

**OHIO MUNICIPAL ELECTRIC
GENERATION AGENCY
JOINT VENTURE 1**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Years Ended December 31, 2010 and 2009

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

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December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Ohio Municipal Electric Generation Agency
Joint Venture 1

We have audited the accompanying statements of net assets of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OMEGA JV1's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OMEGA JV1 as of December 31, 2010 and 2009, and changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2011 on our consideration of OMEGA JV1's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis enclosed in this report is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 17, 2011

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010, 2009, and 2008 (Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") for the years ended December 31, 2010 and 2009. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

OMEGA JV1 prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. OMEGA JV1's basic financial statements include the statements of net assets; the statements of revenues, expenses and changes in net assets; and the statements of cash flows.

The statements of net assets provide information about the nature and amount of assets and liabilities of OMEGA JV1 as of the end of the year. The statements of revenues, expenses and changes in net assets 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, noncapital financing, investing and capital and related financing activities.

Financial Highlights

Condensed Statements of Net Assets as of December 31:

	2010	2009	2008
Assets			
Electric plant, net of accumulated depreciation	\$ 251,505	\$ 245,354	\$ 317,636
Board designated funds	76,642	-	-
Regulatory assets	57,861	68,631	58,300
Current assets	182,736	247,488	217,812
Total Assets	\$ 568,744	\$ 561,473	\$ 593,748
Net Assets and Liabilities			
Net assets - invested in capital assets	\$ 251,505	\$ 245,354	\$ 317,636
Net assets - unrestricted	221,979	241,258	159,845
Total net assets	473,484	486,612	477,481
Current liabilities	18,618	13,438	12,730
Noncurrent liabilities	76,642	61,423	103,537
Total Net Assets and Liabilities	\$ 568,744	\$ 561,473	\$ 593,748

See accompanying auditors' report.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010, 2009, and 2008 (Unaudited)

2010 vs. 2009

Total assets were \$568,744 and \$561,473 as of December 31, 2010 and December 31 2009, respectively, an increase of \$7,271. The increase in 2010 total assets is due primarily to the establishment of an asset retirement maintenance reserve in 2010, partially offset by a decrease in cash and temporary investments.

Electric plant, net of accumulated depreciation was \$251,505 and \$245,354 at year-end 2010 and 2009, respectively, an increase of \$6,151. The increase was primarily the result of an increase in ARO asset values of \$25,463 offset, in part, by an increase in accumulated depreciation of \$19,312. The cost associated with the asset retirement obligation included in the cost of electric plant for 2010 was \$41,622, versus \$16,159 in 2009. ARO obligations for OMEGA JV1 were prepared by independent engineering consultants. These projections increased over prior year estimates due to higher projected cleanup and restoration expenses. The net present value of these obligations increased further as a result of decreased interest rates at year end 2010 versus 2009.

Due to new environmental regulations that may affect the operation of the units, OMEGA JV1's Board of Participants designated funds from existing operating cash for the current value of the asset retirement obligation.

Regulatory assets were \$57,861 and \$68,631 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$10,770. Regulatory assets contain amounts deferred for ARO expenses. These deferred amounts are recorded in the statements of revenues, expenses and changes in net assets as the corresponding expense is realized.

Current assets were \$182,736 and \$247,488 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$64,752. In 2010, cash and temporary investments decreased \$53,053, primarily as a result of the board designated funds during the year. Compared to 2009 levels, accounts receivable decreased \$4,502, inventory decreased \$9,931, and prepaid assets increased \$2,750.

Total net assets and liabilities were \$568,744 and \$561,473 as of December 31, 2010 and December 31, 2009, respectively, an increase of \$7,271.

Total net assets were \$473,484 and \$486,612 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$13,128, which resulted from the 2010 net loss. Net assets – invested in capital assets were \$251,505 and \$245,354 at December 31, 2010 and December 31, 2009, respectively, an increase of \$6,151. This increase resulted from the increase in electric plant, net of depreciation. Unrestricted net assets were \$221,979 and \$241,258 at December 31, 2010 and December 31, 2009, respectively, a decrease of \$19,279.

Current liabilities were \$18,618 and \$13,438 at December 31, 2010 and December 31, 2009, respectively, an increase of \$5,180. This resulted from increases in accounts payable of \$2,696 and payables to related parties of \$2,484.

See accompanying auditors' report.

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010, 2009, and 2008 (Unaudited)

Noncurrent liabilities were \$76,642 and \$61,423 as of December 31, 2010 December 31, 2009, respectively, an increase of \$15,219. This increase was due to the increase in the net present value of estimated ARO obligations for the project, based on the analysis of independent engineering consultants. As discussed previously, the increase is due to the combined impact of an increase in estimated asset retirement costs and lower interest rates prevailing at year-end 2010 versus 2009.

2009 vs. 2008

Total assets were \$561,473 and \$593,748 as of December 31, 2009 and December 31 2008, respectively, a decrease of \$32,275. The decrease in 2009 total assets is due primarily to a decrease in net fixed assets due to depreciation and decreased asset retirement obligation ("ARO") assets, partially offset by increased cash and temporary investments.

Electric plant, net of accumulated depreciation was \$245,354 and \$317,636 at year-end 2009 and 2008, respectively, a decrease of \$72,282. The decrease was the result of an increase in accumulated depreciation of \$23,091, combined with the decrease in ARO asset values of \$49,141. The cost associated with the asset retirement obligation included in the cost of electric plant for 2009 was \$16,159, versus \$65,350 in 2008. ARO obligations for OMEGA JV1 were prepared by independent engineering consultants. These projections decreased substantially over prior year estimates due to lower projected cleanup and restoration expenses. The net present value of these obligations decreased further as a result of increased interest rates at year end 2009 versus 2008.

Regulatory assets were \$68,631 and \$58,300 at December 31, 2009 and December 31, 2008, respectively, an increase of \$10,331. Regulatory assets contain amounts deferred for ARO expenses. These deferred amounts are recorded in the statements of revenues, expenses and changes in net assets as the corresponding expense is realized.

Current assets were \$247,488 and \$217,812 at December 31, 2009 and December 31, 2008, respectively, an increase of \$29,676. In 2009, cash and temporary investments increased \$35,251, primarily as a result of cash generated by operations and lower requirements for working capital. Compared to 2008 levels, accounts receivable decreased \$1,165, inventory decreased \$3,777, and prepaid assets decreased \$633.

Total net assets and liabilities were \$561,473 and \$593,748 as of December 31, 2009 and December 31, 2008, respectively, a decrease of \$32,275.

Total net assets were \$486,612 and \$477,481 at December 31, 2009 and December 31, 2008, respectively, an increase of \$9,131, which resulted from 2009 net income. Net assets – invested in capital assets were \$245,354 and \$317,636 at December 31, 2009 and December 31, 2008, respectively, a decrease of \$72,282. This decrease resulted from the decrease in electric plant, net of depreciation. Unrestricted net assets were \$241,258 and \$159,845 at December 31, 2009 and December 31, 2008, respectively, an increase of \$81,413.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010, 2009, and 2008
(Unaudited)

Current liabilities were \$13,438 and \$12,730 at December 31, 2009 and December 31, 2008, respectively, an increase of \$708. This resulted from an increase in accounts payable of \$1,144 offset by lower levels of payable to related parties of \$436.

Noncurrent liabilities were \$61,423 and \$103,537 as of December 31, 2009 December 31, 2008, respectively, a decrease of \$42,114. This decrease was due to the decrease in the net present value of estimated ARO obligations for the project, based on the analysis of independent engineering consultants. As discussed previously, the reduction is due to the combined impact of a decrease in estimated asset retirement costs and higher interest rates prevailing at year-end 2009 versus 2008.

The following table summarizes the changes in revenues, expenses and net assets of OMEGA JV1 for the year ended December 31:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Operating revenues	\$ 150,331	\$ 144,685	\$ 142,657
Operating expenses	166,627	141,459	154,545
Operating Income/(Loss)	(16,296)	3,226	(11,888)
Nonoperating revenue			
Investment income	730	446	3,841
Future recoverable costs	2,438	5,459	5,032
Nonoperating Revenue	3,168	5,905	8,873
Net Income Before Distributions	(13,128)	9,131	(3,015)
Special Item - Distribution to Shareholders	-	-	(117,550)
Change in Net Assets	\$ (13,128)	\$ 9,131	\$ (120,565)

Operating Results

Electric revenues in 2010 were \$150,331, an increase of \$5,646 from 2009. Electric rates are set by the Board of Participants based on budgets and are intended to cover budgeted operating expenses, actual fuel expense and debt service, if any. Electric revenues in 2009 were \$144,685, an increase of \$2,028 from 2008.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010, 2009, and 2008
(Unaudited)**

Operating expenses in 2010 were \$166,627. This is an increase of \$25,168 compared to 2009. The increase in operating expenses in 2010 is primarily due to increases in related party services, ARO accretion expense, fuel, maintenance, insurance and professional services, which were partially offset by decreases in depreciation expense, utilities and other operating expenses. Operating expenses in 2009 were \$141,459. This is a decrease of \$13,086 compared to 2008. The decrease in operating expenses in 2009 is primarily due to decreases in maintenance, utilities, ARO accretion expenses and other operating expenses, which were partially offset by increased expenditures on related party services, depreciation, fuel, insurance, and professional services expenses.

Investment income in 2010 was \$730, an increase of \$284 versus 2009. Investment income in 2009 was \$446, which was a decrease of \$3,395 compared to 2008 due to sharply lower returns on invested funds. Investment income for OMEGA JV1 is interest earned on checking account balances and short term CDs.

There were no distributions to participants of OMEGA JV1 in 2010 or 2009.

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 1**

STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

<i>ASSETS</i>	2010	2009
CURRENT ASSETS		
Cash and temporary investments	\$ 143,004	\$ 196,057
Receivables from participants	2,777	7,279
Accrued interest receivable	5	21
Inventory	29,833	39,764
Prepaid expenses	7,117	4,367
Total Current Assets	<u>182,736</u>	<u>247,488</u>
NON-CURRENT ASSETS		
Electric Plant		
Electric generators	527,935	502,472
Fuel tank	35,000	35,000
Accumulated depreciation	(311,430)	(292,118)
Other Assets		
Board designated funds	76,642	-
Regulatory assets	57,861	68,631
Total Non-Current Assets	<u>386,008</u>	<u>313,985</u>
TOTAL ASSETS	<u>\$ 568,744</u>	<u>\$ 561,473</u>
<i>LIABILITIES AND NET ASSETS</i>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 12,423	\$ 9,727
Payable to related parties	6,195	3,711
Total Current Liabilities	<u>18,618</u>	<u>13,438</u>
NONCURRENT LIABILITIES		
Asset retirement obligation	76,642	61,423
Total Noncurrent Liabilities	<u>76,642</u>	<u>61,423</u>
Total Liabilities	<u>95,260</u>	<u>74,861</u>
NET ASSETS		
Invested in capital assets	251,505	245,354
Unrestricted	221,979	241,258
Total Net Assets	<u>473,484</u>	<u>486,612</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 568,744</u>	<u>\$ 561,473</u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Electric revenue	\$ 150,331	\$ 144,685
OPERATING EXPENSES		
Related party services	77,668	61,210
Depreciation	19,312	23,091
Accretion of asset retirement obligation	2,964	2,205
Fuel	9,931	4,285
Maintenance	15,131	8,976
Utilities	8,226	8,560
Insurance	22,150	19,483
Professional services	9,775	10,627
Other operating expenses	1,470	3,021
Total Operating Expenses	166,627	141,459
Operating Income (Loss)	(16,296)	3,226
NON-OPERATING REVENUES		
Investment income	730	446
Future recoverable costs	2,438	5,459
Total Non-Operating Revenues	3,168	5,905
Change in net assets	(13,128)	9,131
NET ASSETS, Beginning of Year	486,612	477,481
NET ASSETS, END OF YEAR	\$ 473,484	\$ 486,612

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 154,833	\$ 145,871
Cash paid to related parties for personnel services	(64,497)	(61,555)
Cash payments to suppliers and related parties for goods and services	(67,493)	(49,490)
Net Cash Provided by Operating Activities	22,843	34,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(35,351)	(35,000)
Investments sold and matured	35,000	-
Investment income received	746	425
Net Cash Provided by (Used in) Investing Activities	395	(34,575)
Net Change in Cash and Cash Equivalents	23,238	251
CASH AND CASH EQUIVALENTS, Beginning of Year	161,057	160,806
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 184,295	\$ 161,057

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (16,296)	\$ 3,226
Depreciation	19,312	23,091
Accretion of asset retirement obligation	2,964	2,205
Changes in assets and liabilities		
Receivables from participants	4,502	1,186
Inventory	9,931	3,777
Prepaid expenses	(2,750)	633
Accounts payable and accrued expenses	2,696	1,144
Payable to related parties	2,484	(436)
	<u>22,843</u>	<u>34,826</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 22,843	\$ 34,826
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and temporary investments	\$ 143,004	\$ 196,057
Board designated funds	76,642	-
Less: Noncash equivalents	<u>(35,351)</u>	<u>(35,000)</u>
	<u>184,295</u>	<u>161,057</u>
TOTAL CASH AND CASH EQUIVALENTS	\$ 184,295	\$ 161,057
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in cost of plant due to change in estimated asset retirement obligation	<u>\$ 25,463</u>	<u>\$ (49,191)</u>

See accompanying notes to financial statements.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") was organized by 21 subdivisions of the State of Ohio (the "Participants") on April 1, 1992, pursuant to a Joint Venture Agreement (the "Agreement") under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the Participants. The Participants are members of American Municipal Power, Inc. ("AMP") Northeast Area Service Group. The Participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV1 purchased its electric generating facilities (the "Project"), known as the Engle Units, from AMP in September 1992. The electric generating facilities consist of six diesel-fired turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio. The Agreement continues until 60 days subsequent to the disposition of the Project, provided, however, that each Participant shall remain obligated to pay to OMEGA JV1 its respective share of the costs of termination, discontinuing, disposing of, and decommissioning the Project.

The following summarizes the significant accounting policies followed by OMEGA JV1.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in OMEGA JV1's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. OMEGA JV1 also has the option of following subsequent private-sector guidance subject to this same limitation. OMEGA JV1 has elected to follow subsequent private-sector guidance.

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.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS

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.

OMEGA JV1 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 JV1 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. 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 collectibility, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

Inventory

Inventory consists of fuel 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.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Electric Plant

Electric plant is recorded at cost. Depreciation is provided on the straight-line method from 15 to 30 years, based on 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 an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Asset Retirement Obligations

OMEGA JV1 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.

Board Designated Funds

Due to new environmental regulations that may affect the operation of the units, OMEGA JV1's Board of Participants designated funds from existing operating cash for the current value of the asset retirement obligation.

Regulatory Assets

In accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, OMEGA JV1 records regulatory assets (deferred expenses to be recovered in rates in future periods). Regulatory assets include the deferral of depreciation expense and accretion expense associated with asset retirement obligations not yet recovered through billings to Participants. As interest is accreted related to the asset retirement obligation and depreciation is expensed related to the capitalized cost, future recoverable costs are recognized to match revenues with the related costs in future periods. 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:

	<u>2010</u>	<u>2009</u>
Deferral of expenses related to asset retirement obligations	<u>\$ 57,861</u>	<u>\$ 68,631</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Net Assets

All property constituting OMEGA JV1 is owned by the Participants as tenants in common in undivided shares, each share being equal to that Participant's percentage ownership interest as follows:

<u>Municipality</u>	<u>Project kW Entitlement</u>	<u>Percent Project Ownership and Entitlement</u>
Cuyahoga Falls	1,894	21.05%
Niles	1,593	17.71
Wadsworth	1,011	11.24
Hudson	934	10.37
Galion	588	6.53
Oberlin	497	5.52
Amherst	488	5.42
Hubbard	341	3.79
Columbiana	272	3.03
Wellington	265	2.95
Newton Falls	228	2.53
Monroeville	167	1.85
Lodi	155	1.72
Seville	135	1.50
Brewster	130	1.45
Grafton	105	1.16
Milan	64	0.71
Beach City	50	0.55
Prospect	45	0.50
Lucas	21	0.23
South Vienna	17	0.19
Totals	<u>9,000</u>	<u>100.00%</u>

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
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**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

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

REVENUES AND EXPENSES

OMEGA JV1 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with OMEGA JV1's principal ongoing operations. The principal operating revenues of OMEGA JV1 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 nonoperating revenues and expenses.

Electric revenue is recognized when earned as electric service is delivered. OMEGA JV1's rates for electric power are designed to cover annual operating costs. Rates are set annually by the Board of Participants. Periodically OMEGA JV1 will distribute earnings to its participants based on available operating cash. These distributions are approved by the Board of Participants.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, and Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. Application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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		Risks
	December 31,		
	2010	2009	
Checking	\$ 161,643	\$ 138,409	Custodial credit
Certificate of Deposit	35,351	35,000	Custodial credit
Government Money Market			
Mutual Fund	22,652	22,648	Interest rate, credit
Totals	<u>\$ 219,646</u>	<u>\$ 196,057</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited for noninterest bearing accounts as of December 31, 2010 and 2009.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, OMEGA JV1's deposits may not be returned to it. OMEGA JV1 has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit as stated above. OMEGA JV1's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2010 and 2009, there were no deposits or temporary investments exposed to custodial credit risk, as amounts do not exceed FDIC limits.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

OMEGA JV1 invests in instruments approved under the entity's investment policy. The Board of Participants has authorized OMEGA JV1 to invest in funds in accordance with the Ohio Revised Code. 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, 2010 and 2009, OMEGA JV1's investments were rated as follows:

Investment Type	Standard & Poors	Fitch Ratings	Moody's Investors Services
Government Money Market Mutual Fund	AAAm	AAA	Aaa

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. OMEGA JV1's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

As of December 31, 2010, OMEGA JV1's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	\$ <u>22,652</u>	38

As of December 31, 2009, OMEGA JV1's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	\$ <u>22,648</u>	36

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 3 – ELECTRIC PLANT

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

	2010			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 502,472	\$ -	\$ 25,463	\$ 527,935
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	537,472	-	25,463	562,935
Less: Accumulated depreciation	(292,118)	(19,312)	-	(311,430)
Electric Plant, Net	<u>\$ 245,354</u>	<u>\$ (19,312)</u>	<u>\$ 25,463</u>	<u>\$ 251,505</u>

	2009			
	Beginning Balance	Additions	Change in Estimate	Ending Balance
Electric generators	\$ 551,663	\$ -	\$ (49,191)	\$ 502,472
Fuel tank	35,000	-	-	35,000
Total Electric Plant in Service	586,663	-	(49,191)	537,472
Less: Accumulated depreciation	(269,027)	(23,091)	-	(292,118)
Electric Plant, Net	<u>\$ 317,636</u>	<u>\$ (23,091)</u>	<u>\$ (49,191)</u>	<u>\$ 245,354</u>

During 2010 and 2009, OMEGA JV1 recorded an adjustment to electric plant to reflect the revised estimate of the ARO (Note 4).

NOTE 4 – ASSET RETIREMENT OBLIGATIONS

Under the terms of lease agreements, OMEGA JV1 has an obligation to remove electric generators from the leased sites on which the units are located and to perform certain restoration of the sites.

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

	2010			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 61,423	\$ 2,964	\$ 12,255	\$ 76,642

	2009			
	Beginning Balance	Accretion Expense	Change in Estimate	Ending Balance
Asset retirement obligation	\$ 103,537	\$ 2,205	\$ (44,319)	\$ 61,423

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 – ASSET RETIREMENT OBLIGATIONS (cont.)

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 unit. The accretion of the liability and amortization of the property and equipment will be recognized over the estimated useful life of each unit. OMEGA JV1 updated its estimate of its asset retirement obligation based on an updated legal and technical study performed during 2010 and 2009.

NOTE 5 – NET ASSETS

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset 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.

Unrestricted net assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is OMEGA JV1's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net assets invested in capital assets:

	2010	2009
Plant in service	\$ 562,935	\$ 537,472
Accumulated depreciation	(311,430)	(292,118)
Total Net Assets Invested in Capital Assets	\$ 251,505	\$ 245,354

OHIO MUNICIPAL ELECTRIC GENERATION AGENCY JOINT VENTURE 1

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 – COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

OMEGA JV1 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 JV1.

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 JV1's engines are affected by this rule and compliance must be demonstrated by May 2013. OMEGA JV1 is evaluating its compliance options and assessing the impact on the project. Total costs are estimated at \$200,000 to \$300,000.

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 and particulate matter. In addition to emissions reductions required to achieve local compliance, additional reductions may be required to achieve compliance in down-wind, neighboring states. Summit County has been designated a nonattainment area for fine particulate matter, therefore, the Ohio EPA may restrict the hours of operations or require additional pollution control equipment for the OMEGA JV1 generating facilities.

As part of on-going, internal compliance assurance activities in 2010, an Ohio registered professional engineer reviewed the oil spill prevention, control and counter measure (SPCC) plan required by 40 CFR Section 112 and identified several deficiencies. OMEGA JV1 is evaluating the engineer's report and is evaluating options to correct the deficiencies. Total costs are estimated at \$3,500.

NOTE 7 – RISK MANAGEMENT

OMEGA JV1 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 JV1 has entered into the following agreements:

- Pursuant to the Agreement, AMP was designated as an agent and provides various management and operational services. OMEGA JV1 had a payable to AMP of \$9 and \$0 at December 31, 2010 and 2009, respectively.

**OHIO MUNICIPAL ELECTRIC GENERATION AGENCY
JOINT VENTURE 1**

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 – RELATED PARTY TRANSACTIONS (cont.)

- As OMEGA JV1'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 \$65,486 and \$61,119 for the years ended December 31, 2010 and 2009, respectively. OMEGA JV1 had a payable to MESA for \$4,700 and \$3,711 at December 31, 2010 and 2009, respectively.
- OMEGA JV1 uses the Energy Control Center for dispatching electrical control. OMEGA JV1 had a payable to the Energy Control Center for \$1,487 and \$0 at December 31, 2010 and 2009, respectively. The expenses related to dispatching electrical control were \$12,182 and \$91 for the years ended December 31, 2010 and 2009, respectively.
- The City of Cuyahoga Falls, Ohio, agreed to provide a suitable site for the generating facilities, and OMEGA JV1 agreed to lease such site for the period of the Agreement plus one year, for the sum of one dollar. OMEGA JV1 incurred expenses of \$8,226 and \$8,560 for the years ended December 31, 2010 and 2009, respectively, for utilities provided by Cuyahoga Falls to the site. Cuyahoga Falls also has agreed to perform operational tasks and routine maintenance on the generating facilities at no charge to OMEGA JV1 in exchange for the availability of the electric generation project to Cuyahoga Falls for electric system emergency backup.



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**INDEPENDENT AUDITORS' 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**

Ohio Municipal Electric Generation Agency
Joint Venture 1
Board of Participants

We have audited the financial statements of Ohio Municipal Electric Generation Agency Joint Venture 1 ("OMEGA JV1") as of and for the year ended December 31, 2010, and have issued our report thereon dated March 17, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered OMEGA JV1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OMEGA JV1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OMEGA JV1's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal controls 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. We consider the deficiency described below to be a material weakness.

Ohio Municipal Electric Generation Agency
Joint Venture 1
Board of Participants

Finding 1: Internal Control Over Financial Reporting

Criteria: Statement on Auditing Standards (SAS) No. 115 requires auditors to report a material weakness if OMEGA JV1 is not able to prepare a complete set of financial statements or has material adjusting journal entries.

Condition: For the 2010 audit, the auditors proposed and made material adjusting journal entries and prepared the annual financial statements for OMEGA JV1.

Cause: Due to staffing and financial limitations, it has been historical practice to have the auditors record various adjusting journal entries. In addition, OMEGA JV1 chooses to contract with the auditors to prepare the annual financial statements.

Effect: OMEGA JV1's financial records may be materially misstated before the annual audit is completed. In addition, presentation of the annual financial statements of OMEGA JV1 in accordance with generally accepted accounting principles are not available until they are completed by the auditors.

Recommendation: OMEGA JV1 should consider additional internal controls or other procedures to strengthen controls over the financial reporting process so no material adjusting journal entries are identified during the audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OMEGA JV1'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*.

We noted certain matters that we reported to management of OMEGA JV1 in a separate letter dated March 17, 2011.

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

Baker Gilly Vichow Krause, LLP

Madison, Wisconsin
March 17, 2011