OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

TABLE OF CONTENTS

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

Financial Statement Overview

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

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

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

Financial Highlights

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

Condensed Statements of Net Position

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

2016 vs. 2015

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

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

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

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

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

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

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

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

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

2015 vs. 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

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

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

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

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

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

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

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

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

ASSETS, LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

Deposits and Investments

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

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

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

Deposits and Investments (cont.)

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

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

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

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

Receivables/Payables

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

Inventory

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

Prepaid Expenses

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

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

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

Electric Plant and Equipment

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

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

Asset Retirement Obligations

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

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

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

Regulatory Assets

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

Regulatory assets consisted of the following at December 31:

	2016	2015
Future expenses related to fixed O&M	$ 142,058	$ 787,475

	2016	2015
Future expenses related to asset retirement obligations	$ 1,594,356	$ 1,506,318

Deferred Inflow of Resources

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

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

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

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

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

Net Position

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

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

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Net Position (cont.)

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

* Represents less than 0.01%

REVENUE AND EXPENSES

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

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

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

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

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

	Carrying Value as of December 31		
	2016	2015	Risks
Checking	$ 1,435,443	$ 461,589	Custodial credit

Custodial Credit Risk

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

Credit Risk

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

Interest Rate Risk

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

NOTE 3 – ELECTRIC PLANT AND EQUIPMENT

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

	2016			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	$ 60,256,515	$ 2,617	$ (47,576)	$ 60,211,556
Less: Accumulated depreciation	(44,047,386)	(3,279,953)	(1,176)	(47,328,515)
Electric Plant and Equipment, Net	$ 16,209,129	$ (3,277,336)	$ (48,752)	$ 12,883,041

	2015			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	$ 58,895,509	$ 1,336,056	$ 24,950	$ 60,256,515
Less: Accumulated depreciation	(40,841,327)	(3,185,205)	(20,854)	(44,047,386)
Electric Plant and Equipment, Net	$ 18,054,182	$ (1,849,149)	$ 4,096	$ 16,209,129

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

NOTE 4 – ASSET RETIREMENT OBLIGATIONS

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

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

	2016			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	$ 1,562,515	$ (36,238)	$ 68,494	$ 1,594,771

	2015			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	$ 1,520,141	$ (27,626)	$ 70,000	$ 1,562,515

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

NOTE 5 – NET POSITION

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

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

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

NOTE 5 – NET POSITION (cont.)

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

The following calculation supports the net investment in capital assets:

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

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

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

NOTE 7 – RISK MANAGEMENT

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

NOTE 8 – RELATED PARTY TRANSACTIONS

OMEGA JV2 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services, including dispatching electrical control. The cost of these services for the years ended December 31, 2016 and 2015 was $195,975 and $169,898, respectively. OMEGA JV2's payables to AMP as of December 31, 2016 and 2015 were $219,156 and $47,497, respectively.

- As OMEGA JV2's agent, AMP entered into an agreement with Municipal Energy Services Agency ("MESA"), a related joint venture, for MESA to provide certain engineering, finance, administration and other services. The expenses related to these services were $983,187 and $775,364 for the years ended December 31, 2016 and 2015, respectively. OMEGA JV2 had a payable to MESA for $44,151 and $42,311 at December 31, 2016 and 2015, respectively.

- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of $146,238 and $103,707 for these services for the years ended December 31, 2016 and 2015, respectively.

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

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

INDEPENDENT AUDITORS' REPORT

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

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

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017