

**Ohio Municipal Electric  
Generation Agency  
Joint Venture 1**  
Financial Statements  
December 31, 2001 and 2000





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Participants

OMEGA Joint Venture 1, 2, 4, 5 and Municipal Energy Services

We have reviewed the Independent Auditor's Report of the OMEGA Joint Venture 1, 2, 4, 5 and Municipal Energy Services, Franklin County, prepared by PricewaterhouseCoopers LLP for the audit period January 1, 2001 through December 31, 2001 (December 1, 2000 through December 31, 2001 for OMEGA Joint Venture 2). 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 OMEGA Joint Venture 1, 2, 4, 5 and Municipal Energy Services are responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

July 26, 2002

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# Ohio Municipal Electric Generation Agency Joint Venture 1

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## Report of Independent Accountants

Board of Participants  
Ohio Municipal Electric Generation Agency  
Joint Venture 1

In our opinion, the accompanying general-purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV-1) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These general-purpose financial statements are the responsibility of OMEGA JV-1's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 27, 2002 on our consideration of OMEGA JV-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended December 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Balance Sheets

At December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Electric plant		
Electric generators	\$ 410,229	\$ 410,229
Fuel tank	35,000	35,000
Accumulated depreciation	<u>(137,279)</u>	<u>(122,438)</u>
Total electric plant	<u>307,950</u>	<u>322,791</u>
Current assets		
Cash and cash equivalents	99,930	21,284
Receivables from participants	12,175	27,667
Fuel inventory	9,478	21,202
Prepaid expenses	<u>8,764</u>	<u>9,878</u>
Total current assets	<u>130,347</u>	<u>80,031</u>
Total assets	<u>\$ 438,297</u>	<u>\$ 402,822</u>
<b>Participants' Equity and Liabilities</b>		
Participants' equity		
Participants' contributions	\$ 582,452	\$ 485,184
Accumulated net margins	<u>(162,411)</u>	<u>(106,810)</u>
Total participants' equity	<u>420,041</u>	<u>378,374</u>
Current liabilities		
Payable to American Municipal Power-Ohio, Inc.	7,012	10,461
Accounts payable, trade	<u>11,244</u>	<u>13,987</u>
Total current liabilities	<u>18,256</u>	<u>24,448</u>
Total participants' equity and liabilities	<u>\$ 438,297</u>	<u>\$ 402,822</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Statements of Operations

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Revenues</b>		
Fees from participants	\$ 150,858	\$ 175,658
<b>Expenses</b>		
American Municipal Power-Ohio, Inc. services	-	93,080
Municipal Energy Services Agency services	15,060	16,441
Fuel	30,175	18,379
Maintenance	117,369	21,794
Depreciation	14,841	14,841
Professional services	7,339	6,120
Insurance	10,154	6,462
Electric services	11,288	11,020
Other operating expenses, net	3,100	4,369
Total expenses	209,326	192,506
Operating margins	(58,468)	(16,848)
<b>Nonoperating Revenues</b>		
Investment income	2,867	1,098
Net margins	\$ (55,601)	\$ (15,750)

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

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Statements of Participants' Equity For the Years Ended December 31, 2001 and 2000

	<u>Participants' Contributions</u>	<u>Accumulated Net Margins</u>	<u>Total</u>
Balances at December 31, 1999	\$ 485,184	\$ (91,060)	\$ 394,124
Net margins for the year ended December 31, 2000	<u>-</u>	<u>(15,750)</u>	<u>(15,750)</u>
Balances at December 31, 2000	485,184	(106,810)	378,374
Participant contribution	97,268	-	97,268
Net margins for the year ended December 31, 2001	<u>-</u>	<u>(55,601)</u>	<u>(55,601)</u>
Balances at December 31, 2001	<u>\$ 582,452</u>	<u>\$ (162,411)</u>	<u>\$ 420,041</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Cash flows from operating activities</b>		
Operating margins	\$ (58,468)	\$ (16,848)
Adjustments to reconcile operating margins to net cash used in operating activities:		
Depreciation and amortization	14,841	14,841
Changes in assets and liabilities:		
Receivables from participants	15,492	7,197
Fuel inventory	11,724	(9,294)
Prepaid expenses	1,114	4,368
Payable to American Municipal Power-Ohio, Inc.	(3,449)	(10,644)
Accounts payable, trade	(2,743)	(33,176)
	<u>(21,489)</u>	<u>(43,556)</u>
<b>Cash flows from capital and related financing activities</b>		
Participant contribution	<u>97,268</u>	<u>-</u>
	<u>97,268</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
Investment income	<u>2,867</u>	<u>1,098</u>
	<u>2,867</u>	<u>1,098</u>
Net change in cash and cash equivalents	78,646	(42,458)
Cash and cash equivalents, beginning of year	<u>21,284</u>	<u>63,742</u>
Cash and cash equivalents, end of year	<u>\$ 99,930</u>	<u>\$ 21,284</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Notes to Financial Statements December 31, 2001 and 2000

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### 1. Organization

Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV-1) 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-Ohio, Inc. (AMP-Ohio) 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 JV-1 purchased its electric generating facilities, known as the Engle Units, from AMP-Ohio in September 1992. These facilities are located in Cuyahoga Falls, Ohio.

### 2. Summary of Significant Accounting Policies

The following summarizes the significant accounting policies followed by OMEGA JV-1.

#### **Basis of Accounting**

The accounting records of OMEGA JV-1 are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The accounts of OMEGA JV-1 are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV-1 applies all Financial Accounting Standards Board statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less.

#### **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, the accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value, with any resulting gain or loss recognized in operations.

Electric plant assets are reviewed for impairment whenever events or changes in circumstances indicate that full recovery is questionable.

#### **Fuel Inventory**

Fuel inventory is stated at the lower of first-in, first-out cost or market.

#### **Participants' Equity**

Participants' equity consists of contributed capital of the Participants and accumulated net margins. Should OMEGA JV-1 cease business, these amounts, if available, will be returned to the Participants. During 2001, OMEGA JV-1 received a capital contribution of \$97,268.

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Notes to Financial Statements December 31, 2001 and 2000

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All property constituting OMEGA JV-1 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>
Cuyahoga Falls	21.05 %
Niles	17.71
Wadsworth	11.24
Hudson	10.37
Galion	6.53
Oberlin	5.52
Amherst	5.42
Hubbard	3.79
Columbiana	3.03
Wellington	2.95
Newton Falls	2.53
Monroeville	1.85
Lodi	1.72
Seville	1.50
Brewster	1.45
Grafton	1.16
Milan	0.71
Beach City	0.55
Prospect	0.50
Lucas	0.23
South Vienna	0.19
Total	<u>100.00 %</u>

### Revenue Recognition and Rates

Revenues are recognized when earned as electric service is delivered. OMEGA JV-1's rates for electric power are designed to cover annual operating costs except depreciation. Rates are set annually by the Board of Participants.

### Use of Estimates

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

### New Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), will become effective beginning January 1, 2003. SFAS No. 143 establishes accounting and reporting for obligations associated with the retirement of tangible

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Notes to Financial Statements December 31, 2001 and 2000

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long-lived assets and related asset retirement costs. OMEGA JV-1 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The Financial Accounting Standards Board also issued SFAS No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*, which sets forth the accounting to recognize and measure an impairment loss. SFAS No. 144 was effective beginning January 1, 2002. OMEGA JV-1 does not expect the implementation of SFAS No. 144 to have a material effect on its financial statements.

### 3. Related Agreements

OMEGA JV-1 has entered the following agreements:

- AMP-Ohio provided staffing and expertise to fulfill the management and operational obligations under the agreement. AMP-Ohio also acts as OMEGA JV-1's agent. Beginning in 1992, and for each year that the agreement is in effect, AMP-Ohio is paid a management fee of \$60,000 per year; plus 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. Effective January 1, 2001, the management fee under the agreement was canceled. The management fee for the year ended December 31, 2000 was \$93,080. At December 31, 2001 and 2000, OMEGA JV-1 owed AMP-Ohio \$7,012 and \$10,461, respectively, related to all services.
- The City of Cuyahoga Falls, Ohio, agreed to provide a suitable site for the generating facilities, and OMEGA JV-1 agreed to lease such site for the period of the agreement plus one year, for the sum of one dollar. Cuyahoga Falls also has agreed to perform operational tasks and perform routine maintenance on the generating facilities at no charge to OMEGA JV-1 in consideration of the availability of the electric generation project to Cuyahoga Falls for electric system emergency backup.
- OMEGA JV-1 entered 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 \$15,060 and \$16,441 for the years ended December 2001 and 2000, respectively.

### 4. Cash and Cash Equivalents

At December 31, 2001 and 2000, the carrying amount of OMEGA JV-1's operating cash deposits was \$14,270 and \$4,759, respectively, and the bank balance was \$15,141 and \$4,759, respectively. The difference between operating cash deposits and the bank balance is due to outstanding checks. At December 31, 2001 and 2000, \$85,660 and \$16,525, respectively, was invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which consists principally of obligations guaranteed by the United States government. The funds are collateralized by investments purchased by the funds, which are not held in the name of OMEGA JV-1.

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Notes to Financial Statements December 31, 2001 and 2000

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OMEGA JV-1 categorizes its cash and cash equivalents into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by OMEGA JV-1 or its agent in OMEGA JV-1's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in OMEGA JV-1's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in OMEGA JV-1's name.

The bank balances of these funds are categorized by risk as follows:

<u>Risk Category</u>	<u>Bank Balance December 31, 2001</u>	<u>Bank Balance December 31, 2000</u>
1	\$ 15,141	\$ 398
2	-	-
3	85,660	16,525
Total	<u>\$ 100,801</u>	<u>\$ 16,923</u>

### 5. Risk Management

OMEGA JV-1 is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors and officers insurance, fiduciary liability and fidelity crime coverage. To the extent that liabilities are incurred and the amount of the loss can be reasonably estimated, an accrual is recorded for any amount not covered by insurance and any deductibles related to the insurance policy.

### 6. Commitments and Contingencies

#### Environmental Matters

The six diesel-fired generators at Cuyahoga Falls received a permit to install on September 13, 1989. The latest permit to operate was received June 23, 1998 and expires June 23, 2003.

The OMEGA JV-1 units are potentially affected by maximum achievable control technology (MACT) standards. OMEGA JV-1 is evaluating the applicability of this rule to each unit. Those units affected must have hazardous air pollutant emissions no worse than the 12<sup>th</sup> percentile of the best performing units. This may require the installation of catalytic oxidation equipment to destroy hazardous air pollutants.

# Ohio Municipal Electric Generation Agency Joint Venture 1

## Notes to Financial Statements December 31, 2001 and 2000

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Most metropolitan and industrial counties in Ohio are expected to become nonattainment areas under the new zone and fine particulate matter ambient air quality standards. This will 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.

### **Other Commitments**

From time to time, OMEGA JV-1 is subject to claims and litigation in the normal course of business. At December 31, 2001 and 2000, OMEGA JV-1's management is unaware of any claims or litigation requiring accrual in the financial statements.

**Report of Independent Accountants 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 Generation Agency Joint Venture 1

We have audited the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV-1) at and for the year ended December 31, 2001, and have issued our report thereon dated March 27, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether OMEGA JV-1's financial statements 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 OMEGA JV-1's internal control 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 to be 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 and is not intended to be and should not be used by anyone other than those specified parties.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

**Ohio Municipal Electric  
Generation Agency  
Joint Venture 2**  
Financial Statements  
December 31, 2001



# Ohio Municipal Electric Generation Agency Joint Venture 2

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## Report of Independent Accountants

Board of Participants  
Ohio Municipal Electric Generation Agency  
Joint Venture 2

In our opinion, the accompanying general-purpose financial statements as listed in the accompanying table of contents present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV-2) at December 31, 2001, and the results of its operations and its cash flows for the thirteen months then ended, in conformity with accounting principles generally accepted in the United States of America. These general-purpose financial statements are the responsibility of OMEGA JV-2's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2002 on our consideration of OMEGA JV-2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the thirteen months ended December 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Balance Sheet At December 31, 2001

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### Assets

Electric plant	
Electric plant generators	\$ 57,223,774
Accumulated depreciation	(2,947,628)
	<hr/>
Total electric plant	54,276,146
	<hr/>
Restricted assets—funds held by trustee	226,844
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Current assets	
Cash and cash equivalents	518,625
Receivables from participants	283,709
Inventory	121,266
Prepaid expenses	107,616
	<hr/>
Total current assets	1,031,216
	<hr/>
Total assets	\$ 55,534,206
	<hr/>

### Participants' Equity and Liabilities

Participants' equity	
Participants' contributions	\$ 58,770,598
Accumulated net margin	(3,788,706)
	<hr/>
Total participants' equity	54,981,892
	<hr/>
Current liabilities	
Accounts payable	451,423
Payable to American Municipal Power-Ohio, Inc.	68,848
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Total current liabilities	520,271
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Deferred revenue	32,043
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Total participants' equity and liabilities	\$ 55,534,206
	<hr/>

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

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Statement of Operations

For the Thirteen Months Ended December 31, 2001

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<b>Revenues</b>	
Electric revenue	<u>\$ 2,080,169</u>
<b>Expenses</b>	
Purchased power	457,438
Affiliated entity services	392,077
Depreciation	2,947,628
Fuel	833,021
Professional services	125,244
Insurance	67,303
Maintenance	974,250
Utilities	30,205
Other operating expenses	<u>57,507</u>
Total expenses	<u>5,884,673</u>
Operating margin	(3,804,504)
<b>Nonoperating Revenues</b>	
Investment income	<u>15,798</u>
Net margin	<u>\$ (3,788,706)</u>

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

## Ohio Municipal Electric Generation Agency Joint Venture 2

### Statement of Participants' Equity For the Thirteen Months Ended December 31, 2001

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	<u>Participants' Contributions</u>	<u>Accumulated Net Margin</u>	<u>Total</u>
Balances at December 1, 2000	\$ -	\$ -	\$ -
Contributions from participants	58,770,598	-	58,770,598
Net margin	-	(3,788,706)	(3,788,706)
Balances at December 31, 2001	<u>\$ 58,770,598</u>	<u>\$ (3,788,706)</u>	<u>\$ 54,981,892</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Statement of Cash Flows

For the Thirteen Months Ended December 31, 2001

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<b>Cash flows from operating activities</b>	
Operating margin	\$ (3,804,504)
Adjustments to reconcile operating margin to net cash used in operating activities:	
Depreciation	2,947,628
Changes in assets and liabilities:	
Receivables from participants	(283,709)
Inventory	(121,266)
Prepaid expenses	(107,616)
Accounts payable	451,423
Deferred revenue	32,043
Payable to American Municipal Power-Ohio, Inc.	68,848
	<hr/>
Net cash used in operating activities	(817,153)
<b>Cash flows from capital and related financing activities</b>	
Investment income	15,798
Deposits to restricted funds	(226,844)
Contributions from Participants	58,770,598
	<hr/>
Net cash provided by capital and related financing activities	58,559,552
<b>Cash flows from investing activities</b>	
Purchase of electric plant generators	(57,223,774)
	<hr/>
Net cash used in investing activities	(57,223,774)
Net change in cash and cash equivalents	518,625
Cash and cash equivalents, beginning of period	<hr/>
	-
Cash and cash equivalents, end of period	<hr/>
	\$ 518,625

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

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

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### 1. Organization

Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV-2) 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 or about December 1, 2000. Its purpose is to provide backup and peaking capacity to the Participants. The Participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio). On December 27, 2001, OMEGA JV-2 purchased 138.650 MW of electric plant generating units (the Project) from AMP-Ohio. The Project is referred to as "distributed generation" because the units are sited near the Participants' municipal electric systems where it is anticipated they will serve. The Project consists of two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine and 34 1.825 MW new and one 1.6 MW used oil-fired diesel generator project units.

### 2. Summary of Significant Accounting Policies

The following summarizes the significant accounting policies followed by OMEGA JV-2.

#### **Basis of Accounting**

The accounting records of OMEGA JV-2 are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The accounts of OMEGA JV-2 are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV-2 applies all Financial Accounting Standards Board statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

#### **Cash and Cash Equivalents**

For purposes of the statement 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.

#### **Electric Plant**

Electric plant generating units are recorded at cost. Depreciation is provided on the straight-line method over 20 years, 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 electric plant assets are retired, the accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value, with any resulting gain or loss recognized in operations.

#### **Inventory**

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

#### **Participants' Equity**

Participants' equity consists of contributed capital of the Participants and accumulated net margins. Should OMEGA JV-2 cease business, these amounts, if available, will be returned to the Participants.

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

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

<u>Municipality</u>	<u>Percent Project Ownership and Entitlement</u>
Hamilton	23.87 %
Bowling Green	14.32
Niles	11.49
Cuyahoga Falls	7.46
Wadsworth	5.81
Painesville	5.22
Dover	5.22
Galion	4.29
Amherst	3.73
St. Marys	2.98
Montpelier	2.98
Shelby	1.89
Versailles	1.24
Edgerton	1.09
Yellow Springs	1.05
Oberlin	0.91
Pioneer	0.86
Seville	0.80
Grafton	0.79
Brewster	0.75
Monroeville	0.57
Milan	0.55
Oak Harbor	0.55
Elmore	0.27
Jackson Center	0.22
Napoleon	0.20
Lodi	0.16
Genoa	0.15
Pemberville	0.15
Lucas	0.12
South Vienna	0.09
Bradner	0.09
Woodville	0.06
Haskins	0.04
Arcanum	0.03
Custar	0.00
	<hr/>
	100.00 %

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

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### Revenue Recognition and Rates

Revenues are recognized when earned as service is delivered to the Participants' points of delivery. OMEGA JV-2's rates for electric power are designed to cover annual operating costs, except depreciation. Rates are set annually by the Board of Participants.

Rates for electric service pursuant to contracts with the Participants are not designed to recover contributed capital used to acquire the electric plant generators. Rates charged to OMEGA JV-2 financing participants for debt service are paid to AMP-Ohio to retire the Project financing obligations (See Note 5). Accordingly, OMEGA JV-2 will generate negative operating margins during the operating life of the electric plant generators.

Deferred revenue represents amounts prepaid by the Participants for repairs and maintenance and will be recorded as income when the related expenditure occurs.

### 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 accumulated other comprehensive net margins, a separate component of participants' equity. Realized gains and losses on investment transactions are determined on the specific-identification basis.

### Use of Estimates

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

## 3. Related-Party Agreements

OMEGA JV-2 has entered into the following agreements:

- In November 2001, OMEGA JV-2 and AMP-Ohio entered into an agreement for management services. Under this agreement, AMP-Ohio periodically provides management, operational and maintenance services to OMEGA JV-2 as its agent. This agreement is in effect until September 30, 2003 and thereafter for successive periods of one year. Amounts paid to AMP-Ohio under this agreement were \$5,568 for the period ended December 31, 2001.
- As OMEGA JV-2's agent, AMP-Ohio purchases power on OMEGA JV-2's behalf. Power and fuel purchases for the period ended December 31, 2001 amounted to \$457,438.
- As OMEGA JV-2's agent, AMP-Ohio has 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 \$386,509 for the period ended December 31, 2001.

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

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### 4. Cash and Cash Equivalents

At December 31, 2001, the carrying amount of OMEGA JV-2's operating cash deposits was \$22,934, and the bank balance was \$31,507. The difference between cash operating deposits and the bank balance is due to outstanding checks. At December 31, 2001, \$495,691 was invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which invest principally in obligations guaranteed by the United States government. Amounts in the operating cash deposits and investments with the bank in excess of \$100,000 are not covered by federal depository insurance.

OMEGA JV-2 categorizes its cash and cash equivalents into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by OMEGA JV-2 or its agent in OMEGA JV-2's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in OMEGA JV-2's name.
- Category 3 is uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in OMEGA JV-2's name.

The bank balances are categorized by risk as follows:

<u>Risk Category</u>	<u>Bank Balance December 31, 2001</u>
1	\$ 31,507
2	-
3	495,691
Total	<u>\$ 527,198</u>

### 5. Acquisition of the Project

Pursuant to the Joint Venture Agreement, OMEGA JV-2 agreed to purchase the Project (as described in Note 1) and assume related contracts from AMP-Ohio for a total purchase price of \$58,570,596, less capacity payments received prior to the purchase of \$1,761,557. OMEGA JV-2 financed the initial purchase with a one year note payable to AMP-Ohio from OMEGA JV-2. The participants in OMEGA JV-2 consist of financing and nonfinancing participants.

On January 21, 2002, AMP-Ohio issued \$50,260,000 of 20-year fixed rate bonds on behalf of the financing participants of OMEGA JV-2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV-2. The nonfinancing participants in OMEGA JV-2 contributed \$12,665,886 during the period ended December 31, 2001. The proceeds from the bond offering together with nonfinancing participant contributions were used to pay the note payable to AMP-Ohio.

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

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Effective January 18, 2001, OMEGA JV-2 purchased the property and equipment of Ohio Municipal Electric Generation Agency Joint Venture 3 (OMEGA JV-3), including a diesel generator, the transmission and distribution facilities, prepaid insurance and fuel inventory for a total purchase price of \$420,000. In addition, OMEGA JV-2 obtained the rights to a lease agreement and the rights to a routine maintenance contract between OMEGA JV-3 and the City of Bowling Green, Ohio.

### 6. Restricted Assets

Restricted assets include those assets comprising the Reserve and Contingency Fund, which are established and maintained pursuant to the Agreement. At December 31, 2001, the investments were held in money market funds and cash equivalents with a cost and market value of \$226,884.

The Agreement requires the Reserve and Contingency Fund to have a balance of \$225,000. This amount was collected from the Participants in January 2001. Of this amount, \$176,355 was collected from OMEGA JV-2 participants who financed their capital contribution by participating in the bond issue. The fund is held by the bond trustee. In accordance with the trust indenture related to the bond issue discussed in Note 5, amounts collected from financing participants may be used in the event of nonpayment of bond debt service.

OMEGA JV-2 also collects and holds amounts from all participants to be reserved in an Overhaul Fund. During 2001, the amount collected was \$32,043.

### 7. Risk Management

OMEGA JV-2 is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio maintains insurance policies related to commercial property, motor vehicle liability, workers compensation, excess liability, general liability, pollution liability, directors' and officers' insurance, fiduciary liability, crime and fidelity coverage. To the extent that liabilities are incurred and the amount of the loss can be reasonably estimated, an accrual is recorded for any amount not covered by insurance and any deductibles related to the insurance policy.

### 8. Legal Matters

In November 2000, AMP-Ohio was served with a complaint filed against it by Associated Electric, Inc. doing business as World Power (World Power), in the United States District Court. World Power claims it is owed commissions from AMP-Ohio related to the purchase by AMP-Ohio from Delta Metals Company (Delta) of two, thirty-two megawatt turbines, which are currently part of the Project. World Power has alleged various items, including breach of contract, and has demanded \$1.8 million in actual damages, punitive damages and attorney's fees. AMP-Ohio believes these claims are without merit and that, if held to owe such commissions, would have a claim against Delta for any such liability, although collectibility is not assured. In conjunction with the purchase

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

from AMP-Ohio of certain of OMEGA JV2's facilities, OMEGA JV-2 agreed to assume any liability arising from this case and to pay for the costs of defense. Any AMP-Ohio liability regarding this matter would be the responsibility of OMEGA JV-2, to whom the units have been sold. OMEGA JV-2 and AMP-Ohio believe that the likelihood of World Power recovering on these claims is remote and, therefore, no liability has been recorded at December 31, 2001.

### 9. Status of Operating Permits (Unaudited)

The following table shows the status of the major operating permits required for the installation and operation of the Project Units.

Site	Type	MW/ Unit	Number of Units	Permit to Install Received	Permit to Operate Received	Emission Testing	Maximum Allowable Operating Hours (Rolling 12-months)
Bowling Green	Gas	32	1	8/18/99	Pending	Yes/Continuous Emissions Monitoring System (CEMS) certification completed.	2,250
Bowling Green	Diesel	1.6	1	4/12/95	4/24/97, renewal submitted 2/17/00	Not required.	452
Hamilton	Gas	32	1	8/18/99	Draft	CEMS certification completed. Emissions test for particulate may need to be repeated.	2,250
St. Marys	Dual Fuel	11	1	12/8/99	Pending	Compliance testing completed 12/20/00. Failed to meet short-term emissions limit for particulate matter while burning liquid fuel.	1,168
Edgerton	Diesel	1.825	2	7/13/00	Pending	Compliance testing successfully completed 12/6/00.	1,200 per unit
Galion	Diesel	1.825	3	7/13/00	Pending	Compliance testing completed. Failed to meet short-term emissions limit for sulfur dioxide.	1,200 per unit
Bryan	Diesel	1.825	6	7/14/99	Pending	Compliance testing successfully completed 1/7/00.	600 per unit
Dover	Diesel	1.825	6	7/14/99	Pending	Not required.	3,600 for 6 units combined
Jackson Center	Diesel	1.825	1	6/3/99	Pending	Not required.	1,200
Montpelier	Diesel	1.825	6	3/8/00	Pending	Compliance testing successfully completed 10/6/00.	600 per unit

# Ohio Municipal Electric Generation Agency Joint Venture 2

## Notes to Financial Statements December 31, 2001

Site	Type	MW/ Unit	Number of Units	Permit to Install Received	Permit to Operate Received	Emission Testing	Maximum Allowable Operating Hours (Rolling 12-months)
Napoleon	Diesel	1.825	3	7/14/99	Pending	Compliance testing successfully completed 1/7/00.	1,200 per unit
Seville	Diesel	1.825	3	4/26/00	Pending	Compliance testing successfully completed.	3,600 for 3 units combined
Shelby	Diesel	1.825	1	9/22/99	Pending	Compliance testing successfully completed 6/20/00.	1,200
Versailles	Diesel	1.825	3	6/9/99	Pending	Compliance testing successfully completed 11/5/99.	1,200 per unit

Final Permits to Install from the Ohio Environmental Protection Agency (OEPA) have been received for the installation of each of the Project Units. These Permits to Install establish the maximum allowable operating hours for specific Project Units (or aggregate units in the cases of Dover and Seville) and allow the Project Units to operate for a period of one year following commencement of operations. Permits to Operate specific Project Units have been submitted by the required deadline to OEPA and are pending. It is the policy of OEPA that the owner/operator of the specific Project Units may operate the units under the terms and conditions of the final Permit to Install until a final Permit to Operate is issued. AMP-Ohio has no reason to believe that all the Project Units will not ultimately receive the Permits to Operate required for sustained operation of such units up to the maximum allowable operating hours.

The 32 MW combustion turbines in Bowling Green and Hamilton required Title V operating permits because they are affected units under the Acid Rain program. The remaining OMEGA JV-2 units are permitted as synthetic minor facilities. Synthetic minors facilities are the lowest priority for operating permit processing at OEPA. In some cases, it may take years to get a synthetic minor operating permit.

As noted in the table above, the dual fuel combustion turbine in St. Marys and one of the diesel engines in Galion failed to meet their short-term emissions limits for particulate matter and sulfur dioxide, respectively. The Galion problem was resolved when higher output settings were discovered. OEPA allowed OMEGA JV-2 to revise the Permit to Install to reflect the higher fuel through-put and consequently higher sulfur dioxide emissions.

The St. Marys combustion turbine failed to meet its particulate matter standard while burning diesel fuel. The failure resulted in a Notice of Violation. OMEGA JV-2 responded with a compliance plan. The plan is to upgrade the liquid fuel delivery system and retest. If the fuel system upgrade does not eliminate the problem, alternate fuel blends and fuel additives will be explored. Upgrading the fuel system has proved to be more difficult than anticipated. Commissioning may be delayed until Summer 2002, requiring an extension of the compliance plan from the OEPA.

During the emissions test for the combustion turbine in Hamilton, a major mechanical failure occurred, requiring the emissions test to be aborted. Since this unit is equipped with a continuous emissions monitor for carbon monoxide, organic carbon and nitrogen oxides, a retest for those

## Ohio Municipal Electric Generation Agency Joint Venture 2

### Notes to Financial Statements December 31, 2001

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pollutants has not been requested. A retest for particulate matter emissions may be requested. Since this unit burns natural gas exclusively, compliance with the particulate matter standard is anticipated.

All OMEGA JV-2 units are potentially affected by the maximum achievable control technology (MACT) standards. OMEGA JV-2 is evaluating the applicability of this rule to each unit. Those units affected must have hazardous air pollutant emissions no worse than the 12<sup>th</sup> percentile of the best performing units. This may require the installation of catalytic oxidation equipment to destroy hazardous air pollutants.

Most metropolitan and industrial counties in Ohio are expected to become nonattainment areas under the new ozone and fine particulate matter ambient air quality standards. This will require substantial local reductions of nitrogen oxides, volatile organic compounds, sulfur dioxide 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.

**Report of Independent Accountants 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 2

We have audited the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV-2) as of and for the thirteen months ended December 31, 2001, and have issued our report thereon dated March 27, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether OMEGA JV-2's financial statements 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 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 OMEGA JV-2's internal control 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 to be 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 and is not intended to be and should not be used by anyone other than those specified parties.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio



**Ohio Municipal Electric  
Generation Agency  
Joint Venture 4  
Financial Statements  
December 31, 2001 and 2000**



# Ohio Municipal Electric Generation Agency Joint Venture 4

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## Report of Independent Accountants

Board of Participants  
Ohio Municipal Electric Generation Agency  
Joint Venture 4

In our opinion, the accompanying general-purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 4 (OMEGA JV-4) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These general-purpose financial statements are the responsibility of OMEGA JV-4's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 27, 2002 on our consideration of OMEGA JV-4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended December 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Balance Sheets

At December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Utility plant		
Transmission line	\$ 2,061,638	\$ 1,979,694
Accumulated depreciation	<u>(395,124)</u>	<u>(329,140)</u>
Total utility plant	<u>1,666,514</u>	<u>1,650,554</u>
Current assets		
Cash and cash equivalents	331,688	255,138
Accounts receivable	47,922	6,698
Receivables from American Municipal Power-Ohio, Inc., net	-	110,967
Supplies inventory	130,808	134,049
Prepaid expenses	<u>917</u>	<u>2,780</u>
Total current assets	<u>511,335</u>	<u>509,632</u>
Total assets	<u>\$ 2,177,849</u>	<u>\$ 2,160,186</u>
<b>Participants' Equity and Liabilities</b>		
Participants' equity		
Participants' contributions	\$ 1,882,838	\$ 1,882,838
Accumulated net margins	<u>214,176</u>	<u>-</u>
Total participants' equity	<u>2,097,014</u>	<u>1,882,838</u>
Current liabilities		
Payable to American Municipal Power-Ohio, Inc., net	72,516	-
Accrued expenses	<u>8,319</u>	<u>277,348</u>
Total current liabilities	<u>80,835</u>	<u>277,348</u>
Total participants' equity and liabilities	<u>\$ 2,177,849</u>	<u>\$ 2,160,186</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Statements of Operations

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Revenues</b>		
Transmission revenue	\$ 810,184	\$ 830,720
Reimbursement of expenses	-	34,328
	<u>810,184</u>	<u>865,048</u>
Total revenues		
	<u>810,184</u>	<u>865,048</u>
<b>Expenses</b>		
American Municipal Power-Ohio, Inc. services	-	1,341
Municipal Energy Services Agency services	25,836	16,473
Wheeling fees	-	43,896
Maintenance	24,688	27,466
Professional services	19,659	99,566
Depreciation	65,984	66,025
Other operating expenses	7,156	9,318
	<u>143,323</u>	<u>264,085</u>
Total expenses		
	<u>143,323</u>	<u>264,085</u>
Operating margin	666,861	600,963
<b>Nonoperating Revenues</b>		
Investment income	4,168	2,695
Miscellaneous revenue	-	23,714
	<u>4,168</u>	<u>26,409</u>
Net margins	<u>\$ 671,029</u>	<u>\$ 627,372</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Statements of Participants' Equity For the Years Ended December 31, 2001 and 2000

	<u>Participants' Contributions</u>	<u>Accumulated Net Margins</u>	<u>Total</u>
Balances at December 31, 1999	\$ 1,948,863	\$ -	\$ 1,948,863
Net margins for the year ended December 31, 2000	-	627,372	627,372
Distributions to participants			
Bryan	(27,731)	(263,496)	(291,227)
Pioneer	(19,807)	(188,212)	(208,019)
Montpelier	(16,506)	(156,843)	(173,349)
Edgerton	(1,981)	(18,821)	(20,802)
Balances at December 31, 2000	1,882,838	-	1,882,838
Net margins for the year ended December 31, 2001	-	671,029	671,029
Distributions to participants			
Bryan	-	(191,878)	(191,878)
Pioneer	-	(137,056)	(137,056)
Montpelier	-	(114,213)	(114,213)
Edgerton	-	(13,706)	(13,706)
Balances at December 31, 2001	<u>\$ 1,882,838</u>	<u>\$ 214,176</u>	<u>\$ 2,097,014</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Cash flows from operating activities</b>		
Operating margins	\$ 666,861	\$ 600,963
Adjustments to reconcile operating margins to net cash provided by operating activities:		
Depreciation and amortization	65,984	66,025
Changes in assets and liabilities:		
Receivables from participants and accounts receivable	(41,224)	(810)
Receivables from American Municipal Power-Ohio, Inc.	110,967	(110,967)
Supplies inventory	3,241	1,422
Prepaid expenses	1,863	1,814
Payable to American Municipal Power-Ohio, Inc.	(9,428)	(61,909)
Accrued expenses	(269,029)	189,372
Net cash provided by operating activities	<u>529,235</u>	<u>685,910</u>
<b>Cash flows from capital and related financing activities</b>		
Distributions to participants net of contributions	(456,853)	(693,397)
Proceeds from sale of fixed assets	<u>-</u>	<u>23,714</u>
Net cash used in capital and related financing activities	<u>(456,853)</u>	<u>(669,683)</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>4,168</u>	<u>2,695</u>
Net cash provided by investing activities	<u>4,168</u>	<u>2,695</u>
Net change in cash and cash equivalents	76,550	18,922
Cash and cash equivalents, beginning of year	<u>255,138</u>	<u>236,216</u>
Cash and cash equivalents, end of year	<u>\$ 331,688</u>	<u>\$ 255,138</u>
<b>Supplemental Schedule of Noncash Financing Activity</b>		
Accrued distributions to participants	<u>\$ -</u>	<u>\$ 249,476</u>
Capital expenditures included in net payable to American Municipal Power-Ohio, Inc.	<u>\$ 81,944</u>	<u>\$ -</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements December 31, 2001 and 2000

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### 1. Organization

Ohio Municipal Electric Generation Agency Joint Venture 4 (OMEGA JV-4) was organized by four subdivisions of the State of Ohio (the Participants) on December 1, 1995, pursuant to a Joint Venture Agreement (the Agreement) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to undertake the Williams County Transmission Project (the Project). The Participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio). OMEGA JV-4 owns and operates the Project. The Project consists of a 69-kV three-phase transmission line located in Williams County, Ohio. During 2000, OMEGA JV-4 derived substantially all its revenue from a single industrial customer. During 2001, OMEGA JV-4 derived a majority of its revenue from a single municipal customer.

### 2. Summary of Significant Accounting Policies

The following summarizes the significant accounting policies followed by OMEGA JV-4.

#### **Basis of Accounting**

The accounting records of OMEGA JV-4 are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The accounts of OMEGA JV-4 are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV-4 applies all Financial Accounting Standards Board statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

#### **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.

#### **Utility Plant**

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

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that full recoverability is questionable.

#### **Supplies Inventory**

Supplies include poles, wire and other items designated for use in the repair and maintenance of the utility plant and the construction of future phases of the transmission line.

#### **Participants' Equity**

Participants' equity consists of contributed capital of the Participants and accumulated net margins. Should OMEGA JV-4 cease business, these amounts, if available, will be returned to the Participants.

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements December 31, 2001 and 2000

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All property constituting OMEGA JV-4 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
Total	<u>100.00 %</u>

### Revenue Recognition and Rates

Revenues are recognized when transmission service is delivered to customers. Rates are set annually by the Board of Participants.

### Use of Estimates

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

### New Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), will become effective beginning January 1, 2003. SFAS No. 143 establishes accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. OMEGA JV-4 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The Financial Accounting Standards Board also issued SFAS No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*, which sets forth the accounting to recognize and measure an impairment loss. SFAS No. 144 was effective beginning January 1, 2002. OMEGA JV-4 does not expect the implementation of SFAS No. 144 to have a material effect on its financial statements.

### 3. Related Agreements

OMEGA JV-4 has entered into the following agreements:

- Beginning, in 1995, AMP-Ohio provided staffing and expertise to fulfill the management and operational obligations under the agreement and acted as OMEGA JV-4's agent. For each year that the agreement is in effect, AMP-Ohio was paid a management fee of \$1,000 per

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements December 31, 2001 and 2000

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year; plus, 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. Effective January 1, 2001, the management fee under the agreement was canceled. The management fee for the year ended December 31, 2000 was \$1,341. At December 31, 2001, OMEGA JV-4 owed AMP-Ohio \$72,516 and at December 31, 2000 OMEGA JV-4 had a receivable from AMP-Ohio of \$110,967.

- OMEGA JV-4 entered an agreement with the 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 \$25,836 and \$16,473 for the years ended December 31, 2001 and 2000, respectively.

#### 4. Cash and Cash Equivalents

At December 31, 2001 and 2000, the carrying amount of OMEGA JV-4's operating cash deposits was \$61,370 and \$255,138, respectively, and the bank balance was \$61,370 and \$255,138, respectively. At December 31, 2001 and 2000, \$270,318 and \$0, respectively, was invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which consists principally of obligations guaranteed by the United States government. The funds are collateralized by investments purchased by the funds, which are not held in the name of OMEGA JV-4. Amounts in the operating cash deposits and investments with the bank in excess of \$100,000 are not covered by federal depository insurance.

The Board of Participants has designated \$111,821 of cash and cash equivalents as an operations and maintenance reserve fund at December 31, 2001.

OMEGA JV-4 categorizes its cash and cash equivalents into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by OMEGA JV-4 or its agent in OMEGA JV-4's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in OMEGA JV-4's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in OMEGA JV-4's name.

# Ohio Municipal Electric Generation Agency Joint Venture 4

## Notes to Financial Statements December 31, 2001 and 2000

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The bank balances of these funds are categorized by risk as follows:

<u>Risk Category</u>	<u>Bank Balance December 31, 2001</u>	<u>Bank Balance December 31, 2000</u>
1	\$ 61,370	\$ 255,318
2	-	-
3	270,318	-
Total	<u>\$ 331,688</u>	<u>\$ 255,318</u>

### 5. Risk Management

OMEGA JV-4 is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio maintains insurance policies related to commercial property, motor vehicle liability, workers compensation, excess liability, general liability, pollution liability, Directors and Officers Insurance, fiduciary liability and fidelity crime coverage. OMEGA JV-4 is self-insured for property damage risks related to its transmission line. To the extent that liabilities are incurred and the amount of the loss can be reasonably estimated, an accrual is recorded for any amount not covered by insurance and any deductibles related to the insurance policy.

### 6. Commitments and Contingencies

The Project is subject to regulation by federal, state and local authorities related to environmental and other matters.

OMEGA JV-4 has been involved in litigation with Toledo Edison Co. related to power sales to an industrial customer. In May 1999, the Ohio Court of Appeals upheld a lower court's decision to dismiss the complaint by Toledo Edison Co. in full, except for one count which it remanded back to the lower court for trial on the merits. On November 15, 2000, the Ohio Supreme Court reversed and remanded the appellate court decision, which had affirmed the trial court's dismissal. A pretrial hearing took place on April 30, 2001. It is not possible to predict the outcome of this proceeding at this time. However, OMEGA JV-4 believes that it has meritorious legal and factual defenses to Toledo Edison Co.'s claims.

**Report of Independent Accountants 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 4

We have audited the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 4 (OMEGA JV-4) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 27, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether OMEGA JV-4's financial statements 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 OMEGA JV-4's internal control 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 to be material weaknesses.

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

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio



**Ohio Municipal Electric  
Generation Agency  
Joint Venture 5**  
Financial Statements  
December 31, 2001 and 2000



# Ohio Municipal Electric Generation Agency Joint Venture 5

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## **Report of Independent Accountants**

Board of Participants  
Ohio Municipal Electric Generation Agency  
Joint Venture 5

In our opinion, the accompanying general-purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) at December 31, 2001 and 2000, and results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These general-purpose financial statements are the responsibility of OMEGA JV-5's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2002 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 for the year ended December 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Balance Sheets

At December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Utility plant		
Electric plant in service	\$ 186,652,551	\$ 188,092,678
Accumulated depreciation	<u>(12,639,360)</u>	<u>(8,190,254)</u>
Total utility plant	<u>174,013,191</u>	<u>179,902,424</u>
Restricted assets—funds held by trustee	<u>19,161,677</u>	<u>43,209,002</u>
Current assets		
Cash and cash equivalents	3,325,964	1,733,932
Receivables from participants	1,638,614	917,202
Receivable from American Municipal Power-Ohio, Inc.	556,143	-
Accounts receivable, trustee	-	33,962
Inventories	115,906	69,843
Prepaid expenses	<u>241,648</u>	<u>82,522</u>
Total current assets	<u>5,878,275</u>	<u>2,837,461</u>
Other assets		
Prepaid dedicated capacity	1,737,615	1,971,900
Prepaid bond insurance	2,023,436	1,699,465
Certificates of beneficial interest issuance costs	<u>2,006,733</u>	<u>1,387,955</u>
Total other assets	<u>5,767,784</u>	<u>5,059,320</u>
Total assets	<u>\$ 204,820,927</u>	<u>\$ 231,008,207</u>

Continued

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Balance Sheets

At December 31, 2001 and 2000

	2001	2000
<b>Participants' Equity and Liabilities</b>		
Participants' equity		
Participants' contributions	\$ 200,000	\$ 200,000
Accumulated net margins	<u>6,127,314</u>	<u>4,143,928</u>
	6,327,314	4,343,928
Accumulated other comprehensive net margins	<u>141,286</u>	<u>22,471</u>
Total participants' equity	<u>6,468,600</u>	<u>4,366,399</u>
Certificates of beneficial interest		
1993 beneficial interest certificates	138,420,000	141,700,000
Unamortized discount	<u>(2,883,172)</u>	<u>(3,017,774)</u>
	<u>135,536,828</u>	<u>138,682,226</u>
2001 beneficial interest certificates	56,125,000	-
Unrecognized accretion	<u>(41,895,934)</u>	<u>-</u>
	<u>14,229,066</u>	<u>-</u>
Net certificates of beneficial interest	<u>149,765,894</u>	<u>138,682,226</u>
Liabilities payable from restricted assets		
Accrued interest	2,861,760	2,918,981
Accrued construction costs	-	30,680,735
Construction retainage payable	<u>374,447</u>	<u>7,322,668</u>
Total liabilities payable from restricted assets	<u>3,236,207</u>	<u>40,922,384</u>
Current liabilities		
Accounts payable	1,211,393	1,625,376
Payable to American Municipal Power-Ohio, Inc.	-	254,372
Accounts payable, trustee	857,223	-
Certificates of beneficial interest, current	<u>3,280,000</u>	<u>3,130,000</u>
Total current liabilities	<u>5,348,616</u>	<u>5,009,748</u>
Deferred revenue	<u>40,001,610</u>	<u>42,027,450</u>
Total participants' equity and liabilities	<u>\$ 204,820,927</u>	<u>\$ 231,008,207</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Statements of Operations For the Years Ended December 31, 2001 and 2000

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	2001	2000
<b>Revenues</b>		
Electric revenue	<u>\$ 22,617,371</u>	<u>\$ 21,815,222</u>
<b>Expenses</b>		
Purchased power	5,478,034	5,842,480
Affiliated entity services	892,519	622,477
Depreciation and amortization	4,975,225	4,405,651
Payment in lieu of taxes	839,975	839,975
Professional services	76,050	59,677
Insurance	191,655	109,795
Maintenance	555,218	437,427
Electric services	85,059	63,738
Other operating expenses	528,465	783,520
Interest expense	<u>7,979,518</u>	<u>7,801,670</u>
Total expenses	<u>21,601,718</u>	<u>20,966,410</u>
Operating margins	1,015,653	848,812
<b>Nonoperating Revenues</b>		
Investment income	<u>967,733</u>	<u>939,023</u>
Net margins	<u>\$ 1,983,386</u>	<u>\$ 1,787,835</u>

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

## Ohio Municipal Electric Generation Agency Joint Venture 5

### Statements of Participants' Equity For the Years Ended December 31, 2001 and 2000

	<b>Participants' Contributions</b>	<b>Accumulated Net Margins</b>	<b>Accumulated Other Comprehensive Net Margins</b>	<b>Total</b>
Balances at December 31, 1999	\$ 200,000	\$ 2,356,093	\$ (157,317)	\$ 2,398,776
Net margins	-	1,787,835	-	1,787,835
Change in investment valuation allowance	-	-	179,788	179,788
Comprehensive net margins				1,967,623
Balances at December 31, 2000	200,000	4,143,928	22,471	4,366,399
Net margins	-	1,983,386	-	1,983,386
Change in investment valuation allowance	-	-	118,815	118,815
Comprehensive net margins				2,102,201
Balances at December 31, 2001	\$ 200,000	\$ 6,127,314	\$ 141,286	\$ 6,468,600

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

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Cash flows from operating activities</b>		
Operating margins	\$ 1,015,653	\$ 848,812
Adjustments to reconcile operating margins to net cash provided by operating activities:		
Depreciation and amortization	4,975,225	4,405,651
Accretion on certificates of beneficial interest	329,085	
Amortization of deferred revenue	(2,025,840)	(1,279,476)
Changes in assets and liabilities:		
Receivables from participants	(721,412)	41,514
Receivable from/payable to trustee	891,185	(33,962)
Inventories	(46,063)	(10,845)
Prepaid expenses	(159,126)	88,953
Accounts payable and accrued interest	(471,204)	966,566
Receivable from/payable to American Municipal Power-Ohio, Inc.	(810,515)	(1,580,506)
Net cash provided by operating activities	<u>2,976,988</u>	<u>3,446,707</u>
<b>Cash flows from capital and related financing activities</b>		
Interest received	1,217,712	2,458,970
Purchases of investments	(35,794,872)	(13,414,410)
Proceeds from issuance of 2001 certificates of beneficial interest	13,899,981	-
Cost of issuance and bond insurance for 2001 certificates of beneficial interest	(1,099,981)	-
Proceeds from sales of investments	60,086,686	14,385,495
Payments on certificates of beneficial interest	(3,130,000)	(2,985,000)
Net cash provided by capital and related financing activities	<u>35,179,526</u>	<u>445,055</u>
<b>Cash flows from investing activities</b>		
Purchase of utility plant	(37,934,252)	(3,923,778)
Proceeds received from contractors related to utility plant	1,369,770	-
Net cash used in investing activities	<u>(36,564,482)</u>	<u>(3,923,778)</u>
Net change in cash and cash equivalents	1,592,032	(32,016)
Cash and cash equivalents, beginning of year	<u>1,733,932</u>	<u>1,765,948</u>
Cash and cash equivalents, end of year	<u>\$ 3,325,964</u>	<u>\$ 1,733,932</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Accrued additions to utility plant	<u>\$ -</u>	<u>\$ 30,680,735</u>

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

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### 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 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 JV-5 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 Certificates of Beneficial Interest (the Certificates). The Certificates evidence the obligation of the Participants to pay for the cost of the Project from revenues of their electric systems.

### 2. Summary of 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). The accounts of OMEGA JV-5 are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV-5 applies all Financial Accounting Standards Board statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### **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. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When utility plant assets are retired, the accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value, with any resulting gain or loss recognized in operations.

The Project was placed in service in May 1999. However, proceeds from the Certificates were not fully paid to vendors until 2001. Accordingly, interest earned and realized and unrealized gains and losses on investments, through the disbursements date, have been reflected in the cost of utility plant (see Note 11).

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that full recovery is questionable.

### **Inventories**

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

### **Revenue Recognition and Rates**

Revenues are recognized when earned as service is delivered to the 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 the Participants. Rates are set annually by the Board of Participants.

Deferred revenue represents amounts prepaid by the Participants for debt service payments and contributions to the Reserve and Contingency Fund. The amounts related to debt service payments are amortized on a basis which allows the related depreciation expense, interest expense and billings to the Participants for debt service to have no net impact on operating margins.

### **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 accumulated other comprehensive net margins, a separate component of participants' equity. Realized gains and losses on investment transactions are determined on the specific-identification basis.

### **Participants' Equity**

Participants' equity consists of contributed capital of the Participants and accumulated net margins. Should OMEGA JV-5 cease business, these amounts, if available, will be returned to the Participants.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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All property constituting OMEGA JV-5 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>
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	0.94
Lodi	0.94
Pemberville	0.92
Edgerton	0.92
Arcanum	0.84
Seville	0.82
Brewster	0.79
Pioneer	0.76
Genoa	0.69
Jackson Center	0.67
Grafton	0.64
Elmore	0.58
Woodville	0.50
Milan	0.39
Bradner	0.35
Beach City	0.30
Prospect	0.27
Haskins	0.13
Lucas	0.13
Arcadia	0.11
South Vienna	0.11
Waynesfield	0.08
Eldorado	0.08
Republic	0.08
Custar	0.06
	<hr/>
	100.00 %

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### Use of Estimates

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

### New Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), will become effective beginning January 1, 2003. SFAS No. 143 establishes accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. OMEGA JV-5 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The Financial Accounting Standards Board also issued SFAS No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*, which sets forth the accounting to recognize and measure an impairment loss. SFAS No. 144 was effective beginning January 1, 2002. OMEGA JV-5 does not expect the implementation of SFAS No. 144 to have a material effect on its financial statements.

### 3. Related Agreements

OMEGA JV-5 has entered into the following agreements:

- AMP-Ohio provides services to OMEGA JV-5 as its agent. The cost of these services for the years ended December 31, 2001 and 2000 were \$234,042 and \$21,612, respectively.
- As OMEGA JV-5's agent, AMP-Ohio purchases power on OMEGA JV-5's behalf. Power and fuel purchases for the years ended December 31, 2001 and 2000 amounted to \$5,478,033 and \$5,842,480, respectively. OMEGA JV-5 had a receivable from AMP-Ohio of \$556,143 at December 31, 2001 and a payable to AMP-Ohio of \$(254,372) at December 31, 2000 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 \$763,400 and \$647,500 for the years ended December 31, 2001 and 2000, respectively.
- In 1993, OMEGA JV-5 prepaid \$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 for dedicated capacity from June 1, 1996 through May 31, 2009. This asset is being amortized ratably over the term of the commitment.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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- OMEGA JV-5 entered an agreement with Municipal Energy Services Agency (MESA), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The costs related to these services were \$737,236 and \$846,821 for the years ended December 31, 2001 and 2000, respectively, including \$78,759 and \$245,956 of costs capitalized in electric plant, respectively.

### 4. Cash and Cash Equivalents

At December 31, 2001 and 2000, the carrying amount of OMEGA JV-5's operating cash deposits was \$117,483 and \$590,656, respectively, and the bank balance was \$96,026 and \$684,412, respectively. The difference between operating cash deposits and the bank balance is due to deposits in transit and outstanding checks. At December 31, 2001 and 2000, \$3,208,481 and \$1,143,276, respectively, was invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which consists principally of obligations guaranteed by the United States government. The funds are collateralized by investments purchased by the funds, which are not held in the name of OMEGA JV-5. Amounts in the operating cash deposits and investments with the bank in excess of \$100,000 are not covered by federal depository insurance.

OMEGA JV-5 categorizes its cash and cash equivalents into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by OMEGA JV-5 or its agent in OMEGA JV-5's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in OMEGA JV-5's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in OMEGA JV-5's name.

The bank balances of these funds are categorized by risk as follows:

<b>Risk Category</b>	<b>Bank Balance December 31, 2001</b>	<b>Bank Balance December 31, 2000</b>
1	\$ 96,026	\$ 684,412
2	-	-
3	3,208,481	1,143,276
Total	\$ 3,304,507	\$ 1,827,688

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### 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 Fund and Construction Retainage Fund are available for payment of construction and acquisition costs of the facility. The Construction Fund also includes the liquidated damages withheld from progress payments as discussed in Note 11. Assets in the Debt Service Reserve Fund are for use to make up any deficiency in the amount of principal and interest currently due and, to the extent available, to make any portion of the final debt service payment amount due on February 15, 2030. Assets in the Reserve and Contingency Fund are for use to make up any deficiency in the amount of principal and interest payments and, to the extent available, to provide for future repair and maintenance costs.

The aggregate amount of cash and investments in each of these funds at December 31, 2001 and 2000 are as follows:

	2001	2000
Construction Fund	\$ -	\$ 20,968,842
Debt Service Reserve Fund	11,402,158	11,382,586
Certificate Payment Fund	6,327,612	6,650,721
Construction Retainage Fund	-	3,058,518
Reserve and Contingency Fund	<u>1,038,170</u>	<u>999,087</u>
Investments at cost	18,767,940	43,059,754
Investment valuation allowance	<u>141,286</u>	<u>22,471</u>
Investments at market	18,909,226	43,082,225
Accrued interest receivable	<u>252,451</u>	<u>126,777</u>
	<u>\$ 19,161,677</u>	<u>\$ 43,209,002</u>

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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At December 31, 2001 and 2000, investments were held as follows:

	2001		2000	
	Cost	Market Value	Cost	Market Value
Money market funds and cash equivalents	\$ 6,061,831	\$ 6,061,831	\$ 32,068,092	\$ 32,068,092
United States Treasury obligations	10,991,662	11,132,948	10,991,662	11,014,133
Deposit in transit to certificate payment fund	1,714,447	1,714,447	-	-
Total	<u>\$ 18,767,940</u>	<u>\$ 18,909,226</u>	<u>\$ 43,059,754</u>	<u>\$ 43,082,225</u>

The Certificates' Trust Agreements limit 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). The Trust Agreement does not restrict the duration of investments to the limitations imposed by Chapter 135.

At December 31, 2001 and 2000, 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 through August 2002.

Interest income capitalized to construction work in progress was \$375,653 and \$1,250,061 for the years ended December 31, 2001 and 2000, respectively.

### 6. Prepaid Bond Insurance

In connection 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.

In connection with the issuance of the Certificates in 2001, OMEGA JV-5 paid \$407,000 on behalf of the Participants to MBIA Insurance Corporation (MBIA) for municipal bond insurance (the MBIA policy). In consideration of the payment of the premium and subject to the terms of the MBIA policy, MBIA 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 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.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### 7. Certificates of Beneficial Interest Issuance Costs

In connection with the issuance of the Certificates in 1993 and the Certificates in 2001, OMEGA JV-5 paid \$1,854,451 and \$692,981, respectively, on behalf of the Participants for underwriter's discount and other costs of issuance. These costs are being amortized over the maturities of the Certificates using the straight-line method.

### 8. Certificates of Beneficial Interest

The Series 1993 Certificates of Beneficial Interest (the Series 1993 Certificates) outstanding at December 31, 2001 are as follows:

<u>Maturity Date</u> <u>February 15,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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	69,475,000	5.38
	<u>\$ 141,700,000</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.

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

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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

<u>Maturity Date</u> <u>February 15,</u>	<u>Principal</u> <u>Amount</u>	<u>Yield</u> <u>to</u> <u>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
	56,125,000	
Less unrecognized accretion	<u>(41,895,934)</u>	
	<u>\$ 14,229,066</u>	

The principal amount at maturity 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, and will be payable at maturity as a component of the maturity. The 2001 Certificates are not subject to redemption prior to maturity.

Except for the limited step-up provisions, in the event of default by a participant as described in Section 18 of the Trust Agreement, the 1993 Series Certificates and the 2001 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 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 JV-5.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

Debt service requirements for the next five years and cumulative requirements thereafter for the 1993 Series Certificates and the 2001 Certificates at December 31, 2001 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 3,280,000	\$ 7,549,362	\$ 10,829,362
2003	3,445,000	7,381,237	10,826,237
2004	3,620,000	7,202,802	10,822,802
2005	3,800,000	7,010,741	10,810,741
2006	4,000,000	6,803,492	10,803,492
2007-2030	<u>179,680,000</u>	<u>69,519,889</u>	<u>249,199,889</u>
	<u>\$197,825,000</u>	<u>\$105,467,523</u>	<u>\$303,292,523</u>

The fair value of the Certificates of Beneficial Interest was estimated by using quoted prices and are as follows:

	<u>December 31, 2001</u>		<u>December 31, 2000</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Long-term debt, including current maturities				
The Series 1993 Certificates	\$ 141,700,000	\$ 144,488,000	\$ 144,830,000	\$146,485,000
The 2001 Certificates	14,229,000	13,727,000	-	-

### 9. Risk Management

OMEGA JV-5 is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio maintains insurance policies related to commercial property, motor vehicle liability, workers compensation, excess liability, general liability, pollution liability, directors and officers insurance, fiduciary liability and fidelity crime coverage. To the extent that liabilities are incurred and the amount of the loss can be reasonably estimated, an accrual is recorded for any amount not covered by insurance and any deductibles related to the insurance policy.

### 10. Commitments

OMEGA JV-5 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 such time as the Project ceases commercial operations.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### 11. Project Contractor and Related Matters

On February 24, 1995, OMEGA JV-5 entered into a contract for the construction of the Project near Belleville, West Virginia. Under the dispute procedure in the contract, the contractor asserted claims in 1996 against OMEGA JV-5 for different 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 United States 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 had 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. Since that time, the insurance companies that bonded the contractor provided financing and assumed control of the construction contract.

On February 14, 2001, a full settlement agreement was reached between the contractor, the insurance companies and OMEGA JV-5. The settlement agreement stated OMEGA JV-5 must pay the following amounts to the insurer: \$21,000,000 within 5 days of the settlement agreement; \$3,800,000 within 30 days of the settlement agreement; and \$12,800,000 within five days of OMEGA JV-5's receipt of financing but no later than 180 calendar days from January 29, 2001. OMEGA JV-5 recorded the settlement amount, less previously accrued related construction retainage payable of \$6,919,265, as accrued construction costs at December 31, 2000. All amounts related to the settlement were paid during 2001.

During 2001, OMEGA JV-5 received \$1,369,770 related to settlements with certain individual contractors. These amounts reduced the total electric plant in service cost. OMEGA JV-5 is currently in a dispute with a contractor for the remaining retainage of \$374,000.

### 12. Environmental Matters

#### Hydroelectric Plant and Transmission Line

This facility operates under the FERC, U.S. Army Corps of Engineers and Public Utility Commission of Ohio Licenses. OMEGA JV-5 has filed an application to rescind the existing requirement to conduct a fish entrainment and mortality study, which is currently required by Article 404 of the License. Several resource agencies have opposed the request, and the matter is pending before the FERC.

The hydroelectric plant maintains an 850 kW diesel generator used to restart the plant in the event of a blackout. This unit continues to operate within its permit limits.

# Ohio Municipal Electric Generation Agency Joint Venture 5

## Notes to Financial Statements December 31, 2001 and 2000

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### **Backup Generation Plants**

To provide backup power for the hydroelectric plant, OMEGA JV-5 installed four 1.8 MW diesel generators in Bowling Green, two 1.8 MW diesel generators in Jackson, and three 1.8 MW diesel generators in Napoleon, Niles and Wadsworth. OMEGA JV-5 purchases additional backup power from the City of Oberlin. The generator units owned by OMEGA JV-5 continue to operate within their permit limits.

Two reportable oil spills occurred at the Bowling Green backup generator site in the summer of 1999. Investigations revealed an off-specification fuel hose as the cause. The spills were remediated as directed by Ohio EPA. Corrective action included replacement of the fuel lines at Bowling Green with OEM specified components. Other units in the backup generation fleet were checked for off-specification fuel lines. Ohio EPA also required installation of secondary containment structures around all oil storage tanks and fuel handling equipment at the Bowling Green site. Installation of this equipment is in progress.

As part of the backup power agreement with the City of Oberlin, OMEGA JV-5 purchases the fuel. Oberlin maintains state-of-the-art fuel storage facilities that are fully permitted. Moreover, the Oberlin Generating Station maintains permits for each of its engines. Oberlin noted in its most recent Title V permit compliance certification a minor violation regarding the commencement of construction for units No. 2 and No. 3 prior to receiving a final permit to install. OMEGA JV-5 does not expect significant sanctions to occur as a result of this violation.

## **Supplemental Information**

## **Report of Independent Accountants on Supplementary Financial Data**

Board of Participants  
Ohio Municipal Electric Generation Agency  
Joint Venture 5

Our report on the audit of the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) at December 31, 2001 and 2000 and for the years then ended, appears on page 1. These audits were conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The Supplemental Schedule of Receipts and Disbursements of the 1993 Certificates of Beneficial Interest (Belleville Hydroelectric Project) Funds and Accounts, and the Schedule of Receipts and Disbursements of the 2001 Certificates of Beneficial Interest (Belleville Hydroelectric Project) Funds and Accounts (the Schedules) for the year ended December 31, 2001 are presented for the purposes of additional analysis pursuant to Section 6.10 of the Trust Agreement relating to the financing of the Belleville Hydroelectric Project between Star Bank, Cincinnati, NA (renamed Firstar Bank N.A.), as trustee, and OMEGA JV-5 dated June 1, 1993 and are not a required part of the general-purpose financial statements. We have been informed by management that the trustee holds the fund account assets and executes investment transactions. With respect to investment transactions, we have not audited the books and records of the trustee in connection with the auditing procedures applied in the audit of the general-purpose financial statements. The information in the Schedules, except for that related to investment transactions executed by the trustee, on which we express no opinion, has been subjected to the auditing procedures, applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the use of the Participants of OMEGA JV-5 and Firstar Bank N.A., trustee.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

## Ohio Municipal Electric Generation Agency Joint Venture 5

### Schedule of Receipts and Disbursements of the 1993 Certificates of Beneficial Interest (Belleville Hydroelectric Project) Funds and Accounts For the Year Ended December 31, 2001

	Funds Held by Trustee					
	Total	Construction Fund	Debt Service Reserve Fund	Certificate Payment Fund	Construction Retainage Fund	Reserve and Contingency Fund
Fund balances at January 1, 2001	\$ 43,059,754	\$ 20,968,841	\$ 11,382,587	\$ 6,650,721	\$ 3,058,518	\$ 999,087
Receipts:						
Interest on investments	1,201,671	272,215	700,625	156,703	33,045	39,083
Debt service receipts	8,572,230	-	-	8,572,230	-	-
Total receipts	9,773,901	272,215	700,625	8,728,933	33,045	39,083
Disbursements:						
Production costs	140,531	140,531	-	-	-	-
Professional fees	592,459	592,459	-	-	-	-
Engineering and consulting	430,648	430,648	-	-	-	-
Litigation settlement costs	23,834,723	22,372,437	-	-	1,462,286	-
Bond payment	10,837,655	-	-	10,837,655	-	-
Total disbursements	35,836,016	23,536,075	-	10,837,655	1,462,286	-
Transfers	55,854	2,295,019	(681,054)	71,166	(1,629,277)	-
Excess of (disbursement) receipts	(26,006,261)	(20,968,841)	19,571	(2,037,556)	(3,058,518)	39,083
Fund balances at December 31, 2001	\$ 17,053,493	\$ -	\$ 11,402,158	\$ 4,613,165	\$ -	\$ 1,038,170

The difference between the total fund balances per the schedule of receipts and disbursements (for the 1993 and 2001 certificates combined) and the carrying value of the restricted assets per the audited general-purpose financial statements at December 31, 2001 represents accrued interest receivable, investment valuation allowance and deposits in transit to the Certificate Payment Fund of \$(252,451), \$(141,286) and \$(1,714,447), respectively.

## Ohio Municipal Electric Generation Agency Joint Venture 5

### Schedule of Receipts and Disbursements of the 2001 Certificates of Beneficial Interest (Belleville Hydroelectric Project) Funds and Accounts For the Year Ended December 31, 2001

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	<u>Total</u>	<u>Cost of Issuance Fund</u>	<u>Project Fund</u>
Fund balances at January 1, 2001	\$ -	\$ -	\$ -
Receipts:			
Interest on investments	1,566	656	910
Debt service receipts	448,379	448,379	-
Bond proceeds	<u>12,800,000</u>	<u>-</u>	<u>12,800,000</u>
Total receipts	<u>13,249,945</u>	<u>449,035</u>	<u>12,800,910</u>
Disbursements:			
Trustee fees	11,883	11,883	-
Professional fees	382,208	382,208	-
Litigation settlement costs	<u>12,800,000</u>	<u>-</u>	<u>12,800,000</u>
Total disbursements	<u>13,194,091</u>	<u>394,091</u>	<u>12,800,000</u>
Transfers	<u>(55,854)</u>	<u>(54,944)</u>	<u>(910)</u>
Fund balances at December 31, 2001	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Report of Independent Accountants 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

We have audited the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) at and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated March 27, 2002. We conducted our audits 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.

**Compliance**

As part of obtaining reasonable assurance about whether OMEGA JV-5's financial statements 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 audits 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 audits, we considered OMEGA JV-5's internal control 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 to be 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 and is not intended to be and should not be used by anyone other than those specified parties.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

**Municipal Energy  
Services Agency**  
Financial Statements  
December 31, 2001 and 2000



# Municipal Energy Services Agency

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## **Report of Independent Accountants**

Board of Participants  
Municipal Energy Services Agency

In our opinion, the accompanying general-purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of Municipal Energy Services Agency (MESA) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These general-purpose financial statements are the responsibility of MESA's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 27, 2002 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 grants for the year ended December 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio

# Municipal Energy Services Agency

## Balance Sheets

At December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Property, at cost		
Vehicles	\$ 22,528	\$ -
Total property	<u>22,528</u>	<u>-</u>
Current assets		
Cash and cash equivalents	356,387	659,244
Accounts receivable	128,627	44,936
Receivable from American Municipal Power-Ohio, Inc.	517,894	-
Prepaid expenses	9,061	13,226
Total current assets	<u>1,011,969</u>	<u>717,406</u>
Total assets	<u>\$ 1,034,497</u>	<u>\$ 717,406</u>
<b>Participants' Equity and Liabilities</b>		
Participants' equity	\$ -	\$ -
Current liabilities		
Accrued salaries and related benefits	938,177	593,401
Accounts payable	96,320	68,286
Payable to American Municipal Power-Ohio, Inc.	-	55,719
Total current liabilities	<u>1,034,497</u>	<u>717,406</u>
Total participants' equity and liabilities	<u>\$ 1,034,497</u>	<u>\$ 717,406</u>

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

# Municipal Energy Services Agency

## Statements of Operations

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Revenues</b>		
Services	\$ 6,051,353	\$ 4,666,685
Other income	54,892	14,937
	<u>6,106,245</u>	<u>4,681,622</u>
Total revenues		
	<u>6,106,245</u>	<u>4,681,622</u>
<b>Expenses</b>		
American Municipal Power-Ohio, Inc. services	50,339	57,152
Salaries	4,219,280	3,558,768
Employee benefits	1,451,866	841,422
Professional fees	16,128	7,415
General and administrative	102,192	84,867
Insurance	50,306	49,019
Utilities	31,071	34,372
Membership	191,934	55,818
	<u>6,113,116</u>	<u>4,688,833</u>
Total expenses		
	<u>6,113,116</u>	<u>4,688,833</u>
Operating margins	(6,871)	(7,211)
<b>Nonoperating Revenues</b>		
Interest income	6,871	7,211
	<u>6,871</u>	<u>7,211</u>
Net margins	<u>\$ -</u>	<u>\$ -</u>

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

# Municipal Energy Services Agency

## Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

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	2001	2000
<b>Cash flows from operating activities</b>		
Net margins	\$ -	\$ -
Adjustments to reconcile net margins to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(83,691)	(26,353)
(Receivable from) payable to American Municipal Power-Ohio, Inc.	(573,613)	340,446
Prepaid expenses	4,165	37,418
Accrued salaries and related benefits	344,776	8,826
Accounts payable	5,506	6,504
	<u>(302,857)</u>	<u>366,841</u>
Net cash (used in) provided by operating activities		
	(302,857)	366,841
Cash and cash equivalents, beginning of year	<u>659,244</u>	<u>292,403</u>
Cash and cash equivalents, end of year	<u>\$ 356,387</u>	<u>\$ 659,244</u>
<b>Noncash financing activities</b>		
Purchase of property included in accounts payable	<u>\$ 22,528</u>	<u>\$ -</u>

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

# Municipal Energy Services Agency

## Notes to Financial Statements December 31, 2001 and 2000

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### 1. Organization

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. 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. It also provides administrative services to American Municipal Power-Ohio, Inc. (AMP-Ohio).

### 2. Summary of Significant Accounting Policies

The following summarizes the significant accounting policies followed by MESA.

#### **Basis of Accounting**

Accounts of MESA are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. MESA applies all Financial Accounting Standards Board statements and interpretations except those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less.

#### **Revenue Recognition**

Revenues are recognized as services are performed.

#### **Use of Estimates**

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

#### **New Accounting Standards**

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), will become effective beginning January 1, 2003. SFAS No. 143 establishes accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. MESA is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The Financial Accounting Standards Board also issued SFAS No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*, which sets forth the accounting to recognize and measure an impairment loss. SFAS No. 144 was effective beginning January 1, 2002. MESA does not expect the implementation of SFAS No. 144 to have a material effect on its financial statements.

# Municipal Energy Services Agency

## Notes to Financial Statements December 31, 2001 and 2000

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### 3. Related Agreements

MESA has entered into agreements with related entities to provide services. Revenues earned from these agreements in 2001 and 2000 are as follows:

	2001	2000
AMP-Ohio	\$ 4,397,054	\$ 3,348,263
Ohio Municipal Electric Generation Agency Joint Venture 1	15,060	16,441
Ohio Municipal Electric Generation Agency Joint Venture 2	386,509	-
Ohio Municipal Electric Generation Agency Joint Venture 3	-	7,771
Ohio Municipal Electric Generation Agency Joint Venture 4	25,836	49,104
Ohio Municipal Electric Generation Agency Joint Venture 5	737,236	846,821
Participants	130,705	87,022
Ohio Municipal Electric Association	215,900	205,748
Ohio Public Power Educational Institute	143,053	105,515
	<u>\$ 6,051,353</u>	<u>\$ 4,666,685</u>
Total		

MESA had a receivable from AMP-Ohio of \$517,894 at December 31, 2001 and a payable to AMP-Ohio of (\$55,719) at December 31, 2000.

### 4. Cash and Cash Equivalents

At December 31, 2001 and 2000, the carrying amount of MESA's operating cash deposits was \$156,073 and \$90,684, respectively, and the bank balance was \$162,190 and \$104,000, respectively. The difference between operating cash deposits and the bank balance is primarily due to outstanding checks. At December 31, 2001 and 2000, \$200,314 and \$568,560, respectively, were invested in certain money market funds associated with the bank. Periodically, cash on deposit is invested overnight in these funds, which consists principally of obligations guaranteed by the United States government. The funds are collateralized by investments purchased by the funds, which are not held in the name of MESA. Amounts in the operating cash deposits and investments with the bank in excess of \$100,000 are not covered by federal depository insurance.

# Municipal Energy Services Agency

## Notes to Financial Statements December 31, 2001 and 2000

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MESA categorizes its cash and cash equivalents into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by MESA or its agent in MESA's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in MESA's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in MESA's name.

The bank balances of these funds are categorized by risk as follows:

<u>Risk Category</u>	<u>Bank Balance December 31, 2001</u>	<u>Bank Balance December 31, 2000</u>
1	\$ 162,190	\$ 104,000
2	-	-
3	200,314	568,560
Total	<u>\$ 362,504</u>	<u>\$ 672,560</u>

### 5. Risk Management

MESA is covered under the insurance policies of AMP-Ohio and is billed for its proportionate share of the insurance expense. AMP-Ohio maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, excess liability, general liability, pollution liability, directors and officers insurance, fiduciary liability and fidelity crime coverage. To the extent that liabilities are incurred and the amount of the loss can be reasonably estimated, an accrual is recorded for any amount not covered by insurance and any deductibles related to the insurance policy.

### 6. Pension Plans

#### Public Employees Retirement System of Ohio

All full-time permanent employees of MESA participate in the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer defined benefit public pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate effective for 2001 was 8.5% for employees. The 2001 employer contribution rate was 13.55% of covered payroll.

# Municipal Energy Services Agency

## Notes to Financial Statements December 31, 2001 and 2000

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MESA's total current-year covered payroll was \$4,020,763, all of which related to employees who were covered by PERS. The employee contributions to PERS totaled \$341,769, which represented 8.5% of MESA's total covered payroll. Employer contributions were as follows:

	<u>Amount Contributed</u>	<u>Percentage of Covered Payroll</u>
1999	\$ 424,497	13.55%
2000	367,535	10.65%
2001	544,814	13.55%

PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215 or by calling (614) 466-2085 or (800) 222-PERS (7377).

### Postemployment Benefits

PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disabled recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund health care through their contributions to PERS. The 2001 employer contribution rate was 13.55% of covered payroll; 4.3% was the portion that was used to fund health care for the year. MESA's 2001 employer contributions to PERS totaled \$544,814. Of this amount, \$172,893 was used to fund health care contributions.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

At December 31, 2001, the unaudited estimated net assets available for future OPEB payments were \$11,735,900,000. The number of benefit recipients eligible for OPEB at December 31, 2001 was 411,076. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600,000 and \$2,628,700,000, respectively.

The Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both the state and local government divisions and 6% for law enforcement divisions. The Retirement Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing.

**Report of Independent Accountants 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  
Municipal Energy Services Agency

We have audited the general-purpose financial statements of Municipal Energy Services Agency (MESA) at and for the year ended December 31, 2001, and have issued our report thereon dated March 27, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether MESA's financial statements 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 MESA's internal control 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 to be 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 and is not intended to be and should not be used by anyone other than those specified parties.

/s/ PricewaterhouseCoopers LLP

March 27, 2002  
Columbus, Ohio



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**OMEGA JOINT VENTURE 1,2,4,5 AND MUNICIPAL ENERGY SERVICES**

**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  
SEPTEMBER 5, 2002**