

OHIO MUNICIPAL ELECTRIC
GENERATION AGENCY
JOINT VENTURE 5

FINANCIAL STATEMENTS
December 31, 1999 and 1998



CROWE CHIZEK

**OHIO MUNICIPAL ELECTRIC
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December 31, 1999 and 1998

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
Columbus, Ohio

FINANCIAL STATEMENTS
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Board of Participants
Ohio Municipal Electric Generation Agency
Joint Venture 5

We have reviewed the Independent Auditor's Report of the Ohio Municipal Electric Generation Agency Joint Venture 5, Franklin County, prepared by Crowe Chizek & Company, LLP, for the audit period January 1, 1999 through December 31, 1999. 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 Venture 5 is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

April 17, 2000



CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS

Board of Participants
Ohio Municipal Electric Generation Agency
Joint Venture 5

We have audited the accompanying general-purpose financial statements of the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the management of OMEGA JV-5. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Municipal Electric Generation Agency Joint Venture 5 as of December 31, 1999 and 1998, and results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2000 on our consideration of OMEGA JV-5's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Columbus, Ohio
February 15, 2000

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
BALANCE SHEETS
December 31, 1999 and 1998

ASSETS	<u>1999</u>	<u>1998</u>
Utility plant (Note 2)		
Electric plant in service	\$ 154,648,958	\$ 7,936,446
Accumulated depreciation	<u>(4,291,218)</u>	<u>(797,354)</u>
	150,357,740	7,139,092
Construction work in progress	<u> </u>	<u>139,949,281</u>
Total utility plant	150,357,740	147,088,373
Restricted assets (Notes 2 and 5)	44,145,174	49,313,345
Current assets		
Cash and cash equivalents (Notes 2 and 4)	1,765,948	687,644
Receivables from participants	958,716	1,087,957
Fuel inventory, materials and supplies (Note 2)	58,998	
Prepaid expenses	<u>171,475</u>	<u>102,859</u>
Total current assets	2,955,137	1,878,460
Other assets		
Prepaid dedicated capacity (Note 3)	2,206,185	2,440,470
Prepaid bond insurance (Note 6)	1,775,277	1,851,090
Certificates of beneficial interest issuance costs (Note 7)	<u>1,449,872</u>	<u>1,511,788</u>
Total other assets	<u>5,431,334</u>	<u>5,803,348</u>
Total assets	<u>\$ 202,889,385</u>	<u>\$ 204,083,526</u>

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 BALANCE SHEETS (Continued)
 December 31, 1999 and 1998

PARTICIPANTS' EQUITY AND LIABILITIES	<u>1999</u>	<u>1998</u>
Participants' equity (Note 2)		
Participants' contributions	\$ 200,000	\$ 200,000
Accumulated net margins	<u>2,356,093</u>	<u>1,646,891</u>
	2,556,093	1,846,891
Investment valuation allowance	<u>(157,317)</u>	<u>433,450</u>
Total participants' equity	2,398,776	2,280,341
Certificates of beneficial interest		
Certificates of beneficial interest (Note 8)	144,830,000	147,815,000
Unamortized discount	<u>(3,152,376)</u>	<u>(3,286,978)</u>
Net certificates of beneficial interest	141,677,624	144,528,022
Liabilities payable from restricted assets		
Accrued interest	2,972,151	3,020,414
Accounts payable		879,242
Construction retainage payable	<u>7,123,491</u>	<u>8,234,018</u>
Total liabilities payable from restricted assets	10,095,642	12,133,674
Current liabilities		
Accounts payable	658,810	29,078
Payable to AMP-Ohio (Note 3)	1,834,878	1,203,934
Certificates of beneficial interest, current (Note 8)	<u>2,985,000</u>	<u>2,860,000</u>
Total current liabilities	5,478,688	4,093,012
Deferred revenue (Note 2)	<u>43,238,655</u>	<u>41,048,477</u>
Total participants' equity and liabilities	<u>\$ 202,889,385</u>	<u>\$ 204,083,526</u>

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
STATEMENTS OF OPERATIONS
Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
REVENUES		
Electric revenue	\$ 20,029,759	\$ 11,781,307
EXPENSES		
Purchased power	8,898,131	9,626,866
AMP-Ohio services	113,333	96,161
MESA services	461,777	30,962
Depreciation and amortization	3,909,703	498,838
Payment in lieu of taxes	876,427	250,000
Professional services	26,264	33,108
Insurance	127,131	85,893
Maintenance	231,921	90,556
Electric services	18,922	15,160
Other operating expenses	27,758	18,383
Interest expense	<u>5,283,824</u>	<u> </u>
Total expenses	<u>19,975,191</u>	<u>10,745,927</u>
 Operating margins	 54,568	 1,035,380
NONOPERATING REVENUES		
Investment income	<u>654,634</u>	<u>47,492</u>
NET MARGINS	<u>\$ 709,202</u>	<u>\$ 1,082,872</u>

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 STATEMENTS OF PARTICIPANTS' EQUITY
 Years ended December 31, 1999 and 1998

	<u>Participants'</u> <u>Contributions</u>	<u>Accumulated</u> <u>Net Margins</u>	<u>Subtotal</u>	<u>Investment</u> <u>Valuation</u> <u>Allowance</u>	<u>Total</u>
Balances as of January 1, 1998	\$ 200,000	\$ 564,019	\$ 764,019	\$ 70,811	\$ 834,830
Net margins for the year ended December 31, 1998	--	1,082,872	1,082,872	--	1,082,872
Investment valuation allowance	--	--	--	362,639	362,639
Balances as of December 31, 1998	200,000	1,646,891	1,846,891	433,450	2,280,341
Net margins for the year ended December 31, 1999	--	709,202	709,202	--	709,202
Investment valuation allowance	--	--	--	(590,767)	(590,767)
Balances as of December 31, 1999	<u>\$ 200,000</u>	<u>\$ 2,356,093</u>	<u>\$ 2,556,093</u>	<u>\$ (157,317)</u>	<u>\$ 2,398,776</u>

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities		
Operating margins	\$ 54,568	\$ 1,035,380
Adjustments to reconcile operating margins to net cash provided by operating activities		
Depreciation and amortization	3,909,703	498,838
Changes in assets and liabilities		
Receivables from participants	129,241	(316,322)
Inventories	(58,998)	
Prepaid expenses	(68,616)	(27,167)
Accounts payable	629,732	(645,960)
Receivable from/payable to AMP-Ohio	<u>630,944</u>	<u>1,407,752</u>
Net cash from operating activities	<u>5,226,574</u>	<u>1,952,521</u>
Cash flows from investing activities		
Deferred revenue	2,190,178	9,952,014
Electric plant including construction work in progress	<u>(8,705,991)</u>	<u>(11,715,252)</u>
Net cash from investing activities	<u>(6,515,813)</u>	<u>(1,763,238)</u>
Cash flows from capital and related financing activities		
Interest received	654,634	47,492
Purchase of investments	(21,299,521)	(78,819,001)
Sales and maturities of investments	25,872,430	80,876,821
Payments on certificates of beneficial interest	<u>(2,860,000)</u>	<u>(2,740,000)</u>
Net cash from capital and related financing activities	<u>2,367,543</u>	<u>(634,688)</u>
Net change in cash and cash equivalents	1,078,304	(445,405)
Cash and cash equivalents, beginning of year	<u>687,644</u>	<u>1,133,049</u>
Cash and cash equivalents, end of year	<u>\$ 1,765,948</u>	<u>\$ 687,644</u>

Supplemental cash flow information:

Noncash additions to construction work in progress for 1999 and 1998 include \$1,076,543 and \$1,825,672, respectively.

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 1 - ORGANIZATION

Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) 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-Ohio, Inc. (AMP-Ohio). OMEGA JV-5 constructed and will own and operate the Project. The Project consists of:

- The Belleville hydroelectric plant and associated transmission facilities (Belleville Hydroelectric Facilities);
- Backup generation facilities, including contracts for the output thereof; and
- Power purchased on behalf of OMEGA JV-5 participants.

The Belleville Hydroelectric Facilities essentially consists of a run-of-the-river hydroelectric plant designed for a capacity of 42 megawatts and approximately 25 miles of 138-kilovolt transmission facilities. The plant is located in West Virginia, on the Ohio River, at the Belleville Locks and Dam.

OMEGA JV-5 was constructed with proceeds from the issuance of Certificates of Beneficial Interest (the Certificates). The Certificates evidence the obligation of participants to pay for the cost of the project from revenues of their electric systems. Management services are provided to OMEGA JV-5 by AMP-Ohio and Municipal Energy Services Agency (MESA).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies followed by OMEGA JV-5.

Basis of accounting: The accounting records of OMEGA JV-5 are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Accounts of OMEGA JV-5 are maintained on an accrual basis of accounting in accordance with generally accepted accounting principles.

Cash and cash equivalents: For purposes of 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.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant: Electric plant in service is recorded at cost and consists of the hydroelectric plant, transmission facilities and backup generating units. Depreciation is provided on the straight-line method over the estimated useful life of the assets (30 years).

Construction work in progress consisted of all costs incurred directly related to the Project, including all interest costs of the Certificates, interest earned, and realized and unrealized gains and losses on related interest-bearing investments acquired with proceeds of the Certificates.

Participants' Equity: All property constituting OMEGA JV-5 is owned by the participants as tenants in common in undivided shares, each such share being equal to that participant's percentage ownership interest as follows:

<u>Municipality</u>	<u>Percent Project Ownership and Entitlement</u>
Cuyahoga Falls	16.67%
Bowling Green	15.73
Niles	10.63
Napoleon	7.35
Jackson	7.14
Hudson Village	5.69
Wadsworth	5.62
Oberlin	3.02
New Bremen	2.38
Bryan	2.19
Hubbard	2.07
Montpelier	2.02
Minster	1.99
Columbiana	1.66
Wellington	1.62
Versailles	1.10
Monroeville	1.02
Oak Harbor	.94
Lodi	.94
Pemberville	.92
Edgerton	.92
Arcanum	.84
Seville	.82

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Municipality</u>	<u>Percent Project Ownership and Entitlement</u>
Brewster	.79
Pioneer	.76
Genoa	.69
Jackson Center	.67
Grafton	.64
Elmore	.58
Woodville	.50
Milan	.39
Bradner	.35
Beach City	.30
Prospect	.27
Haskins	.13
Lucas	.13
Arcadia	.11
South Vienna	.11
Waynesfield	.08
Eldorado	.08
Republic	.08
Custar	<u>.06</u>
Total	<u>100.00%</u>

Inventories: Inventories of fuel, materials and supplies are stated at the lower of cost (first-in, first-out) or market.

Revenue recognition and rates: Revenues are recognized when earned as service is delivered to participants' points of delivery. OMEGA JV-5's rates for electric power are designed to cover annual operating costs except depreciation. Debt service is billed separately to participants. Rates are set annually by the Board of Participants.

Deferred revenue represents amounts prepaid by participants for debt service payments and contributions to the Reserve and Contingency Fund. These amounts are amortized on a basis consistent with the life of the assets or over the remaining period of the Certificates from the electric plant in service date.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Investments of restricted assets are held for sale and are, therefore, recorded at market with unrealized gains and losses excluded from earnings and reported in a separate component of participants' equity. Realized gains and losses on investment transactions are determined on the specific-identification basis.

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

NOTE 3 - RELATED AGREEMENTS

OMEGA JV-5 has entered into the following agreements:

- AMP-Ohio provides staffing and expertise to fulfill management and operational obligations under an agreement with OMEGA JV-5 and acts as OMEGA JV-5's agent. Beginning in 1993, and for each year this agreement is in effect, AMP-Ohio is paid a management fee of \$70,000 per year; for each year after the initial term, such management fee shall be increased by 5% per year, compounded; plus, a reasonable allocation of the cost to AMP-Ohio for direct expenses, personnel and overhead related to AMP-Ohio's performance of its obligations. The total of these amounts for the years ended December 31, 1999 and 1998 was \$155,244 (of which \$41,911 was capitalized as construction work in progress) and \$145,738 (of which \$49,577 was capitalized as construction work in progress), respectively. OMEGA JV-5 makes estimated payments to AMP-Ohio throughout the year for these expenses. In addition, as OMEGA JV-5's agent, AMP-Ohio purchases power on behalf of OMEGA JV-5. Power and fuel purchases for the years ended December 31, 1999 and 1998 amounted to \$8,898,131 and \$9,626,866, respectively. As of December 31, 1999 and 1998, OMEGA JV-5 owed AMP-Ohio \$1,834,878 and \$1,203,934, respectively, related to these services.
- OMEGA JV-5 sold capacity from back-up generating units to AMP-Ohio's Northwest Area Service Group, Northeast Area Service Group and Jackson, Ohio. This revenue was approximately \$728,000 and \$1,640,000 for the years ended December 31, 1999 and 1998, respectively.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 3 - RELATED AGREEMENTS (Continued)

- In 1993, OMEGA JV-5 paid \$3,045,707 to the city of Oberlin, Ohio, for a commitment to provide 12,000 kilowatts (kW) of its generating capacity as a backup resource to OMEGA JV-5. The commitment is limited to no more than 1,000 kWhs per kW of dedicated capacity in any 12 consecutive months during the term of the Backup Agreement from June 1, 1996 through May 31, 2009. This asset is being amortized ratably over the term of the Backup Agreement.
- OMEGA JV-5 had two back-up generators, originally included in construction work-in-progress, which OMEGA JV-5 determined would not be used in the Project. In 1998 and 1997, AMP-Ohio, on behalf of OMEGA JV-5, negotiated the terms of the sale of these back-up generators to two participants of OMEGA JV-5 for approximately \$411,000 each. This amount was the original cost of each unit.
- In 1997, OMEGA JV-5 entered into an agreement with MESA, a related joint venture, for MESA to provide certain engineering and other technical services. The expenses related to these services were \$769,505 and \$381,190 in 1999 and 1998, including \$307,728 and \$350,228 in construction work in progress.

NOTE 4 - CASH AND CASH EQUIVALENTS

As of December 31, 1999 and 1998, the carrying amount of OMEGA JV-5's operating cash deposits were \$906,993 and \$262,658, respectively, and the bank balance was \$932,826 and \$284,501, respectively. The difference between cash deposits and bank balance is due to outstanding checks. The amount of the bank balance covered by federal depository insurance is \$100,000. At December 31, 1999 and 1998, \$858,945 and \$424,986, respectively, was invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which consist principally of obligations guaranteed by the U.S. government. The funds are collateralized by investments purchased by the funds, which are not held in the name of OMEGA JV-5.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 5 – RESTRICTED ASSETS

Restricted assets include those assets comprising construction, debt service, certificate payment, construction retainage and reserve and contingency funds, which are established and maintained pursuant to the Trust Agreement for the Certificates. Substantially all assets in the Certificate Payment Fund are available only to meet principal and interest payments on the Certificates. Assets in the Construction and Construction Retainage Funds are available for payment of construction and acquisition costs of the facility. However, the Construction Fund also includes the liquidated damages withheld from progress payments as discussed in Note 10. Assets in the Debt Service Reserve Fund are for use to make up any deficiency in the amount of principal and interest due and, to the extent available, to make any portion of the final debt service payment amount due on February 15, 2024. Assets in the Reserve and Contingency Fund are for use to make up any deficiency in the amount of principal and interest and, to the extent available, provide for future repair and maintenance costs.

The aggregate amount in each of these funds is as follows:

	<u>1999</u>	<u>1998</u>
Construction Fund	\$ 22,798,852	\$ 26,420,233
Debt Service Reserve Fund	11,021,315	11,004,245
Certificate Payment Fund	6,271,497	6,066,354
Construction Retainage Fund	2,985,522	4,201,930
Reserve and Contingency Fund	<u>953,653</u>	<u>920,056</u>
Investments at cost	44,030,839	48,612,818
Investment valuation allowance	<u>(157,317)</u>	<u>433,450</u>
Investments at market	43,873,522	49,046,268
Accrued interest receivable	<u>271,652</u>	<u>267,077</u>
	<u>\$ 44,145,174</u>	<u>\$ 49,313,345</u>

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 5 – RESTRICTED ASSETS (Continued)

As of December 31, investments were held as follows:

	<u>1999</u>		<u>1998</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money market funds and cash equivalents	\$ 26,776,132	\$ 26,776,132	\$ 32,381,360	\$ 32,381,360
United States Treasury obligations	<u>17,254,607</u>	<u>17,097,390</u>	<u>16,231,458</u>	<u>16,664,908</u>
Total	<u>\$ 44,030,839</u>	<u>\$ 43,873,522</u>	<u>\$ 48,612,818</u>	<u>\$ 49,046,268</u>

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 Indemnity Corporation (AMBAC). The Agreement does not restrict the duration of investments to the limitations imposed by Chapter 135.

At December 31, 1999 and 1998, all investments were purchased in the name of the restricted funds' trustee and are held by the trustee. The United States Treasury obligations mature at various dates from the period February 2000 through August 2002.

Interest income capitalized to construction work-in-progress was \$1,426,182 and \$2,225,477 for the years ended December 31, 1999 and 1998, respectively.

NOTE 6 – PREPAID BOND INSURANCE

With the issuance of the Certificates in 1993, OMEGA JV-5 paid \$2,274,376 on behalf of the participants to AMBAC for municipal bond insurance (the Policy). In consideration of the payment of the premium and subject to the terms of the Policy, AMBAC agrees to pay to the United States Trust Company of New York, as trustee, or its successor, for benefit of the bondholders, that portion of the principal and interest on the 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 Certificates using the straight-line method. Amortization expense capitalized to construction work-in-progress was approximately \$25,200 and \$75,800 for the years ended December 31, 1999 and 1998, respectively.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 7 – CERTIFICATES OF BENEFICIAL INTEREST ISSUANCE COSTS

With the issuance of the Certificates in 1993, OMEGA JV-5 paid \$1,854,451 on behalf of the participants for underwriter's discount and costs of issuance. These costs are being amortized over the maturities of the Certificates using the straight-line method. Amortization expense capitalized to construction work-in-progress was approximately \$20,600 and \$62,000 for the years ended December 31, 1999 and 1998, respectively.

NOTE 8 – CERTIFICATES OF BENEFICIAL INTEREST

The Series 1993 Certificates of Beneficial Interest outstanding as of December 31, 1999, are as follows:

Maturity Date <u>February 15,</u>	Principal <u>Amount</u>	Interest <u>Rate</u>
2000	\$ 2,985,000	4.75%
2001	3,130,000	4.88
2002	3,280,000	5.00
2003	3,445,000	5.00
2004	3,620,000	5.10
2005	3,800,000	5.25
2006	4,000,000	5.38
2007	4,215,000	5.40
2008	4,445,000	5.50
2013	26,100,000	5.38
2016	19,320,000	5.63
2024	<u>69,475,000</u>	5.38
	<u>\$ 147,815,000</u>	

The Series 1993 Certificates stated to mature on February 15, 2013, February 15, 2016 and February 15, 2024 are subject to mandatory sinking fund redemption. Interest on the Series 1993 Certificates is payable semiannually on February 15 and August 15 of each year, commencing February 15, 1994, to and including the date of maturity or prior redemption.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
 JOINT VENTURE 5
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 8 – CERTIFICATES OF BENEFICIAL INTEREST (Continued)

The Series 1993 Certificates are not subject to optional redemption before February 15, 2003. Series 1993 Certificates maturing after February 15, 2003 are subject to redemption in whole or in part on any date on or after February 15, 2003 at a redemption price plus accrued interest to the Redemption Date as set forth below:

<u>Redemption Period</u>	<u>Redemption Price</u>
February 15, 2003 through February 14, 2004	102%
February 15, 2004 through February 14, 2005	101
February 15, 2005 and thereafter	100

Except for the limited step-up provisions, in the event of default by a participant as described in Section 18 of the Agreement, the 1993 Certificates are payable solely from Bond Debt Service Payments to be made by the OMEGA JV-5 participants pursuant to an agreement dated as of January 1, 1993. The Bond Debt Service Payments are obligations of the OMEGA JV-5 participants, payable from the revenues of their municipal electric utility systems, subject only to 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 JV-5.

Debt service requirements for the next five years and cumulative requirements thereafter as of December 31, 1999 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 2,985,000	\$ 7,854,843	\$ 10,839,843
2001	3,130,000	7,707,655	10,837,655
2002	3,280,000	7,549,361	10,829,361
2003	3,445,000	7,381,236	10,826,236
2004	3,620,000	7,202,810	10,822,810
2005-2024	<u>131,355,000</u>	<u>83,334,122</u>	<u>214,689,122</u>
Total	<u>\$ 147,815,000</u>	<u>\$ 121,030,017</u>	<u>\$ 268,845,017</u>

Interest paid and capitalized to construction work-in-progress was approximately \$7,990,086 and \$8,113,000 for the years ended December 31, 1999 and 1998, respectively.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 9 – COMMITMENTS

OMEGA JV-5 has agreed to make certain payments instead of taxes to Wood County, West Virginia. The payments in lieu of taxes will be approximately \$840,000 annually until the latter of September 1, 2024 or such time as the Project ceases commercial operations.

NOTE 10 – PROJECT CONTRACTOR AND RELATED MATTERS

On February 24, 1995, OMEGA JV-5 entered into a contract for the construction of the Belleville Hydroelectric Project (the Project) near Belleville, West Virginia. Under the dispute procedure in the contract, the contractor asserted claims in 1996 against OMEGA JV-5 for differing site conditions, extra work delays, and acceleration, certain of which were rejected by the independent resident engineer. The contractor subsequently filed two civil actions in 1996 against OMEGA JV-5 in the U.S. District Court for the Western District of West Virginia.

In March 1997, the contractor notified OMEGA JV-5 of additional claims that were also submitted to the resident engineer. In April 1997, the contractor and OMEGA JV-5 entered into a Mediation Agreement that provided for a three-stage mediation process. After substantial exchange of documents and review, the resident engineer substantially denied entitlement of Phase 1 claims by the contractor. The mediation session required under the Mediation Agreement was conducted relative to Phase 1 claims, but no settlement was reached. Phase 2 and 3 claims have not yet been addressed.

In an additional development, on August 10, 1997, the contractor and certain related companies filed for bankruptcy protection under 11 U.S.C. §1101 in the United States Bankruptcy Court for the Northern District of California. That proceeding is continuing. Since that time, the insurance companies that bonded the contractor have provided financing and assumed control of the construction contract.

In June 1999, the contractor and its insurance companies submitted a consolidated claim to Omega JV-5. In September 1999, the engineer issued a decision denying the consolidated claim in its entirety.

By stipulation of the parties, the two District Court actions were dismissed *without* prejudice in September 1999. In November 1999, the parties agreed that a single action would be refiled. Omega JV-5 filed its answer to the Complaint in December 1999, and also filed a counterclaim. In November 1999, the parties agreed to conduct a mediation in attempt to reach a settlement of the disputes. The mediation was conducted January 24-25, 2000. The parties did not reach a settlement.

(Continued)

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 5
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – PROJECT CONTRACTOR AND RELATED MATTERS (Continued)

OMEGA JV-5 has asserted its rights to assess liquidating damages for late completion as provided under the contract. These amounts, totaling approximately \$16,351,000 as of December 31, 1999, have been withheld from progress payments. OMEGA JV-5 also has additional claims pursuant to the contract. OMEGA JV-5 has vigorously defended itself against the contractor's and its insurance companies' claims and intends to continue to do so. Another prime contractor has presented OMEGA JV-5 with claims of material amounts arising from a number of issues, including delays. OMEGA JV-5 believes that the majority of these claims will be the responsibility of the contractor and its insurance companies. The management of OMEGA JV-5 is currently unable to estimate the final resolution of the claims or potential losses, if any, from them.



CROWE CHIZEK

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

Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 5
Columbus, Ohio

We have audited the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) as of and for the year ended December 31, 1999 and have issued our report thereon dated February 15, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of OMEGA JV-5 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control of OMEGA JV-5 over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

This report is intended solely for the information and use of the Board of Participants, management and the Auditor of the State of Ohio. It is not intended and should not be used by anyone other than these specified parties.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Columbus, Ohio
February 15, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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OHIO MUNICIPAL ELECTRIC GENERATION AGENCY - JOINT VENTURE #5
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.

By: Susan Babbitt

Date: MAY 2, 2000