



OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015



Dave Yost • Auditor of State

Board of Participants
Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4, 5, 6
and Municipal Energy Services Agency
1111 Schrock Road, Suite 100
Columbus, Ohio 43229

We have reviewed the *Independent Auditors' Report* of the Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4, 5, 6 and Municipal Energy Services Agency, Franklin County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4, 5, 6 and Municipal Energy Services Agency is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 23, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 1:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 1 as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of OMEGA JV1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV1's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV1 prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV1's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets, liabilities and deferred inflow of resources of OMEGA JV1 as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

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

Condensed Statements of Net Position

	2016	2015	2014
Assets			
Electric plant, net of accumulated depreciation	\$ 113,647	\$ 133,393	\$ 151,967
Board designated funds	92,115	88,713	73,461
Long term regulatory assets	92,612	88,804	79,064
Current assets	311,036	286,355	264,103
Total Assets	\$ 609,410	\$ 597,265	\$ 568,595
Net Position, Liabilities and Deferred Inflow of Resources			
Net position - net investment in capital assets	\$ 113,647	\$ 133,393	\$ 151,967
Net position - unrestricted	230,373	230,465	231,728
Current liabilities	39,340	56,714	56,716
Asset retirement obligation	92,115	88,713	73,461
Deferred inflow of resources	133,935	87,980	54,723
Total Net Position, Liabilities and Deferred Inflow of Resources	\$ 609,410	\$ 597,265	\$ 568,595

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2016 vs. 2015

Total assets were \$609,410 and \$597,265 as of December 31, 2016 and December 31 2015, respectively, an increase of \$12,145. The increase in 2016 total assets is due primarily to an increase in operating cash and regulatory assets, offset by decreases in receivables from participants and inventory.

Electric plant, net of accumulated depreciation was \$113,647 and \$133,393 at year-end 2016 and 2015, respectively, a decrease of \$19,746. The decrease was the result of yearly depreciation. The asset associated with the asset retirement obligation included in the cost of electric plant for years 2016 and 2015 was \$33,291. ARO obligations for OMEGA JV1 were prepared by an independent engineering consultant.

Long-term regulatory assets were \$92,612 and \$88,804 at December 31, 2016 and December 31, 2015, respectively, an increase of \$3,808. Regulatory assets contain amounts for ARO and operational and maintenance related expenses. These regulatory amounts are recorded in the statements of revenues, expenses and changes in net position as the corresponding expense is realized.

Current assets were \$311,036 and \$286,355 at December 31, 2016 and December 31, 2015, respectively, an increase of \$24,681. Compared to 2015 levels, cash increased \$40,997, accounts receivable decreased \$15,058, inventory decreased \$2,376 and prepaid expenses increased \$1,118.

Total net position, liabilities, and deferred inflow of resources were \$609,410 and \$597,265 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$12,145.

Total net position was \$344,020 and \$363,858, at December 31, 2016 and December 31, 2015, respectively, a decrease of \$19,838. Net investment in capital assets was \$113,647 and \$133,393 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$19,746. Unrestricted net position was \$230,373 and \$230,465 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$92.

Current liabilities were \$39,340 and \$56,714 at December 31, 2016 and December 31, 2015 respectively, a decrease of \$17,374. This resulted from a decrease in accounts payable and accrued expenses of \$9,349 and a decrease in payables to related parties of \$8,025.

Noncurrent liabilities were \$92,115 and \$88,713 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$3,402. Estimated ARO liabilities increased \$3,402 due mainly to changes in the remaining years of obligation for the project, based on an independent analysis performed by an engineering firm hired by the project.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2015 vs. 2014

Total assets were \$597,265 and \$568,595 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$28,670. The increase in 2015 total assets is due primarily to an increase in operating cash and regulatory assets, offset by decreases in receivables from participants and inventory.

Electric plant, net of accumulated depreciation was \$133,393 and \$151,967 at year-end 2015 and 2014, respectively, a decrease of \$18,574. The decrease was primarily the result of yearly depreciation. The asset associated with the asset retirement obligation included in the cost of electric plant for 2015 was \$33,291, versus \$27,247 in 2014. ARO obligations for OMEGA JV1 were prepared by an independent engineering consultant.

Long-term regulatory assets were \$88,804 and \$79,064 at December 31, 2015 and December 31, 2014, respectively, an increase of \$9,740. Regulatory assets contain amounts for ARO and operational and maintenance related expenses. These regulatory amounts are recorded in the statements of revenues, expenses and changes in net position as the corresponding expense is realized.

Current assets were \$286,355 and \$264,103 at December 31, 2015 and December 31, 2014, respectively, an increase of \$22,252. Compared to 2014 levels, cash increased \$26,235, accounts receivable decreased \$22,399, inventory decreased \$6,972, prepaid expenses increased \$48 and current regulatory assets increased \$25,340.

Total net position, liabilities, and deferred inflow of resources were \$597,265 and \$568,595 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$28,670.

Total net position was \$363,858 and \$383,695, at December 31, 2015 and December 31, 2014, respectively, a decrease of \$19,837. Net investment in capital assets was \$133,393 and \$151,967 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$18,574. Unrestricted net position was \$230,465 and \$231,728 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$1,263.

Current liabilities were \$56,714 and \$56,716 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$2. This resulted from a decrease in accounts payable and accrued expenses of \$3,553 and an increase in payables to related parties of \$3,551.

Noncurrent liabilities were \$88,713 and \$73,461 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$15,252. Estimated ARO liabilities increased \$15,252 due mainly to changes in the remaining years of obligation for the project, based on an independent analysis performed by an engineering firm hired by the project.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 425,803	\$ 561,625	\$ 455,961
Operating expenses	449,473	585,622	479,409
Operating Loss	<u>(23,670)</u>	<u>(23,997)</u>	<u>(23,448)</u>
Nonoperating revenue			
Investment income	24	117	86
Future recoverable costs	3,808	4,043	3,470
Nonoperating Revenue	<u>3,832</u>	<u>4,160</u>	<u>3,556</u>
Change in Net Position	<u>\$ (19,838)</u>	<u>\$ (19,837)</u>	<u>\$ (19,892)</u>

Operating results

Electric revenues in 2016 were \$425,803 versus \$561,625 in 2015 which is a decrease of \$135,822. This decrease is due to decreases in capacity revenue of \$117,138 along with decreases in electric power generated of \$18,684. Electric revenues in 2015 were \$561,625 versus \$455,961 in 2014 which is an increase of \$105,664. Electric rates are set by the Board of Participants based on budgets and are intended to cover budgeted operating expenses, actual fuel expense and debt service, if any. Capacity revenue is earned and received from the regional transmission organization and passed back to members through credits on their bill with an equal expense.

Operating expenses in 2016 were \$449,473 versus \$585,622 in 2015 which is a decrease of \$136,149. The decrease in operating expenses in 2016 is due mainly to decreases in capacity expense, related party services, utilities and fuel. Operating expenses in 2015 were \$585,622 versus \$479,409 in 2014 which is an increase of \$106,213. The increase in operating expenses in 2015 is due to increases in capacity, which were offset by decreases in related party services.

Investment income in 2016 was \$24 versus \$117 in 2015 which is a decrease of \$93. Investment income in 2015 was \$117 versus \$86 in 2014 which was an increase of \$31. Investment income for OMEGA JV1 is interest earned on checking account balances and short term investments.

There were no distributions to participants of OMEGA JV1 in 2016 or 2015.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 174,277	\$ 133,280
Receivables from participants	51,410	66,468
Inventory	40,283	42,659
Regulatory assets	38,432	38,432
Prepaid expenses	6,634	5,516
Total Current Assets	<u>311,036</u>	<u>286,355</u>
NON-CURRENT ASSETS		
Electric Plant		
Electric generators	519,604	519,604
Fuel tank	35,000	35,000
Accumulated depreciation	(440,957)	(421,211)
Net Electric Plant	<u>113,647</u>	<u>133,393</u>
Other Assets		
Board designated funds	92,115	88,713
Regulatory assets	92,612	88,804
Total Non-Current Assets	<u>298,374</u>	<u>310,910</u>
TOTAL ASSETS	<u>\$ 609,410</u>	<u>\$ 597,265</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 33,498	\$ 42,847
Payable to related parties	5,842	13,867
Total Current Liabilities	<u>39,340</u>	<u>56,714</u>
NONCURRENT LIABILITIES		
Asset retirement obligation	92,115	88,713
Total Noncurrent Liabilities	<u>92,115</u>	<u>88,713</u>
Total Liabilities	<u>131,455</u>	<u>145,427</u>
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	133,935	87,980
NET POSITION		
Net investment in capital assets	113,647	133,393
Unrestricted	230,373	230,465
Total Net Position	<u>344,020</u>	<u>363,858</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 609,410</u>	<u>\$ 597,265</u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Electric revenue	\$ <u>425,803</u>	\$ <u>561,625</u>
OPERATING EXPENSES		
Related party services	46,810	53,677
Capacity	306,274	423,412
Depreciation	19,746	20,565
Accretion of asset retirement obligation	3,899	3,315
Fuel	2,376	6,972
Maintenance	5,699	6,146
Utilities	7,432	12,601
Insurance	24,620	22,227
Professional services	10,645	11,038
Other operating expenses	<u>21,972</u>	<u>25,669</u>
Total Operating Expenses	<u>449,473</u>	<u>585,622</u>
 Operating Loss	 <u>(23,670)</u>	 <u>(23,997)</u>
NON-OPERATING REVENUES		
Investment income	24	117
Future recoverable costs	<u>3,808</u>	<u>4,043</u>
Total Non-Operating Revenues	<u>3,832</u>	<u>4,160</u>
 Change in net position	 (19,838)	 (19,837)
 NET POSITION, Beginning of Year	 <u>363,858</u>	 <u>383,695</u>
 NET POSITION, END OF YEAR	 <u>\$ 344,020</u>	 <u>\$ 363,858</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 486,319	\$ 584,024
Cash paid to related parties for personnel services	(54,835)	(50,126)
Cash payments to suppliers and related parties for goods and services	<u>(387,109)</u>	<u>(492,528)</u>
Net Cash Provided by Operating Activities	<u>44,375</u>	<u>41,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>24</u>	<u>117</u>
Net Cash Provided by Investing Activities	<u>24</u>	<u>117</u>
Net Change in Cash and Cash Equivalents	44,399	41,487
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>221,993</u>	<u>180,506</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 266,392</u>	<u>\$ 221,993</u>

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (23,670)	\$ (23,997)
Depreciation	19,746	20,565
Accretion of asset retirement obligation	3,899	3,315
Changes in assets, liabilities and deferred inflow of resources		
Receivables from participants	15,058	22,399
Regulatory assets	(497)	(21,091)
Deferred inflow of resources	45,955	33,257
Inventory	2,376	6,972
Prepaid expenses	(1,118)	(48)
Accounts payable and accrued expenses	(9,349)	(3,553)
Payable to related parties	<u>(8,025)</u>	<u>3,551</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 44,375</u>	<u>\$ 41,370</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	\$ 174,277	\$ 133,280
Board designated funds	<u>92,115</u>	<u>88,713</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 266,392</u>	<u>\$ 221,993</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	<u>\$ -</u>	<u>\$ 6,044</u>

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 1 (“OMEGA JV1”) was organized by 21 subdivisions of the State of Ohio (the “Participants”) on April 1, 1992, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the Participants. The Participants are members of American Municipal Power, Inc. (“AMP”) Northeast Area Service Group. The Participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV1 purchased its electric generating facilities (the “Project”), known as the Engle Units, from AMP in September 1992. The electric generating facilities consist of six diesel-fired turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio. The Agreement continues until 60 days subsequent to the disposition of the Project, provided, however, that each Participant shall remain obligated to pay to OMEGA JV1 its respective share of the costs of termination, discontinuing, disposing of, and decommissioning the Project.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

OMEGA JV1 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV1 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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. Market values may have changed significantly after year end.

Receivables/Payables

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

Inventory

Inventory consists of fuel and is stated at the lower of first-in, first-out (“FIFO”) cost or market.

Prepaid Expenses

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

Electric Plant

Electric plant is recorded at cost. Depreciation is provided on the straight-line method from 15 to 30 years, based on 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 JV1 records, at fair value, legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the difference between the accrued liability and the amount to settle the liability is recorded as a settlement gain or loss.

Board Designated Funds

Due to new environmental regulations that may affect the operation of the units, OMEGA JV1’s Board of Participants designated funds from existing operating cash for the current value of the asset retirement obligation.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Regulatory Assets

OMEGA JV1 records regulatory assets (expenses to be recovered in rates in future periods). Pursuant to the Agreement, Participants are required to pay all costs related to operations, maintenance and retirement of the jointly owned electric plant.

Regulatory assets consisted of the following at December 31:

	2016	2015
Future expenses related to fixed O&M	\$ 38,432	\$ 38,432
	2016	2015
Future expenses related to asset retirement obligations	\$ 92,612	\$ 88,804

Deferred Inflow of Resources

OMEGA JV1 records deferred inflows of resources (rates collected for expenses not yet incurred). Pursuant to the Agreement, Participants are required to pay all costs related to operations, maintenance and retirement of the jointly owned electric plant.

Deferred inflow of resources consisted of the following at December 31:

	2016	2015
Rates collected for future expenses related to fixed O&M	\$ 133,935	\$ 87,980

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Net Position

All property constituting OMEGA JV1 is owned by the Participants as tenants in common in undivided shares, each share being equal to that Participant's percentage ownership interest as follows:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Cuyahoga Falls	1,894	21.05%
Niles	1,593	17.71
Wadsworth	1,011	11.23
Hudson	934	10.38
Galion	588	6.53
Oberlin	497	5.52
Amherst	488	5.42
Hubbard	341	3.79
Columbiana	272	3.02
Wellington	265	2.94
Newton Falls	228	2.53
Monroeville	167	1.86
Lodi	155	1.72
Seville	135	1.50
Brewster	130	1.44
Grafton	105	1.17
Milan	64	0.71
Beach City	50	0.56
Prospect	45	0.50
Lucas	21	0.23
South Vienna	17	0.19
Totals	<u>9,000</u>	<u>100.00%</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

REVENUES AND EXPENSES

OMEGA JV1 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with OMEGA JV1's principal ongoing operations. The principal operating revenues of OMEGA JV1 are charges to participants for energy and capacity. Operating expenses include the cost of generation, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Electric revenue is recognized when earned as electric service is delivered. OMEGA JV1's rates for electric power are designed to cover annual operating costs. Rates are set annually by the Board of Participants. Periodically OMEGA JV1 will distribute earnings to its participants based on available operating cash. These distributions are approved by the Board of Participants.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31,		Risks
	2016	2015	
Checking	\$ 266,392	\$ 221,993	Custodial credit

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, OMEGA JV1's deposits may not be returned to it. OMEGA JV1 has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. OMEGA JV1's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015, there were no deposits exposed to custodial credit risk.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)

Credit Risk

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

OMEGA JV1 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV1 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, 2016 and 2015, OMEGA JV1 had no investments with credit risk.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV1's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

As of December 31, 2016 and 2015, OMEGA JV1 had no investments with interest rate risk.

NOTE 3 – ELECTRIC PLANT

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

	2016			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 519,604	-	-	\$ 519,604
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	554,604	-	-	554,604
Less: Accumulated depreciation	(421,211)	(19,746)	-	(440,957)
 Electric Plant, Net	 \$ 133,393	 \$(19,746)	 \$ -	 \$ 113,647
	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 513,560	-	6,044	\$ 519,604
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	548,560	-	6,044	554,604
Less: Accumulated depreciation	(396,593)	(20,565)	(4,053)	(421,211)
 Electric Plant, Net	 \$ 151,967	 \$(20,565)	 \$ 1,991	 \$ 133,393

During 2015, OMEGA JV1 recorded an adjustment to electric plant to reflect the revised estimate of the ARO (Note 4).

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – ASSET RETIREMENT OBLIGATIONS

Under the terms of lease agreements, OMEGA JV1 has an obligation to remove electric generators from the leased sites on which the units are located and to perform certain restoration of the sites.

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

	2016			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 88,713	\$ 3,899	\$ (497)	\$ 92,115
	2015			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 73,461	\$ 3,315	\$ 11,937	\$ 88,713

Asset retirement obligations are determined based on detailed cost estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated using an inflation factor to the estimated removal dates, and then discounted using a credit adjusted risk-free interest rate. The removal date for each unit was determined based on the estimated life of the unit. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful life of each unit. OMEGA JV1 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2016 and 2015.

NOTE 5 – NET POSITION

GASB No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

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

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – NET POSITION (cont.)

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The following calculation supports the net investment in capital assets:

	<u>2016</u>	<u>2015</u>
Plant in service	\$ 554,604	\$ 554,604
Accumulated depreciation	<u>(440,957)</u>	<u>(421,211)</u>
Total Net Investment in Capital Assets	<u>\$ 113,647</u>	<u>\$ 133,393</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

OMEGA JV1 is subject to regulation by federal, state and local authorities related to environmental and other matters. Changes in regulations could adversely affect the operations and operating cost of OMEGA JV1.

On February 17, 2010, the US EPA promulgated the RICE NESHAP Rule establishing emission limits and work practice standards for compression ignited diesel engines at area sources. OMEGA JV1's engines were affected by this rule and were in compliance by May 2013.

Many metropolitan and industrialized counties in Ohio have become nonattainment areas under the new fine particulate matter ambient air quality standards and will likely become a nonattainment area for ozone. This may require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide and particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind, neighboring states. Summit County has been designated a nonattainment area for fine particulate matter, therefore, the Ohio EPA may restrict the hours of operations or require additional pollution control equipment for the OMEGA JV1 generating facilities.

NOTE 7 – RISK MANAGEMENT

OMEGA JV1 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 – RELATED PARTY TRANSACTIONS

OMEGA JV1 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services, including dispatching electrical control. The expenses related to these services were \$3,198 and \$9,582 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV1's payables to AMP as of December 31, 2016 and 2015 were \$5,045 and \$11,526, respectively.
- As OMEGA JV1's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The cost of these services for the years ended December 31, 2016 and 2015 was \$43,612 and \$44,095, respectively. OMEGA JV1 had a payable to MESA for \$797 and \$2,341 at December 31, 2016 and 2015, respectively.
- The City of Cuyahoga Falls, Ohio, agreed to provide a suitable site for the generating facilities, and OMEGA JV1 agreed to lease such site for the period of the Agreement plus one year, for the sum of one dollar. OMEGA JV1 incurred expenses of \$7,432 and \$12,601 for the years ended December 31, 2016 and 2015, respectively, for utilities provided by Cuyahoga Falls to the site. Cuyahoga Falls also has agreed to perform operational tasks and routine maintenance on the generating facilities at no charge to OMEGA JV1 in exchange for the availability of the electric generation project to Cuyahoga Falls for electric system emergency backup.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 1:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1"), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OMEGA JV1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV1's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OMEGA JV1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

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OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015



CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 2 as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of OMEGA JV2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV2's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV2 prepares their basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV2's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets, liabilities and deferred inflow of resources of OMEGA JV2 as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows report cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities.

Financial Highlights

The following table summarizes the financial position of OMEGA JV2 as of December 31:

Condensed Statements of Net Position			
	2016	2015	2014
Assets			
Electric plant and equipment, net of accumulated depreciation	\$ 12,883,041	\$ 16,209,129	\$ 18,054,182
Regulatory assets	1,594,356	1,506,318	1,451,887
Current assets	4,780,252	2,727,073	3,397,863
Total Assets	<u>\$ 19,257,649</u>	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>
Net Position, Liabilities, and Deferred Inflow of Resources			
Net position - net investment in capital assets	\$ 12,883,041	\$ 16,209,129	\$ 18,054,182
Net position - unrestricted	431,874	378,709	1,702,708
Current liabilities	1,153,744	1,009,302	829,784
Noncurrent liabilities	1,594,771	1,562,515	1,520,141
Deferred inflow of resources	3,194,219	1,282,865	797,117
Total Net Position, Liabilities and Deferred Inflow of Resources	<u>\$ 19,257,649</u>	<u>\$ 20,442,520</u>	<u>\$ 22,903,932</u>

2016 vs. 2015

Total assets were \$19,257,649 and \$20,442,520 on December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,184,871. The decrease in total assets was due primarily to a decrease in net capital assets from yearly depreciation, a decrease in regulatory assets of \$557,379, a decrease in fuel inventory of \$79,429 due to a decrease in fuel cost per gallon purchased during the year. This decrease was offset by an increase in receivables from related parties of \$1,712,568. Additionally, accounts receivable from participants increased \$130,394 due to the timing of cash collections at the end of the year.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Electric plant and equipment, net of accumulated depreciation was \$12,883,041 and \$16,209,129 at year-end 2016 and 2015, respectively, a decrease of \$3,326,088. This decrease was primarily the result of yearly depreciation. Additionally, there was a decrease in ARO assets of \$47,576. The cost associated with the ARO included in the cost of electric plant for 2016 was \$800,699 versus \$848,275 in 2015. Estimated values of ARO assets and obligations were prepared by an independent engineering consultant.

Regulatory assets were \$1,736,414 and \$2,293,793 at December 31, 2016 and 2015, respectively, a decrease of \$557,379. Regulatory assets contain amounts deferred for ARO and operational and maintenance related expenses. This decrease mainly reflects lower incurred expenses as compared to rates charged and revised estimates of ARO assets and liabilities. These deferred amounts are recorded in the statements of revenues, expenses, and changes in net position as the corresponding expense or revenue is realized.

Current assets were \$4,780,252 and \$2,727,073 as of December 31, 2016 and 2015, respectively, an increase of \$2,053,179. This increase was primarily due to an increase in receivable from related parties of \$1,712,568 along with increases in operating cash of \$973,854 and in receivables from participants of \$130,394. These increases are partially offset by a decreases in current regulatory assets of \$645,417, in inventory of \$79,429 due to the lower cost of fuel year over year and in prepaid expenses of \$38,791.

Total liabilities, deferred inflow of resources and net position were \$19,257,649 and \$20,442,520 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,184,871. This decrease was primarily the result of decreases in capital assets.

Total net position was \$13,314,915 and \$16,587,838 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$3,272,923. Net investment in capital assets was \$12,883,041 and \$16,209,129 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$3,326,088. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Unrestricted net position was \$431,874 and \$378,709 at December 31, 2016 and December 31, 2015, respectively, an increase of \$53,165.

Noncurrent liabilities, comprised entirely of ARO liabilities were \$1,594,771 and \$1,562,515 at December 31, 2016 and December 31, 2015, respectively, an increase of \$32,256. This was the result of yearly ARO accretion expense and an increase of projected ARO liability versus 2015 levels. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Current liabilities were \$1,153,744 and \$1,009,302 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$144,442. This increase was primarily the result of increased accounts payable obligations to third party vendors.

Deferred inflows of resources were \$3,194,219 and \$1,282,865 at December 31, 2016 and December 31, 2015, respectively, an increase of \$1,911,354. This was mainly a result of an increase in overhaul maintenance amounts billed to participants intended to recover future expenses and capital improvements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2015 vs. 2014

Total assets were \$20,442,520 and \$22,903,932 on December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,461,412. The decrease in total assets was due primarily to a decrease in net capital assets from yearly depreciation, a decrease in receivable from related party of \$638,322 due to collections and a decrease in fuel inventory of \$105,386 due to a decrease in fuel cost per gallon purchased during the year. This decrease was offset by an increase in electric generators of \$1,336,056 from the purchase of diesel oxidation catalysts on the 34 JV2 diesel units to reduce emissions so that the units can comply with EPA standards for peaking units. The spending on the diesel oxidation catalysts was performed so that the unit could be a peaking resource during summer of 2015. Additionally, accounts receivable from participants increased \$175,261 due to the timing of cash collections at the end of the year.

Electric plant and equipment, net of accumulated depreciation was \$16,209,129 and \$18,054,182 at year-end 2015 and 2014, respectively, a decrease of \$1,845,053. This decrease was the result of a \$3,206,059 increase in accumulated depreciation offset by an increase in electric generators of \$1,361,006 from spending on diesel oxidation catalysts to reduce exhaust emissions on the 34 JV2 diesel units so that they may comply with EPA standards for peaking units. The spending on the diesel oxidation catalysts was performed so that the unit could be used as a peaking resource during 2015. Additionally, there was an increase in ARO assets of \$54,431. The cost associated with the ARO included in the cost of electric plant for 2015 was \$848,275 versus \$823,325 in 2014. Estimated values of ARO assets and obligations were prepared by an independent engineering consultant.

Regulatory assets were \$2,293,793 and \$1,973,885 at December 31, 2015 and 2014, respectively, an increase of \$319,908. Regulatory assets contain amounts deferred for ARO and operational and maintenance related expenses. This increase mainly reflects expenses incurred in excess of rates charged and revised estimates of ARO assets and liabilities. These deferred amounts are recorded in the statements of revenues, expenses, and changes in net position as the corresponding expense or revenue is realized.

Current assets were \$2,727,073 and \$3,397,863 as of December 31, 2015 and 2014, respectively, a decrease of \$670,790. This was due to a decrease in receivable from related parties of \$638,322 as this amount was collected in 2015, a decrease in operating cash of \$376,733, and a decrease in inventory of \$105,386 due to the lower cost of fuel year over year. These decreases are partially offset by an increase in current regulatory assets of \$265,477, an increase in receivables from participants of \$175,261, and an increase in prepaid expense of \$8,913.

Total liabilities, deferred inflow of resources and net position were \$20,442,520 and \$22,903,932 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,461,412. This decrease was primarily the result of decreases in investment capital assets.

Total net position was \$16,587,838 and \$19,756,890 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$3,169,052. Net investment in capital assets was \$16,209,129 and \$18,054,182 at December 31, 2015 and December 31,

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2014, respectively, a decrease of \$1,845,053. This decrease resulted from the decrease in electric plant, net of accumulated depreciation. Unrestricted net position was \$378,709 and \$1,702,708 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$1,323,999 due mainly to spending on the diesel oxygen catalyst project, as cash on hand in prior year was spent on the project in 2015 and shifted the related net position from unrestricted into net investment in capital assets.

Noncurrent liabilities, comprised entirely of ARO liabilities were \$1,562,515 and \$1,520,141 at December 31, 2015 and December 31, 2014, respectively, an increase of \$42,374. This was the result of yearly ARO accretion expense and an increase of projected ARO liability versus 2014 levels. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Current liabilities were \$1,009,302 and \$829,784 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$179,518. This increase was primarily the result of increased accounts payable obligations to third party vendors.

Deferred inflows of resources were \$1,282,865 and \$797,117 at December 31, 2015 and December 31, 2014, respectively, an increase of \$485,748. This was mainly a result of an increase in overhaul maintenance amounts billed to participants intended to recover future expenses and capital improvements.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	2014
Operating revenues	\$ 13,038,501	\$ 11,900,599	\$ 7,330,252
Operating expenses	16,388,271	15,156,501	10,436,062
Operating Loss	\$ (3,349,770)	\$ (3,255,902)	\$ (3,105,810)
Nonoperating revenue			
Investment income	\$ 147	\$ 697	\$ 587
Future recoverable costs	76,700	86,153	77,103
Nonoperating Revenue	76,847	86,850	77,690
Change in Net Position	\$ (3,272,923)	\$ (3,169,052)	\$ (3,028,120)

OMEGA JV2's rates are set by the Board of Participants and are intended to cover budgeted operating and capital expenses plus actual fuel expense. OMEGA JV2 revenues do not include any bond payments by OMEGA JV2 financing members in their rates. Financing participants make these payments directly to AMP.

Electric revenues in 2016 were \$13,038,501 versus \$11,900,599 in 2015, an increase of \$1,137,902, mainly due to increases in higher rates billed to the members for capital improvements as well as higher capacity revenue earned by the project from the regional transmission organization (RTO). Capacity rates are determined by the RTO auction process. Capacity revenue is passed back directly to members as a reduction of their bill and is shown as an expense to the project. Electric revenues in 2015 were \$11,900,599 versus \$7,330,252 in 2014, an increase of \$4,570,347, mainly due to the increase in capacity revenue from the

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

regional transmission organization (RTO). The capacity rates as determined by the auction process of the RTO were significantly higher in 2015 as compared to 2014.

OMEGA JV2 operating expenses in 2016 were \$16,388,271 versus \$15,156,501 in 2015, an increase of \$1,231,770. This increase in expense was due to increases in fuel and maintenance expenses of \$395,840, in capacity expense of \$350,654, in related party services of \$233,900 and other expenses of \$251,376 as the project operated more in the current year vs the prior year. OMEGA JV2 operating expenses in 2015 were \$15,156,501 versus \$10,436,062 in 2014, an increase of \$4,720,439. Expense increases were primarily attributable to an increase in capacity expense of \$4,407,730 from capacity revenue passed back directly to members, as well as an increase in fuel expense of \$304,105 as the project operated more in the current year vs the prior year.

Investment income in 2016 was \$147 versus \$697 in 2015, a decrease in \$550. Investment income in 2015 was \$697 versus \$587 in 2014, a decrease of \$110. These decreases in investment income are due to cash amounts being held in checking accounts in 2016 and 2015 as opposed to higher yielding investment accounts related to trust funds held in accordance with bond indentures in the previous year. Previously, funds were invested in short-term government backed securities, short-term commercial paper or within the trust agency's money market account.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

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

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 1,435,443	\$ 461,589
Receivables from participants	1,200,411	1,070,017
Receivables from related parties	1,712,568	-
Regulatory assets	142,058	787,475
Inventory	135,554	214,983
Prepaid expenses	<u>154,218</u>	<u>193,009</u>
Total Current Assets	<u>4,780,252</u>	<u>2,727,073</u>
NONCURRENT ASSETS		
Electric Plant and Equipment		
Electric generators	60,211,556	60,256,515
Accumulated depreciation	<u>(47,328,515)</u>	<u>(44,047,386)</u>
Net Electric Plant and Equipment	<u>12,883,041</u>	<u>16,209,129</u>
Other Assets		
Regulatory assets	<u>1,594,356</u>	<u>1,506,318</u>
Total Non-Current Assets	<u>14,477,397</u>	<u>17,715,447</u>
TOTAL ASSETS	<u>\$ 19,257,649</u>	<u>\$ 20,442,520</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 890,437	\$ 919,494
Payable to related parties	<u>263,307</u>	<u>89,808</u>
Total Current Liabilities	<u>1,153,744</u>	<u>1,009,302</u>
NONCURRENT LIABILITIES		
Asset retirement obligation	<u>1,594,771</u>	<u>1,562,515</u>
Total Noncurrent Liabilities	<u>1,594,771</u>	<u>1,562,515</u>
Total Liabilities	<u>2,748,515</u>	<u>2,571,817</u>
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	<u>3,194,219</u>	<u>1,282,865</u>
NET POSITION		
Net investment in capital assets	12,883,041	16,209,129
Unrestricted	<u>431,874</u>	<u>378,709</u>
Total Net Position	<u>13,314,915</u>	<u>16,587,838</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 19,257,649</u>	<u>\$ 20,442,520</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Electric revenue	\$ 13,038,501	\$ 11,900,599
OPERATING EXPENSES		
Related party services	1,179,162	945,262
Capacity	9,584,773	9,234,119
Depreciation	3,281,129	3,185,205
Accretion of asset retirement obligation	68,494	70,000
Fuel	703,843	595,308
Maintenance	664,984	377,679
Utilities	146,238	103,707
Insurance	336,995	359,238
Professional services	33,477	22,137
Other operating expenses	389,176	263,846
Total Operating Expenses	<u>16,388,271</u>	<u>15,156,501</u>
 Operating Loss	 <u>(3,349,770)</u>	 <u>(3,255,902)</u>
NONOPERATING REVENUES		
Investment income	147	697
Future recoverable costs	76,700	86,153
Total Non-Operating Revenues	<u>76,847</u>	<u>86,850</u>
 Change in net position	 <u>(3,272,923)</u>	 <u>(3,169,052)</u>
 NET POSITION, Beginning of Year	 <u>16,587,838</u>	 <u>19,756,890</u>
 NET POSITION, END OF YEAR	 <u>\$ 13,314,915</u>	 <u>\$ 16,587,838</u>

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 14,819,461	\$ 12,211,086
Cash paid to related parties for personnel services	(1,005,663)	(954,925)
Cash payments to suppliers and related parties for goods and services	<u>(12,837,474)</u>	<u>(10,297,535)</u>
Net Cash Provided by Operating Activities	<u>976,324</u>	<u>958,626</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(2,617)</u>	<u>(1,336,056)</u>
Net Cash Used in Capital and Related Investing Activities	<u>(2,617)</u>	<u>(1,336,056)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>147</u>	<u>697</u>
Net Cash Provided by Financing Activities	<u>147</u>	<u>697</u>
 Net Change in Cash and Cash Equivalents	 973,854	 (376,733)
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>461,589</u>	 <u>838,322</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,435,443</u>	 <u>\$ 461,589</u>

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (3,349,770)	\$ (3,255,902)
Depreciation	3,281,129	3,185,205
Accretion of asset retirement obligation	68,494	70,000
Changes in assets, liabilities and deferred inflow of resources		
Receivables from participants	(130,394)	(175,261)
Receivables from related parties	(1,712,568)	638,322
Inventory	79,429	105,386
Prepaid expenses	38,791	(8,913)
Accounts payable and accrued expenses	(29,057)	189,181
Payable to related parties	173,499	(9,663)
Regulatory assets	645,417	(265,477)
Deferred inflow of resources	<u>1,911,354</u>	<u>485,748</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 976,324</u>	 <u>\$ 958,626</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	<u>\$ 1,435,443</u>	<u>\$ 461,589</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u>\$ 1,435,443</u>	 <u>\$ 461,589</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	<u>\$ 36,238</u>	<u>\$ 24,950</u>

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 2 (“OMEGA JV2”) was organized by 36 subdivisions of the State of Ohio (the “Participants”) on November 21, 2000, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code, and commenced operations on December 1, 2000. Its purpose is to provide backup and peaking capacity to the Participants. The Participants are members of American Municipal Power, Inc. (“AMP”). On December 27, 2001, OMEGA JV2 purchased 138.650 MW of electric plant generating units (the “Project”) from AMP. The Project is referred to as “distributed generation” because the units are sited near the Participants’ municipal electric systems where it is anticipated they will serve. The Project consists of two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine and 34 1.825 MW new and one 1.6 MW used oil-fired and diesel turbines. The Agreement continues until 60 days subsequent to the termination or disposition of the Project and for as long as required by the financing agreement; provided, however, that each Participant shall remain obligated to pay to OMEGA JV2 its respective share of the costs of terminating, discontinuing, retiring, disposing of, and decommissioning the Project.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Deposits and Investments (cont.)

OMEGA JV2 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV2 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

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

Receivables/Payables

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

Inventory

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

Prepaid Expenses

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

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.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Regulatory Assets

OMEGA JV2 records regulatory assets (expenses to be recovered in rates in future periods). Regulatory assets include O&M expenses not yet recovered through billings to Participants. Pursuant to the Agreement, Participants are required to pay all costs related to operations, maintenance and retirement of the jointly owned electric plant.

Regulatory assets consisted of the following at December 31:

	2016	2015
Future expenses related to fixed O&M	<u>\$ 142,058</u>	<u>\$ 787,475</u>
	2016	2015
Future expenses related to asset retirement obligations	<u>\$ 1,594,356</u>	<u>\$ 1,506,318</u>

Deferred Inflow of Resources

OMEGA JV2 records deferred inflows of resources (rates collected for expenses not yet incurred). The balance consist of revenue related to amounts prepaid by the Participants for major repairs and maintenance and are recorded as income when the related expenditure occurs.

Deferred inflow of resources consisted of the following at December 31:

	2016	2015
Future expenses related to overhaul maintenance and fixed O&M	<u>\$ 3,194,219</u>	<u>\$ 1,282,865</u>

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Net Position

The Project is owned by the Participants in undivided interests held either directly or in trust. Due to potential legal impediments to their holding of direct interests in the Project, some participants purchase capacity and energy from the Project and have their undivided ownership interests held in trust for them by other Participants acting as trustees. The respective ownership shares are as follows:

<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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Net Position (cont.)

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
South Vienna	123	0.09%
Bradner	119	0.09
Woodville	81	0.06
Haskins	73	0.05
Arcanum	44	0.03
Custar	4	0.00*
Totals	134,081	100.00%
Reserves	4,569	
kW Capacity of the Project	<u>138,650</u>	

* Represents less than 0.01%

REVENUE AND EXPENSES

OMEGA JV2 distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the OMEGA JV2's principal ongoing operations. The principal operating revenues of OMEGA JV2 are charges to participants for energy and capacity. Operating expenses include the cost of generation, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Electric revenue is recognized when earned as service is delivered. OMEGA JV2's rates for electric power are designed to cover annual operating costs, excluding depreciation. Rates are set annually by the Board of Participants.

Rates for electric service pursuant to contracts with the Participants are not designed to recover contributed capital used to acquire the electric plant generators. Rates charged to OMEGA JV2 financing participants for debt service are paid to AMP to retire the Project financing obligations. Accordingly, OMEGA JV2 will generate negative operating margins during the operating life of the electric generators.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31		Risks
	2016	2015	
Checking	<u>\$ 1,435,443</u>	<u>\$ 461,589</u>	Custodial credit

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, OMEGA JV2's deposits may not be returned to it. OMEGA JV2 has custodial credit risk on its cash and temporary investments balances to the extent the balances exceed the federally insured limit. OMEGA JV2's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015, there were no deposits exposed to custodial credit risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. OMEGA JV2 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV2 to invest in funds in accordance with the ORC. Allowable investments include United States Treasury and federal and state government agency obligations, money market funds, and commercial paper with the highest classification by at least two nationally recognized standard rating services. As of December 31, 2016 and 2015, OMEGA JV2 had no investments with credit risk.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV2's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days. As of December 31, 2016 and 2015, OMEGA JV2 had no investments with interest rate risk.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – ELECTRIC PLANT AND EQUIPMENT

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

	2016			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 60,256,515	\$ 2,617	\$ (47,576)	\$ 60,211,556
Less: Accumulated depreciation	<u>(44,047,386)</u>	<u>(3,279,953)</u>	<u>(1,176)</u>	<u>(47,328,515)</u>
Electric Plant and Equipment, Net	<u>\$ 16,209,129</u>	<u>\$ (3,277,336)</u>	<u>\$ (48,752)</u>	<u>\$ 12,883,041</u>
	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 58,895,509	\$ 1,336,056	\$ 24,950	\$ 60,256,515
Less: Accumulated depreciation	<u>(40,841,327)</u>	<u>(3,185,205)</u>	<u>(20,854)</u>	<u>(44,047,386)</u>
Electric Plant and Equipment, Net	<u>\$ 18,054,182</u>	<u>\$ (1,849,149)</u>	<u>\$ 4,096</u>	<u>\$ 16,209,129</u>

During 2016 and 2015, OMEGA JV2 recorded an adjustment to electric plant and equipment to reflect the revised estimate of the ARO (Note 4).

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – ASSET RETIREMENT OBLIGATIONS

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

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

	2016			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,562,515	\$ (36,238)	\$ 68,494	\$ 1,594,771
	2015			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	\$ 1,520,141	\$ (27,626)	\$ 70,000	\$ 1,562,515

Asset retirement obligations are determined based on detailed cost estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated using an inflation factor to the estimated removal dates, and then discounted using a credit adjusted risk-free interest rate. The removal date for each unit was determined based on the estimated life of the units. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful lives of each unit. OMEGA JV2 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2016 and 2015.

NOTE 5 – NET POSITION

GASB No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – NET POSITION (cont.)

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The following calculation supports the net investment in capital assets:

	2016	2015
Electric Plant and Equipment Assets	\$ 59,410,858	\$ 59,408,240
Asset Retirement Obligation	800,698	848,275
Accumulated Depreciation	(47,328,515)	(44,047,386)
 Total Net Investment in Capital Assets	 \$ 12,883,041	 \$ 16,209,129

NOTE 6 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

The Project is subject to regulation by federal, state and local authorities related to environmental and other matters. Changes in regulations could adversely affect the operations and operating cost of OMEGA JV2.

On February 17, 2010, the US EPA promulgated the RICE NESHAP Rule establishing emission limits and work practice standards for compression ignited diesel engines at area sources. OMEGA JV2's engines were affected by this rule and were in compliance by May 2013.

Many metropolitan and industrialized counties in Ohio have become nonattainment areas under the new fine particulate matter ambient air quality standards and will likely become a nonattainment area for ozone. This may require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide, nitrogen oxides and particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind, neighboring states. Butler (Hamilton) and Medina (Seville) counties are non-attainment areas for fine particulate matter; therefore, the Ohio Environmental Protection Agency may restrict the hours of operations or require additional pollution control equipment for the portions of the Project in these areas.

NOTE 7 – RISK MANAGEMENT

OMEGA JV2 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 – RELATED PARTY TRANSACTIONS

OMEGA JV2 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services, including dispatching electrical control. The cost of these services for the years ended December 31, 2016 and 2015 was \$195,975 and \$169,898, respectively. OMEGA JV2's payables to AMP as of December 31, 2016 and 2015 were \$219,156 and \$47,497, respectively.
- As OMEGA JV2's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were \$983,187 and \$775,364 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV2 had a payable to MESA for \$44,151 and \$42,311 at December 31, 2016 and 2015, respectively.
- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of \$146,238 and \$103,707 for these services for the years ended December 31, 2016 and 2015, respectively.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2"), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OMEGA JV2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV2's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV2's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OMEGA JV2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017



**OHIO MUNICIPAL ELECTRIC GENERATION
AGENCY JOINT VENTURE 4**

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 4:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 4 ("OMEGA JV4"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 4 as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of OMEGA JV4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV4's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

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, 2016 and 2015. 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 statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets, liabilities and deferred inflow of resources of OMEGA JV4 as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing and non-capital and related financing activities.

Financial Highlights

The following table summarizes the financial position of OMEGA JV4 as of December 31:

Condensed Statement of Net Position

	2016	2015	2014
Assets			
Transmission line, net of accumulated depreciation	\$ 886,273	\$ 984,548	\$ 1,082,823
Board designated funds	350,000	300,000	250,000
Current assets	428,787	430,258	454,369
Total Assets	\$ 1,665,060	\$ 1,714,806	\$ 1,787,192
Net Position, Liabilities and			
Deferred Inflow of Resources			
Net position - net investment in capital assets	\$ 886,273	\$ 984,548	\$ 1,082,823
Net position - unrestricted	(52,549)	115,302	287,653
Current liabilities	12,136	12,159	15,817
Deferred inflow of resources	819,200	602,797	400,899
Total Net Position, Liabilities and Deferred Inflow of Resources	\$ 1,665,060	\$ 1,714,806	\$ 1,787,192

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 4

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2016 vs. 2015

Total assets were \$1,665,060 and \$1,714,806 as of December 31, 2016 and December 31 2015, respectively, a decrease of \$49,746. The decrease in 2016 total assets is primarily due to yearly depreciation of \$98,275 along with decreases in operating cash of \$15,980 and prepaid expenses of \$4,169. These decreases are partially offset by an increase in Board designated funds by \$50,000 for a yearly maintenance reserve contribution specifically earmarked for the decommissioning of power lines and an increase in receivables from related parties by \$18,678.

Utility plant, net of accumulated depreciation was \$886,273 and \$984,548 at year-end 2016 and 2015, respectively, a decrease of \$98,275. The decrease was the result of yearly depreciation.

Current assets were \$428,787 and \$430,258 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,471. Cash and temporary investments decreased by \$15,980 and prepaid expenses decreased by \$4,169 offset by increases in accounts receivable from related parties of \$18,678.

Total net position, liabilities, and deferred inflow of resources were \$1,665,060 and \$1,714,806 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$49,746.

Total net position was \$833,724 and \$1,099,850 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$266,126. Net investment in capital assets was \$886,273 and \$984,548 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$98,275. This decrease resulted from the yearly depreciation and a corresponding increase in accumulated depreciation. Unrestricted net position was (\$52,549) and \$115,302 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$167,851, which was due to distributions to members.

Current liabilities were \$12,136 and \$12,159 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$23. This resulted from a decrease in payable to related parties offset by an increase in accrued expenses.

Deferred inflow of resources increased to \$819,200 at December 31, 2016 from \$602,797 at December 31, 2015, which is an increase of \$216,403. This was a result of member billings in excess of operating and maintenance incurred.

2015 vs. 2014

Total assets were \$1,714,806 and \$1,787,192 as of December 31, 2015 and December 31 2014, respectively, a decrease of \$72,386. The decrease in 2015 total assets is due to a decrease in operating cash of \$17,154 and a decrease in receivables of \$6,957 due to collections from members, along with an increase in accumulated depreciation of \$98,275 from yearly depreciation expense. This is offset by an increase in board designated funds of \$50,000 due to amounts collected from members in excess of operating expenses paid.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

Utility plant, net of accumulated depreciation was \$984,548 and \$1,082,823 at year-end 2015 and 2014, respectively, a decrease of \$98,275. The decrease was the result of yearly depreciation.

Current assets were \$430,258 and \$454,369 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$24,111, due to a decrease in cash and temporary investments. This decrease was mainly a result of collections from members in excess of operating expenses paid and an increase in maintenance reserve of \$50,000, transferred into the decommissioning fund as this is the yearly amount specifically earmarked for decommissioning of power lines. In addition to this decrease, accounts receivable due to collections from members decreased by \$6,957.

Total net position, liabilities, and deferred inflow of resources were \$1,714,806 and \$1,787,192 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$72,386.

Total net position was \$1,099,850 and \$1,370,476 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$270,626. Net investment in capital assets was \$984,548 and \$1,082,823 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$98,275. This decrease resulted from the yearly depreciation expense and a corresponding increase in accumulated depreciation. Unrestricted net position was \$115,302 and \$287,653 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$172,351, which was due to distributions to members.

Current liabilities were \$12,159 and \$15,817 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$3,658. This resulted from a decrease in payable to related parties.

Deferred inflow of resources increased to \$602,797 at December 31, 2015 from \$400,899 at December 31, 2014, which is an increase of \$201,898. This was a result of member billings in excess of operating and maintenance incurred.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 53,597	\$ 68,102	\$ 56,175
Operating expenses	<u>148,428</u>	<u>166,772</u>	<u>154,765</u>
Operating Income (Loss)	<u>(94,831)</u>	<u>(98,670)</u>	<u>(98,590)</u>
Nonoperating revenues			
Investment income	<u>1,056</u>	<u>395</u>	<u>315</u>
Income (Loss) before Distributions	<u>(93,775)</u>	<u>(98,275)</u>	<u>(98,275)</u>
Distributions to participants	<u>172,351</u>	<u>172,351</u>	<u>172,351</u>
Change in Net Position	<u>\$ (266,126)</u>	<u>\$ (270,626)</u>	<u>\$ (270,626)</u>

Total operating revenues in 2016 were \$53,597 versus \$68,102 in 2015 which is a decrease of \$14,505 due to an increase in deferred inflow of resources recognized as compared to prior year for member billings less than expenses incurred, primarily transmission line maintenance.

Operating expenses in 2016 were \$148,428 versus \$166,772 in 2015 which is a decrease of \$18,344. The decrease in operating expenses in 2016 is due mainly to a decrease in maintenance expense of \$18,524 where 2014 transmission line maintenance was deferred until 2015, along with a decrease in MESA and AMP related party services of \$583 offset by increases in professional services and other operating expenses of \$763. Operating expenses in 2015 were \$166,772 versus \$154,765 in 2014 which is an increase of \$12,007.

Investment income in 2016 was \$1,056 versus \$395 in 2015, an increase of \$661 due to an increase in the balance of investments earning interest. Investment income in 2015 was \$395 versus \$315 in 2014 which is an increase of \$80 from increases in the balance of investments earning interest. Investment income for OMEGA JV4 is interest earned on checking account balances and short term investments.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 387,609	\$ 403,589
Receivables	41,178	22,500
Prepaid expenses	-	4,169
Total Current Assets	428,787	430,258
NONCURRENT ASSETS		
Utility Plant		
Transmission line	2,645,438	2,645,438
Accumulated depreciation	(1,759,165)	(1,660,890)
Net Utility Plant	886,273	984,548
Other Assets		
Board designated funds	350,000	300,000
Total Non-Current Assets	1,236,273	1,284,548
TOTAL ASSETS	\$ 1,665,060	\$ 1,714,806
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accrued expenses	\$ 10,994	\$ 10,748
Payable to related parties	1,142	1,411
Total Current Liabilities	12,136	12,159
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	819,200	602,797
NET POSITION		
Net investment in capital assets	886,273	984,548
Unrestricted	(52,549)	115,302
Total Net Position	833,724	1,099,850
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 1,665,060	\$ 1,714,806

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Transmission revenue	\$ 53,597	\$ 68,102
OPERATING EXPENSES		
Related party personnel services	20,604	21,187
Depreciation	98,275	98,275
Maintenance	-	18,524
Professional services	10,962	10,660
Other operating expenses	18,587	18,126
Total Operating Expenses	148,428	166,772
 Operating Loss	 (94,831)	 (98,670)
NONOPERATING REVENUES		
Investment income	1,056	395
 Loss before Distributions	 (93,775)	 (98,275)
DISTRIBUTIONS TO PARTICIPANTS		
City of Bryan	(72,387)	(72,387)
Village of Pioneer	(51,705)	(51,705)
Village of Montpelier	(43,088)	(43,088)
Village of Edgerton	(5,171)	(5,171)
Total Distributions	(172,351)	(172,351)
 Change in net position	 (266,126)	 (270,626)
 NET POSITION, Beginning of Year	 1,099,850	 1,370,476
 NET POSITION, END OF YEAR	 \$ 833,724	 \$ 1,099,850

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants and customers	\$ 251,322	\$ 276,957
Cash received from (paid to) related parties for personnel services	(20,873)	(25,387)
Cash paid to suppliers and related parties for goods and services	(25,134)	(46,768)
Net Cash Provided by Operating Activities	205,315	204,802
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distributions to participants	(172,351)	(172,351)
Net Cash Used in Noncapital Financing Activities	(172,351)	(172,351)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	1,056	395
Net Cash Provided by (Used in) Investing Activities	1,056	395
Net Change in Cash and Cash Equivalents	34,020	32,846
CASH AND CASH EQUIVALENTS, Beginning of Year	703,589	670,743
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 737,609	\$ 703,589
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (94,831)	\$ (98,670)
Depreciation	98,275	98,275
Changes in assets and liabilities		
Receivables	(18,678)	6,957
Prepaid expenses	4,169	-
Accrued expenses	246	542
Payable to related parties	(269)	(4,200)
Deferred inflow of resources	216,403	201,898
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 205,315	\$ 204,802
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	\$ 387,609	\$ 403,589
Board designated funds	350,000	300,000
TOTAL CASH AND CASH EQUIVALENTS	\$ 737,609	\$ 703,589

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 4

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, Inc. (“AMP”). OMEGA JV4 owns and operates the Project. The Project consists of a 69 KV three-phase transmission line located in Williams County, Ohio. During 2016 and 2015 OMEGA JV4 derived a majority of its revenue from one customer. 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.

The following summarizes the significant accounting policies followed by OMEGA JV4.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

OMEGA JV4 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Deposits and Investments (cont.)

OMEGA JV4 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

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

Prepaid Expenses

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

Board Designated Funds

OMEGA JV4's Board of Participants have designated funds for the potential decommissioning of transmission lines.

Utility Plant

The transmission line is recorded at cost. Depreciation is provided on the straight-line method from 19 to 30 years, based on the estimated useful life of the assets. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When 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 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 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

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 there is no asset retirement obligation associated with the transmission line or utility poles. OMEGA JV4 determined there were no legal requirements currently in place that would mandate special disposal of the utility poles and transmission lines as they are replaced.

Deferred Inflow of Resources

OMEGA JV4 records deferred inflows of resources (rates collected for expenses not yet incurred).

Net Position

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:

<u>Municipality</u>	<u>Percent Project Ownership and Entitlement</u>
Bryan	42.00%
Pioneer	30.00
Montpelier	25.00
Edgerton	3.00
Totals	100.00%

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

REVENUE AND EXPENSES

OMEGA JV4 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with OMEGA JV4's principal ongoing operations. The principal operating revenues of OMEGA JV4 are charges to participants for transmission services. Operating expenses include the cost of transmission services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues 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. Periodically OMEGA JV4 will distribute earnings to its participants based on available operating cash. These distributions are approved by the Board of Participants.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	<u>Carrying Value as of December 31,</u>		<u>Risks</u>
	<u>2016</u>	<u>2015</u>	
Checking	\$ 737,609	\$ 703,589	Custodial credit

Custodial Credit Risk

Custodial risk is the risk that in the event of a bank failure, OMEGA JV4's deposits may not be returned to it. OMEGA JV4 has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. OMEGA JV4's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015, there were no deposits exposed to custodial credit risk.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. OMEGA JV4 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV4 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, 2016 and 2015, OMEGA JV4 had no investments with credit risk.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV4's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days. As of December 31, 2016 and 2015, OMEGA JV4 had no investments with interest rate risk.

NOTE 3 – UTILITY PLANT

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

	2016		
	Beginning Balance	Additions	Ending Balance
Transmission line	\$ 2,645,438	\$ -	\$ 2,645,438
Less: Accumulated depreciation	(1,660,890)	(98,275)	(1,759,165)
Utility Plant, Net	\$ 984,548	\$ (98,275)	\$ 886,273
	2015		
	Beginning Balance	Additions	Ending Balance
Transmission line	\$ 2,645,438	\$ -	\$ 2,645,438
Less: Accumulated depreciation	(1,562,615)	(98,275)	(1,660,890)
Utility Plant, Net	\$ 1,082,823	\$ (98,275)	\$ 984,548

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – NET POSITION

GASB No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

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

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The following calculation supports the net investment in capital assets:

	<u>2016</u>	<u>2015</u>
Plant in service	\$ 2,645,438	\$ 2,645,438
Accumulated depreciation	<u>(1,759,165)</u>	<u>(1,660,890)</u>
Total Net Investment in Capital Assets	<u>\$ 886,273</u>	<u>\$ 984,548</u>

NOTE 5 – 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.

NOTE 6 – SIGNIFICANT CUSTOMERS

Transmission revenue in 2016 and 2015 was 100% derived from a nonparticipant. The contract with the nonparticipant can be cancelled on or after October 31, 2009 upon written notice six months prior to cancellation. As of December 31, 2016, no notice of cancellation had been received. 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.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 4**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – RISK MANAGEMENT

OMEGA JV4 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. OMEGA JV4 is self-insured for property damage risks related to its transmission line. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 – RELATED PARTY TRANSACTIONS

OMEGA JV4 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services. The expenses related to these services were \$425 as of December 31, 2016. OMEGA JV4 had a payable of \$425 due to AMP as of December 31, 2016 and \$396 as of December 31, 2015.
- As OMEGA JV4's agent, AMP 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 \$20,179 and \$21,187 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV4 had a payable to MESA of \$717 and \$1,015 at December 31, 2016 and 2015, respectively.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 4:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 4 ("OMEGA JV4"), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OMEGA JV4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV4's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV4's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017



OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 5:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 ("OMEGA JV5"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 5 as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of OMEGA JV5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV5's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 5 ("OMEGA JV5") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV5 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 JV5's basic financial statements include the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

The statement of net position provides information about the nature and amount of assets and deferred outflows of resources and liabilities and deferred outflow of resources of OMEGA JV5 as of the end of the year. The statement of revenues, expenses and changes in net position reports revenues and expenses and the change in net position for the year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and capital and related financing activities.

Financial Highlights

The following table summarizes the financial position of OMEGA JV5 as of December 31:

	2016	2015	2014
Assets			
Other current assets	\$ 11,011,850	\$ 5,527,587	\$ 4,163,404
Restricted assets - noncurrent	6,194,724	3,034,597	3,009,612
Electric plant and land	104,169,732	109,086,709	113,787,195
Other assets	2,567,268	3,520,069	3,140,362
Total assets	\$ 123,943,574	\$ 121,168,962	\$ 124,100,573
Net Position, Liabilities, and Deferred			
Inflow of Resources			
Net investment in capital assets	\$ 27,060,500	\$ 28,746,334	\$ 27,191,666
Net position - restricted	6,194,724	3,034,597	3,009,612
Net position - unrestricted	(30,267,337)	(28,793,044)	(27,213,391)
Net beneficial interest certificates	77,109,232	30,537,188	28,916,056
Note payable	-	49,803,187	57,679,473
Current liabilities	4,106,494	2,460,627	1,459,424
Noncurrent liabilities	558,469	414,986	1,054,898
Deferred inflow of resources	39,181,492	34,965,087	32,002,835
Total net position, liabilities, and deferred inflow of resources	\$ 123,943,574	\$ 121,168,962	\$ 124,100,573

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

2016 vs. 2015

Total assets were \$123,943,574 and \$121,168,962 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$2,774,612. The increase was due to increases in cash and temporary investments of \$4,364,569, restricted assets – funds held by trustee of \$3,160,127, and receivables from related parties of \$1,948,075 offset by yearly depreciation which reduced the total asset balance by \$4,916,977 along with decreases in regulatory assets of \$922,599 due to expenses incurred less than revenue collected and lower receivables from participants.

Total current assets were \$11,011,850 and \$5,527,587 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$5,484,263. This is mainly due to an increase of \$4,364,569 in cash and temporary investments and receivables from related parties of \$1,948,075 offset by a decrease of \$725,087 in receivables from participants.

Utility plant assets were \$104,169,732 and \$109,086,709 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$4,916,977. Utility plant assets decreased due to yearly depreciation recorded during the year. In 2016, OMEGA JV5 estimated an ARO asset of \$313,314. OMEGA JV5 developed its estimate of its asset retirement obligation based on a legal and technical study performed during 2016. There were no significant capital expenditures or retirements of assets for OMEGA JV5 in 2016.

Noncurrent restricted assets were \$6,194,724 and \$3,034,597 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$3,160,127 due to debt service collections from the 2016 beneficial interest certificate issuance. These assets at December 31, 2016 represent amounts in the Reserve and Contingency Fund that are held in accordance with the 2001 Certificates and 2016 Certificates bond indentures.

Other assets were \$2,567,268 and \$3,520,069 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$952,801. The decrease is mainly due to a decrease of \$922,599 in regulatory assets due to fixed operating expenses incurred for the year lower than revenues collected and a decrease in prepaid bond insurance of \$30,202 for amortization.

Total net position, liabilities, and deferred inflow of resources were \$123,943,574 and \$121,168,962 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$2,774,612.

Net position was \$2,987,887 at December 31, 2016 and December 31, 2015.

Net Beneficial Interest Certificates were \$77,109,232 and \$30,537,188 at December 31, 2016 and December 31, 2015, respectively, an increase of \$46,572,004. The increase is due to the OMEGA JV5 issuance of 2016 Beneficial Interest Certificates ("2016 Certificates") in January 2016 in the amount of \$49,745,000. The purpose of the 2016 refunding is to pay in full the promissory note payable to AMP. For the 2001 Certificates, the accreted interest on the zero coupon bonds will begin to become due in 2025.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Note payable was \$0 and \$49,803,187 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$49,803,187. OMEGA JV5 issued 2016 Certificates to pay in full the promissory note in January 2016.

Current liabilities were \$4,106,494 and \$2,460,627 at December 31, 2016 and December 31, 2015, respectively, an increase of \$1,645,867. This increase was mainly due to an increase in payables to related parties for certain engineering, finance, administration and other services.

Noncurrent liabilities were \$558,469 and \$414,986 at December 31, 2016 and December 31, 2015, respectively, an increase of \$143,483. This was the result of increases in accrued license fees of \$139,124 and asset retirement obligation of \$4,359. In 2016, OMEGA JV5 estimated an ARO liability and corresponding asset of \$317,673, an increase of \$4,359 compared to the ending balance of \$313,314 at December 31, 2015. OMEGA JV5 developed its estimate of its asset retirement obligation based on a legal and technical study performed during 2016.

Deferred inflow of resources was \$39,181,492 and \$34,965,087 as of December 31, 2016 and December 31, 2015, respectively an increase of \$4,216,405. This was primarily the result of revenue for variable generation expenses received in excess of expense along with revenue received for OMEGA JV5 refinancing interest and trust covenant.

2015 vs. 2014

Total assets were \$121,168,962 and \$124,100,573 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,931,611. The decrease was due to yearly depreciation which reduced the total asset balance by \$4,705,550 as well as a decrease in receivables from related parties of \$551,906 due to payment of an amount from AMP that occurred in 2014 that did not occur in 2015. This decrease was partially offset by an increase of \$1,150,043 in receivables from the timing of REC credits sold to a counterparty, and an increase in regulatory assets due to expenses incurred in excess of revenue collected.

Total current assets were \$5,527,587 and \$4,163,404 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$1,364,183. This is mainly due to an increase of \$1,150,043 in accounts receivable from REC sales to a counterparty and offset by a decrease of \$551,906 in receivables from related parties due to payment of an amount due from AMP that occurred in 2014 that did not occur in 2015.

Utility plant assets were \$109,086,709 and \$113,787,195 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$4,700,486. Utility plant assets decreased due to the yearly depreciation of \$4,705,550 as well as the decrease of \$1,318 in ARO assets that were recorded during the year. In 2015, OMEGA JV5 estimated an ARO asset of \$313,314. OMEGA JV5 developed its estimate of its asset retirement obligation based on a legal and technical study performed during 2015. There were no significant capital expenditures or retirements of assets for OMEGA JV5 in 2015.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016, 2015 and 2014 (Unaudited)

Noncurrent restricted assets were \$3,034,597 and \$3,009,612 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$24,985 due to investment gains experienced during the year. These amounts at December 31, 2014 represent amounts in the Reserve and Contingency Fund that are held in accordance with the 2001 Certificates bond indenture.

Other assets were \$3,520,069 and \$3,140,362 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$379,707. The increase is mainly due to an increase of \$377,158 in regulatory assets due to expenses incurred for the year in excess of revenues collected and \$2,549 in prepaid bond insurance amortization.

Total net position, liabilities, and deferred inflow of resources were \$121,168,962 and \$124,100,573 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,931,611.

Net position was \$2,987,887 at December 31, 2015 and December 31, 2014.

Net Beneficial Interest Certificates were \$30,537,188 and \$28,916,056 at December 31, 2015 and December 31, 2014, respectively, an increase of \$1,621,132. This is due to the accreted interest on the zero coupon bonds that begin to become due in 2025.

Note payable was \$49,803,187 and \$57,679,473 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$7,876,286. On February 15, 2014, all of the 2004 Certificates were redeemed from funds held under the trust agreement securing the 2004 Certificates and the proceeds of a note issued to AMP by OMEGA JV5. OMEGA JV5 made monthly principal payments on the promissory note during the year and the resulting balance was \$49,803,187 at December 31, 2015. This long term portion was reclassified as short term at December 31, 2015 as the entire amount became due to AMP in January of 2016 as debt issued from a third party to repay the note payable.

Current liabilities were \$2,460,627 and \$1,459,424 at December 31, 2015 and December 31, 2014, respectively, an increase of \$1,001,203. This increase was mainly due to an increase in accrued expenses mainly for accruals for amounts due to members for RECs sold to a third party.

Noncurrent liabilities were \$414,986 and \$1,054,898 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$639,912. This was the result of a decrease in accrued license fees and asset retirement obligation. The accrued license fees decreased by \$638,594 due to the timing of the payment of yearly fees to the Federal Energy Regulatory Commission that were not paid until later in the year in 2014. Additionally, in 2015, OMEGA JV5 estimated an ARO liability and corresponding asset of \$313,314, a decrease of \$1,318 compared to the ending balance of \$314,632 at December 31, 2014. OMEGA JV5 developed its estimate of its asset retirement obligation based on a legal and technical study performed during 2015.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

Deferred inflow of resources was \$34,965,087 and \$32,002,835 as of December 31, 2015 and December 31, 2014, respectively an increase of \$2,962,252. This was primarily the result of revenue received in excess of expenses, particularly for capacity revenue.

The following table summarizes the changes in revenues, expenses and net position of OMEGA JV5 for the years ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	\$ 20,869,026	\$ 24,424,933	\$ 13,531,564
Operating expenses	18,285,607	22,215,343	17,748,173
Operating income	2,583,419	2,209,590	(4,216,609)
Nonoperating income and expense			
Investment income (loss)	(94,661)	26,774	356,079
Interest expense	(2,237,266)	(2,222,537)	(4,368,941)
Bond issuance costs	(221,290)	-	-
Amortization	(30,202)	(13,827)	1,445,395
Total nonoperating income/(expense)	(2,583,419)	(2,209,590)	(2,567,467)
Change in net position	-	-	\$ (6,784,076)

Operating results

Operating revenues were \$20,869,026 in 2016, a decrease of \$3,555,907 from 2015 operating revenue of \$24,424,933. The decrease in revenues was due to decreases in revenue related to renewable energy certificates (REC) sales to a third party and capacity sales to the RTO.

Operating revenues were \$24,424,933 in 2015, an increase of \$10,893,369 from 2014 operating revenue of \$13,531,564. The increase in revenues was primarily due to increases in revenue related to debt service, REC sales to a third party and capacity sales to the RTO.

Operating expenses were \$18,285,607 in 2016, a decrease of \$3,929,736 from 2015 operating expenses of \$22,215,343. This decrease was primarily the result of lower purchased power expense of \$3,624,319. Additionally, the project experienced a decrease of \$275,974 in maintenance due to major maintenance performed in 2015 that was not performed in 2014.

Operating expenses were \$22,215,343 in 2015, an increase of \$4,467,170 from 2014 operating expenses of \$17,748,173. This increase was primarily the result of an increase in capacity expense of \$2,476,460 due to higher capacity prices in 2015 as compared to 2014. Operating expenses also increased due to increased purchased power of \$808,371 expense due increased transmission costs. Additionally, the project experienced an increase of \$589,751 in maintenance due to major maintenance performed in 2015 that was not performed in 2014 as well as an increase of \$681,438 in labor and overhead offset by a decrease of \$88,620 in other operating expenses.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015 and 2014
(Unaudited)

Non-Operating expense totaled \$2,583,419 in 2016 and \$2,209,590 in 2015, respectively, an increase of \$373,829. This increase was caused primarily by the bond issuance costs related to the 2016 Beneficial Interest Certificate issuance.

Non-Operating expense totaled \$2,209,590 in 2015 and \$2,567,467 in 2014, respectively, a decrease of \$357,877. This decrease was caused primarily by a decrease in interest charged on the note payable as the average amount outstanding was less than the prior year due to monthly payments. Amortization decreased by \$1,459,222 from the prior year as intangible assets and liabilities related to the 2004 certificates were fully amortized in 2014. As such, the amortization did not recur in the current year as the only amount remaining is the amortization of the bond insurance related to the 2001 certificates.

There were no distributions to participants in the past five years.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 7,298,757	\$ 2,934,188
Receivables from participants	1,486,549	2,211,636
Receivables from related parties	1,973,487	25,412
Accrued interest receivable	63,754	63,734
Inventory	88,783	98,113
Prepaid expenses	100,520	194,504
Total Current Assets	11,011,850	5,527,587
NONCURRENT ASSETS		
Restricted Assets		
Restricted assets - funds held by trustee	6,194,724	3,034,597
Electric Plant and Land		
Electric plant in service	186,665,717	186,665,717
Land	431,881	431,881
Accumulated depreciation	(82,927,866)	(78,010,889)
Net Electric Plant and Land	104,169,732	109,086,709
Other Assets		
Prepaid bond insurance, net	194,726	224,928
Regulatory asset	2,372,542	3,295,141
Total Noncurrent Assets	112,931,724	115,641,375
TOTAL ASSETS	\$ 123,943,574	\$ 121,168,962

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,521,757	\$ 2,016,268
Payable to related parties	2,545,265	444,359
Note payable - current	-	49,803,187
2016 beneficial interest certificates - current	5,960,000	
Accrued interest	39,472	-
Total Current Liabilities	10,066,494	52,263,814
NONCURRENT LIABILITIES		
Accrued license fees	240,796	101,672
2016 beneficial interest certificates	38,900,000	-
2001 beneficial interest certificates	56,125,000	56,125,000
Unamortized discount	(23,875,768)	(25,587,812)
Asset retirement obligation	317,673	313,314
Total Noncurrent Liabilities	71,707,701	30,952,174
Total Liabilities	81,774,195	83,215,988
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	39,181,492	34,965,087
TOTAL DEFERRED INFLOW OF RESOURCES	39,181,492	34,965,087
NET POSITION		
Net investment in capital assets	27,060,500	28,746,334
Restricted	6,194,724	3,034,597
Unrestricted	(30,267,337)	(28,793,044)
Total Net Position	2,987,887	2,987,887
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 123,943,574	\$ 121,168,962

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Electric revenue	\$ 20,869,026	\$ 24,424,933
OPERATING EXPENSES		
Purchased power	3,815,183	7,439,502
Capacity	3,348,064	3,780,051
Related party services	2,366,759	2,189,958
Depreciation	4,923,306	4,705,550
Maintenance	1,254,940	1,530,914
Utilities	193,022	195,180
Insurance	360,776	400,677
Professional services	67,283	78,687
Payment in lieu of taxes	840,000	840,000
Other operating expenses	1,116,274	1,054,824
Total Operating Expenses	18,285,607	22,215,343
Operating Income (Loss)	2,583,419	2,209,590
NONOPERATING INCOME AND EXPENSE		
Investment income (loss)	(94,661)	26,774
Interest expense	(2,237,266)	(2,222,537)
Amortization of insurance	(30,202)	(13,827)
Bond issuance costs	(221,290)	-
Total Nonoperating Expense	(2,583,419)	(2,209,590)
Change in net position	-	-
NET POSITION, Beginning of Year	2,987,887	2,987,887
NET POSITION, END OF YEAR	\$ 2,987,887	\$ 2,987,887

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

STATEMENTS OF CASH FLOWS
December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 27,076,249	\$ 25,859,984
Cash paid to related parties for personnel services	(265,853)	(1,884,156)
Cash payments to suppliers and related parties for goods and services	<u>(13,538,822)</u>	<u>(14,690,790)</u>
Net Cash Provided by Operating Activities	<u>13,271,574</u>	<u>9,285,038</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from debt issuance	49,745,000	-
Principal payments on debt issuance	(4,885,000)	-
Interest payments on debt issuance	(638,462)	-
Principal payments on note payable to related party	(49,803,187)	(7,876,286)
Interest payments on note payable to related party	<u>(70,568)</u>	<u>(601,406)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(5,652,217)</u>	<u>(8,477,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(3,160,127)	(24,985)
Investment income received (loss)	<u>(94,661)</u>	<u>10,400</u>
Net Cash Provided by (Used in) Investing Activities	<u>(3,254,788)</u>	<u>(14,585)</u>
Net Change in Cash and Cash Equivalents	4,364,569	792,761
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,934,188</u>	<u>2,141,427</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,298,757</u>	<u>\$ 2,934,188</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

STATEMENTS OF CASH FLOWS
December 31, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 2,583,419	\$ 2,209,590
Noncash items in operating income		
Depreciation	4,923,306	4,705,550
Changes in assets and liabilities		
Receivables from participants	725,087	(1,150,043)
Receivables from related parties	(1,948,075)	551,906
Regulatory asset	922,599	(383,541)
Inventory	9,330	15,371
Prepaid expenses	93,984	11,344
Deferred inflows	4,216,405	2,962,252
Accounts payable and accrued expenses	(494,511)	695,401
Payable to related parties	2,100,906	305,802
Accrued license fees	139,124	(638,594)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 13,271,574	\$ 9,285,038
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	\$ 7,298,757	\$ 2,934,188
Funds held by trustee	6,194,724	3,034,597
Total Cash Accounts	13,493,481	5,968,785
Less Non-cash equivalents	(6,194,724)	(3,034,597)
TOTAL CASH AND CASH EQUIVALENTS	\$ 7,298,757	\$ 2,934,188
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	\$ -	\$ (1,318)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 5 (“OMEGA JV5”) was organized by 42 subdivisions of the State of Ohio (the “Participants”) on April 20, 1993, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose was to undertake the Belleville Hydroelectric Project (the “Project”). The Participants are members of American Municipal Power, Inc. (“AMP”). OMEGA JV5 constructed and owns and operates the Project. The Project operations consist of:

- The Belleville hydroelectric generating plant and associated transmission facilities (“Belleville Hydroelectric Facilities”);
- Backup generation facilities, including contracts for the output thereof; and
- Power purchased on behalf of OMEGA JV5 participants.

The Belleville Hydroelectric Facilities consists of a run-of-the-river hydroelectric plant designed for a capacity of 42 megawatts and approximately 26.5 miles of 138-kilovolt transmission facilities. The plant is located in West Virginia, on the Ohio River, at the Belleville Locks and Dam.

The Project was constructed with proceeds from the issuance of beneficial interest certificates (the “Certificates”). The Certificates evidence the obligation of the Participants to pay for the cost of the Project from revenues of their electric systems. The Agreement continues until 60 days subsequent to the termination or disposition of the Project and thereafter until the date the principal of, premium, if any, and interest on all bonds have been paid or deemed paid in accordance with any applicable trust indenture; provided, however, that each Participant shall remain obligated to pay to OMEGA JV5 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 JV5.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

ASSETS, LIABILITIES, DEFERRED INFLOW/OUTFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

OMEGA JV5 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV5 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

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

Inventory

Inventory consists of fuel and is stated at the lower of first-in, first-out ("FIFO") cost or market.

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.

Prepaid Expenses

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

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

OMEGA JV5 Plant

OMEGA JV5 plant is recorded at cost and consists of the hydroelectric plant, equipment, transmission facilities, and backup generating units. Depreciation is provided on the straight-line method over the estimated useful life of the assets ranging from 3 to 40 years. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When OMEGA JV5 plant assets are retired, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

OMEGA JV5 plant assets are assessed for impairment whenever events or changes in circumstances indicate that the service 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 JV5 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 JV5 determined in 2016 that there is an asset retirement obligation associated with the back-up diesel units.

Regulatory Assets

OMEGA JV5 records regulatory assets (expenses to be recovered in rates in future periods).

Deferred Inflow of Resources

OMEGA JV5 records deferred inflows of resources (rates collected for expenses not yet incurred). In addition, consist of revenue related to amounts prepaid by the Participants for operation and maintenance expenses and are recorded as income when the related expenditure occurs.

Long-Term Obligations

Long-term debt and other obligations are reported as OMEGA JV5 liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Net Position

All property constituting OMEGA JV5 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:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Cuyahoga Falls	7,000	16.67%
Bowling Green	6,608	15.73
Niles	4,463	10.63
Napoleon	3,088	7.35
Jackson	3,000	7.14
Hudson	2,388	5.69
Wadsworth	2,360	5.62
Oberlin	1,270	3.02
New Bremen	1,000	2.38
Bryan	919	2.19
Hubbard	871	2.07
Montpelier	850	2.02
Minster	837	1.99
Columbiana	696	1.66
Wellington	679	1.62
Versailles	460	1.10
Monroeville	427	1.02
Oak Harbor	396	0.94
Lodi	395	0.94
Pemberville	386	0.92
Edgerton	385	0.92

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Net Position (cont.)

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Arcanum	352	0.84%
Seville	344	0.82
Brewster	333	0.79
Pioneer	321	0.76
Genoa	288	0.69
Jackson Center	281	0.67
Grafton	269	0.64
Elmore	244	0.58
Woodville	209	0.50
Milan	163	0.39
Bradner	145	0.35
Beach City	128	0.30
Prospect	115	0.27
Haskins	56	0.13
Lucas	54	0.13
Arcadia	46	0.11
South Vienna	45	0.11
Waynesfield	35	0.08
Eldorado	35	0.08
Republic	35	0.08
Custar	24	0.06
Totals	<u>42,000</u>	<u>100.00%</u>

REVENUE AND EXPENSES

OMEGA JV5 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the OMEGA JV5's principal ongoing operations. The principal operating revenues of OMEGA JV5 are charges to participants for sales of electric power. Operating expenses include the cost of generation and transmission, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues are recognized when earned as service is delivered. OMEGA JV5's rates for electric power are designed to cover annual operating costs except depreciation. Debt service is billed separately to the Participants. Rates are set annually by the Board of Participants. Periodically OMEGA JV5 will distribute earnings to its participants based on available operating and rate stabilization cash. These distributions are approved by the Board of Participants. No distributions were made in 2016 or 2015.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

	Carrying Value as of		Risks
	December 31,		
	2016	2015	
Checking/Money Market Funds	\$ 10,114,905	\$ 5,825,565	Custodial credit
Government Money Market Mutual Fund	3,378,576	143,220	Credit, interest rate
Total Cash, Cash Equivalents, and Investments	\$ 13,493,481	\$ 5,968,785	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for accounts as of December 31, 2016 and 2015.

Custodial Credit Risk

Deposits

Custodial risk is the risk that in the event of a bank failure, OMEGA JV5's deposits may not be returned to it. OMEGA JV5 has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. OMEGA JV5's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015, there were no deposits exposed to custodial credit risk.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, OMEGA JV5 will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. OMEGA JV5's investment policy does not address this risk. As of December 31, 2016 and 2015, there were no investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. OMEGA JV5 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV5 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 the time of purchase.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)

For years ended December 31, 2016 and 2015, OMEGA JV5's investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
Government Money Market Mutual Fund	AAAm	Aaa

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. OMEGA JV5's investment policy requires diversification of investments to limit losses from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security, except for US Treasury and fixed rate non-callable Federal Agency securities.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV5's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

OMEGA JV5 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date; Level 2 inputs are significant other observable inputs other than quoted prices in active markets included in Level 1; Level 3 inputs are the lowest priority unobservable inputs.

OMEGA JV5 has the following recurring fair value measurements for the years ended December 31:

		Investment	Maturity Date	Weighted Average Maturity (days)	Fair Value
2016	Level 1	Government Money Market Mutual Fund	n/a	n/a	\$ 3,378,579
2015	Level 1	Government Money Market Mutual Fund	n/a	n/a	\$ 143,220

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – RESTRICTED ASSETS

Restricted assets include those assets comprising the Debt Service Reserve, Certificate Payment Fund, and Reserve and Contingency Funds, which are established and maintained pursuant to the fund agreement for the Certificates. Substantially all assets in the Certificate Payment Fund are available only to meet principal and interest payments on the Certificates. As part of the refunding of the 1993 Certificates in February 2004, the Debt Service Reserve Fund was liquidated. Assets in the Reserve and Contingency Fund are to be used for the following purposes: (i) subject to certain conditions, to remedy deficiencies in bond debt service payments; (ii) to pay for operating expenses to the extent that other operating funds are not sufficient; (iii) to pay for major repairs and maintenance; and (iv) to provide for the decommissioning of the Project.

The Certificates' trust agreement limits permissible restricted investments to those authorized for municipalities by Chapter 135 of the Ohio Revised Code and also permits investments approved in writing by the AMBAC Assurance Corporation ("AMBAC") and MBIA Insurance Corporation ("MBIA"). The trust agreement does not restrict the duration of investments to the limitations imposed by Chapter 135. At December 31, 2016 and 2015, 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.

The following calculation supports the amount of restricted Net Position:

	2016	2015
Restricted Assets		
Certificate payment fund	\$ 3,094,909	\$ -
Reserve and contingency fund	3,099,815	3,034,597
Total restricted assets	\$ 6,194,724	\$ 3,034,597

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – UTILITY PLANT

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

	2016			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric Plant and Equipment	\$ 186,665,717	-	-	\$ 186,665,717
Land	431,881	-	-	431,881
Total Utility Plant in Service	187,097,598	-	-	187,097,598
Less: Accumulated depreciation	(78,010,889)	(4,923,306)	6,329	(82,927,866)
Utility Plant, Net	\$ 109,086,709	\$(4,923,306)	6,329	\$ 104,169,732
	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric Plant and Equipment	\$ 186,667,035	-	\$ (1,318)	\$ 186,665,717
Land	431,881	-	-	431,881
Total Utility Plant in Service	187,098,916	-	(1,318)	187,097,598
Less: Accumulated depreciation	(73,311,721)	(4,705,550)	6,382	(78,010,889)
Utility Plant, Net	\$ 113,787,195	\$(4,705,550)	\$ 5,064	\$ 109,086,709

NOTE 5 – PREPAID BOND INSURANCE

In connection with the issuance of the 2001 Certificates, OMEGA JV5 paid \$407,000 on behalf of the Participants for municipal bond insurance. In consideration for the payment of the premium and subject to the terms of the policy, the insurance company agrees to pay to the State Street Bank and Trust Company of New York, as trustee, or its successor, for benefit of the bondholders, that portion of the principal and interest on the 2001 Certificates that becomes due for payment but remains unpaid by reason of nonpayment by the Participants. This cost is being amortized over the maturities of the 2001 Certificates.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – ASSET RETIREMENT OBLIGATIONS

Under the terms of lease agreements, OMEGA JV5 has an obligation to remove electric generators from the leased sites on which the units are located and to perform certain restoration of the sites.

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

	2016			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 313,314	\$ 6,329	\$ (1,970)	\$ 317,673
	2015			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 314,632	\$ 7,188	\$ (8,506)	\$ 313,314

Asset retirement obligations are determined based on detailed cost estimates, adjusted for factors that an outside third party would consider (i.e., inflation, overhead and profit), escalated using an inflation factor to the estimated removal dates, and then discounted using a credit adjusted risk-free interest rate. The removal date for each unit was determined based on the estimated life of the unit. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful life of each unit. OMEGA JV5 developed its estimate of its asset retirement obligation based on a legal and technical study performed during 2016.

NOTE 7 – BENEFICIAL INTEREST CERTIFICATES AND NOTE PAYABLE

2016 Beneficial Interest Certificates

On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

Principal and interest on the 2016 Certificates are payable in monthly installments payable on the first business day of the month thereafter until the final maturity date of February 1, 2024. The 2016 Certificates bear interest at a variable rate, which is 70% of LIBOR plus a 59 basis point spread, and resets on a monthly basis.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – BENEFICIAL INTEREST CERTIFICATES AND NOTE PAYABLE (cont.)

Annual debt service requirements for the next five years and cumulative requirements thereafter for the 2016 Certificates at December 31, 2016 are as follows:

<u>Maturity date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2017	\$ 5,960,000	
2018	\$ 6,050,000	
2019	\$ 6,150,000	
2020	\$ 6,235,000	Variable
2021	\$ 6,450,000	
2022-2024	<u>\$ 14,015,000</u>	
	<u>\$ 44,860,000</u>	

On March 18, 2016, OMEGA JV5 entered into a five year interest rate swap agreement effective April 1, 2016 (the “Swap”) between U.S. Bank National Association, the counterparty to the Swap (the “Swap Provider”), related to the 2016 Certificates. Under this agreement, OMEGA JV5 will make payments based upon the fixed rate of 0.8585% per annum and in exchange the Swap Provider will make payments based upon a floating rate equal to 70% of the USD-LIBOR-BBA Index with a designated maturity of 30 days through the termination date of the Swap, which is February 15, 2021. The notional amount of the Swap is based on a schedule that amortizes to an amount approximately half of the balance outstanding on the 2016 Certificates.

The OMEGA JV5 Swap has the following fair value measurement as of December 31, 2016:

	<u>Investment</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Level 3	Interest rate swap contracts	February 15, 2021	<u>\$ 158,266</u>

2001 Beneficial Interest Certificates

The interest component of the 2001 Certificates will accrete from the date of issuance, compounded semiannually on February 15 and August 15 of each year, commencing February 2002, with the original discount amount of \$42,225,017, and will be payable at maturity as a component of the maturity. The 2001 Certificates are not subject to redemption prior to maturity.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – BENEFICIAL INTEREST CERTIFICATES AND NOTE PAYABLE (cont.)

The 2001 Beneficial Interest Certificates (the “2001 Certificates”) outstanding at December 31, 2016 are as follows:

<u>Maturity Date</u>	<u>Maturity Amount</u>	<u>Yield to Maturity</u>
2025	\$ 10,915,000	5.51%
2026	10,915,000	5.52
2027	10,915,000	5.53
2028	10,915,000	5.54
2029	10,465,000	5.55
2030	<u>2,000,000</u>	5.56
Sub-Total	56,125,000	
Less: Unamortized discount	<u>(23,875,768)</u>	
Total	<u>\$ 32,249,232</u>	

Except for the limited step-up provisions in the event of default by a Participant as described in Section 18 of the Joint Venture Agreement, the 2004 Certificates and the 2001 Certificates are payable solely from bond debt service payments to be made by the OMEGA JV5 Participants pursuant to an agreement dated as of January 1, 1993. The bond debt service payments are obligations of the OMEGA JV5 Participants, payable from the revenues of their municipal electric systems, subject only to the prior payment of the operation and maintenance expenses thereof. For accounting purposes, the obligation for repayment of the Certificates is reflected in the financial statements of OMEGA JV5.

The terms of the trust agreement related to the Certificates contain various covenants, the most restrictive of which require the timely payment of debt service and for the Participants of OMEGA JV5 to comply with the provisions of the Joint Venture Agreement.

Under the Joint Venture Agreement, the Participants must manage electric system revenues and expenditures so that, in each year, those revenues received in that year cover the greater of (i) operating and maintenance (“O&M”) expenses plus 110% of its OMEGA JV5 bond debt service payments and any other senior electric revenue debt, or (ii) O&M expenses plus 100% of its OMEGA JV5 bond debt service payments and all other electric system debt whether revenue or general obligation (“debt service coverage ratio”).

Based upon unaudited financial information for the years ended December 31, 2016 and 2015, there were no participants in 2016 and one participant in 2015 unable to certify compliance with the debt service coverage ratio requirement of the Joint Venture Agreement.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – BENEFICIAL INTEREST CERTIFICATES AND NOTE PAYABLE (cont.)

The fair value of the 2001 Certificates was estimated by using quoted market prices and is as follows:

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current maturities: 2001 Certificates	\$ 32,249,232	\$ 40,698,290	\$ 30,537,188	\$ 39,330,469

Long-term liability activity for the years ended December 31 is as follows:

	2016			
	Beginning Balance	Additions	Reductions	Ending Balance
2016 certificates	\$ -	\$ 49,745,000	\$ (4,885,000)	\$ 44,860,000
2001 certificates	56,125,000	-	-	56,125,000
Less: Unamortized discount	(25,587,812)	-	1,712,044	(23,875,768)
	<u>30,537,188</u>	<u>49,745,000</u>	<u>(3,172,956)</u>	<u>77,109,232</u>
Note payable	49,803,187	-	(49,803,187)	-
Less: Current maturities	(49,803,187)	-	49,803,187	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Asset retirement obligation	313,314	-	4,359	317,673
Accrued license fees	101,572	-	139,124	240,796
	<u>30,952,174</u>	<u>49,745,000</u>	<u>(3,029,473)</u>	<u>77,667,701</u>
Totals	<u>\$ 30,952,174</u>	<u>\$ 49,745,000</u>	<u>\$ (3,029,473)</u>	<u>\$ 77,667,701</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – BENEFICIAL INTEREST CERTIFICATES AND NOTE PAYABLE (cont.)

	2015			Ending Balance
	Beginning Balance	Additions	Reductions	
2001 certificates	\$ 56,125,000	\$ -	\$ -	\$ 56,125,000
Less: Unamortized discount	(27,208,944)	-	1,621,132	(25,587,812)
	<u>28,916,056</u>	<u>-</u>	<u>1,621,132</u>	<u>30,537,188</u>
Note payable	57,679,473	-	(7,876,286)	49,803,187
Less: Current maturities	(7,758,583)	(42,044,604)	-	(49,803,187)
	<u>49,920,890</u>	<u>(42,044,604)</u>	<u>(7,876,286)</u>	<u>-</u>
Asset retirement obligation	314,632	-	(1,318)	313,314
Accrued license fees	740,266	-	(638,594)	101,572
	<u>314,632</u>	<u>-</u>	<u>(638,594)</u>	<u>313,314</u>
	<u>740,266</u>	<u>-</u>	<u>(638,594)</u>	<u>101,572</u>
Totals	<u>\$ 79,891,844</u>	<u>\$(42,044,604)</u>	<u>\$ (6,895,066)</u>	<u>\$ 30,952,174</u>

Deferred inflow of resources at December 31 is as follows:

	2016	2015
Debt service billed to Participants for Certificates in excess of related expenses	\$ 32,275,861	\$ 31,807,600
Debt service billed to Participants for funding the Reserve and Contingency Fund and accumulated interest	6,617,120	2,790,481
Fair Value of Interest Rate Swap	158,266	-
Inventories billed to Participants	<u>130,245</u>	<u>367,006</u>
Total Deferred Inflow of Resources	<u>\$ 39,181,492</u>	<u>\$ 34,965,087</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 – NET POSITION

GASB No. 63 requires the classification of net position into three components –net position invested in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

Restricted - This component of net position consists of constraints placed on net 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 - The component consists of the portion of net position that does not meet the definition of "restricted" or "net investment in capital assets." When both restricted and unrestricted resources are available for use, it is OMEGA JV5's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

	2016	2015
Plant assets	\$ 186,665,717	\$ 186,667,717
Land	431,881	431,881
Accumulated depreciation	(82,927,866)	(78,010,889)
Sub-Totals	104,169,732	109,086,709
 Related debt:		
2016 beneficial interest certificates	44,860,000	-
2001 beneficial interest certificates	56,125,000	56,125,000
Unamortized discount – 2001 Beneficial interest certificates	(23,875,768)	(25,587,812)
Note payable	-	49,803,187
Sub-Totals	77,109,232	80,340,375
Total Net Investment In Capital Assets	\$ 27,060,500	\$ 28,746,334

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 9 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

OMEGA JV5 is subject to regulation by federal, state and local authorities related to Environmental and other matters. Changes in regulations could adversely affect operations and operating costs of OMEGA JV5.

On February 17, 2010, the US EPA promulgated the RICE NESHAP Rule establishing emission limits and work practice standards for compression ignited diesel engines at area sources. The OMEGA JV5 engines are affected by this rule and were in compliance by May 2013.

Many metropolitan and industrialized counties in Ohio have become non-attainment areas under the new ozone and fine particulate matter ambient air quality standards. This may require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide, and particulate matter. In addition to emissions reductions required to achieve compliance in down-wind, neighboring states. Medina (Wadsworth) County is a non-attainment area for fine particulate matter; therefore, the Ohio Environmental Protection Agency may restrict the hours of operations or require additional pollution control equipment for the OMEGA JV5 backup generation facilities in this area.

OTHER COMMITMENTS

OMEGA JV5 has agreed to make certain payments in lieu of taxes to Wood County, West Virginia. The payments in lieu of taxes will be approximately \$840,000 annually until the later of September 1, 2028 or until such time as the Project ceases commercial operations.

NOTE 10 – RISK MANAGEMENT

OMEGA JV5 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. There were no significant reductions in coverage in 2016.

NOTE 11 – RELATED PARTY TRANSACTIONS

OMEGA JV5 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services. The cost of these services for the years ended December 31, 2016 and 2015 was \$167,274 and \$158,800, respectively. OMEGA JV5's payables to AMP as of December 31, 2016 and 2015 were \$763,074 and \$53,725, respectively.
- As OMEGA JV5's agent, AMP purchases power and fuel on behalf of OMEGA JV5. Power and fuel purchases for the years ended December 31, 2016 and 2015 amounted to \$2,119,609 and \$3,036,450, respectively. OMEGA JV5's receivable from AMP as of December 31, 2016 was \$1,973,487 and \$25,412 receivable at December 31, 2015.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 5

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 11 – RELATED PARTY TRANSACTIONS

- As OMEGA JV5's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expense related to these services was \$2,190,546 and \$2,031,158 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV5 had payables to MESA of \$1,773,337 and \$115,611 at December 31, 2016 and 2015, respectively.
- During the year, Ohio Municipal Electric Association ("OMEA") provided certain legislative services for OMEGA JV5. OMEA is the legislative liaison for AMP and 80 Ohio community-owned-and-operated municipal electric systems. The expense related to these services was \$8,938 and \$0 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV5 had payables to OMEA \$8,855 and \$0 as of December 31, 2016 and 2015, respectively.
- During the year, Ohio Municipal Electric Generation Agency Joint Venture 4 ("OMEGA JV4"), a related joint venture, provided certain services for OMEGA JV5. OMEGA JV5 had payables to OMEGA JV4 of \$0 and \$275,023 as of December 31, 2016 and 2015, respectively.
- OMEGA JV5 sold capacity from back-up generating units to AMP's Northwest Area Service Group, Northeast Area Service Group and Jackson, Ohio. This revenue was approximately \$70,200 for each of the years ended December 31, 2016 and 2015.
- Participants with backup generating units sited in their communities provide utilities to the Units. OMEGA JV5 incurred expenses of \$193,022 and \$195,180 for these services for the years ended December 31, 2016 and 2015, respectively.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 5:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 ("OMEGA JV5"), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OMEGA JV5's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV5's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV5's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OMEGA JV5's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017



OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 6

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 6:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 6 ("OMEGA JV6"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 6 as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of OMEGA JV6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OMEGA JV6's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015, 2014
(Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 6 ("OMEGA JV6") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV6 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 JV6's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets, liabilities and deferred inflow of resources of OMEGA JV6 as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

The following table summarizes the financial position of OMEGA JV6 as of December 31:

Condensed Statement of Net Position

Assets	2016	2015	2014
Electric plant, net of accumulated depreciation	\$ 5,428,183	\$ 5,713,378	\$ 5,980,658
Regulatory assets	589,527	522,401	475,051
Restricted assets - funds held by trustee	-	-	89,826
Current assets and Board designated funds	<u>1,698,672</u>	<u>2,768,438</u>	<u>2,528,550</u>
Total Assets	<u>\$ 7,716,382</u>	<u>\$ 9,004,217</u>	<u>\$ 9,074,085</u>
 Net Position, Liabilities and Deferred Inflow of Resources			
Net position - net investment in capital assets	\$ 5,428,183	\$ 5,713,378	\$ 5,980,658
Net position - restricted	-	-	89,826
Net position - unrestricted	29,863	44,378	1,878,367
Current liabilities	34,065	1,873,302	35,631
Assets retirement obligation	797,951	716,489	636,710
Deferred inflow of resources	<u>1,426,320</u>	<u>656,670</u>	<u>452,893</u>
Total Net Position, Liabilities and Deferred Inflow of Resources	<u>\$ 7,716,382</u>	<u>\$ 9,004,217</u>	<u>\$ 9,074,085</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015, 2014
(Unaudited)

2016 vs. 2015

Total assets were \$7,716,382 and \$9,004,217 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,287,835. This decrease is due to decreases in cash and temporary investments of \$867,009 for distributions to participants declared in 2015 but primarily paid in 2016 as well as \$309,690 from yearly depreciation and a decrease in board designated funds of \$184,412. These decreases were offset by an increase in regulatory assets of \$67,126.

Current assets and Board designated funds were \$1,698,672 and \$2,768,438 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,069,766. This decrease was due to a decrease in cash of \$867,009 for remaining distributions to participants, a decrease in board designated funds of \$184,412, a decrease of receivables of \$15,897 and a decrease in prepaid expenses of \$2,448.

Non-current assets excluding board designated funds were \$6,017,710 and \$6,235,779 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$218,069. This decrease was due to a decrease in the value of electric plant, net of depreciation of \$285,195, from yearly depreciation along with an increase in regulatory assets of \$67,126. Regulatory assets consist of future recoverable costs related to the accumulated depreciation expense on asset retirement obligations and accretion expense.

Total net position, liabilities, and deferred inflow of resources were \$7,716,382 and \$9,004,217 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,287,835.

Total net position was \$5,548,046 and \$5,757,756 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$299,710. Net investment in capital assets was \$5,428,183 and \$5,713,378 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$285,195. This decrease resulted from an increase in accumulated depreciation of \$309,690 offset by a change in asset retirement obligation of \$24,495. Unrestricted net position was \$29,863 and \$44,378 at December 31, 2016 and December 31, 2015, respectively.

Current liabilities were \$34,065 and \$1,873,302 at December 31, 2016 and December 31, 2015, respectively, a decrease of \$1,839,237. This resulted from the decreases in amounts due to participants of \$1,786,160 and in accounts payable and accrued expenses of \$53,077.

Non-current liabilities were \$797,951 and \$716,489 as of December 31, 2016 and December 31, 2015 respectively, an increase of \$81,462. This increase was due to an increase in the net present value of estimated ARO obligations for the project, based on the analysis of independent engineering consultants.

Deferred inflow of resources increased to \$1,426,320 at December 31, 2016 from \$656,670 at December 31, 2015, respectively, an increase of \$769,650. This is a result

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015, 2014
(Unaudited)

of revenue collected during the year in excess of expenses incurred, intended to recover future expenses.

2015 vs. 2014

Total assets were \$9,004,217 and \$9,074,085 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$69,868. This decrease is due to an increase in accumulated depreciation of \$261,093 from yearly depreciation, as well as a decrease in board designated funds of \$239,883 and offset by increase in operating cash of \$363,070 as well as increases in receivables.

Current assets and Board designated funds were \$2,768,438 and \$2,528,550 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$239,888. This increase was primarily due to an increase in cash of \$363,070 from member collections, an increase of receivables of \$112,476 and an increase in prepaid expenses of \$4,225, offset by a decrease in cash reserved for maintenance and repair of \$239,883.

Non-current assets excluding board designated funds were \$6,235,779 and \$6,545,535 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$309,756. This decrease was due to a decrease in the value of electric plant, net of depreciation of \$267,280, from yearly depreciation along with a decrease in restricted assets of \$89,826, offset by an increase in regulatory assets of \$47,350. Regulatory assets consist of future recoverable costs related to the accumulated depreciation expense on asset retirement obligations and accretion expense. Restricted assets consist of marketable securities held in trust as part of a bond requirement for the financing members of OMEGA JV6. Restricted assets at December 31, 2015 were \$0 as compared to \$89,826 at December 31, 2014.

Total net position, liabilities, and deferred inflow of resources were \$9,004,217 and \$9,074,085 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$69,868.

Total net position was \$5,757,756 and \$7,948,851 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$2,191,095. Net investment in capital assets was \$5,713,378 and \$5,980,658 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$267,280. This decrease resulted from the increase in accumulated depreciation. Restricted net position was \$0 and \$89,826 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$89,826 which reflects completion of the debt service payments. Unrestricted net position was \$44,378 and \$1,878,367 at December 31, 2015 and December 31, 2014, respectively, a decrease of \$1,833,989 due mainly to declaring distributions to participants.

Current liabilities were \$1,873,302 and \$35,631 at December 31, 2015 and December 31, 2014, respectively, an increase of \$1,837,671. This resulted from the increases in

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015, 2014
(Unaudited)

amounts due to participants of \$1,786,160 and in accounts payable and accrued expenses of \$51,511.

Non-current liabilities were \$716,489 and \$636,710 as of December 31, 2015 and December 31, 2014 respectively, an increase of \$79,779. This increase was due to an increase in the net present value of estimated ARO obligations for the project, based on the analysis of independent engineering consultants.

Deferred inflow of resources increased to \$656,670 at December 31, 2015 from \$452,893 at December 31, 2014, respectively, an increase of \$203,777. This was a result of rates and renewable energy credits ("REC") revenue received in excess of expenses incurred, intended to recover future expenses.

The following table summarizes the changes in revenues, expenses and net position of OMEGA JV6 for the year ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	\$ 457,030	\$ 494,853	\$ 325,856
Operating expenses	802,921	848,311	679,936
Operating Loss	(345,891)	(353,458)	(354,080)
Nonoperating revenue			
Investment income	138	1,370	1,340
Future recoverable costs	46,043	52,381	53,033
Nonoperating Revenue	46,181	53,751	54,373
Loss before Contributions	(299,710)	(299,707)	(299,707)
Contributions from participants	-	-	2,460
Distribution to participants	-	(1,891,388)	-
Change in Net Position	\$ (299,710)	\$ (2,191,095)	\$ (297,247)

Operating results

Rates for electric power are set by OMEGA JV6's Board of Participants and are intended to cover budgeted operating expense (excluding depreciation). OMEGA JV6 does not include any bond payments by OMEGA JV6's financing members in their rates, as these debt service payments are made directly to AMP. In 2007, OMEGA JV6 was authorized by the Internal Revenue Service to issue \$3.5 million in Clean Renewable Energy Bonds that could be used to expand the output of the existing wind farm by installing one additional wind turbine. Although the original authorization was to expire December 31, 2009, this authorization was extended until December 31, 2010. RECs were sold in 2016 and 2015, through the efforts of MESA personnel.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016, 2015, 2014
(Unaudited)

Electric revenue in 2016 was \$457,030 versus \$494,853 in 2015 which is a decrease of \$37,823. The decrease in electric revenue is mainly due to a decrease in capacity sales of \$84,524 offset by lower renewable energy credits of \$132,707. Electric revenue in 2015 was \$494,853 versus \$325,856 in 2014 which is an increase of \$168,997, also mainly due to increased capacity. Capacity revenue is earned and received from the regional transmission organization and passed back to members through credits on their bill with an equal expense.

Operating expenses in 2016 were \$802,921 versus \$848,311 in 2015 which is a decrease of \$45,390. The decrease in operating expenses in 2016 is due mainly to decreases in capacity expense of \$84,524 and related party services of \$5,264 offset by increases in maintenance expense of \$47,434 and other operating expenses of \$3,911.

Operating expenses in 2015 were \$848,311 versus \$679,936 in 2014 which is an increase of \$168,375. The increase in operating expenses in 2015 is due mainly to increases in capacity expense of \$206,790 offset by decreases in maintenance expense of \$18,791, related party services of \$9,705 and other operating expenses of \$9,919.

Investment income in 2016 was \$138 versus \$1,370 in 2015, a decrease of \$1,232. Investment income in 2015 was \$1,370 versus \$1,340 in 2014 which is an increase of \$30. Investment income for OMEGA JV6 is interest earned on checking account balances and short term investments.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 829,814	\$ 1,696,823
Receivables from participants	40,397	54,294
Receivables from related parties	61,000	63,000
Prepaid expenses	14,910	17,358
Total Current Assets	946,121	1,831,475
NON-CURRENT ASSETS		
Regulatory assets	589,527	522,401
Board designated funds	752,551	936,963
Electric Plant		
Electric plant	9,396,566	9,372,071
Accumulated depreciation	(3,968,383)	(3,658,693)
Net Electric Plant	5,428,183	5,713,378
Total Non-Current Assets	6,770,261	7,172,742
TOTAL ASSETS	\$ 7,716,382	\$ 9,004,217
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 13,624	\$ 65,299
Payable to related parties	20,441	21,843
Amount due to participants	-	1,786,160
Total Current Liabilities	34,065	1,873,302
NON-CURRENT LIABILITIES		
Asset retirement obligation	797,951	716,489
Total Non-Current Liabilities	797,951	716,489
Total Liabilities	832,016	2,589,791
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	1,426,320	656,670
NET POSITION		
Net investment in capital assets	5,428,183	5,713,378
Unrestricted	29,863	44,378
Total Net Position	5,458,046	5,757,756
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 7,716,382	\$ 9,004,217

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Electric revenue	\$ 457,030	\$ 494,853
OPERATING EXPENSES		
Related party services	72,101	77,365
Capacity	153,662	238,186
Depreciation	309,690	311,059
Accretion of asset retirement obligation	36,062	41,030
Maintenance	163,409	115,975
Insurance	36,964	33,492
Professional services	10,589	14,671
Other operating expenses	20,444	16,533
Total Operating Expenses	802,921	848,311
Operating Loss	(345,891)	(353,458)
NON-OPERATING REVENUES		
Investment income	138	1,370
Future recoverable costs	46,043	52,381
Total Non-Operating Revenues	46,181	53,751
Loss before Distributions	(299,710)	(299,707)
DISTRIBUTION TO PARTICIPANTS		
City of Bowling Green	-	(1,078,575)
City of Cuyahoga Falls	-	(473,521)
City of Napoleon	-	(78,920)
City of Wadsworth	-	(65,767)
City of Oberlin	-	(65,767)
Village of Montpelier	-	(26,307)
Village of Elmore	-	(26,307)
Village of Edgerton	-	(26,307)
Village of Pioneer	-	(26,307)
Village of Monroeville	-	(23,610)
	-	(1,891,388)
Change in net position	(299,710)	(2,191,095)
NET POSITION, Beginning of Year	5,757,756	7,948,851
NET POSITION, END OF YEAR	\$ 5,458,046	\$ 5,757,756

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants and customers	\$ 1,228,063	\$ 553,725
Cash paid to related parties for personnel services	(73,503)	(68,677)
Cash payments to suppliers and related parties for goods and services	<u>(419,959)</u>	<u>(347,830)</u>
Net Cash Provided by Operating Activities	<u>734,601</u>	<u>137,218</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distributions to participants	<u>(1,786,160)</u>	<u>(105,227)</u>
Net Cash Used in Noncapital Financing Activities	<u>(1,786,160)</u>	<u>(105,227)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	-	89,826
Investment income received	<u>138</u>	<u>1,370</u>
Net Cash Provided by (Used in) Investing Activities	<u>138</u>	<u>91,196</u>
Net Change in Cash and Cash Equivalents	(1,051,421)	123,187
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,633,786</u>	<u>2,510,599</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,582,365</u>	<u>\$ 2,633,786</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (345,891)	\$ (353,458)
Depreciation	309,690	311,059
Accretion of asset retirement obligation	36,062	41,030
Changes in assets, liabilities and deferred inflow of resources		
Receivables	13,897	(50,092)
Receivable from related parties	2,000	(62,384)
Prepaid expenses	2,448	(4,225)
Accounts payable and accrued expenses	(51,853)	42,823
Payable to related parties	(1,402)	8,688
Deferred inflow of resources	<u>769,650</u>	<u>203,777</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 734,601</u>	<u>\$ 137,218</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	\$ 829,814	\$ 1,696,823
Board designated funds	<u>752,551</u>	<u>936,963</u>
Total cash accounts	1,582,365	2,633,786
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,582,365</u>	<u>\$ 2,633,786</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	<u>\$ 24,495</u>	<u>\$ (6,187)</u>

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 6

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 6 (“OMEGA JV6”) was organized by ten subdivisions of the State of Ohio (the “Participants”) and commenced operations on December 15, 2003 (“Inception”), pursuant to a joint venture agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code (ORC). Its purpose is to provide low-polluting capacity to the Participants. The Participants are members of American Municipal Power, Inc. (“AMP”). In December 2003 and December 2004, OMEGA JV6 purchased 3.6 MW of electric plant generating units (the “Project”) from AMP for a total capacity of 7.2 MW. 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 JV6 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 JV6.

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 assets used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place or deferred until a future period in which they will be recovered through rates.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Deposits and Investments (cont.)

OMEGA JV6 has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government or its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

OMEGA JV6 has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Board Designated Funds

OMEGA JV6's Board of Participants designated funds from existing operating cash for the maintenance and repairs to the generating units.

Receivables/Payables

Accounts receivable are amounts due from related parties, as such, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

Prepaid Expenses

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

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Electric Plant

Electric plant is recorded at cost. Depreciation is provided on the straight-line method over 30 years, 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 JV6 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 required to settle the liability is recorded as a settlement gain or loss.

Regulatory Assets

OMEGA JV6 records regulatory assets (expenses to be recovered in rates in future periods). Regulatory assets include O&M expenses not yet recovered through billings to Participants.

Regulatory assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Future expenses related to asset retirement obligations	<u>\$ 589,527</u>	<u>\$ 522,401</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Deferred Inflow of Resources

OMEGA JV6 records deferred inflows of resources (rates collected for expenses not yet incurred). Pursuant to the Agreement, Participants are required to pay all costs related to operations, maintenance and retirement of the jointly owned electric plant.

Deferred inflow of resources consisted of the following at December 31:

	2016	2015
Future expenses related to Fixed O&M	<u>\$ 1,426,320</u>	<u>\$ 656,670</u>

Net Position

All property constituting OMEGA JV6 is owned by the Participants as tenants in common in undivided shares, each being equal to that Participants' percentage ownership interest as follows:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Bowling Green	4,100	56.94%
Cuyahoga Falls	1,800	25.00
Napoleon	300	4.17
Wadsworth	250	3.47
Oberlin	250	3.47
Montpelier	100	1.39
Edgerton	100	1.39
Pioneer	100	1.39
Monroeville	100	1.39
Elmore	100	1.39
Totals	7,200	100.00%

REVENUE AND EXPENSES

OMEGA JV6 distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the OMEGA JV6's principal ongoing operations. The principal operating revenues of OMEGA JV6 are charges to participants for energy and capacity. Operating expenses include the cost of generation, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

REVENUE AND EXPENSES (cont.)

Electric revenue is recognized when earned as service is delivered. OMEGA JV6's rates for electric power are designed to cover annual operating costs, except depreciation. Rates are set annually by the Board of Participants. Accordingly, OMEGA JV6 will generate negative operating margins during the operating life of the electric plant.

Beginning January 1, 2009, renewable energy attributes from OMEGA JV6 were sold by AMP on behalf of the participants. These revenues will be realized upon delivery of the attributes.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31,		Risks
	<u>2016</u>	<u>2015</u>	
Checking	\$ 1,582,365	\$ 2,633,786	Custodial credit
Totals	<u>\$ 1,582,365</u>	<u>\$ 2,633,786</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for accounts as of December 31, 2016 and 2015.

Custodial Credit Risk

Deposits

Custodial risk is the risk that in the event of a bank failure, OMEGA JV6's deposits may not be returned to it. OMEGA JV6 had custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. OMEGA JV6's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015, there were no deposits exposed to custodial credit risk.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – ELECTRIC PLANT AND EQUIPMENT

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

	2016			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric plant	\$ 9,372,071	\$ -	\$ 24,495	\$ 9,396,566
Less: Accumulated depreciation	(3,658,693)	(309,690)	-	(3,968,383)
Electric Plant, Net	<u>\$ 5,713,378</u>	<u>\$ (309,690)</u>	<u>\$ 24,495</u>	<u>\$ 5,428,183</u>
	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric plant	\$ 9,378,258	\$ -	\$ (6,187)	\$ 9,372,071
Less: Accumulated depreciation	(3,397,600)	(311,059)	49,966	(3,658,693)
Electric Plant, Net	<u>\$ 5,980,658</u>	<u>\$ (311,059)</u>	<u>\$ 43,779</u>	<u>\$ 5,713,378</u>

NOTE 4 – ASSET RETIREMENT OBLIGATIONS

Under the terms of lease agreements, OMEGA JV6 has an obligation to remove electric plant from the leased sites where the units are located and to perform certain restoration activities at the sites.

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

	2016			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 716,489	\$ 36,062	\$ 45,400	\$ 797,951
	2015			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 636,710	\$ 41,030	\$ 38,749	\$ 716,489

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 life of each unit. OMEGA JV6 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2016 and 2015.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – NET POSITION

GASB No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

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

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The following calculation supports the net investment in capital assets:

	2016	2015
Electric plant	\$ 9,396,566	\$ 9,372,071
Less: Accumulated depreciation	(3,968,383)	(3,658,693)
Total Net Investment in Capital Assets	\$ 5,428,183	\$ 5,713,378

NOTE 6 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

The Project is subject to regulations 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 JV6.

Bird and bat collisions with the turning blades of wind turbines have resulted in wildlife losses in some wind turbine locations. There have reportedly been some dead bats observed near the project by an outside college study group. If it is concluded that there is a bird or bat collision problem, fines may be assessed or operational restrictions imposed against OMEGA JV6.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 6**

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – RISK MANAGEMENT

OMEGA JV6 is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, and general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. There have been no claims in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 – SIGNIFICANT CUSTOMERS

OMEGA JV6 has two participants that comprised 33% and 33% of electric service revenue in 2016 and 2015, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

OMEGA JV6 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services. OMEGA JV6 incurred expenses related to these services in the amount of \$2,937 and of \$2,123 for the years ended December 31, 2016 and 2015, respectively, and had a payable of \$19,286 and \$16,182 to AMP at December 31, 2016 and 2015, respectively.
 - As OMEGA JV6's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were \$69,164 and \$75,241 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV6 had a payable to MESA for \$1,156 and \$5,661 at December 31, 2016 and 2015, respectively.
 - During 2016 and 2015, AMP sold green tags on behalf of OMEGA JV6. OMEGA JV6 had a receivable from AMP of \$61,000 and \$63,000 as of December 31, 2016 and 2015, respectively.
-

NOTE 10 – FUTURE LEASE COMMITMENT

On November 14, 2002, AMP entered into a 20 year lease for the land where the Project is located. The term of the lease allows for annual renewals if the Project is commercially operable. The lease requires annual payments of \$1,000 per wind turbine unit. AMP has assigned this lease to OMEGA JV6. Rent expense from this lease totaled \$4,000 during each of the years ended December 31, 2016 and 2015.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 6:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 6 ("OMEGA JV6"), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OMEGA JV6's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV6's internal control. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV6's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OMEGA JV6's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017



MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Services Agency as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of proportionate share of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of MESA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MESA's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Municipal Energy Services Agency ("MESA") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

MESA prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. MESA's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets and liabilities of MESA as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

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

Condensed Statement of Net Position

	2016	2015	2014
Assets			
Cash and short term investments	\$ 3,713,237	\$ 1,282,315	\$ 1,736,522
Receivables from AMP members	458,230	374,778	429,540
Receivables from related parties	2,311,696	5,395,334	2,171,947
Costs/recoveries in excess of member project billings	289,947	243,048	311,105
Prepaid expenses	2,083	2,125	2,125
Total Current Assets	\$ 6,775,193	\$ 7,297,600	\$ 4,651,239
Deferred Outflows of Resources			
Pension	\$ 5,022,656	\$ 1,496,200	\$ 1,263,530
Total assets and deferred outflows	\$ 11,797,849	\$ 8,793,800	\$ 5,914,769
Liabilities			
Current liabilities	\$ 5,251,901	\$ 5,651,270	\$ 2,791,733
Noncurrent liabilities			
Net pension liability	12,969,890	9,925,281	9,730,641
Other long-term amounts	1,523,292	1,646,330	1,859,506
Total liabilities	\$ 19,745,083	\$ 17,222,881	\$ 14,381,880
Deferred Inflows of Resources			
Pension	912,452	187,890	-
Net Position:			
Unrestricted	\$ (8,859,686)	\$ (8,616,971)	\$ (8,467,111)
Total net position, liabilities and deferred inflows	\$ 11,797,849	\$ 8,793,800	\$ 5,914,769

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

During 2015, MESA adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of MESA's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals MESA's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, MESA is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, MESA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, MESA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

2016 vs. 2015

Total assets were \$6,775,193 and \$7,297,600 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$522,407. This was due to an increase in cash of \$2,430,922 offset by a decrease in net receivables of \$3,000,186.

Deferred outflows of resources were \$5,022,656 in 2016 as compared to \$1,496,200 in 2015, an increase of \$3,526,456. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2016 to 2015 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were \$19,745,083 and \$17,222,881 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$2,522,202. This increase was due mainly to an increase in the change in net pension liability.

Current liabilities were \$5,251,901 and \$5,651,270 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$399,369. This was due to an increase in payables to related parties of \$740,320 offset by decreases in accounts payable and accrued employee related expenses.

Other long-term liabilities were \$1,523,292 and \$1,646,330 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$123,038. Non-current liabilities are comprised of accrued sick leave. The decrease is due to change in employee headcount and benefits paid, offset by benefits earned.

Net pension liability was \$12,969,890 as compared to \$9,925,281, as of December 31, 2016 and December 31, 2015, respectively. This change represents an increase of \$3,044,609 due to changes in net pension liability at the plan level.

Deferred inflows of resources were \$912,452 and \$187,890 as of December 31, 2016 and December 31, 2015, respectively. The change in 2016 to 2015 balance represents the change between expected and actual experience for the pension plan.

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

2015 vs. 2014

Total assets were \$7,297,600 and \$4,651,239 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,646,361. This was due to increase in receivables from related parties offset by decreases in operating cash.

Deferred outflows of resources were \$1,496,200 in 2015 as compared to \$1,263,530 in 2014, an increase of \$232,670. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2015 to 2014 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were \$17,222,881 and \$14,381,880 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,841,001. This increase was due mainly to an increase in accounts payable and accruals due to the timing of expenses paid and change in net pension liability.

Current liabilities were \$5,651,270 and \$2,791,733 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,859,537. This was due mainly to increases in accounts payable of \$2,334,662.

Other long-term liabilities were \$1,646,330 and \$1,859,506 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$213,176. Non-current liabilities are comprised of accrued sick leave. The decrease is due to change in employee headcount and benefits paid out, offset by benefits earned.

Net pension liability was \$9,925,281 as compared to \$9,730,641, as of December 31, 2015 and December 31, 2014, respectively. This change represents an increase of \$194,640 due to changes in net pension liability at the plan level.

Deferred inflows of resources were \$187,890 and \$0 as of December 31, 2015 and December 31, 2014, respectively. The change in 2015 to 2014 balance represents the change between expected and actual experience for the pension plan.

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

The following table summarizes the changes in revenues, expenses and changes in net position of MESA for the years ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 16,680,756	\$ 17,123,891	\$ 18,779,896
Operating expenses	<u>16,923,471</u>	<u>17,274,003</u>	<u>18,780,620</u>
Operating Loss	<u>(242,715)</u>	<u>(150,112)</u>	<u>(724)</u>
Nonoperating revenue			
Investment income	<u>-</u>	<u>252</u>	<u>724</u>
Change in Net Position	<u>\$ (242,715)</u>	<u>\$ (149,860)</u>	<u>\$ -</u>

Operating revenues in 2016 were \$16,680,756 versus \$17,123,891 in 2015 which was a decrease of \$443,135. MESA has primarily two sources of revenues; projects for members and providing personnel services to related parties. Revenue from projects on behalf of members increased by \$244,304 due to increased activity experienced during the year. Revenue from providing personnel services to related parties decreased by \$687,439, due mainly to a decrease in MESA headcount from prior year.

Operating expenses in 2016 were \$16,923,471 versus \$17,274,003 in 2015 which was a decrease of \$350,532. This decrease was primarily due to the decrease in MESA headcount from fiscal year 2015.

Investment income for MESA is limited to interest earned in the checking account for the operating funds held at the bank. Investment income in 2016 was \$0 versus \$252 in 2015 which was a decrease of \$252.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and short term investments	\$ 3,713,237	\$ 1,282,315
Receivables from AMP members	458,230	374,778
Receivables from related parties	2,311,696	5,395,334
Costs and recoveries in excess of billings from projects constructed on behalf of members	289,947	243,048
Prepaid expenses	<u>2,083</u>	<u>2,125</u>
Total Current Assets	<u>6,775,193</u>	<u>7,297,600</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	<u>5,022,656</u>	<u>1,496,200</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,022,656</u>	<u>1,496,200</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 173,659	\$ 286,174
Payable to related parties	3,086,630	2,346,310
Accrued salaries and related benefits	890,100	1,627,510
Accrued vacation leave	<u>1,101,512</u>	<u>1,391,276</u>
Total Current Liabilities	<u>5,251,901</u>	<u>5,651,270</u>
NON CURRENT LIABILITIES		
Accrued sick leave	1,523,292	1,646,330
Net pension liability	<u>12,969,890</u>	<u>9,925,281</u>
Total Non Current Liabilities	<u>14,493,182</u>	<u>11,571,611</u>
Total Liabilities	<u>19,745,083</u>	<u>17,222,881</u>
DEFERRED INFLOW OF RESOURCES		
Pension	<u>912,452</u>	<u>187,890</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>912,452</u>	<u>187,890</u>
NET POSITION		
Unrestricted	<u>(8,859,686)</u>	<u>(8,616,971)</u>
Total Net Position	<u>(8,859,686)</u>	<u>(8,616,971)</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Services	\$ 15,761,102	\$ 15,959,933
Project revenue	919,654	1,163,958
Total Operating Revenues	<u>16,680,756</u>	<u>17,123,891</u>
OPERATING EXPENSES		
Salaries and related benefits	15,735,066	15,936,105
Professional fees	169,416	146,824
Direct project expenses	809,949	1,023,946
Insurance	28,362	26,547
Other operating expense	180,678	140,581
Total Operating Expenses	<u>16,923,471</u>	<u>17,274,003</u>
Operating Gain (Loss)	<u>(242,715)</u>	<u>(150,112)</u>
NONOPERATING REVENUES		
Investment income	<u>-</u>	<u>252</u>
Change in net position	(242,715)	(149,860)
NET POSITION, Beginning of Year, Restated	<u>(8,616,971)</u>	<u>(8,467,111)</u>
NET POSITION, END OF YEAR	<u>\$ (8,859,686)</u>	<u>\$ (8,616,971)</u>

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF CASH FLOWS Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP members for services	\$ 836,202	\$ 1,218,720
Cash received from related parties for services	18,797,841	12,804,603
Cash payments to employees for services	(16,257,473)	(13,289,744)
Cash payments to suppliers and related parties for goods and services	<u>(945,648)</u>	<u>(1,188,038)</u>
Net Cash Provided by (Used in) Operating Activities	<u>2,430,922</u>	<u>(454,459)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>-</u>	<u>252</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>252</u>
Net Change in Cash and Cash Equivalents	2,430,922	(454,207)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,282,315</u>	<u>1,736,522</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,713,237</u>	<u>\$ 1,282,315</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (242,715)	\$ (150,112)
Changes in assets and liabilities		
Receivables from AMP	(83,452)	54,762
Receivables from related parties	3,083,638	(3,223,387)
Costs and estimated earnings in excess of billings from projects constructed on behalf of members	(46,899)	68,057
Prepaid expenses	42	-
Deferred inflows and outflows, net	(2,801,894)	(44,780)
Accounts payable and accrued expenses	(112,515)	(11,648)
Accounts payable to related parties	740,320	2,316,823
Accrued salaries and related benefits	(737,410)	581,617
Accrued vacation and sick leave	(412,802)	(240,431)
Net pension liability	<u>3,044,609</u>	<u>194,640</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,430,922</u>	<u>\$ (454,459)</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Energy Services Agency (“MESA”) was organized by 31 subdivisions of the State of Ohio (the “Participants”) on December 31, 1996, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. As of December 31, 2016, there were 48 Participants in MESA. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training, finance, administration and other aspects of the operation and maintenance of municipal electric and other utility systems. The participants are members of American Municipal Power, Inc. (“AMP”). MESA also provides personnel and administrative services to AMP, the Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 (“OMEGA JVs”) and the Ohio Municipal Electric Association (“OMEA”). The Agreement continues until December 31, 2008, and thereafter for successive terms of three years so long as at least two participants have not given notice of termination of participation. At December 31, 2016, no notice of termination has been received.

The following summarizes the significant accounting policies followed by MESA.

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.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

MESA has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government and its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

MESA has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Accounts receivable are amounts due from participants, related parties, and other members of AMP at the end of the year. Due to the participant relationship and the high degree of collectibility, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

Prepaid Expenses

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

Accrued Vacation and Sick Leave

MESA records a liability for compensated absences (sick and vacation) attributable to services rendered. Vacation leave for which employees can receive compensation in a future period is recorded as earned by the employees. Sick leave is recorded for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

PENSIONS

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For MESA, deferred outflows of resources are reported for pension, explained further in Note 5.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

that applies to a future period and will not be recognized as an inflow until that time. For MESA, deferred inflows of resources are reported for pension, explained further in Note 5.

SERVICE REVENUE AND EXPENSES

Revenues are recognized as services are performed. Service revenue is charged to AMP, the OMEGA JVs, and OMEA at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 0% to 150%. To the extent that the overhead amount charged is different from actual overhead charges incurred, MESA adjusts the amount charged to AMP. AMP absorbs any undercharges and uses any excess charges to offset other administrative expenses incurred, which benefits all members of AMP.

PROJECT REVENUE AND EXPENSES

MESA performs short-term and long-term construction and technical service projects for the members of AMP. Short-term service project revenues are recognized when costs are incurred. Long-term project revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 ("SOP 81-1"), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for time and materials contracts. In accordance with SOP 81-1, revenue from time and material contracts is recognized to the extent of billable rates times hours delivered plus materials and expenses incurred. Materials and expenses are typically billed at cost. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are identified. Changes in project performance, project conditions and estimated profitability are recognized in the period in which the revisions become known.

Costs and recoveries in excess of billings from projects constructed on behalf of members represent unbilled services and reimbursable materials and expenses associated with ongoing projects. Billings in excess of costs and recoveries for projects constructed on behalf of members represent advanced billings for services to be performed at a future date for ongoing projects. Direct project expenses include an allocation of operating expenses.

MESA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MESA's principal ongoing operations. Operating expenses for MESA include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31,		Risks
	2016	2015	
Checking / Money Market Funds	\$ 3,713,237	\$ 1,282,315	Custodial credit
Total Cash and Cash Equivalents	\$ 3,713,237	\$ 1,282,315	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest and noninterest bearing accounts as of December 31, 2016 and 2015.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, MESA's deposits may not be returned to it. MESA has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. However, MESA's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015 there were no deposits exposed to custodial credit risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. MESA invests in instruments approved under the entity's investment policy. The Board of Participants has authorized MESA 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.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. MESA's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 3 – HEALTH INSURANCE

MESA is self-insured for health, dental and prescription drug benefits. The programs are administered by a third-party, which provides claims review and processing services. MESA records a liability for incurred but unreported claims at year end upon an actuarial estimate based on past experience and current claims outstanding.

Changes in funds' claim liability amount in 2016 and 2015 were:

Year	Balance at Beginning of Year	Current Year Claims and Change in Estimate	Claims Payments	Balance at End of Year
2016	\$ 239,228	\$ 2,114,719	\$ 2,107,653	\$ 246,294
2015	\$ 76,807	\$ 2,421,969	\$ 2,259,548	\$ 239,228

NOTE 4 – LONG TERM LIABILITY

Long-term liability activity for the years ended December 31, 2016 and 2015 is as follows:

		2016			
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	\$ 1,646,330	\$ 114,386	\$ (237,424)	\$ 1,523,292	\$ -
Net pension liability	9,925,281	3,044,609	-	12,969,890	-
	<u>\$ 11,571,611</u>	<u>\$ 3,158,995</u>	<u>\$ (237,424)</u>	<u>\$ 14,493,182</u>	<u>\$ -</u>
		2015			
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	\$ 1,859,506	\$ 15,717	\$ (228,893)	\$ 1,646,330	\$ -
Net pension liability	9,730,641	194,640	-	9,925,281	-
	<u>\$ 11,590,147</u>	<u>\$ 210,357</u>	<u>\$ (228,893)</u>	<u>\$ 11,571,611</u>	<u>\$ -</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS

NET PENSION LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents MESA's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits MESA's obligation for this liability to annually required payments. MESA cannot control benefit terms or the manner in which pensions are financed; however, MESA does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued salaries and related benefits* on the accrual basis of accounting.

PLAN DESCRIPTION

MESA employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

information about OPERS's fiduciary net position. That report can be obtained by visiting <https://www.opers.org/about/finance/index.shtml>.

The Traditional Pension Plan. The Traditional Pension Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary. The pension benefits are funded by both member and employer contributions, and investment earnings on those contributions.

The Combined Plan. The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Pension Plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

The Member-Directed Plan. The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Upon retirement or termination, the member may choose a defined contribution retirement distribution, or may elect to use his/her defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Plan benefits, and any benefit increases, are established by legislature pursuant to Chapter 145 of the Ohio Revised Code. The Board of Trustees, pursuant to Chapter 145, has elected to maintain funds to provide health care coverage to eligible Traditional Pension and Combined plan retirees and survivors of members. Health care coverage does not vest and is not required under Chapter 145. As a result, coverage may be reduced or eliminated at the discretion of the Board.

Senate Bill (SB) 343 enacted into law new legislation with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Age and Service Defined Benefits. Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary, and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Members in transition Group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. The final average salary represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on an average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Benefits in the Combined Plan consist of both an age and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's final average salary for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions, plus or minus any investment gains or losses on those contributions.

Defined Contribution Benefits. Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-Directed Plan and Combined Plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan was discussed above. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the member's contributions, vested employer contributions and investment gains and losses resulting from the member's investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of the entire account balance, net of taxes withheld, or a combination of these options.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2018, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

FUNDING POLICY

The OPERS funding policy provides for periodic employee and employer contributions to all three plans at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of OPERS' external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2016. Plan members were required to contribute 10% of covered payroll. MESA's contribution rate was 14% of covered payroll.

MESA's contractually required contributions to OPERS for the Traditional Pension and Combined plans for 2016, 2015, and 2014 were \$1,154,846, \$961,823, and \$1,263,530, respectively.

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPERS

The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MESA's proportion of the net pension liability was based on MESA's share of contributions to the pension plan relative to the contributions of all participating entities. For reporting purposes, MESA combined the amounts for both the Traditional and Combined plans, due to insignificance of the amounts that related to the Combined Plan. As its proportionate share, MESA reported a net pension liability of \$12,969,890 at December 31, 2016 as compared to \$9,925,281 at December 31, 2015. For December 31, 2016, MESA's proportion was 0.0748784% for the Traditional Plan and 0.0836300% for the Combined Plan. MESA recognized \$1,397,560 in pension expense.

The following amounts are reported as deferred outflows and inflows of resources at December 31:

	2016		
	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>	<u>Net Deferred Outflows/ (Inflows) of Resources</u>
MESA contributions subsequent to measurement date	\$ 1,154,846	\$ -	\$ 1,154,846
Net difference between projected and actual investment earnings	3,867,810	-	3,867,810
Difference between expected and actual experience	-	(912,452)	(912,452)
	<u>\$ 5,022,656</u>	<u>\$ (912,452)</u>	<u>\$ 4,110,204</u>
	2015		
	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>	<u>Net Deferred Outflows/ (Inflows) of Resources</u>
MESA contributions subsequent to measurement date	\$ 961,823	\$ -	\$ 961,823
Net difference between projected and actual investment earnings	534,377	-	534,377
Difference between expected and actual experience	-	(187,890)	(187,890)
	<u>\$ 1,496,200</u>	<u>\$ (187,890)</u>	<u>\$ 1,308,310</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

\$1,154,846 reported as deferred outflows of resources relate to pension resulting from MESA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and deferred inflows related to pension will be recognized in pension expense as follows:

Amortization of remaining deferred outflows/(inflows)

2017	546,166
2018	613,441
2019	936,496
2020	865,088
2021	(1,668)
Thereafter	(4,165)
	<u>2,955,358</u>

ACTUARIAL ASSUMPTIONS

Total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Traditional Plan</u>	<u>Combined Plan</u>
Investment rate of return	8.00%	8.00%
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 10.05%	4.25% - 8.05%
	(includes wage inflation at 3.75%)	(includes wage inflation at 3.75%)
Cost-of-living adjustments	3.00% Simple	3.00% Simple

Mortality rates are the RP-2000 mortality table projected 20 years using Projected Scale AA. For males, 105% of the combined health male mortality rates were used. For females, 100% of the combined health female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disable female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

LONG TERM EXPECTED RATE OF RETURN

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio is 0.4% for 2015.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy and the long term expected arithmetic real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
Fixed Income	23.00%	2.31%
Domestic Equities	20.70%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	18.30%	7.40%
Other Investments	18.00%	4.59%
Total	<u>100.00%</u>	<u>5.28%</u>

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following chart represents MESA's proportionate share of the net pension liability at the 8% discount rate as well as the sensitivity to a 1% increase and 1% decrease in the current discount rate:

	1% Decrease (7.00%)	Current Discount Rate of 8%	1% Increase (9.00%)
MESA's proportionate share of the net pension liability	\$ 20,663,369	\$ 12,969,890	\$ 6,404,223

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

OTHER POSTEMPLOYMENT BENEFITS

OPERS also maintains two cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS-sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2016 was 4.0%.

The portion of employer contributions that were used to fund health care for 2016, 2015, and 2014 were \$235,104, \$182,939, and \$240,420, respectively.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 6 – RISK MANAGEMENT

MESA is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, health care excess liability, general liability, directors' and officers' insurance, fiduciary liability, and crime and fidelity coverage. In addition, MESA maintains an errors and omissions policy related to engineering services it performs. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – RELATED PARTY TRANSACTIONS

Pursuant to the Agreement, AMP was designated as an agent and provides MESA various management and operational services. As MESA's agent, AMP enters into agreements with related entities to have MESA provide services. Revenues earned from these agreements for the years ended December 31 are as follows:

	<u>2016</u>	<u>2015</u>
AMP	\$ 12,831,392	\$ 13,682,648
Ohio Municipal Electric Generation Agency Joint Venture 1	39,586	44,095
Ohio Municipal Electric Generation Agency Joint Venture 2	950,974	775,364
Ohio Municipal Electric Generation Agency Joint Venture 4	20,179	21,187
Ohio Municipal Electric Generation Agency Joint Venture 5	2,085,852	2,031,158
Ohio Municipal Electric Generation Agency Joint Venture 6	69,164	75,241
Ohio Municipal Electric Association	233,511	139,433
AMP Members	<u>450,098</u>	<u>354,765</u>
Totals	<u>\$ 16,680,756</u>	<u>\$ 17,123,891</u>

At December 31, 2016 and 2015, MESA had receivables from affiliates of \$2,311,696 and \$5,395,334, respectively. At December 31, 2016 and 2015, MESA had a receivable from members of AMP of \$458,230 and \$374,778, respectively. At December 31, 2016 and 2015, MESA had a payable to AMP for \$3,086,630 and \$2,346,310, respectively.

MUNICIPAL ENERGY SERVICES AGENCY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF MESA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Last Three Measurement Years (1), (2)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
MESA's Proportion of the Net Pension Liability	0.074879%	0.082551%	0.082551%
MESA's Proportionate Share of the Net Pension Liability	\$ 12,969,890	\$ 9,925,281	\$ 9,730,641
MESA's Covered-Employee Payroll	\$ 8,015,192	\$ 10,529,417	\$ 9,365,862
MESA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	161.82%	94.26%	103.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information presented based on measurement periods ended December 31.

(2) Information prior to 2013 is not available.

MUNICIPAL ENERGY SERVICES AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 1,154,846	\$ 961,823	\$ 1,263,530	\$ 1,217,562
Contributions in Relation to the Contractually Contractually Required Contributions	<u>\$ (1,154,846)</u>	<u>\$ (961,823)</u>	<u>\$ (1,263,530)</u>	<u>\$ (1,217,562)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
MESA Covered-Employee Payroll	\$ 9,623,717	\$ 8,015,192	\$ 10,529,417	\$ 9,365,862
Contributions as a Percentage of Covered- Employee Payroll	12.00%	12.00%	12.00%	13.00%

(1) Represents employer's calendar year. Information prior to 2013 was not available. MESA will continue to present information for years available until a full ten-year trend is compiled.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statement of net position as of December 31, 2016 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MESA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MESA's internal control. Accordingly, we do not express an opinion on the effectiveness of MESA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

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Dave Yost • Auditor of State

OMEGA JV 1, 2, 4, 5, 6 AND MESA

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 6, 2017**