

**Ohio Municipal Electric
Generation Agency
Joint Venture 1**
Financial Statements
December 31, 2002 and 2001



**Auditor of State
Betty Montgomery**

Board of Participants
Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4, 5 and
Municipal Energy Service Agency
Columbus, Ohio

We have reviewed the Independent Auditor's Reports of the Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4, 5 and Municipal Energy Service Agency, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 9, 2003

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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, 2002 and 2001, 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 7, 2003 on our consideration of OMEGA JV-1'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, 2002. 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 7, 2003
Columbus, Ohio

Ohio Municipal Electric Generation Agency Joint Venture 1

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|---|-------------------|-------------------|
| Assets | | |
| Electric plant | | |
| Electric generators | \$ 410,229 | \$ 410,229 |
| Fuel tank | 35,000 | 35,000 |
| Accumulated depreciation | <u>(152,120)</u> | <u>(137,279)</u> |
| Total electric plant | <u>293,109</u> | <u>307,950</u> |
| Current assets | | |
| Cash and cash equivalents | 123,704 | 99,930 |
| Receivables from participants | 17,992 | 12,175 |
| Receivable from American Municipal Power-Ohio, Inc. | 3,368 | - |
| Fuel inventory | 14,088 | 9,478 |
| Prepaid expenses | <u>7,391</u> | <u>8,764</u> |
| Total current assets | <u>166,543</u> | <u>130,347</u> |
| Total assets | <u>\$ 459,652</u> | <u>\$ 438,297</u> |
| Participants' Equity and Liabilities | | |
| Participants' equity | | |
| Participants' contributions | \$ 582,452 | \$ 582,452 |
| Accumulated net margin | <u>(135,991)</u> | <u>(162,411)</u> |
| Total participants' equity | <u>446,461</u> | <u>420,041</u> |
| Current liabilities | | |
| Accounts payable and accrued expenses | 13,191 | 11,244 |
| Payable to American Municipal Power-Ohio, Inc. | <u>-</u> | <u>7,012</u> |
| Total current liabilities | <u>13,191</u> | <u>18,256</u> |
| Total participants' equity and liabilities | <u>\$ 459,652</u> | <u>\$ 438,297</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, 2002 and 2001

| | 2002 | 2001 |
|------------------------------|------------|-------------|
| Revenues | | |
| Electric revenue | \$ 174,164 | \$ 150,858 |
| Expenses | | |
| Affiliated entity services | 43,323 | 15,060 |
| Depreciation | 14,841 | 14,841 |
| Fuel | 24,681 | 30,175 |
| Maintenance | 27,808 | 117,369 |
| Utilities | 12,384 | 11,288 |
| Insurance | 16,584 | 10,154 |
| Professional services | 6,677 | 7,339 |
| Other operating expenses | 3,041 | 3,100 |
| Total expenses | 149,339 | 209,326 |
| Operating margin | 24,825 | (58,468) |
| Nonoperating Revenues | | |
| Investment income | 1,595 | 2,867 |
| Net margin | \$ 26,420 | \$ (55,601) |

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, 2002 and 2001

| | <u>Participants' Contributions</u> | <u>Accumulated Net Margin</u> | <u>Total</u> |
|--|--|-----------------------------------|-------------------|
| Balances at December 31, 2000 | \$ 485,184 | \$ (106,810) | \$ 378,374 |
| Participant contributions | 97,268 | - | 97,268 |
| Net margin for the year ended December 31, 2001 | <u>-</u> | <u>(55,601)</u> | <u>(55,601)</u> |
| Balances at December 31, 2001 | 582,452 | (162,411) | 420,041 |
| Net margin for the year ended December 31, 2002 | <u>-</u> | <u>26,420</u> | <u>26,420</u> |
| Balances at December 31, 2002 | <u>\$ 582,452</u> | <u>\$ (135,991)</u> | <u>\$ 446,461</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, 2002 and 2001

| | 2002 | 2001 |
|---|-------------------|------------------|
| Cash flows from operating activities | | |
| Operating margin | \$ 24,825 | \$ (58,468) |
| Adjustments to reconcile operating margin to net cash provided by (used in) operating activities: | | |
| Depreciation | 14,841 | 14,841 |
| Changes in assets and liabilities: | | |
| Receivables from participants | (5,817) | 15,492 |
| Receivable from American Municipal Power-Ohio, Inc. | (3,368) | - |
| Fuel inventory | (4,610) | 11,724 |
| Prepaid expenses | 1,373 | 1,114 |
| Accounts payable and accrued expenses | 1,947 | (2,743) |
| Payable to American Municipal Power-Ohio, Inc. | (7,012) | (3,449) |
| Net cash provided by (used in) operating activities | <u>22,179</u> | <u>(21,489)</u> |
| Cash flows from noncapital financing activities | | |
| Participant contributions | <u>-</u> | <u>97,268</u> |
| Net cash provided by noncapital financing activities | <u>-</u> | <u>97,268</u> |
| Cash flows from investing activities | | |
| Investment income received | <u>1,595</u> | <u>2,867</u> |
| Net cash provided by investing activities | <u>1,595</u> | <u>2,867</u> |
| Net change in cash and cash equivalents | 23,774 | 78,646 |
| Cash and cash equivalents, beginning of year | <u>99,930</u> | <u>21,284</u> |
| Cash and cash equivalents, end of year | <u>\$ 123,704</u> | <u>\$ 99,930</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, 2002 and 2001

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. The electric generating facilities consist of six diesel-fired turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio.

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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 (GASB) 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. Restricted cash accounts, if any, are treated as investments in the statements of cash flows.

Electric Plant

Electric plant is recorded at cost. Depreciation is provided on the straight-line method over 30 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, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

Electric plant assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

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.

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements December 31, 2002 and 2001

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>Project kW Entitlement</u> | <u>Percent Project Ownership and Entitlement</u> |
|---------------------|---------------------------------------|--|
| Cuyahoga Falls | 1,894 | 21.05 % |
| Niles | 1,593 | 17.71 |
| Wadsworth | 1,011 | 11.24 |
| Hudson | 934 | 10.37 |
| Galion | 588 | 6.53 |
| Oberlin | 497 | 5.52 |
| Amherst | 488 | 5.42 |
| Hubbard | 341 | 3.79 |
| Columbiana | 272 | 3.03 |
| Wellington | 265 | 2.95 |
| Newton Falls | 228 | 2.53 |
| Monroeville | 167 | 1.85 |
| Lodi | 155 | 1.72 |
| Seville | 135 | 1.50 |
| Brewster | 130 | 1.45 |
| Grafton | 105 | 1.16 |
| Milan | 64 | 0.71 |
| Beach City | 50 | 0.55 |
| Prospect | 45 | 0.50 |
| Lucas | 21 | 0.23 |
| South Vienna | 17 | 0.19 |
| Total | <u>9,000</u> | <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. 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.

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements December 31, 2002 and 2001

New Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), is 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. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. OMEGA JV-1 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34), in June 1999. The Statement is effective for OMEGA JV-1 for the year ended December 31, 2004. Adoption of the Statement will impact the presentation of financial information and disclosures in OMEGA JV-1's financial statements. However, the basis of accounting will not change and, therefore, OMEGA JV-1 does not expect that the adoption of this Statement will have a significant impact on its financial position and results of operations.

3. Related-Party Transactions

OMEGA JV-1 has entered into the following agreements:

- Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. OMEGA JV-1 had a receivable from AMP-Ohio for \$3,368 and a payable to AMP-Ohio for \$7,012 at December 31, 2002 and 2001, respectively.
- As OMEGA JV-1's agent, AMP-Ohio entered into an agreement with Municipal Energy Services Agency (MESA), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were \$42,807 and \$15,060 for the years ended December 31, 2002 and 2001, respectively.
- 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. OMEGA JV-1 incurred expenses of \$12,384 and \$11,288 for the years ended December 31, 2002 and 2001, respectively, for utilities provided by Cuyahoga Falls to the site. Cuyahoga Falls also has agreed to perform operational tasks and routine maintenance on the generating facilities at no charge to OMEGA JV-1 in exchange for the availability of the electric generation project to Cuyahoga Falls for electric system emergency backup.

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements December 31, 2002 and 2001

4. Cash and Cash Equivalents

At December 31, 2002 and 2001, the carrying amount of OMEGA JV-1's operating cash deposits was \$6,496 and \$14,270, respectively, and the bank balance was \$6,496 and \$15,141, respectively. The difference between operating cash deposits and the bank balance, if any, is due to outstanding checks. At December 31, 2002 and 2001, \$117,208 and \$85,660, respectively, was invested in certain money market funds. 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. 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-1 categorizes its cash and cash equivalents into three categories based on 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.

Cash and cash equivalents are categorized by risk as follows:

| <u>Risk Category</u> | <u>December 31, 2002</u> | <u>December 31, 2001</u> |
|--------------------------|------------------------------|------------------------------|
| 1 | \$ 6,496 | \$ 14,270 |
| 2 | - | - |
| 3 | 117,208 | 85,660 |
| Total | <u>\$ 123,704</u> | <u>\$ 99,930</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, 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.

Ohio Municipal Electric Generation Agency Joint Venture 1

Notes to Financial Statements December 31, 2002 and 2001

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 on June 23, 1998 and expires on June 23, 2003.

The OMEGA JV-1 units are potentially affected by maximum achievable control technology (MACT) standards. OMEGA JV-1 has calculated the potential to emit hazardous air pollutants and determined that MACT standards for reciprocating internal combustion engines (RICE) do not apply to any of the units at this facility.

Most metropolitan and industrialized 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. Summit County, Ohio, is expected to become a nonattainment area for ozone and possibly a nonattainment area for fine particulate matter. It is uncertain at this time what the impact on OMEGA JV-1 will be.

**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 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, 2002, and have issued our report thereon dated March 7, 2003. 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 7, 2003
Columbus, Ohio

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**Ohio Municipal Electric
Generation Agency
Joint Venture 2**
Financial Statements
December 31, 2002 and 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 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, 2002 and 2001, and the results of its operations and its cash flows for the year ended December 31, 2002 and the thirteen months ended December 31, 2001, 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 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 7, 2003 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 year ended December 31, 2002. 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 7, 2003
Columbus, Ohio

Ohio Municipal Electric Generation Agency Joint Venture 2

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|--|----------------------|----------------------|
| Assets | | |
| Electric plant and equipment | | |
| Electric plant generators | \$ 56,874,136 | \$ 57,223,774 |
| Vehicles | 33,100 | - |
| Accumulated depreciation | <u>(5,818,933)</u> | <u>(2,947,628)</u> |
| Total electric plant | <u>51,088,303</u> | <u>54,276,146</u> |
| Restricted assets | | |
| Funds held by trustee | 228,310 | 226,844 |
| Overhaul fund | <u>115,037</u> | <u>35,839</u> |
| Total restricted assets | <u>343,347</u> | <u>262,683</u> |
| Current assets | | |
| Cash and cash equivalents | 597,173 | 482,786 |
| Receivables from participants | 211,756 | 283,709 |
| Inventory | 111,045 | 121,266 |
| Prepaid expenses | <u>122,330</u> | <u>107,616</u> |
| Total current assets | <u>1,042,304</u> | <u>995,377</u> |
| Total assets | <u>\$ 52,473,954</u> | <u>\$ 55,534,206</u> |
| Participants' Equity and Liabilities | | |
| Participants' equity | | |
| Participants' contributions | \$ 58,770,598 | \$ 58,770,598 |
| Accumulated net margin | <u>(6,810,936)</u> | <u>(3,788,706)</u> |
| Total participants' equity | <u>51,959,662</u> | <u>54,981,892</u> |
| Current liabilities | | |
| Accounts payable and accrued expenses | 287,343 | 451,423 |
| Payable to American Municipal Power-Ohio, Inc. | <u>111,912</u> | <u>68,848</u> |
| Total current liabilities | <u>399,255</u> | <u>520,271</u> |
| Deferred revenue | <u>115,037</u> | <u>32,043</u> |
| Total participants' equity and liabilities | <u>\$ 52,473,954</u> | <u>\$ 55,534,206</u> |

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

Ohio Municipal Electric Generation Agency Joint Venture 2

Statements of Operations

For the Year Ended December 31, 2002 and the Thirteen Months Ended
December 31, 2001

| | 2002 | 2001 |
|------------------------------|-----------------------|-----------------------|
| Revenues | | |
| Electric revenue | <u>\$ 2,298,425</u> | <u>\$ 2,080,169</u> |
| Expenses | | |
| Affiliated entity services | 882,950 | 849,515 |
| Depreciation | 2,871,303 | 2,947,628 |
| Fuel | 425,005 | 833,021 |
| Maintenance | 605,298 | 974,250 |
| Utilities | 187,890 | 30,205 |
| Insurance | 240,595 | 67,303 |
| Professional services | 82,904 | 125,244 |
| Other operating expenses | <u>34,782</u> | <u>57,507</u> |
| Total expenses | <u>5,330,727</u> | <u>5,884,673</u> |
| Operating margin | (3,032,302) | (3,804,504) |
| Nonoperating Revenues | | |
| Investment income | <u>10,072</u> | <u>15,798</u> |
| Net margin | <u>\$ (3,022,230)</u> | <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

Statements of Participants' Equity For the Year Ended December 31, 2002 and the Thirteen Months Ended December 31, 2001

| | <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 for the thirteen months ended December 31, 2001 | <u>-</u> | <u>(3,788,706)</u> | <u>(3,788,706)</u> |
| Balances at December 31, 2001 | 58,770,598 | (3,788,706) | 54,981,892 |
| Net margin for the year ended December 31, 2002 | <u>-</u> | <u>(3,022,230)</u> | <u>(3,022,230)</u> |
| Balances at December 31, 2002 | <u>\$ 58,770,598</u> | <u>\$ (6,810,936)</u> | <u>\$ 51,959,662</u> |

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

Ohio Municipal Electric Generation Agency Joint Venture 2

Statements of Cash Flows

For the Year Ended December 31, 2002 and the Thirteen Months Ended
December 31, 2001

| | 2002 | 2001 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Operating margin | \$ (3,032,302) | \$ (3,804,504) |
| Adjustments to reconcile operating margin to net cash provided by (used in) operating activities: | | |
| Depreciation | 2,871,303 | 2,947,628 |
| Deferred revenue | 82,994 | 32,043 |
| Changes in assets and liabilities: | | |
| Receivables from participants | 71,953 | (283,709) |
| Inventory | 10,221 | (121,266) |
| Prepaid expenses | (14,714) | (107,616) |
| Accounts payable and accrued expenses | (164,080) | 451,423 |
| Payable to American Municipal Power-Ohio, Inc. | 392,702 | 68,848 |
| | <u>218,077</u> | <u>(817,153)</u> |
| Net cash provided by (used in) operating activities | | |
| Cash flows from capital and related financing activities | | |
| Capital expenditures | (33,098) | (57,223,774) |
| Contributions from Participants | - | 58,770,598 |
| | <u>(33,098)</u> | <u>1,546,824</u> |
| Net cash (used in) provided by capital and related financing activities | | |
| Cash flows from investing activities | | |
| Deposits to overhaul fund | (79,198) | (35,839) |
| Purchases of investments | (1,466) | (226,844) |
| Investment income received | 10,072 | 15,798 |
| | <u>(70,592)</u> | <u>(246,885)</u> |
| Net cash used in investing activities | | |
| Net change in cash and cash equivalents | 114,387 | 482,786 |
| Cash and cash equivalents, beginning of period | 482,786 | - |
| Cash and cash equivalents, end of period | <u>\$ 597,173</u> | <u>\$ 482,786</u> |

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, 2002 and 2001

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 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 (GASB) 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. Restricted cash accounts, if any, are treated as investments in the statements of cash flows.

Electric Plant and Equipment

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

Electric plant assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Investments

Investments of restricted assets are recorded at market with unrealized and realized gains and losses included in nonoperating revenues in the statements of operations. Gains and losses on investment transactions are determined on a specific-identification basis.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

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.

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, 2002 and 2001

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

| <u>Municipality</u> | <u>Project kW Entitlement</u> | <u>Percent Project Ownership and Entitlement</u> |
|---------------------|---------------------------------------|--|
| Hamilton | 32,000 | 23.87 % |
| Bowling Green | 19,198 | 14.32 |
| Niles | 15,400 | 11.49 |
| Cuyahoga Falls | 10,000 | 7.46 |
| Wadsworth | 7,784 | 5.81 |
| Painesville | 7,000 | 5.22 |
| Dover | 7,000 | 5.22 |
| Galion | 5,753 | 4.29 |
| Amherst | 5,000 | 3.73 |
| St. Marys | 4,000 | 2.98 |
| Montpelier | 4,000 | 2.98 |
| Shelby | 2,536 | 1.89 |
| Versailles | 1,660 | 1.24 |
| Edgerton | 1,460 | 1.09 |
| Yellow Springs | 1,408 | 1.05 |
| Oberlin | 1,217 | 0.91 |
| Pioneer | 1,158 | 0.86 |
| Seville | 1,066 | 0.80 |
| Grafton | 1,056 | 0.79 |
| Brewster | 1,000 | 0.75 |
| Monroeville | 764 | 0.57 |
| Milan | 737 | 0.55 |
| Oak Harbor | 737 | 0.55 |
| Elmore | 364 | 0.27 |
| Jackson Center | 300 | 0.22 |
| Napoleon | 264 | 0.20 |
| Lodi | 218 | 0.16 |
| Genoa | 199 | 0.15 |
| Pemberville | 197 | 0.15 |
| Lucas | 161 | 0.12 |
| South Vienna | 123 | 0.09 |
| Bradner | 119 | 0.09 |
| Woodville | 81 | 0.06 |
| Haskins | 73 | 0.04 |
| Arcanum | 44 | 0.03 |
| Custar | 4 | 0.00 |
| | <u>134,081</u> | <u>100.00 %</u> |

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

Revenue Recognition and Rates

Revenues are recognized when earned as service is delivered. 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 major repairs and maintenance and is recorded as income when the related expenditure occurs.

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), is 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. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. OMEGA JV-2 is currently evaluating the provisions of this standard and the potential impact on its financial statements.

The GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34), in June 1999. The Statement is effective for OMEGA JV-2 for the year ended December 31, 2004. Adoption of the Statement will impact the presentation of financial information and disclosures in OMEGA JV-2's financial statements. However, the basis of accounting will not change and, therefore, OMEGA JV-2 does not expect that the adoption of this Statement will have a significant impact on its financial position and results of operations.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

3. Related-Party Transactions

OMEGA JV-2 has entered into the following agreements:

- Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. OMEGA JV-2 incurred expenses related to these services in the amount of \$308,689 and \$457,438 for the year ended December 31, 2002 and the thirteen months ended December 31, 2001, respectively, and had a payable to AMP-Ohio for \$111,912 and \$68,848 at December 31, 2002 and 2001, respectively.
- As OMEGA JV-2's agent, AMP-Ohio entered into an agreement with Municipal Energy Services Agency (MESA), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were \$574,261 and \$386,509 for the year ended December 31, 2002 and the thirteen months ended December 31, 2001, respectively.
- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV-2 incurred expenses of \$187,890 and \$30,205 for these services for the year ended December 31, 2002 and the thirteen months ended December 31, 2001, respectively.

4. Cash and Cash Equivalents and Restricted Assets

At December 31, 2002 and 2001, the carrying amount of OMEGA JV-2's operating cash deposits was \$3,340 and \$22,934, respectively, and the bank balance was \$39,299 and \$31,507, respectively. The difference between cash operating deposits and the bank balance, if any, is due to outstanding checks. At December 31, 2002 and 2001, \$937,180 and \$722,535, respectively, was invested in certain money market funds, including funds held as restricted assets. Periodically, cash on deposit is invested overnight in these funds, which invest principally in 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-2. 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 and restricted assets into three categories based on 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.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

Cash and cash equivalents and restricted assets are categorized by risk as follows:

| <u>Risk Category</u> | <u>December 31, 2002</u> | <u>December 31, 2001</u> |
|--------------------------|------------------------------|------------------------------|
| 1 | \$ 3,340 | \$ 22,934 |
| 2 | - | - |
| 3 | 937,180 | 722,535 |
| Total | <u>\$ 940,520</u> | <u>\$ 745,469</u> |

5. Acquisition of the Project

Pursuant to the Agreement, OMEGA JV-2 purchased the Project (as described in Note 1) and assumed 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 thirteen months 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.

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 and the Overhaul Fund, which are established and maintained pursuant to the Agreement. The investments were held in money market funds and cash equivalents with a cost and market value of \$343,347 and \$262,683 at December 31, 2002 and 2001, respectively.

The Agreement requires the Reserve and Contingency Fund to maintain 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

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

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 for future major maintenance and repairs.

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 claimed it was owed commissions from AMP-Ohio related to the purchase by AMP-Ohio from Delta Metals Company (Delta) of two, 32 megawatt turbines, which are currently part of the Project. The complaint was settled by AMP-Ohio during 2002 for a payment of \$185,000.

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 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 | Final Pending Appeal | 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 |

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 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) |
|----------------|--------|-------------|-----------------------|----------------------------------|----------------------------------|---|---|
| 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 |
| 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. Notice of violation (NOV) received from the local air agency on January 24, 2002 alleging emission limit violations due to excessive fuel consumption. NOV will be resolved by modifying the permit-to- install for a higher heat input rate. | 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 the 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 minor 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

Ohio Municipal Electric Generation Agency Joint Venture 2

Notes to Financial Statements December 31, 2002 and 2001

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 from the Ohio Environmental Protection Agency (Ohio EPA). Omega JV-2 responded with a compliance plan. As part of the plan, the liquid fuel delivery system was upgraded, and subsequent tests were performed using a fuel additive. The testing was performed in December 2002, and while significant improvement was achieved in the performance of the unit, the particulate emissions measured during the test did not meet the requirement established by the Ohio EPA. OMEGA JV-2 is exploring alternatives for utilizing the fuel storage and transfer facilities, along with modifications to the Ohio EPA permit that would make a single high fuel unit operating on natural gas only.

During the emissions test for the combustion turbine in Hamilton, a 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 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 has calculated the potential hazardous air pollutant (HAP) emissions at each site and determined the MACT standards for reciprocating internal combustion engines (RICE) and combustion turbines are not applicable because major source thresholds are not exceeded.

Most metropolitan and industrialized 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, nitrogen oxides and particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind, neighboring states. It is uncertain at this time what the impact on OMEGA JV-2 will be.

**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) at and for the year ended December 31, 2002, and have issued our report thereon dated March 7, 2003. 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 7, 2003
Columbus, Ohio

**Ohio Municipal Electric
Generation Agency
Joint Venture 4**
Financial Statements
December 31, 2002 and 2001

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, 2002 and 2001, 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 7, 2003 on our consideration of OMEGA JV-4'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, 2002. 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 7, 2003
Columbus, Ohio

Ohio Municipal Electric Generation Agency Joint Venture 4

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|---|---------------------|---------------------|
| Assets | | |
| Utility plant | | |
| Transmission line | \$ 2,061,638 | \$ 2,061,638 |
| Accumulated depreciation | <u>(464,846)</u> | <u>(395,124)</u> |
| Total utility plant | <u>1,596,792</u> | <u>1,666,514</u> |
| Current assets | | |
| Cash and cash equivalents | 458,641 | 331,688 |
| Receivables | 80,452 | |
| Receivable from American Municipal Power-Ohio, Inc. | 7,707 | - |
| Supplies inventory | 130,808 | 130,808 |
| Prepaid expenses | <u>1,833</u> | <u>917</u> |
| Total current assets | <u>679,441</u> | <u>463,413</u> |
| Total assets | <u>\$ 2,276,233</u> | <u>\$ 2,129,927</u> |
| Participants' Equity and Liabilities | | |
| Participants' equity | | |
| Participants' contributions | \$ 1,882,838 | \$ 1,882,838 |
| Accumulated net margin | <u>382,700</u> | <u>214,176</u> |
| Total participants' equity | <u>2,265,538</u> | <u>2,097,014</u> |
| Current liabilities | | |
| Payable to American Municipal Power-Ohio, Inc. | - | 72,516 |
| Accrued expenses | <u>10,695</u> | <u>8,319</u> |
| Total current liabilities | <u>10,695</u> | <u>80,835</u> |
| Total participants' equity and liabilities | <u>\$ 2,276,233</u> | <u>\$ 2,177,849</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, 2002 and 2001

| | 2002 | 2001 |
|------------------------------|-------------------|-------------------|
| Revenues | | |
| Transmission revenue | <u>\$ 743,490</u> | <u>\$ 810,184</u> |
| Expenses | | |
| Affiliated entity services | 42,927 | 25,836 |
| Depreciation | 69,723 | 65,984 |
| Maintenance | 27,739 | 24,688 |
| Professional services | 70,518 | 19,659 |
| Other operating expenses | <u>10,180</u> | <u>7,156</u> |
| Total expenses | <u>221,087</u> | <u>143,323</u> |
| Operating margin | 522,403 | 666,861 |
| Nonoperating Revenues | | |
| Investment income | <u>5,481</u> | <u>4,168</u> |
| Net margin | <u>\$ 527,884</u> | <u>\$ 671,029</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, 2002 and 2001

| | <u>Participants' Contributions</u> | <u>Accumulated Net Margin</u> | <u>Total</u> |
|--|--|-----------------------------------|---------------------|
| Balances at December 31, 2000 | \$ 1,882,838 | \$ - | \$ 1,882,838 |
| Net margin 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 | 1,882,838 | 214,176 | 2,097,014 |
| Net margin for the year ended December 31, 2002 | - | 527,884 | 527,884 |
| Distributions to participants | | | |
| Bryan | - | (150,931) | (150,931) |
| Pioneer | - | (107,808) | (107,808) |
| Montpelier | - | (89,840) | (89,840) |
| Edgerton | - | (10,781) | (10,781) |
| Balances at December 31, 2002 | <u>\$ 1,882,838</u> | <u>\$ 382,700</u> | <u>\$ 2,265,538</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, 2002 and 2001

| | 2002 | 2001 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Operating margin | \$ 522,403 | \$ 666,861 |
| Adjustments to reconcile operating margin to net cash provided by operating activities: | | |
| Depreciation | 69,722 | 65,984 |
| Changes in assets and liabilities: | | |
| Receivables | (32,530) | (41,224) |
| Receivable from American Municipal Power-Ohio, Inc. | (7,707) | 110,967 |
| Supplies inventory | - | 3,241 |
| Prepaid expenses | (916) | 1,863 |
| Payable to American Municipal Power-Ohio, Inc. | (72,516) | (9,428) |
| Accrued expenses | 2,376 | (269,029) |
| | <u>480,832</u> | <u>529,235</u> |
| Net cash provided by operating activities | | |
| Cash flows from noncapital financing activities | | |
| Distributions to participants | <u>(359,360)</u> | <u>(456,853)</u> |
| Net cash used in noncapital financing activities | <u>(359,360)</u> | <u>(456,853)</u> |
| Cash flows from investing activities | | |
| Investment income received | <u>5,481</u> | <u>4,168</u> |
| Net cash provided by investing activities | <u>5,481</u> | <u>4,168</u> |
| Net change in cash and cash equivalents | 126,953 | 76,550 |
| Cash and cash equivalents, beginning of year | <u>331,688</u> | <u>255,138</u> |
| Cash and cash equivalents, end of year | <u>\$ 458,641</u> | <u>\$ 331,688</u> |
| Supplemental Disclosure of Noncash Activities | | |
| Capital expenditures included in payable to American Municipal Power-Ohio, Inc. | <u>\$ -</u> | <u>\$ 81,944</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, 2002 and 2001

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-kW three-phase transmission line located in Williams County, Ohio. During 2002 and 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 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 (GASB) pronouncements.

Cash and Cash Equivalents

For purposes of the statements of the cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows.

Utility Plant

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

The transmission line is assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Supplies Inventory

Supplies inventory includes poles, wire and other items designated for use in the repair and maintenance and the construction of future phases of the transmission line and 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-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, 2002 and 2001

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 |
| | <hr/> |
| Total | 100.00 % |
| | <hr/> |

Revenue Recognition and Rates

Revenues are recognized when transmission service is delivered. OMEGA JV-4's rates for transmission service are set by contracts with the customers.

Use of Estimates

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

New Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), is 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. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. OMEGA JV-4 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34), in June 1999. The Statement is effective for OMEGA JV-4 for the year ended December 31, 2004. Adoption of the Statement will impact the presentation of financial information and disclosures in OMEGA JV-4's financial statements. However, the basis of accounting will not change and, therefore, OMEGA JV-4 does not expect that the adoption of this Statement will have a significant impact on its financial position and results of operations.

Ohio Municipal Electric Generation Agency Joint Venture 4

Notes to Financial Statements December 31, 2002 and 2001

3. Related-Party Transactions

OMEGA JV-4 has entered into the following agreements:

- Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. OMEGA JV-4 had a receivable from AMP-Ohio of \$7,707 at December 31, 2002 and a payable to AMP-Ohio for \$72,516 at December 31, 2001.
- As OMEGA JV-4's agent, AMP-Ohio entered into an agreement with the Municipal Energy Services Agency (MESA), a related joint venture, for MESA to provide certain engineering, finance, administration and other services to OMEGA JV-4. The expenses related to these services were \$42,927 and \$25,836 for the years ended December 31, 2002 and 2001, respectively.

4. Cash and Cash Equivalents

At December 31, 2002 and 2001, the carrying amount of OMEGA JV-4's operating cash deposits was \$2,993 and \$61,370, respectively, and the bank balance was \$4,014 and \$61,370, respectively. The difference between operating cash deposits and the bank balance, if any, is due to outstanding checks. At December 31, 2002 and 2001, \$455,648 and \$270,318, respectively, was invested in certain money market funds. 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 \$293,453 and \$111,821 of cash and cash equivalents as an operations and maintenance reserve fund at December 31, 2002 and 2001, respectively.

OMEGA JV-4 categorizes its cash and cash equivalents into three categories based on 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, 2002 and 2001

Cash and cash equivalents are categorized by risk as follows:

| <u>Risk Category</u> | <u>December 31, 2002</u> | <u>December 31, 2001</u> |
|--------------------------|------------------------------|------------------------------|
| 1 | \$ 2,993 | \$ 61,370 |
| 2 | - | - |
| 3 | 455,648 | 270,318 |
| Total | <u>\$ 458,641</u> | <u>\$ 331,688</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, crime and fidelity 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. Effective September 27, 2002, OMEGA JV-4 entered into a settlement agreement whereas both parties consent to the entry of a permanent injunction and declaratory judgment on the terms that OMEGA JV-4 is permanently enjoined from providing power sales to an industrial customer but may provide transmission service to the municipal which services the industrial customer.

Transmission revenue in 2002 was derived from sales to two municipalities, 83% from a nonparticipant and 17% from a Participant. A decision by the nonparticipant to purchase transmission service from a different provider at the end of the current contract which expires October 31, 2005, would cause a significant decline in OMEGA JV-4's transmission revenue and possibly impair the carrying value of the transmission line if replacement sales could not be found.

**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) at and for the year ended December 31, 2002, and have issued our report thereon dated March 7, 2003. 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 7, 2003
Columbus, Ohio

**Ohio Municipal Electric
Generation Agency
Joint Venture 5**
Financial Statements
December 31, 2002 and 2001

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, 2002 and 2001, 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 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 have also issued our report dated March 27, 2003 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, 2002. 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, 2003
Columbus, Ohio

Ohio Municipal Electric Generation Agency Joint Venture 5

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|---|-----------------------|-----------------------|
| Assets | | |
| Utility plant | | |
| Electric plant in service | \$ 187,066,445 | \$ 186,652,551 |
| Accumulated depreciation | <u>(17,359,844)</u> | <u>(12,639,360)</u> |
| Total utility plant | <u>169,706,601</u> | <u>174,013,191</u> |
| Restricted assets—funds held by trustee | <u>18,792,028</u> | <u>19,161,677</u> |
| Current assets | | |
| Cash and cash equivalents | 5,452,308 | 3,325,964 |
| Receivables from participants | 710,581 | 1,638,614 |
| Receivable from American Municipal Power-Ohio, Inc. | - | 556,143 |
| Inventories | 45,396 | 115,906 |
| Prepaid expenses | <u>301,085</u> | <u>241,648</u> |
| Total current assets | <u>6,509,370</u> | <u>5,878,275</u> |
| Other assets | | |
| Prepaid dedicated capacity | 1,503,330 | 1,737,615 |
| Prepaid bond insurance | 1,930,304 | 2,023,436 |
| Certificates of beneficial interest issuance costs | <u>1,915,430</u> | <u>2,006,733</u> |
| Total other assets | <u>5,349,064</u> | <u>5,767,784</u> |
| Total assets | <u>\$ 200,357,063</u> | <u>\$ 204,820,927</u> |

Continued

Ohio Municipal Electric Generation Agency Joint Venture 5

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|---|-----------------------|-----------------------|
| Participants' Equity and Liabilities | | |
| Participants' equity | | |
| Participants' contributions | \$ 200,000 | \$ 200,000 |
| Accumulated net margin | 6,999,300 | 6,268,600 |
| | <u>7,199,300</u> | <u>6,468,600</u> |
| Certificates of beneficial interest | | |
| 1993 beneficial interest certificates | 134,975,000 | 138,420,000 |
| Unamortized discount | (2,748,570) | (2,883,172) |
| | <u>132,226,430</u> | <u>135,536,828</u> |
| 2001 beneficial interest certificates | 56,125,000 | 56,125,000 |
| Unamortized discount | (41,098,142) | (41,895,934) |
| | <u>15,026,858</u> | <u>14,229,066</u> |
| Net certificates of beneficial interest, noncurrent | <u>147,253,288</u> | <u>149,765,894</u> |
| Liabilities payable from restricted assets | | |
| Accrued interest | 2,800,260 | 2,861,760 |
| Construction retainage payable | 188,196 | 374,447 |
| Certificates of beneficial interest, current | 3,445,000 | 3,280,000 |
| | <u>6,433,456</u> | <u>6,516,207</u> |
| Current liabilities | | |
| Accounts payable and accrued expenses | 2,005,833 | 1,211,393 |
| Payable to American Municipal Power-Ohio, Inc. | 132,532 | - |
| Accounts payable, trustee | - | 857,223 |
| | <u>2,138,365</u> | <u>2,068,616</u> |
| Deferred revenue | <u>37,332,654</u> | <u>40,001,610</u> |
| Total participants' equity and liabilities | <u>\$ 200,357,063</u> | <u>\$ 204,820,927</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 and Accumulated Net Margin For the Years Ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---|----------------------|----------------------|
| Revenues | | |
| Electric revenue | <u>\$ 22,058,776</u> | <u>\$ 22,617,371</u> |
| Expenses | | |
| Purchased power | 4,540,125 | 5,478,034 |
| Affiliated entity services | 1,044,991 | 892,519 |
| Depreciation and amortization | 5,139,204 | 4,840,623 |
| Maintenance | 341,937 | 555,218 |
| Utilities | 103,239 | 85,059 |
| Insurance | 449,725 | 191,655 |
| Professional services | 96,718 | 76,050 |
| Payment in lieu of taxes | 839,975 | 839,975 |
| Other operating expenses | 676,269 | 528,465 |
| Interest expense | <u>8,420,256</u> | <u>8,114,120</u> |
| Total expenses | <u>21,652,439</u> | <u>21,601,718</u> |
| Operating margin | 406,337 | 1,015,653 |
| Nonoperating Revenues | | |
| Investment income | 465,649 | 967,733 |
| Realized loss on market value of investment at maturity | <u>(141,286)</u> | <u>-</u> |
| Total nonoperating revenues | <u>324,363</u> | <u>967,733</u> |
| Net margin | 730,700 | 1,983,386 |
| Accumulated net margin and other comprehensive net margin, beginning of year | 6,268,600 | 4,166,399 |
| Change in investment valuation allowance | <u>-</u> | <u>118,815</u> |
| Accumulated net margin, end of year | <u>\$ 6,999,300</u> | <u>\$ 6,268,600</u> |

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, 2002 and 2001

| | 2002 | 2001 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Operating margin | \$ 406,337 | \$ 1,015,653 |
| Adjustments to reconcile operating margin to net cash provided by operating activities: | | |
| Depreciation | 4,720,484 | 4,449,106 |
| Amortization of other assets | 418,721 | 391,517 |
| Amortization of discount on certificates of beneficial interest | 932,393 | 463,687 |
| Deferred revenue | (2,668,956) | (2,025,840) |
| Changes in assets and liabilities: | | |
| Receivables from participants | 928,033 | (721,412) |
| Receivables from American Municipal Power-Ohio, Inc. | 556,143 | - |
| Inventories | 70,510 | (46,063) |
| Prepaid expenses | (59,437) | (159,126) |
| Accrued interest | (61,500) | (57,221) |
| Construction retainage payable | (85,290) | - |
| Accounts payable and accrued expenses | 794,440 | (413,983) |
| Payable to American Municipal Power-Ohio, Inc. | 132,532 | (810,515) |
| Accounts payable to trustee | (857,223) | 891,185 |
| | <u>5,227,187</u> | <u>2,976,988</u> |
| Net cash provided by operating activities | | |
| Cash flows from capital and related financing activities | | |
| Capital expenditures | (514,855) | (37,934,252) |
| Proceeds received from contractors related to utility plant | | 1,369,770 |
| 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) |
| Payments on certificates of beneficial interest | (3,280,000) | (3,130,000) |
| | <u>(3,794,855)</u> | <u>(26,894,482)</u> |
| Net cash used in capital and related financing activities | | |
| Cash flows from investing activities | | |
| Purchases of investments | (31,895,996) | (35,794,872) |
| Proceeds from sale of investments | 31,722,374 | 60,086,686 |
| Investment income received | 867,634 | 1,217,712 |
| | <u>694,012</u> | <u>25,509,526</u> |
| Net cash (used in) provided by investing activities | | |
| Net change in cash and cash equivalents | 2,126,344 | 1,592,032 |
| Cash and cash equivalents, beginning of year | <u>3,325,964</u> | <u>1,733,932</u> |
| Cash and cash equivalents, end of year | <u>\$ 5,452,308</u> | <u>\$ 3,325,964</u> |
| Supplemental Disclosure of Noncash Activities | | |
| Reduction of construction retainage payable and utility plant | <u>\$ 100,961</u> | <u>\$ -</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, 2002 and 2001

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 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 (GASB) 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. Restricted cash accounts, if any, are treated as investments in the statements of cash flows.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

Utility Plant

Utility plant 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 40 years, the estimated useful life of the asset. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. When utility plant assets are retired, accumulated depreciation is charged with the cost of the assets plus removal costs, less any salvage value.

The Project was placed in service in May 1999. However, a portion of the 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).

Utility plant assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Investments

Investments of restricted assets are recorded at market with unrealized and realized gains and losses included in the statements of operations and accumulated net margin. Gains and losses on investment transactions are determined on a specific-identification basis.

Inventories

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

Revenue Recognition and Rates

Revenues are recognized when earned as service is delivered. 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. Deferred revenue related to debt service payments is 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.

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, 2002 and 2001

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>Project kW Entitlement</u> | <u>Percent Project Ownership and Entitlement</u> |
|---------------------|---------------------------------------|--|
| Cuyahoga Falls | 7,000 | 16.67 % |
| Bowling Green | 6,608 | 15.73 |
| Niles | 4,463 | 10.63 |
| Napoleon | 3,088 | 7.35 |
| Jackson | 3,000 | 7.14 |
| Hudson | 2,388 | 5.69 |
| Wadsworth | 2,360 | 5.62 |
| Oberlin | 1,270 | 3.02 |
| New Bremen | 1,000 | 2.38 |
| Bryan | 919 | 2.19 |
| Hubbard | 871 | 2.07 |
| Montpelier | 850 | 2.02 |
| Minster | 837 | 1.99 |
| Columbiana | 696 | 1.66 |
| Wellington | 679 | 1.62 |
| Versailles | 460 | 1.10 |
| Monroeville | 427 | 1.02 |
| Oak Harbor | 396 | 0.94 |
| Lodi | 395 | 0.94 |
| Pemberville | 386 | 0.92 |
| Edgerton | 385 | 0.92 |
| Arcanum | 352 | 0.84 |
| Seville | 344 | 0.82 |
| Brewster | 333 | 0.79 |
| Pioneer | 321 | 0.76 |
| Genoa | 288 | 0.69 |
| Jackson Center | 281 | 0.67 |
| Grafton | 269 | 0.64 |
| Elmore | 244 | 0.58 |
| Woodville | 209 | 0.50 |
| Milan | 163 | 0.39 |
| Bradner | 145 | 0.35 |
| Beach City | 128 | 0.30 |
| Prospect | 115 | 0.27 |
| Haskins | 56 | 0.13 |
| Lucas | 54 | 0.13 |
| Arcadia | 46 | 0.11 |
| South Vienna | 45 | 0.11 |
| Waynesfield | 35 | 0.08 |
| Eldorado | 35 | 0.08 |
| Republic | 35 | 0.08 |
| Custar | 24 | 0.06 |
| | <u>42,000</u> | <u>100.00 %</u> |

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

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), is 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. The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. OMEGA JV-5 is currently evaluating the provisions of the standard and the potential impact on its financial statements.

The GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34), in June 1999. The Statement is effective for OMEGA JV-5 for the year ended December 31, 2004. Adoption of the Statement will impact the presentation of financial information and disclosures in OMEGA JV-5's financial statements. However, the basis of accounting will not change and, therefore, OMEGA JV-5 does not expect that the adoption of this Statement will have a significant impact on its financial position and results of operations.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

3. Related-Party Transactions

OMEGA JV-5 has entered into the following agreements:

- Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. The cost of these services for the years ended December 31, 2002 and 2001 was \$263,128 and \$234,042, respectively. OMEGA JV-5 had a payable to AMP-Ohio of \$132,532 at December 31, 2002 and a receivable from AMP-Ohio of \$556,143 at December 31, 2001.
- As OMEGA JV-5's agent, AMP-Ohio purchases power and fuel on behalf of OMEGA JV-5. Power and fuel purchases for the years ended December 31, 2002 and 2001 amounted to \$4,540,125 and \$5,478,034, respectively.
- As OMEGA JV-5's agent, AMP-Ohio entered into an agreement with Municipal Energy Services Agency (MESA), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expense related to these services was

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

\$781,863 and \$737,236 for the years ended December 31, 2002 and 2001, respectively, including \$78,759 of costs capitalized in electric plant for the year ended December 31, 2001.

- 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 \$677,661 and \$763,400 for the years ended December 31, 2002 and 2001, respectively.
- In 1993, OMEGA JV-5 prepaid \$3,045,707 to the City of Oberlin, Ohio, for a commitment to provide 12,000 kilowatts 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.
- Participants with units sited in their communities provide utilities to the backup generating units. OMEGA JV-5 incurred expenses of \$103,239 and \$85,059 for these services for the years ended December 31, 2002 and 2001, respectively.

4. Cash and Cash Equivalents and Restricted Assets

At December 31, 2002 and 2001, the carrying amount of OMEGA JV-5's operating cash deposits was \$2,220 and \$117,483, respectively, and the bank balance was \$3,031 and \$96,026, respectively. The difference between operating cash deposits and the bank balance, if any, is due to deposits in transit and outstanding checks. At December 31, 2002 and 2001, \$24,242,116 and \$22,370,158, respectively, was invested in certain money market funds, including funds held as restricted assets. 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 and restricted assets into three categories based on 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.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

Cash and cash equivalents and restricted assets are categorized by risk as follows:

| <u>Risk Category</u> | <u>December 31, 2002</u> | <u>December 31, 2001</u> |
|--------------------------|------------------------------|------------------------------|
| 1 | \$ 2,220 | \$ 117,483 |
| 2 | - | - |
| 3 | 24,242,116 | 22,370,158 |
| Total | <u>\$ 24,244,336</u> | <u>\$ 22,487,641</u> |

5. Restricted Assets

Restricted assets include those assets comprising the Debt Service, Certificate Payment 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 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 to be used for the following purposes: (i) subject to certain conditions, to remedy deficiencies in bond debt service payments; (ii) to pay for operating expenses to the extent that other operating funds are not sufficient; (iii) to pay for major repairs and maintenance; and (iv) to provide for the decommissioning of the Project.

The aggregate amount of cash and investments in each of these funds at December 31, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|------------------------------|----------------------|----------------------|
| Debt Service Reserve Fund | \$ 10,956,812 | \$ 11,543,444 |
| Certificate Payment Fund | 6,767,471 | 6,327,612 |
| Reserve and Contingency Fund | <u>1,053,617</u> | <u>1,038,170</u> |
| Investments at market | 18,777,900 | 18,909,226 |
| Accrued interest receivable | <u>14,128</u> | <u>252,451</u> |
| | <u>\$ 18,792,028</u> | <u>\$ 19,161,677</u> |

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

At December 31, 2002 and 2001, investments were held as follows:

| | 2002 | | 2001 | |
|--|---------------|---------------|---------------|---------------|
| | Cost | Market Value | Cost | Market Value |
| Money market funds and cash equivalents | \$ 18,777,900 | \$ 18,777,900 | \$ 6,061,831 | \$ 6,061,831 |
| United States Treasury obligations | - | - | 10,991,662 | 11,132,948 |
| Deposit in transit to Certificate Payment Fund | - | - | 1,714,447 | 1,714,447 |
| Total | \$ 18,777,900 | \$ 18,777,900 | \$ 18,767,940 | \$ 18,909,226 |

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) and MBIA Insurance Corporation (MBIA). The Trust Agreement does not restrict the duration of investments to the limitations imposed by Chapter 135.

At December 31, 2002 and 2001 all investments were purchased in the name of the restricted funds' trustee and are held by the trustee.

Capitalization of Interest

Interest is capitalized in connection with the construction of major projects and is depreciated over the useful life of the related asset. Interest income capitalized to construction work in progress was \$375,653 for the year ended December 31, 2001.

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.

In connection with the issuance of the Certificates in 2001, OMEGA JV-5 paid \$407,000 on behalf of the Participants to 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.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

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.

8. Certificates of Beneficial Interest

The Series 1993 Certificates of Beneficial Interest (the Series 1993 Certificates) outstanding at December 31, 2002 are as follows:

| <u>Maturity Date</u> <u>February 15,</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|---|-----------------------------------|--------------------------------|
| 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>\$ 138,420,000</u> | |
| Less current portion | (3,445,000) | |
| Less unamortized discount | <u>(2,748,570)</u> | |
| | <u>\$ 132,226,430</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.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

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

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

The 2001 Certificates of Beneficial Interest (the 2001 Certificates) outstanding at December 31, 2002 are as follows:

| <u>Maturity Date February 15,</u> | <u>Principal Amount</u> | <u>Yield to Maturity</u> |
|---------------------------------------|-----------------------------|----------------------------------|
| 2025 | \$ 10,915,000 | 5.51 % |
| 2026 | 10,915,000 | 5.52 % |
| 2027 | 10,915,000 | 5.53 % |
| 2028 | 10,915,000 | 5.54 % |
| 2029 | 10,465,000 | 5.55 % |
| 2030 | 2,000,000 | 5.56 % |
| | <u>56,125,000</u> | |
| Less unamortized discount | <u>(41,098,142)</u> | |
| | <u>\$ 15,026,858</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, 2002 and 2001

Debt service requirements for the next five years and cumulative requirements thereafter for the 1993 Series Certificates and the 2001 Certificates at December 31, 2002 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-----------------------|----------------------|-----------------------|
| 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 | 4,215,000 | 6,582,187 | 10,797,187 |
| 2008-2030 | <u>175,465,000</u> | <u>62,937,702</u> | <u>238,402,702</u> |
| | <u>\$ 194,545,000</u> | <u>\$ 97,918,161</u> | <u>\$ 292,463,161</u> |

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

| | <u>December 31, 2002</u> | | <u>December 31, 2001</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 | \$ 138,420,000 | \$ 141,755,053 | \$ 141,700,000 | \$ 144,488,000 |
| The 2001 Certificates | 15,026,858 | 15,702,080 | 14,229,000 | 13,727,000 |

The terms of the Trust Agreement related to the Certificates of Beneficial Interest contain various covenants, the most restrictive of which require the timely payment of debt service and for the Participants of OMEGA JV-5 to comply with the provisions of the Joint Venture Agreement.

Under the Joint Venture Agreement, the Participants must manage electric system revenues and expenditures so that, in each year, those revenues received in that year cover the greater of (i) operating and maintenance (O&M) expenses plus 110% of its OMEGA JV-5 bond debt service payments and any other senior electric revenue debt, or (ii) O&M expenses plus 100% of its OMEGA JV-5 bond debt service payments and all other electric system debt whether revenue or general obligation (debt service coverage ratio). During 2001, certain of the Participants were not in compliance with the debt service coverage ratio requirement of the Joint Venture Agreement. OMEGA JV-5 took action in accordance with the Joint Venture Agreement in order to cure the noncompliance and established a program to monitor future compliance.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

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, 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.

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 until such time as the Project ceases commercial operations.

11. Project Contractor and Related Matters

In connection with the construction of the Project, OMEGA JV-5 was in dispute with certain contractors and insurance companies over various matters. 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 5 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 \$188,196.

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.

Ohio Municipal Electric Generation Agency Joint Venture 5

Notes to Financial Statements December 31, 2002 and 2001

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.

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 the Ohio Environmental Protection Agency (the 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. The 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 has been completed.

As part of the backup power agreement with the City of Oberlin, OMEGA JV-5 purchases the fuel. Oberlin maintains 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.

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Supplemental Information

Report of Independent Accountants on Supplemental Financial Data

Board of Participants
Ohio Municipal Electric Generation Agency Joint Venture 5

Our report on the audits of the general-purpose financial statements of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV-5) at December 31, 2002 and 2001 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 for the year ended December 31, 2002 is 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 Firststar Bank N.A.), as trustee, and OMEGA JV-5 dated June 1, 1993 and is 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 Schedule, 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 Board of Participants of OMEGA JV-5 and Firststar Bank N.A., trustee.

/s/ PricewaterhouseCoopers LLP

March 27, 2003
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, 2002

| | Funds Held by Trustee | | | |
|--------------------------------------|-----------------------|---------------------------------|--------------------------------|------------------------------------|
| | Total | Debt Service Reserve Fund | Certificate Payment Fund | Reserve and Contingency Fund |
| Fund balances at January 1, 2002 | \$ 17,053,493 | \$ 11,402,158 | \$ 4,613,165 | \$ 1,038,170 |
| Receipts: | | | | |
| Interest on investments | 810,922 | 735,967 | 59,508 | 15,447 |
| Debt service receipts | 11,906,509 | - | 11,906,509 | - |
| Total receipts | <u>12,717,431</u> | <u>735,967</u> | <u>11,966,017</u> | <u>15,447</u> |
| Disbursements: | | | | |
| Bond payment | 10,829,361 | - | 10,829,361 | - |
| Total disbursements | <u>10,829,361</u> | <u>-</u> | <u>10,829,361</u> | <u>-</u> |
| Transfers | - | (1,017,650) | 1,017,650 | - |
| Realized loss on sale of investments | <u>(163,663)</u> | <u>(163,663)</u> | <u>-</u> | <u>-</u> |
| Excess of receipts (disbursements) | <u>1,724,407</u> | <u>(445,346)</u> | <u>2,154,306</u> | <u>15,447</u> |
| Fund balances at December 31, 2002 | <u>\$ 18,777,900</u> | <u>\$ 10,956,812</u> | <u>\$ 6,767,471</u> | <u>\$ 1,053,617</u> |

The difference between the total fund balance per the schedule of receipts and disbursements and the carrying value of restricted assets per the audited general-purpose financial statements at December 31, 2002 represents accrued interest receivable of \$14,128.

**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, 2002 and 2001, and have issued our report thereon dated March 27, 2003. 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, 2003
Columbus, Ohio

**Municipal Energy
Services Agency**
Financial Statements
December 31, 2002 and 2001

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, 2002 and 2001, 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 7, 2003 on our consideration of MESA'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, 2002. 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 7, 2003
Columbus, Ohio

Municipal Energy Services Agency

Balance Sheets

At December 31, 2002 and 2001

| | 2002 | 2001 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 456,685 | \$ 356,387 |
| Accounts receivable, related parties | 172,772 | 128,627 |
| Receivable from American Municipal Power-Ohio, Inc. | 385,264 | 517,894 |
| Prepaid expenses | 6,013 | 9,061 |
| | <u>1,020,734</u> | <u>1,011,969</u> |
| Total current assets | | |
| | <u>1,020,734</u> | <u>1,011,969</u> |
| Property | | |
| Vehicles | 22,528 | 22,528 |
| Accumulated depreciation | (8,135) | - |
| | <u>14,393</u> | <u>22,528</u> |
| Total property | | |
| | <u>14,393</u> | <u>22,528</u> |
| Total assets | <u>\$ 1,035,127</u> | <u>\$ 1,034,497</u> |
| Participants' Equity and Liabilities | | |
| Participants' equity | <u>\$ -</u> | <u>\$ -</u> |
| Current liabilities | | |
| Accrued salaries and related benefits | 182,718 | 209,027 |
| Compensated absences | 824,485 | 729,150 |
| Accounts payable and accrued expenses | 27,924 | 96,320 |
| | <u>1,035,127</u> | <u>1,034,497</u> |
| Total current liabilities | | |
| | <u>1,035,127</u> | <u>1,034,497</u> |
| Total participants' equity and liabilities | <u>\$ 1,035,127</u> | <u>\$ 1,034,497</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, 2002 and 2001

| | 2002 | 2001 |
|------------------------------|------------------|------------------|
| Revenues | | |
| Services | \$ 6,427,441 | \$ 6,051,353 |
| Other income | 18,510 | 54,892 |
| Total revenues | <u>6,445,951</u> | <u>6,106,245</u> |
| Expenses | | |
| Salaries | 4,713,165 | 4,269,619 |
| Employee benefits | 1,352,679 | 1,451,866 |
| Depreciation | 8,135 | - |
| Professional fees | 28,628 | 16,128 |
| General and administrative | 93,715 | 102,192 |
| Insurance | 60,371 | 50,306 |
| Utilities | 35,248 | 31,071 |
| Other operating expenses | 158,665 | 191,934 |
| Total expenses | <u>6,450,606</u> | <u>6,113,116</u> |
| Operating margin | (4,655) | (6,871) |
| Nonoperating Revenues | | |
| Investment income | <u>4,655</u> | <u>6,871</u> |
| Net margin | <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, 2002 and 2001

| | 2002 | 2001 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Operating margin | \$ (4,655) | \$ (6,871) |
| Adjustments to reconcile net margins to net cash provided by (used in) operating activities: | | |
| Depreciation | 8,135 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | (44,145) | (83,691) |
| Receivable from American Municipal Power-Ohio, Inc. | 132,630 | (573,613) |
| Prepaid expenses | 3,048 | 4,165 |
| Accrued salaries and related benefits | (26,309) | 139,774 |
| Compensated absences | 95,335 | 205,002 |
| Accounts payable and accrued expenses | (68,396) | 5,506 |
| | <u>95,643</u> | <u>(309,728)</u> |
| Net cash provided by (used in) operating activities | | |
| Cash flows from investing activities | | |
| Investment income received | <u>4,655</u> | <u>6,871</u> |
| Net cash provided by investing activities | <u>4,655</u> | <u>6,871</u> |
| Net change in cash and cash equivalents | 100,298 | (302,857) |
| Cash and cash equivalents, beginning of year | <u>356,387</u> | <u>659,244</u> |
| Cash and cash equivalents, end of year | <u>\$ 456,685</u> | <u>\$ 356,387</u> |
| Supplemental Disclosure of Noncash Investing Activities | | |
| Purchase of property included in accounts payable | <u>\$ -</u> | <u>\$ 22,528</u> |

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

Municipal Energy Services Agency

Notes to Financial Statements December 31, 2002 and 2001

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. The participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio). MESA also provides personnel and administrative services to AMP-Ohio, the Ohio Municipal Electric Generation Agency Joint Ventures 1, 2, 4 and 5 (OMEGA JVs), the Ohio Municipal Electric Association (OMEA) and the Ohio Public Power Educational Institute (OPPEI).

2. Summary of Significant Accounting Policies

The following summarizes the significant accounting policies followed by MESA.

Basis of Accounting

The accounting records 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 (GASB) 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. Restricted cash accounts, if any, are treated as investments in the statements of cash flows.

Property

Property is recorded at cost. Depreciation is provided on the straight-line method over three 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. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the related accounts, and the resulting gains or losses are recognized in the statements of operations.

Property is assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Revenue Recognition

Revenues are recognized as services are performed. Service revenue is charged to AMP-Ohio, the OMEGA JVs, OMEA and OPPEI at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 35% to 120%. To the extent that the overhead amount charged to the entities is different from actual overhead charges

Municipal Energy Services Agency

Notes to Financial Statements December 31, 2002 and 2001

incurred, MESA adjusts the amount charged to AMP-Ohio. AMP-Ohio absorbs any undercharges and uses any excess charges to offset other administrative expenses incurred, which benefit all members of AMP-Ohio.

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

The GASB issued Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34) in June 1999. The Statement is effective for MESA for the year ended December 31, 2004. Adoption of the Statement will impact the presentation of financial information and disclosures in MESA's financial statements. However, the basis of accounting will not change and, therefore, MESA does not expect that the adoption of this Statement will have a significant impact on its financial position and results of operations.

3. Related-Party Transactions

Pursuant to the Agreement, AMP-Ohio was designated as an agent and provides various management and operational services. MESA's agent, AMP-Ohio, enters into agreements with related entities to have MESA provide services. Revenues earned from these agreements in 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|--------------|--------------|
| AMP-Ohio | \$ 4,174,973 | \$ 4,397,054 |
| Ohio Municipal Electric Generation Agency Joint Venture 1 | 42,807 | 15,060 |
| Ohio Municipal Electric Generation Agency Joint Venture 2 | 574,261 | 386,509 |
| Ohio Municipal Electric Generation Agency Joint Venture 4 | 42,927 | 25,836 |
| Ohio Municipal Electric Generation Agency Joint Venture 5 | 781,864 | 737,236 |
| Participants | 369,562 | 130,705 |
| Ohio Municipal Electric Association | 263,324 | 215,900 |
| Ohio Public Power Educational Institute | 177,723 | 143,053 |
| | <hr/> | <hr/> |
| Total | \$ 6,427,441 | \$ 6,051,353 |

Municipal Energy Services Agency

Notes to Financial Statements December 31, 2002 and 2001

At December 31, 2002 and 2001, MESA had a receivable from AMP-Ohio of \$385,264 and \$517,894, respectively. At December 31, 2002 and 2001, MESA had a receivable from members of AMP-Ohio of \$172,772 and \$128,627, respectively.

4. Cash and Cash Equivalents

At December 31, 2002 and 2001, the carrying amount of MESA's operating cash deposits was \$4,946 and \$156,073, respectively, and the bank balance was \$6,496 and \$162,190, respectively. The difference between operating cash deposits and the bank balance, if any, is primarily due to outstanding checks. At December 31, 2002 and 2001, \$451,739 and \$200,314, respectively, was invested in certain money market funds. 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.

MESA categorizes its cash and cash equivalents into three categories based on 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.

Cash and cash equivalents are categorized by risk as follows:

| <u>Risk Category</u> | <u>December 31, 2002</u> | <u>December 31, 2001</u> |
|--------------------------|------------------------------|------------------------------|
| 1 | \$ 4,946 | \$ 156,073 |
| 2 | - | - |
| 3 | 451,739 | 200,314 |
| Total | <u>\$ 456,685</u> | <u>\$ 356,387</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, crime and fidelity coverage. In addition, MESA maintains an errors and omissions policy related to engineering

Municipal Energy Services Agency

Notes to Financial Statements December 31, 2002 and 2001

services it performs. 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 2002 was 8.5%. The 2002 employer contribution rate was 13.55% of covered payroll.

The employee contributions to PERS totaled \$386,094 and \$341,769 for the years ended December 31, 2002 and 2001, respectively. Employer contributions were \$615,480 and \$544,814 for the years ended December 31, 2002 and 2001, respectively.

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 retirants. 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 2002 employer contribution rate was 13.55% of covered payroll; 5.0% of the employer contribution was the portion that was used to fund health care for the year. MESA's 2002 employer contributions to PERS totaled \$615,480. Of this amount, \$30,774 was used to fund health care contributions.

OPEB liabilities 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, 2002, the unaudited estimated net assets available for future OPEB payments were \$11,600,000,000. The number of benefit recipients eligible for OPEB at December 31, 2002 was 402,041. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16,400,000,000 and \$4,800,000,000, respectively.

**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, 2002, and have issued our report thereon dated March 7, 2003. 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 7, 2003
Columbus, Ohio



**Auditor of State
Betty Montgomery**

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OMEGA JOINT VENTURE 1,2,4,5 & MUNICIPAL ENERGY SERVICE AGENCY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2003**