	1,056	0.79
Brewster	1,000	0.75
Monroeville	764	0.57
Milan	737	0.55
Oak Harbor	737	0.55
Elmore	364	0.27
Jackson Center	300	0.22
Napoleon	264	0.20
Lodi	218	0.16
Genoa	199	0.15
Pemberville	197	0.15
Lucas	161	0.12
South Vienna	123	0.09
Bradner	119	0.09
Woodville	81	0.06
Haskins	73	0.05

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Net Assets (cont.)

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Arcanum	44	0.03%
Custar	<u>4</u>	<u>0.00</u>
Totals	134,081	<u>100.00%</u>
Reserves	<u>4,569</u>	
kW Capacity of the Project	<u>\$ 138,650</u>	

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 10). Accordingly, OMEGA JV2 will generate negative operating margins during the operating life of the electric generators.

Comparative Data

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED ASSETS

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.

	Carrying Value as of December 31		Risks
	2007	2006	
Money Market Funds	\$ 2,295,208	\$ 1,530,068	Custodial Credit
US Treasury Obligation	300	56	None
Commercial Paper	264,000	251,000	Custodial Credit, Interest, Concentration, Credit
	<u>\$ 2,559,508</u>	<u>\$ 1,781,124</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Custodial Credit Risk

Deposits

Custodial risk is the risk that in the event of a bank failure, OMEGA JV2's deposits may not be returned to it. OMEGA JV2 does not have a custodial credit risk policy. OMEGA 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.

OMEGA JV2's deposits exposed to custodial credit risk were as follows:

	2007		2006	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	\$ 152,616	152,616	-	-
Huntington Prime Bank	1,942,592	\$ 1,942,592	\$ 1,430,068	\$ 1,430,068
Total	<u>\$ 2,095,208</u>	<u>\$ 2,095,208</u>	<u>\$ 1,430,068</u>	<u>\$ 1,430,068</u>

The OMEGA JV'2s investment policy does not address this risk.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED ASSETS (cont.)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, OMEGA JV2 will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

	2007		2006	
	Book Balance	Carrying Value	Book Balance	Carrying Value
Neither Insured nor registered and held by a counterparty	\$ 264,000	\$ 264,000	\$ 251,000	\$ 251,000

The OMEGA JV'2s investment policy does not address this risk.

Credit Risk

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

OMEGA JV2 invests in instruments approved under the entity's investment policy. The board of participants has authorized OMEGA JV2 to invest in funds in accordance with the Ohio Revised Code. Allowable investments include United States Treasury and federal and state government agency obligations, money market funds, and commercial paper with the highest classification by at least two nationally recognized standard rating services.

As of December 31, 2007, OMEGA JV2's investments were rated as follows:

Investment Type	Moody's	Standard & Poors
Commercial Paper	P1	A1+

As of December 31, 2006, OMEGA JV2's investments were rated as follows:

Investment Type	Moody's	Standard & Poors
Commercial Paper	P1	A1+

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 – CASH AND CASH EQUIVALENTS AND RESTRICTED ASSETS (cont.)

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2007, the OMEGA JV2's investments were as follows:

<u>Investment</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Prudential Commercial Paper	01/02/2008	\$ 263,000
US BanCorp Commercial Paper	01/02/2008	<u>1,000</u>
		<u>\$ 264,000</u>

As of December 31, 2006, the utility's investments were as follows:

<u>Investment</u>	<u>Maturity Date</u>	<u>Fair Value</u>
US BanCorp Commercial Paper	01/02/2007	\$ 251,000

The OMEGA JV2's investment policy does not address this risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2007 and 2006 OMEGA JV2's investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>	
		<u>2007</u>	<u>2006</u>
Prudential FNDG	Commercial Paper	11%	-
US BanCorp	Commercial Paper	-	14%

OMEGA JV2's investment policy does not address this risk.

NOTE 3 – RESTRICTED ASSETS

Restricted Accounts

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

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 3 – RESTRICTED ASSETS (cont.)

Restricted Accounts (cont.)

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.

Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Restricted Assets		
Reserve and Contingency Account	\$ 516,916	\$ 251,056
Overhaul Fund	<u>299,282</u>	<u>276,100</u>
Total Restricted Net Assets as Calculated	<u>\$ 816,198</u>	<u>\$ 527,236</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4 – ELECTRIC PLANT AND EQUIPMENT

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

	2007			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 58,051,835	\$ -	\$ 109,484	\$ 58,161,319
Vehicles	33,100	-	-	33,100
Total Electric Plant and Equipment in Service	58,051,935	-	109,484	58,194,419
Less: Accumulated depreciation	(17,575,824)	(2,879,762)	-	(20,455,586)
Electric Plant and Equipment, Net	\$ 40,509,111	\$ (2,879,762)	\$ 109,484	\$ 37,738,833
	2006			
	Beginning Balance	Additions	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	\$ 43,422,472	\$ (2,913,361)	\$ 40,509,111	

During 2007, a change in estimate was made to plant to record the final cost of the generators. In 2001, participants contributed capital to construct new generators at this time the estimated cost of \$58,051,835 was capitalized; this included an estimate of Asset Retirement Obligation of \$1,177,700. In 2007, the cost of plant was ultimately determined to be \$ 56,621,518. The difference of \$252,617 was refunded to OMEGA JV2 from AMP and deposited into the Reserve and Contingency fund.

In addition a change of estimate was made due to a revised estimate in the ARO (note 5).

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 5 – ASSET RETIREMENT OBLIGATIONS

Under the terms of lease agreements, OMEGA JV2 has an obligation to remove electric generators from the leased sites where the units are located and to perform certain restoration of the sites.

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

	2007			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	<u>\$ 1,562,361</u>	<u>\$ 362,101</u>	<u>\$ 75,462</u>	<u>\$ 1,999,924</u>
	2006			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	<u>\$ 1,499,952</u>	<u>\$ (10,042)</u>	<u>\$ 72,451</u>	<u>\$ 1,562,361</u>

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.

NOTE 6 – NET ASSETS

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

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 6 – NET ASSETS (cont.)

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

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

	<u>2007</u>	<u>2006</u>
Plant Assets	\$ 56,654,618	\$ 6,907,235
Asset Retirement Obligation	1,539,801	1,177,700
Accumulated Depreciation	<u>(20,455,586)</u>	<u>(17,575,824)</u>
 Total Net Assets Invested in Capital Assets	 <u>\$ 37,738,833</u>	 <u>\$ 40,509,111</u>

NOTE 7 – 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, 2007, 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.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 7 – COMMITMENTS AND CONTINGENCIES (cont.)

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.

NOTE 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.

NOTE 9 – 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 \$134,174 and \$96,359 for the years ended December 31, 2007 and 2006, respectively, and had a payable due to Amp-Ohio of \$16,473 at December 31, 2007, for these services. OMEGA JV2 had a receivable due from AMP-Ohio in the amount of \$4,408 and \$87,855 at December 31, 2007 and 2006, respectively, for payment of charges related to AMP-Ohio.
- 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 \$492,584 and \$513,837 for the years ended December 31, 2007 and 2006, respectively, and had a payable to MESA for \$27,795 and \$35,987 at December 31, 2007 and 2006, respectively.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 9 – RELATED PARTY TRANSACTIONS (cont.)

- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of \$151,209 and \$143,096 for these services for the years ended December 31, 2007 and 2006, respectively.

NOTE 10 – 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.

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, 2007, are as follows:

Maturity Date <u>January 1,</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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	<u>14,280,000</u>	4.75 %
Total	<u>\$ 39,810,000</u>	

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 – ACQUISITION OF THE PROJECT (cont.)

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 2006, 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 2007 and expects to be in compliance in 2008 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.



Virchow Krause & company

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2007, and have issued our report thereon dated April 9, 2008. 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.

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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INTERNAL CONTROL DOCUMENTATION

New auditing requirements went into place for the 2007 audit under the Statement on Auditing Standards No. 112 "Communicating Internal Control Matters Identified in an Audit." The auditing standard requires the OMEGA JV2 to document their internal control systems. Currently, the OMEGA JV2 does not have their internal controls documented. Absence of this documentation results in a material weakness in internal control. You should have all of your major processes contained in written documents in enough detail that another person could come in and fulfill the requirements of a particular process by following the explanations.

FINANCIAL REPORTING

The new standard makes it clear that the definition of a material weakness in internal control should not include consideration of the year end financial reporting process. There is a material weakness over financial reporting because of the following:

- There were material journal entries as a result of our audit procedures.
- A complete set of year end financial statements for the auditor to test was not prepared by staff.

Auditee Response

OMEGA JV2 is not staffed at a level to prepare the annual financial statements.

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 one instances of noncompliance for failure of having collateral or pledge securities over the FDIC limit that are required to be reported under *Government Auditing Standards*.

OMEGA JV2's response to the findings identified in our audit were not audited by us 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 the State of Ohio and is not intended to be, and should not be, used by anyone other than those specified parties.

Virchow, Krause & Company, LLP