MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2011 and 2010

Clark Schaefer Hackett
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

We have audited the accompanying statement of net assets of Municipal Energy Services Agency ("MESA") as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the MESA's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of MESA as of December 31, 2010, were audited by other auditors whose report dated March 17, 2011, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Municipal Energy Services Agency as of December 31, 2011, and the changes in its financial position and its cash flows for the year 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 April 19, 2012 on our consideration of the Municipal Energy Services Agency'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 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 audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2012

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Municipal Energy Services Agency ("MESA") for the years ended December 31, 2011 and 2010. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

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

The statement of net assets provides information about the nature and amount of assets and liabilities of MESA as of the end of the year. The statement of revenues, expenses and changes in net assets reports revenues and expenses for the year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

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

Condensed Statement of Net Assets

	2011	2010	2009
Assets			
Cash and short term investments	$ 2,053,164	$ 2,411,684	$ 1,246,760
Accounts receivable AMP members	188,214	511,045	1,018,335
Accounts receivable related parties	1,295,315	1,470,038	1,302,017
Interest receivable	5	100	217
Costs/recoveries in excess of member project billings	295,690	-	17,168
Prepaids	10,596	122,428	107,723
Total Current Assets	$ 3,842,984	$ 4,515,295	$ 3,692,220
Total assets	$ 3,842,984	$ 4,515,295	$ 3,692,220
Liabilities			
Current liabilities	$ 2,292,840	$ 3,067,787	$ 2,343,149
Noncurrent liabilities	1,550,144	1,447,508	1,349,071
Total liabilities	$ 3,842,984	$ 4,515,295	$ 3,692,220

2011 vs. 2010

Total assets were $3,842,984 and $4,515,295 as of December 31, 2011 and December 31, 2010, respectively, a decrease of $672,311. The decrease in 2011 total assets was due primarily to decreases in cash and temporary investments, receivables from related parties, receivables from AMP members and prepaid. These are offset by an increase in costs and recoveries in excess of billings from projects constructed on behalf of members.

> Current assets were $3,842,984 and $4,515,295 as of December 31, 2011 and December 31, 2010, respectively, a decrease of $672,311. This was due to decreases in cash of $358,520, receivables from related parties of $174,723, receivables from AMP members of $322,831 and prepaid of $111,832. This was offset by increases in costs and recoveries in excess of billings from projects constructed on behalf of members of $295,690.

Total net assets and liabilities were $3,842,984 and $4,515,295 as of December 31, 2011 and December 31, 2010, respectively, a decrease of $672,311. This is primarily due to decreases in accounts payables, payable to related parties, and vacation accruals. These are offset by increases in accrued salaries and related benefits and sick accruals.

> Current liabilities were $2,292,840 and $3,067,787 as of December 31, 2011 and December 31, 2010, respectively, a decrease of $774,947. This was due to decreases of accounts payables of $460,659, payable to related parties of $319,892, and accrued vacation of $121,456. This was offset by increases in accrued salaries and related benefits of $127,031.

> Non current liabilities were $1,550,144 and $1,447,508 as of December 31, 2011 and December 31, 2010, respectively, an increase of $102,636. Non current liabilities are comprised of accrued sick leave.

2010 vs. 2009

Total assets were $4,515,295 and $3,692,220 as of December 31, 2010 and December 31, 2009, respectively, an increase of $823,075. The increase in 2010 total assets was due primarily to increases in cash and temporary investments and receivables from related parties. These are offset by a decrease in receivables from AMP members.

> Current assets were $4,515,295 and $3,692,220 as of December 31, 2010 and December 31, 2009, respectively, an increase of $823,075. This was due to increases in cash of $1,164,924, receivables from related parties of $168,021, and prepaid of $14,705. This was offset by decreases in receivables from AMP members of $507,290 and costs and recoveries in excess of billings from projects constructed on behalf of members of $17,168.

Total net assets and liabilities were $4,515,295 and $3,692,220 as of December 31, 2010 and December 31, 2009, respectively, an increase of $823,075. This is primarily due to increases in accounts payables, payable to related parties, and vacation and sick accruals. These are offset by decreases in construction retainage payable and accrued salaries and related benefits.

Current liabilities were $3,067,787 and $2,343,149 as of December 31, 2010 and December 31, 2009, respectively, an increase of $724,638. This was due to increases of accounts payables of $568,052, payable to related parties of $238,319, and accrued vacation of $183,912. This was offset by decreases in construction retainage payable of $111,966 and accrued salaries and related benefits of $153,679.

Non current liabilities were $1,447,508 and $1,349,071 as of December 31, 2010 and December 31, 2009, respectively, an increase of $98,437. Non current liabilities are comprised of accrued sick leave.

The following table summarizes the changes in revenues, expenses and changes in net assets of MESA for the years ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010	2009
Operating revenues	$ 20,836,212	$ 16,151,908	$ 17,528,600
Operating expenses	20,838,597	16,157,069	17,531,845
Operating Loss	(2,385)	(5,161)	(3,245)
Nonoperating revenue			
Investment income	2,385	5,161	3,245
Change in Net Assets	$ -	$ -	$ -

Operating revenues in 2011 were $20,836,212 versus $16,151,908 in 2010 which was an increase of $4,684,304. MESA has primarily two sources of revenues; projects for members and providing personnel services to related parties. Revenue from projects on behalf of members increased by $3,447,450 and revenue from providing personnel services to related parties increased by $1,236,854. Operating revenues in 2010 were $16,151,908 versus $17,528,600 in 2009 which was a decrease of $1,376,692. MESA has primarily two sources of revenues; projects for members and providing personnel services to related parties. Revenue from projects on behalf of members decreased by $2,187,303 and revenue from providing personnel services to related parties increased by $810,611.

Operating expenses in 2011 were $20,838,597 versus $16,157,069 in 2010 which was an increase of $4,681,528. This increase was primarily due to an increase in expense for project materials on behalf of members of $3,474,789 and an increase in MESA payroll and related benefits expense of $1,200,001. Operating expenses in 2010 were $16,157,069 versus $17,531,845 in 2009 which was a decrease of $1,374,776. This decrease was primarily due to a decrease in expense for project materials on behalf of members of $2,324,378. This decrease was offset by an increase in MESA payroll and related benefits expense of $1,097,235.

Investment income for MESA is limited to interest earned on checking account for the Operating Funds held at the bank. Investment income in 2011 was $2,385 versus $5,161 in 2010 which was a decrease of $2,776. The decrease in 2011 was a result of lower interest rates. Investment income in 2010 was $5,161 versus $3,245 in 2009 which was an increase of $1,916. The increase in 2010 was a result of higher average cash balances.

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.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ 2,053,164	$ 2,411,684
Receivables from AMP members	188,214	511,045
Receivables from related parties	1,295,315	1,470,038
Accrued interest receivable	5	100
Costs and recoveries in excess of billings from projects constructed on behalf of members	295,690	-
Prepaid expenses	10,596	122,428
Total Current Assets	3,842,984	4,515,295
TOTAL ASSETS	$ 3,842,984	$ 4,515,295
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 568,487	$ 1,029,146
Payable to related parties	172,003	491,895
Retainage payable	291,911	291,882
Accrued salaries and related benefits	483,478	356,447
Accrued vacation leave	776,961	898,417
Total Current Liabilities	2,292,840	3,067,787
NON CURRENT LIABILITIES		
Accrued sick leave	1,550,144	1,447,508
Total Non Current Liabilities	1,550,144	1,447,508
Total Liabilities	3,842,984	4,515,295
NET ASSETS		
Unrestricted	-	-
Total Net Assets	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 3,842,984	$ 4,515,295

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Services	$ 14,401,182	$ 13,164,328
Project revenue	6,435,030	2,987,580
Total Operating Revenues	20,836,212	16,151,908
OPERATING EXPENSES		
Salaries and related benefits	14,299,128	13,099,127
Professional fees	90,636	83,607
Direct project expenses	6,365,328	2,891,539
Insurance	83,505	82,796
Total Operating Expenses	20,838,597	16,157,069
Operating Loss	(2,385)	(5,161)
NONOPERATING REVENUES		
Investment income and other	2,385	5,161
Change in net assets	-	-
NET ASSETS, Beginning of Year	-	-
NET ASSETS, END OF YEAR	$ -	$ -

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP members for services	$ 6,314,063	$ 3,512,038
Cash received from related parties for services	14,724,013	12,996,307
Cash payments to employees for services and benefits	(14,190,917)	(12,970,457)
Cash payments to suppliers and related parties for goods and services	(7,208,159)	(2,378,242)
Net Cash Provided by (Used in) Operating Activities	(361,000)	1,159,646
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(50,000)	(363,608)
Investments sold and matured	363,608	360,000
Investment income received	2,480	5,278
Net Cash Provided by Investing Activities	316,088	1,670
Net Change in Cash and Cash Equivalents	(44,912)	1,161,316
CASH AND CASH EQUIVALENTS, Beginning of Year	2,048,076	886,760
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,003,164	$ 2,048,076
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	$ (2,385)	$ (5,161)
Changes in assets and liabilities		
Receivables from AMP-Ohio members	322,831	507,290
Receivables from related parties	174,723	(168,021)
Costs and estimated earnings in excess of billings from projects constructed on behalf of members	(295,690)	17,168
Prepaid expenses	111,832	(14,705)
Accounts payable and accrued expenses	(460,659)	568,052
Accounts payable to related parties	(319,892)	238,319
Accrued salaries and related benefits	127,031	(153,679)
Accrued vacation and sick leave	(18,820)	282,349
Retainages payable	29	(111,966)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (361,000)	$ 1,159,646
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and temporary investments	$ 2,053,164	$ 2,411,684
Less: Noncash equivalents	(50,000)	(363,608)
TOTAL CASH AND CASH EQUIVALENTS	$ 2,003,164	$ 2,048,076

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Energy Services Agency ("MESA") was organized by 31 subdivisions of the State of Ohio (the "Participants") on December 31, 1996, pursuant to a Joint Venture Agreement (the "Agreement") under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. As of December 31, 2011, there were 48 Participants in MESA. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training, finance, administration and other aspects of the operation and maintenance of municipal electric and other utility systems. The participants are members of American Municipal Power, Inc. ("AMP"). MESA also provides personnel and administrative services to AMP, the Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 ("OMEGA JVs") and the Ohio Municipal Electric Association ("OMEA"). The Agreement continues until December 31, 2008, and thereafter for successive terms of three years so long as at least two participants have not given notice of termination of participation. At December 31, 2011, no notice of termination has been received.

The following summarizes the significant accounting policies followed by MESA.

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 MESA's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. MESA also has the option of following subsequent private-sector guidance subject to this same limitation. MESA 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.

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.

MESA 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 and 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.

MESA 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, related parties, and other members of AMP 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.

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 AND NET ASSETS (cont.)

Retainage Payable

The balance represents a deposit for a transmission project from the City of Hamilton. The deposit may be refundable based on the service agreement.

Accrued Vacation and Sick Leave

MESA records a liability for compensated absences (sick and vacation) attributable to services rendered. Vacation leave for which employees can receive compensation in a future period is recorded as earned by the employees. Sick leave is recorded for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

SERVICE REVENUE AND EXPENSES

Revenues are recognized as services are performed. Service revenue is charged to AMP, the OMEGA JVs, and OMEA at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 71% to 150%. To the extent that the overhead amount charged to the entities is different from actual overhead charges incurred, MESA adjusts the amount charged to AMP. AMP absorbs any undercharges and uses any excess charges to offset other administrative expenses incurred, which benefits all members of AMP.

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

PROJECT REVENUE AND EXPENSES

MESA performs short-term and long-term construction and technical service projects for the members of AMP. Short-term service project revenues are recognized when costs are incurred. Long-term project revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 ("SOP 81-1"), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for time and materials contracts. In accordance with SOP 81-1, revenue from time and material contracts is recognized to the extent of billable rates times hours delivered plus materials and expenses incurred. Materials and expenses are typically billed at cost. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are identified. Changes in project performance, project conditions and estimated profitability are recognized in the period in which the revisions become known.

Costs and recoveries in excess of billings from projects constructed on behalf of members represent unbilled services and reimbursable materials and expenses associated with ongoing projects. Billings in excess of costs and recoveries for projects constructed on behalf of members represent advanced billings for services to be performed at a future date for ongoing projects. Direct project expenses include an allocation of operating expenses.

MESA 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 MESA's principal ongoing operations. Operating expenses for MESA include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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*, Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53). Future application of these standards may restate portions of these financial statements.

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, 2011	Carrying Value as of December 31, 2010	Risks
Checking/Money Market Funds	$ 1,684,935	$ 1,729,880	Custodial credit
Certificate of Deposits	50,000	363,608	Custodial credit
Government Money Market Mutual Fund	318,229	318,196	Interest rate, credit
Total Cash, Cash Equivalents, and Investments	$ 2,053,164	$ 2,411,684	

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, 2011 and 2010.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, MESA's deposits may not be returned to it. MESA has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. However, MESA's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2011 and 2010, 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.
MESA invests in instruments approved under the entity's investment policy. The Board of Participants has authorized MESA 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.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (cont.)

Credit Risk (cont.)

As of December 31, 2011 and 2010, MESA'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. MESA's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

As of December 31, 2011, MESA's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	$ 318,229	36

As of December 31, 2010, MESA’s investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	$ 318,196	38

NOTE 3 – Long Term Liability

Long-term liability activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,447,508	$ 268,863	$ 166,227	$ 1,550,144	$ -

Long-term liability activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,349,071	$ 274,528	$ 176,091	$ 1,447,508	$ -

NOTE 4 – POSTEMPLOYMENT BENEFITS

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

The ORC provides statutory authority for employee and employer contributions. The employer and employee required and actual contributions to OPERS were as follows:

	Year Ended December 31		
	2011	2010	2009
Required and Actual Employer Pension Contributions	$ 817,465	$ 836,051	$ 696,993
Required and Actual Employer OPEB Contributions	493,416	475,119	496,045
Required and Actual Employer OPERS Contributions	$ 1,310,881	$ 1,311,170	$ 1,193,038
Required and Actual Employer OPERS Contribution Rate	14.00%	14.00%	14.00%
Required and Actual Employee OPERS Contribution Rate	10.00%	10.00%	10.00%

Employer OPERS contribution rates are expressed as a percentage of the covered payroll of active members. The ORC currently limits the employer contribution to a rate not to exceed 14% of covered payroll.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to: OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614 222 5601 or 800 222 7377.

NOTE 4 – POSTEMPLOYMENT BENEFITS (cont.)

OTHER POSTEMPLOYMENT BENEFITS

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit ("OPEB") as described in GASB Statement No.45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits.

The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% from for the year ended December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for the year ended December 31, 2011.

The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010.

NOTE 4 – POSTEMPLOYMENT BENEFITS (cont.)

OTHER POSTEMPLOYMENT BENEFITS (cont.)

The employer and employee required and actual contributions to OPERS were as follows:

	Year Ended December 31		
	2011	2010	2009
Required and Actual Employer Pension Contributions	$ 817,465	$ 836,051	$ 696,993
Required and Actual Employer OPEB Contributions	493,416	475,119	496,045
Required and Actual Employer OPERS Contributions	$ 1,310,881	$ 1,311,170	$ 1,193,038
Required and Actual Employer OPERS Contribution Rate	14.00%	14.00%	14.00%
Required and Actual Employee OPERS Contribution Rate	10.00%	10.00%	10.00%

Employer OPERS contribution rates are expressed as a percentage of the covered payroll of active members. The ORC currently limits the employer contribution to a rate not to exceed 14% of covered payroll.

The Health Care Preservation Plan ("HCPP") adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased January 1 of each year 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to: OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614 222 5601 or 800 222 7377.

NOTE 5 – RISK MANAGEMENT

MESA 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, health care excess liability, general liability, directors' and officers' insurance, fiduciary liability, and crime and fidelity coverage. In addition, MESA maintains an errors and omissions policy related to engineering services it performs. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 6 – RELATED PARTY TRANSACTIONS

Pursuant to the Agreement, AMP was designated as an agent and provides MESA various management and operational services. As MESA's agent, AMP enters into agreements with related entities to have MESA provide services. Revenues earned from these agreements for the years ended December 31 are as follows:

	2011	2010
AMP	$ 11,911,453	$ 10,785,315
Ohio Municipal Electric Generation Agency Joint Venture 1	72,450	65,486
Ohio Municipal Electric Generation Agency Joint Venture 2	534,429	420,501
Ohio Municipal Electric Generation Agency Joint Venture 4	39,059	23,730
Ohio Municipal Electric Generation Agency Joint Venture 5	1,016,942	887,798
Ohio Municipal Electric Generation Agency Joint Venture 6	56,073	71,696
Ohio Municipal Electric Association	409,087	368,321
Ohio Public Power Educational Institute	-	165,239
AMP Members	6,796,719	3,363,822
Totals	$ 20,836,212	$ 16,151,908

At December 31, 2011 and 2010, MESA had receivables from affiliates of $1,295,315 and $1,470,038, respectively. At December 31, 2011 and 2010, MESA had a receivable from members of AMP of $188,214 and $511,045, respectively. At December 31, 2011 and 2010, MESA had a payable to AMP for $172,003 and $491,895, respectively.

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*

To the Board of Participants
Municipal Energy Services Agency:

We have audited the financial statements of Municipal Energy Services Agency ("MESA") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012, wherein we noted the financial statements for the year ended December 31, 2010 were audited by other auditors. 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

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance And Other Matters

As part of obtaining reasonable assurance about whether the MESA'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*.

This report is intended solely for the information and use of the Board of Participants, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2012

Municipal Energy Services Agency
Schedule of Prior Audit Findings
Year Ended December 31, 2011

Finding 1 – Internal Control Over Financial Reporting

During the prior audit, it was noted that MESA was not able to prepare a complete set of financial statements and had material adjusting journal entries.

Status: *Corrected during 2011.*