OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 2

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2017 and 2016

CLARK SCHAEFER HACKETT
CPAs & Advisors

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CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Electric Generation Agency Joint Venture 2 ("OMEGA JV2"), which comprise the statements of net position as of December 31, 2017 and 2016, 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.

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, 2017 and 2016, 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 18, 2018 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 18, 2018

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, 2017 and 2016. 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

	2017	2016	2015
Assets			
Electric plant and equipment, net of accumulated depreciation	$ 11,532,146	$ 12,883,041	$ 16,209,129
Regulatory assets	1,743,810	1,594,356	1,506,318
Current assets	4,077,842	4,780,252	2,727,073
Total Assets	$ 17,353,798	$ 19,257,649	$ 20,442,520
Net Position, Liabilities, and Deferred Inflow of Resources			
Net position - net investment in capital assets	$ 11,532,146	$ 12,883,041	$ 16,209,129
Net position - unrestricted	(1,488,978)	431,874	378,709
Current liabilities	1,107,418	1,153,744	1,009,302
Noncurrent liabilities	1,778,779	1,594,771	1,562,515
Deferred inflow of resources	4,424,433	3,194,219	1,282,865
Total Net Position, Liabilities and Deferred Inflow of Resources	$ 17,353,798	$ 19,257,649	$ 20,442,520

2017 vs. 2016

Total assets were $17,353,798 and $19,257,649 on December 31, 2017 and December 31, 2016, respectively, a decrease of $1,903,851. The decrease in total assets was primarily due to a decrease in net capital assets from yearly depreciation. There were also decreases in receivables from related parties of $1,514,314 and receivables from participants of $102,603 resulting from cash collections during the year. The decreases were offset by an increase in construction work-in-progress of $1,886,298 for work being completed to extend the life of the generating units. Other increases include an increase in fuel inventory of $51,628, a change in ARO valuation of $39,902, and an increase in prepaid expenses of $9,103.

Electric plant and equipment, net of accumulated depreciation was $11,532,146 and $12,883,041 at year-end 2017 and 2016, respectively, a decrease of $1,350,895. This decrease was primarily the result of yearly depreciation of $3,274,720 offset by an increase in construction work-in-progress of $1,886,298. Additionally, there was an increase in ARO assets of $39,902. The cost associated with the ARO included in the cost of electric plant for 2017 was $840,600 versus $800,698 in 2016. Estimated values of ARO assets and obligations were prepared by an independent engineering consultant.

Regulatory assets were $1,743,810 and $1,594,356 at December 31, 2017 and 2016, respectively, an increase of $149,454. Regulatory assets contain amounts deferred for ARO and operational and maintenance related expenses. The increase mainly reflects higher 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 $4,077,842 and $4,780,252 as of December 31, 2017 and 2016, respectively, a decrease of $702,410. This decrease was primarily due to decreases in receivables from related parties of $1,514,314, in current regulatory assets of $142,058 and in receivables from participants of $102,603. These increases are partially offset by increases in operating cash of $995,834, in fuel inventory of $51,628, and in prepaid expenses of $9,103.

Total liabilities, deferred inflow of resources and net position were $17,353,798 and $19,257,649 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $1,903,851. This decrease was primarily the result of decreases in capital assets.

Total net position was $10,043,168 and $13,314,915 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $3,271,747. Net investment in capital assets was $11,532,146 and $12,883,041 at December 31, 2017 and December 31, 2016, respectively, a decrease of $1,350,895. This decrease resulted from the decrease in electric plant, net of accumulated depreciation of $3,277,095 offset by the increase in capital assets of $1,926,200. Unrestricted net position was ($1,488,978) and $431,874 at December 31, 2017 and December 31, 2016, respectively, a decrease of $1,920,852.

Noncurrent liabilities, comprised entirely of ARO liabilities were $1,778,779 and $1,594,771 at December 31, 2017 and December 31, 2016, respectively, an increase of $184,008. This was the result of yearly ARO accretion expense and an increase of projected ARO liability versus 2016 levels. Estimated values of ARO obligations were prepared by an independent engineering consultant.

Current liabilities were $1,107,418 and $1,153,744 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $46,326. This decrease was primarily the result of decreased payable to related parties of $84,919 offset by increased accounts payable obligations to third party vendors of $38,593.

Deferred inflows of resources were $4,424,433 and $3,194,219 at December 31, 2017 and December 31, 2016, respectively, an increase of $1,230,214. This was mainly a result of an increase in overhaul maintenance amounts billed to participants intended to recover future expenses and capital improvements.

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 $800,698 versus $848,275 in 2015. Estimated values of ARO assets and obligations were prepared by an independent engineering consultant.

Regulatory assets were $1,594,356 and $2,293,793 at December 31, 2016 and 2015, respectively, a decrease of $699,437. 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 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.

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

	2017	2016	2015
Operating revenues	$ 11,993,689	$ 13,038,501	$ 11,900,599
Operating expenses	15,345,577	16,388,271	15,156,501
Operating Loss	$ (3,351,888)	$ (3,349,770)	$ (3,255,902)
Nonoperating revenue			
Investment income	$ 7,368	$ 147	$ 697
Future recoverable costs	72,773	76,700	86,153
Nonoperating Revenue	80,141	76,847	86,850
Change in Net Position	$ (3,271,747)	$ (3,272,923)	$ (3,169,052)

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 2017 were $11,993,689 versus $13,038,501 in 2016, a decrease of $1,044,812, mainly due to lower fixed demand and capacity rates billed to the members. Capacity rates are determined by the regional transmission organization (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 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 RTO.

OMEGA JV2 operating expenses in 2017 were $15,345,577 versus $16,388,271 in 2016, a decrease of $1,042,694. This decrease in expense was due to lower capacity expense of

$853,322, fuel expense of $306,517, related party services of $49,662, utility expense of $47,614 and insurance expense of $47,507. These decreases were partially offset by increases in professional services of $195,656 for third party contractor expenses related to the upgrade project and legal expenses. Other operating expenses also increased by $34,111. 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.

Investment income in 2017 was $7,368 versus $147 in 2016, an increase of $7,221. This increase in investment income is due to higher cash balances being held in interest bearing checking accounts year over year. Investment income in 2016 was $147 versus $697 in 2015, a decrease in $550.

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, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ 2,431,277	$ 1,435,443
Receivables from participants	1,097,808	1,200,411
Receivables from related parties	198,254	1,712,568
Regulatory assets	-	142,058
Inventory	187,182	135,554
Prepaid expenses	163,321	154,218
Total Current Assets	4,077,842	4,780,252
NONCURRENT ASSETS		
Electric Plant and Equipment		
Electric generators	60,251,458	60,211,556
Construction work in progress	1,886,298	-
Accumulated depreciation	(50,605,610)	(47,328,515)
Net Electric Plant and Equipment	11,532,146	12,883,041
Other Assets		
Regulatory assets	1,743,810	1,594,356
Total Non-Current Assets	13,275,956	14,477,397
TOTAL ASSETS	$ 17,353,798	$ 19,257,649
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 929,030	$ 890,437
Payable to related parties	178,388	263,307
Total Current Liabilities	1,107,418	1,153,744
NONCURRENT LIABILITIES		
Asset retirement obligation	1,778,779	1,594,771
Total Noncurrent Liabilities	1,778,779	1,594,771
Total Liabilities	2,886,197	2,748,515
DEFERRED INFLOW OF RESOURCES		
Rates intended to recover future costs	4,424,433	3,194,219
NET POSITION		
Net investment in capital assets	11,532,146	12,883,041
Unrestricted	(1,488,978)	431,874
Total Net Position	10,043,168	13,314,915
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 17,353,798	$ 19,257,649

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Electric revenue	$ 11,993,689	$ 13,038,501
OPERATING EXPENSES		
Related party services	1,129,500	1,179,162
Capacity	8,731,441	9,584,773
Depreciation	3,274,720	3,281,129
Accretion of asset retirement obligation	69,799	68,494
Fuel	397,326	703,843
Maintenance	702,259	664,984
Utilities	98,624	146,238
Insurance	289,488	336,995
Professional services	229,133	33,477
Other operating expenses	423,287	389,176
Total Operating Expenses	15,345,577	16,388,271
Operating Loss	(3,351,888)	(3,349,770)
NONOPERATING REVENUES		
Investment income	7,368	147
Future recoverable costs	72,773	76,700
Total Non-Operating Revenues	80,141	76,847
Change in net position	(3,271,747)	(3,272,923)
NET POSITION, Beginning of Year	13,314,915	16,587,838
NET POSITION, END OF YEAR	$ 10,043,168	$ 13,314,915

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	$ 13,326,506	$ 14,819,461
Cash paid to related parties for personnel services	(1,214,419)	(1,005,663)
Cash payments to suppliers and related parties for goods and services	(9,222,372)	(12,837,474)
Net Cash Provided by Operating Activities	2,889,715	976,324
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,901,249)	(2,617)
Net Cash (Used in) Capital and Related Investing Activities	(1,901,249)	(2,617)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	7,368	147
Net Cash Provided by Financing Activities	7,368	147
Net Change in Cash and Cash Equivalents	995,834	973,854
CASH AND CASH EQUIVALENTS, Beginning of Year	1,435,443	461,589
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,431,277	$ 1,435,443

See accompanying notes to financial statements.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 2

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (3,351,888)	$ (3,349,770)
Depreciation	3,274,720	3,281,129
Accretion of asset retirement obligation	69,799	68,494
Changes in assets, liabilities and deferred inflow of resources		
Receivables from participants	102,603	(130,394)
Receivables from related parties	1,514,314	(1,712,568)
Inventory	(51,628)	79,429
Prepaid expenses	(9,103)	38,791
Accounts payable and accrued expenses	38,593	(29,057)
Payable to related parties	(84,919)	173,499
Regulatory assets	157,010	645,417
Deferred inflow of resources	1,230,214	1,911,354
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,889,715	$ 976,324
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and temporary investments	$ 2,431,277	$ 1,435,443
TOTAL CASH AND CASH EQUIVALENTS	$ 2,431,277	$ 1,435,443
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	$ (114,209)	$ 36,238

See accompanying notes to financial statements.

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:

	2017	2016
Future expenses related to fixed O&M	$ -	$ 142,058

	2017	2016
Future expenses related to asset retirement obligations	$ 1,743,810	$ 1,594,356

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:

	2017	2016
Future expenses related to overhaul maintenance and fixed O&M	$ 4,424,433	$ 3,194,219

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		
	2017	2016	Risks
Checking	$ 2,431,277	$ 1,435,443	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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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:

2017	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	$ 60,211,556	$ -	$ 39,902	$ 60,251,458
Construction Work-in-Progress	-	1,886,298	-	1,886,298
Less: Accumulated depreciation	(47,328,515)	(3,274,720)	(2,375)	(50,605,610)
Electric Plant and Equipment, Net	$ 12,883,041	$ (1,388,422)	$ 37,527	$ 11,532,146

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

During 2017 and 2016, 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:

	2017			
	Beginning Balance	Revisions to Estimate	Accretion Expense	Ending Balance
Asset retirement obligation	$ 1,594,771	$ 114,209	$ 69,799	$ 1,778,779

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

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 2017 and 2016.

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:

	2017	2016
Electric Plant, Equipment Assets, and Construction Work-in-Progress	$ 61,297,156	$ 59,410,858
Asset Retirement Obligation	840,600	800,698
Accumulated Depreciation	(50,605,610)	(47,328,515)
Total Net Investment in Capital Assets	$ 11,532,146	$ 12,883,041

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 may be declared non-attainment with the 2015 ozone standard. This determination by U.S. EPA could result in mandatory local reductions of nitrogen oxides, volatile organic compounds and/or fine particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to help achieve compliance in down-wind, neighboring states. Ohio Environmental Protection Agency may restrict the hours of operation or require additional pollution control equipment for the portions of the Project that are determined to impact non-attainment areas in Ohio or elsewhere.

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, 2017 and 2016 was $188,260 and $195,975, respectively. OMEGA JV2's payables to AMP as of December 31, 2017 and 2016 were $89,224 and $219,156, 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. AMP may also provide these services. The expenses related to these services were $941,240 and $983,187 for the years ended December 31, 2017 and 2016, respectively. OMEGA JV2 had a payable to MESA for $59,551 and $44,151 at December 31, 2017 and 2016, respectively. OMEGA JV2 had a payable to AMP for $29,613 at December 31, 2017.

- Participants with units sited in their communities provide utilities to the generating units. OMEGA JV2 incurred expenses of $98,624 and $146,238 for these services for the years ended December 31, 2017 and 2016, respectively.

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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, 2017, 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 18, 2018.

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.

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 18, 2018