MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Years Ended December 31, 2010 and 2009

MUNICIPAL ENERGY SERVICES AGENCY

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December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency

We have audited the accompanying statements of net assets of Municipal Energy Services Agency ("MESA") 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 MESA'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 MESA 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 MESA'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

MUNICIPAL ENERGY SERVICES AGENCY

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 Municipal Energy Services Agency ("MESA") 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.

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, noncapital financing, investing and capital and related financing activities.

Financial Highlights

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

Condensed Statement of Net Assets

	2010	2009	2008
Assets			
Cash and short term investments	$ 2,411,684	$ 1,246,760	$ 6,137,026
Accounts receivable AMP members	511,045	1,018,335	281,881
Accounts receivable related parties	1,470,038	1,302,017	1,172,069
Interest receivable	100	217	-
Costs/recoveries in excess of member project billings	-	17,168	378,810
Prepaids	122,428	107,723	125,028
Total Current Assets	4,515,295	3,692,220	8,094,814
Property, net of accumulated depreciation	-	-	182,325
Total Assets	$ 4,515,295	$ 3,692,220	$ 8,277,139
Liabilities and Net Assets			
Current liabilities	$ 3,067,787	$ 2,343,149	$ 7,011,846
Noncurrent liabilities	1,447,508	1,349,071	1,265,293
Net assets - Invested in capital assets	-	-	182,325
Net assets - Unrestricted	-	-	(182,325)
Total Liabilities and Net Assets	$ 4,515,295	$ 3,692,220	$ 8,277,139

See accompanying auditors' report.

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 expenses 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.

There were no noncurrent assets as of December 31, 2010 and 2009. MESA 2008 property consisted entirely of vehicles which were transferred to the General Fund in 2009 at their net book value.

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 payable and accrued expenses 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.

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

2009 vs. 2008

Total assets were $3,692,220 and $8,277,139 as of December 31, 2009 and December 31, 2008, respectively, a decrease of $4,584,919. The decrease in 2009 total assets was due primarily to decreases in cash and temporary investments and cost and recoveries in excess of billings from projects constructed on behalf of members partially offset by an increase in receivables from AMP members and related parties.

Current assets were $3,692,220 and $8,094,814 as of December 31, 2009 and December 31, 2008, respectively, a decrease of $4,402,594. Cash decreased $4,890,266 mostly due to payments for six transformers on behalf of an AMP member. Costs and recoveries in excess of billings from projects constructed on behalf of members decreased $361,642. These decreases were offset by increases in receivables from AMP members of $736,454 and receivables from related parties of $129,948.

Noncurrent assets were $0 and $182,325 as of December 31, 2009 and December 31, 2008, respectively. MESA 2008 property consisted entirely of vehicles which were transferred to the General Fund in 2009 at their net book value.

Total net assets and liabilities were $3,692,220 and $8,277,139 as of December 31, 2009 and December 31, 2008, respectively, a decrease of $4,584,919. This is primarily due to decreases in retainage payable and accounts payable.

Current liabilities were $2,343,149 and $7,011,846 as of December 31, 2009 and December 31, 2008, respectively, a decrease of $4,668,697. Construction retainage payable decreased $3,732,425 due to payments for six transformers on behalf of an AMP member. Accounts payable decreased by $900,477.

Noncurrent liabilities were $1,349,071 and $1,265,293 as of December 31, 2009 and December 31, 2008, respectively, an increase of $83,778. Noncurrent liabilities are comprised of accrued sick leave.

Net assets totaled $0 at both December 31, 2009 and December 31, 2008, reflecting MESA's $0 net margin in 2009. However the composition of net assets changed, reflecting changes in MESA's property net of depreciation. At December 31, 2009, net assets invested in capital assets was zero, and unrestricted net assets was zero, reflecting the change in MESA's total property, net of depreciation discussed previously.

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

	2010	2009	2008
Operating revenues	$ 16,151,908	$ 17,528,600	$ 14,317,835
Operating expenses	16,157,069	17,531,845	14,336,149
Operating Loss	(5,161)	(3,245)	(18,314)
Nonoperating revenue			
Investment income	5,161	3,245	18,314
Change in Net Assets	$ -	$ -	$ -

Operating revenues in 2010 were $16,151,908 which was a decrease of $1,376,692 from 2009. 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 revenues in 2009 were $17,528,600 which was an increase of $3,210,765 from 2008. Revenue from projects on behalf of members increased by $2,138,400 and revenue from personnel services to related parties increased by $1,072,365.

Operating expenses in 2010 were $16,157,069 which was a decrease of $1,374,776 compared to 2009. This increase was primarily due to a decrease in expense for project materials on behalf of members of $2,324,378. This decrease was slightly offset by an increase in MESA payroll and related benefits expense of $1,097,235. Operating expenses in 2009 were $17,531,845, which was an increase of $3,195,696 compared to 2008. This increase was primarily due to increases in expense for project materials on behalf of members of $1,930,444 and MESA payroll and related benefits expenses of $1,309,757. These increases were slightly offset by a decrease in depreciation due to the transfer of vehicles to the General Fund.

Investment income for MESA is limited to bank interest earned on MESA's operating funds. Investment income in 2010 was $5,161 which was an increase of $1,916 from 2009. The increase in 2010 was a result of higher average cash balances. Investment income in 2009 was $3,245 which was a decrease of $15,069 from 2008. The decrease in 2009 was a result of lower average cash balances and lower interest rate levels in 2008.

If you have questions about this report, or need additional financial information, contact management at 614 540 1111 or 1111 Schrock Road, Columbus, OH 43229.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ 2,411,684	$ 1,246,760
Receivables from AMP-Ohio members	511,045	1,018,335
Receivables from related parties	1,470,038	1,302,017
Accrued interest receivable	100	217
Costs and recoveries in excess of billings from projects constructed on behalf of members	-	17,168
Prepaid expenses	122,428	107,723
Total Current Assets	4,515,295	3,692,220
TOTAL ASSETS	$ 4,515,295	$ 3,692,220
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,029,146	$ 461,094
Payable to related parties	491,895	253,576
Retainage payable	291,882	403,848
Accrued salaries and related benefits	356,447	510,126
Accrued vacation leave	898,417	714,505
Total Current Liabilities	3,067,787	2,343,149
NON CURRENT LIABILITIES		
Accrued sick leave	1,447,508	1,349,071
Total Non Current Liabilities	1,447,508	1,349,071
Total Liabilities	4,515,295	3,692,220
NET ASSETS		
Unrestricted	-	-
Total Net Assets	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 4,515,295	$ 3,692,220

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Services	$ 13,164,328	$ 12,353,717
Project revenue	2,987,580	5,174,883
Total Operating Revenues	16,151,908	17,528,600
OPERATING EXPENSES		
Salaries and related benefits	13,099,127	12,001,892
Professional fees	83,607	172,539
Direct project expenses	2,891,539	5,215,917
Insurance	82,796	105,520
Other operating expenses	-	35,977
Total Operating Expenses	16,157,069	17,531,845
Operating Loss	(5,161)	(3,245)
NONOPERATING REVENUES		
Investment income and other	5,161	3,245
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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP-Ohio members for services	$ 3,512,038	$ 4,800,073
Cash received from related parties for services	12,996,307	12,182,974
Cash payments to employees for services	(8,443,263)	(7,907,567)
Cash payment for benefits of employees	(4,527,194)	(4,154,856)
Cash payments to suppliers and related parties for goods and services	(2,378,242)	(9,996,243)
Net Cash Provided by (Used in) Operating Activities	1,159,646	(5,075,619)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	182,325
Net Cash Provided by (Used in) Capital and Related Financing Activities	-	182,325
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(363,608)	(360,000)
Investments sold and matured	360,000	-
Investment income received	5,278	3,028
Net Cash Provided by (Used in) Investing Activities	1,670	(356,972)
Net Change in Cash and Cash Equivalents	1,161,316	(5,250,266)
CASH AND CASH EQUIVALENTS, Beginning of Year	886,760	6,137,026
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,048,076	$ 886,760
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	$ (5,161)	$ (3,245)
Changes in assets and liabilities		
Receivables from AMP-Ohio members	507,290	(736,454)
Receivables from related parties	(168,021)	(129,948)
Costs and estimated earnings in excess of billings from projects constructed on behalf of members	17,168	361,642
Prepaid expenses	(14,705)	17,305
Accounts payable and accrued expenses	568,052	(900,477)
Accounts payable to related parties	238,319	50,403
Accrued salaries and related benefits	(153,679)	(151,174)
Accrued vacation and sick leave	282,349	148,754
Retainages payable	(111,966)	(3,732,425)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,159,646	$ (5,075,619)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and temporary investments	$ 2,411,684	$ 1,246,760
Less: Noncash equivalents	(363,608)	(360,000)
TOTAL CASH AND CASH EQUIVALENTS	$ 2,048,076	$ 886,760

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, 2010, 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"), the Ohio Municipal Electric Association ("OMEA") and the Ohio Public Power Educational Institute ("OPPEI"). 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, 2010, 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.)

Property

Property is recorded at cost. Depreciation is provided on the straight-line method over three years, the estimated useful life of the assets. The only assets owned by MESA in 2008 were vehicles. Major renewals, betterments and replacements are capitalized, while maintenance and repair costs are charged to operations as incurred. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the related accounts, and the resulting gains or losses are recognized in the statements of operations.

Property is assessed for impairment whenever events or changes in circumstances indicate that the 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.

All tangible property owned by MESA was sold by MESA to AMP, Inc. at its net book value of $182,325 in 2009.

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, OMEA and OPPEI at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 35% to 120%. To the extent that the overhead amount charged to the entities is different from actual overhead charges 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*, 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 December 31, 2010	Carrying Value as of December 31, 2009	Risks
Checking/Money Market Funds	$ 1,729,880	$ 568,602	Custodial credit
Certificate of Deposits	363,608	360,000	Custodial credit
Government Money Market Mutual Fund	318,196	318,158	Interest rate, credit
Total Cash, Cash Equivalents, and Investments	$ 2,411,684	$ 1,246,760	

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.

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, 2010 and 2009, 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, 2010 and 2009, 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, 2010, MESA's investments were as follows:

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

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

Investment Type	Fair Value	Weighted Average Maturity (Days)
Government Money Market Mutual Fund	$ 318,158	36

NOTE 3 – PROPERTY

Property activity for the year ended December 31 is as follows:

	2009			
	Beginning Balance	Additions	Retirements	Ending Balance
Vehicles	$ 517,806	$ -	$ 517,806	$ -
Less: Accumulated depreciation	(335,481)	-	(335,481)	-
Vehicles, Net	$ 182,325	$ -	$ 182,325	$ -

In 2009, the vehicles for MESA were transferred to the AMP general fund, at their net book cost.

NOTE 4 – LONG TERM LIABILITY

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

	01/01/10 Balance	Additions	Reductions	12/31/10 Balance	Due Within One Year
Accrued sick leave	$ 1,349,071	$ 274,528	$ 176,091	$ 1,447,508	$ -

Long-term liability activity for the year ended December 31, 2009 is as follows:

	01/01/09 Balance	Additions	Reductions	12/31/09 Balance	Due Within One Year
Accrued sick leave	$ 1,265,293	$ 244,532	$ 160,754	$ 1,349,071	$ -

NOTE 5 – 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		
	2010	2009	2008
Required and Actual Employer Pension Contributions	$ 836,051	$ 696,993	$ 512,762
Required and Actual Employer OPEB Contributions	475,119	496,045	512,762
Required and Actual Employer OPERS Contributions	$ 1,311,170	$ 1,193,038	$ 1,025,524
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 5 – 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 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.

The portion of employer contributions allocated to health care was 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

	Year Ended December 31		
	2010	2009	2008
Required and Actual Employer Pension Contributions	$ 836,051	$ 696,993	$ 512,762
Required and Actual Employer OPEB Contributions	475,119	496,045	512,762
Required and Actual Employer OPERS Contributions	$ 1,311,170	$ 1,193,038	$ 1,025,524
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 6 – 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 7 – 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:

	2010	2009
AMP	$ 10,785,315	$ 10,456,214
Ohio Municipal Electric Generation Agency Joint Venture 1	65,486	61,120
Ohio Municipal Electric Generation Agency Joint Venture 2	420,501	398,047
Ohio Municipal Electric Generation Agency Joint Venture 4	23,730	27,196
Ohio Municipal Electric Generation Agency Joint Venture 5	887,798	867,584
Ohio Municipal Electric Generation Agency Joint Venture 6	71,696	67,409
Ohio Municipal Electric Association	368,321	341,260
Ohio Public Power Educational Institute	165,239	134,887
AMP Members	3,363,822	5,174,883
Totals	$ 16,151,908	$ 17,528,600

At December 31, 2010 and 2009, MESA had receivables from affiliates of $1,470,038 and $1,302,017, respectively. At December 31, 2010 and 2009, MESA had a receivable from members of AMP of $511,045 and $1,018,335, respectively. At December 31, 2010 and 2009, MESA had a payable to AMP for $491,895 and $253,576, respectively.

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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*

Municipal Energy Services Agency
Board of Participants

We have audited the financial statements of Municipal Energy Services Agency ("MESA") 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 MESA'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 MESA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MESA'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.

Municipal energy Services Agency
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 MESA is not able to prepare a complete set of financial statements or has material adjusting journal entries.

Condition: For the 2010 audit, the auditors prepared the annual financial statements for MESA.

Cause: Due to staffing and financial limitations, MESA chooses to contract with the auditors to prepare the annual financial statements.

Effect: Presentation of the annual financial statements of MESA in accordance with generally accepted accounting principles are not available until they are completed by the auditors.

Recommendation: MESA should consider additional internal controls or other procedures to strengthen controls over the financial reporting process.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 Standard.*

We noted certain matters that we reported to management of MESA 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 Tilly Virchow Krause, LLP

Madison, Wisconsin
March 17, 2011