MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2014 and 2013

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Services Agency as of December 31, 2014 and 2013, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2015 on our consideration of MESA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MESA's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 15, 2015

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, 2014 and 2013. 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 statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets and liabilities of MESA as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows 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:

	2014	2013	2012
Assets			
Cash and short term investments	$ 1,736,522	$ 1,321,507	$ 1,994,162
Accounts receivable AMP members	429,540	1,068,544	486,691
Accounts receivable related parties	2,171,947	2,101,681	1,372,238
Costs/recoveries in excess of member project billings	311,105	216,210	72,290
Prepaids	2,125	2,083	972
Total Current Assets	$ 4,651,239	$ 4,710,025	$ 3,926,353
Total assets	$ 4,651,239	$ 4,710,025	$ 3,926,353
Liabilities			
Current liabilities	$ 2,791,733	$ 3,009,383	$ 2,351,569
Noncurrent liabilities	1,859,506	1,700,642	1,574,784
Total liabilities	$ 4,651,239	$ 4,710,025	$ 3,926,353

2014 vs. 2013

Total assets were $4,651,239 and $4,710,025 as of December 31, 2014 and December 31, 2013, respectively, a decrease of $58,786. This was due to decreases in receivables from AMP members of $639,004 due to significant decreases in project revenue as project sales for the Hamilton substation project from prior year. This decrease was offset by increases in cash and short term investments of $415,015, receivables from related parties of $70,266, and costs and recoveries in excess of billings from projects constructed on behalf of members $94,895 due to the timing of MESA billing to projects due to the timing of MESA billings to customers.

Total liabilities were $4,651,239 and $4,710,025 as of December 31, 2014 and December 31, 2013, respectively, a decrease of $58,786. This decrease was due mainly to a decrease in accounts payable and accrued expenses due to reduced project expenses due to fewer project sales for the Hamilton substation project than in previous years. Also, claims payable decreased $243,082 due to lower value medical insurance claims accrued as of the balance sheet date in 2014 as compared to 2013. This decrease was offset by increases in accrued salaries and benefits of $208,711 due to the number of days accrued for payroll in 2014 as compared to 2013. This was also offset by higher accrued vacation leave of $340,136 and $158,864 of accrued sick leave due to yearly merit and cost of living increases for MESA employees and an increase in number of vacation and sick days accrued for MESA employees.

Current liabilities were $2,791,733 and $3,009,383 as of December 31, 2014 and December 31, 2013, respectively, a decrease of $217,650. This was due to decreases in accounts payable of $138,951, payable to related parties of $384,464, and claims payable of $243,082, offset by increases in accrued vacation leave of $340,136.

Non-current liabilities were $1,859,506 and $1,700,642 as of December 31, 2014 and December 31, 2013, respectively, an increase of $158,864. Non-current liabilities are comprised of accrued sick leave.

2013 vs. 2012

Total assets were $4,710,025 and $3,926,353 as of December 31, 2013 and December 31, 2012, respectively, an increase of $783,672. The increase in 2013 total assets was due primarily to increases in receivables from related parties, receivables from AMP members, costs and recoveries in excess of billings from projects constructed on behalf of members and prepaid expenses, offset by decreases in cash and short term investments.

Current assets were $4,710,025 and $3,926,353 as of December 31, 2013 and December 31, 2012, respectively, an increase of $783,672. The increase resulted from increases in receivables from related parties of $729,443, receivables from AMP members of $581,853, costs and recoveries in excess of billings from projects constructed on behalf of members of $143,920 and prepaid expenses of $1,111, offset by decreases in cash and short term investments of $672,655.

Total liabilities were $4,710,025 and $3,926,353 as of December 31, 2013 and December 31, 2012, respectively, an increase of $783,672. This is due to increases in payables for claims and related parties, accrued salaries and related benefits including vacation and sick leave and accounts payable and accrued expenses. This is offset by decreases in retainage payable.

Current liabilities were $3,009,383 and $2,351,569 as of December 31, 2013 and December 31, 2012, respectively, an increase of $657,814. This is due to increases in claims payables of $319,889, accrued salaries and related benefits of $257,639, payable to related parties of $197,323, accounts payable and accrued expenses of $142,453 and vacation leave of $32,451. This is offset by decreases in retainage payable of $291,941.

Non current liabilities were $1,700,642 and $1,574,784 as of December 31, 2013 and December 31, 2012, respectively, an increase of $125,858. Non current liabilities are comprised of accrued sick leave.

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2014	2013	2012
Operating revenues	$ 18,779,896	$ 22,180,046	$ 18,586,600
Operating expenses	18,780,620	22,181,132	18,587,851
Operating Loss	(724)	(1,086)	(1,251)
Nonoperating revenue			
Investment income	724	1,086	1,251
Change in Net Position	$ -	$ -	$ -

Operating revenues in 2014 were $18,779,896 versus $22,180,046 in 2013 which was a decrease of $3,400,150. 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 $4,298,865 due mainly to a decrease in revenue from the Hamilton substation project and revenue from providing personnel services to related parties increased by $898,715 due mainly to a higher number of MESA employees providing services as well as increased rates charged projects. Operating revenues in 2013 were $22,180,046 versus $18,586,600 in 2012 which was an increase of $3,593,446. Revenue from projects on behalf of members increased by $3,004,687 and revenue from providing personnel services to related parties increased by $588,759.

Operating expenses in 2014 were $18,780,620 versus $22,181,132 in 2013 which was a decrease of $3,400,512. This decrease was primarily due to lower expense for project materials on behalf of members by $4,508,679 and an increase in MESA payroll and related benefits expense by $1,112,359. Operating expenses in 2013 were $22,181,132 versus $18,587,851 in 2012 which was an increase of $3,593,281. This increase was primarily due to an increase in expense for project materials on behalf of members of $3,078,253 and an increase in MESA payroll and related benefits expense of $527,577.

Investment income for MESA is limited to interest earned in the checking account for the operating funds held at the bank. Investment income in 2014 was $724 versus $1,086 in 2013 which was a decrease of $362. The decrease in 2014 was a result of lower interest rates. Investment income in 2013 was $1,086 versus $1,251 in 2012 which was a decrease of $165. The decrease in 2013 was a result of lower interest rates.

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 POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and short term investments	$ 1,736,522	$ 1,321,507
Receivables from AMP members	429,540	1,068,544
Receivables from related parties	2,171,947	2,101,681
Costs and recoveries in excess of billings from projects constructed on behalf of members	311,105	216,210
Prepaid expenses	2,125	2,083
Total Current Assets	4,651,239	4,710,025
TOTAL ASSETS	$ 4,651,239	$ 4,710,025
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 297,822	$ 436,773
Payable to related parties	29,487	413,951
Claims payable	76,807	319,889
Accrued salaries and related benefits	969,086	760,375
Accrued vacation leave	1,418,531	1,078,395
Total Current Liabilities	2,791,733	3,009,383
NON CURRENT LIABILITIES		
Accrued sick leave	1,859,506	1,700,642
Total Non Current Liabilities	1,859,506	1,700,642
Total Liabilities	4,651,239	4,710,025
TOTAL LIABILITIES AND NET POSITION	$ 4,651,239	$ 4,710,025

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Services	$ 17,910,701	$ 17,011,986
Project revenue	869,195	5,168,060
Total Operating Revenues	18,779,896	22,180,046
OPERATING EXPENSES		
Salaries and related benefits	17,974,111	16,861,752
Professional fees	94,763	94,501
Direct project expenses	685,318	5,193,997
Insurance	26,429	30,882
Total Operating Expenses	18,780,620	22,181,132
Operating Loss	(724)	(1,086)
NONOPERATING REVENUES		
Investment income	724	1,086
Change in net position	-	-
NET POSITION, Beginning of Year	-	-
NET POSITION, END OF YEAR	$ -	$ -

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP members for services	$ 1,508,199	$ 4,586,208
Cash received from related parties for services	17,745,541	16,138,622
Cash payments to employees for services	(17,509,482)	(16,445,804)
Cash payments to suppliers and related parties for goods and services	(1,329,967)	(4,952,767)
Net Cash Provided by (Used in) Operating Activities	414,291	(673,741)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	724	1,086
Net Cash Provided by Investing Activities	724	1,086
Net Change in Cash and Cash Equivalents	415,015	(672,655)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,321,507	1,994,162
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,736,522	$ 1,321,507
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	$ (724)	$ (1,086)
Changes in assets and liabilities		
Receivables from AMP-Ohio members	639,004	(581,853)
Receivables from related parties	(70,266)	(729,443)
Costs and estimated earnings in excess of billings from projects constructed on behalf of members	(94,895)	(143,920)
Prepaid expenses	(42)	(1,111)
Accounts payable and accrued expenses	(138,951)	142,453
Accounts payable to related parties	(384,464)	197,323
Claims payable	(243,082)	319,889
Accrued salaries and related benefits	208,711	257,639
Accrued vacation and sick leave	499,000	158,309
Retainage payable	-	(291,941)
NET CASH PROVIEDE BY (USED IN) OPERATING ACTIVITIES	$ 414,291	$ (673,741)

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, 2014, 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, 2014, 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.

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

ASSETS, LIABILITIES AND NET POSITION

Deposits and Investments

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

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.

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

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.

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 0% to 150%. To the extent that the overhead amount charged 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. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25,* Statement No. 69*, Government Combinations and Disposals of Government Operations,* Statement No. 70*, Accounting and Financial Reporting for Nonexchange Financial Guarantees.* These standards have no effect on MESA’s 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,		
	2014	2013	Risks
Checking/Money Market Funds	$ 1,736,522	$ 1,321,507	Custodial credit
Total Cash and Cash Equivalents	$ 1,736,522	$ 1,321,507	

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for interest and noninterest bearing accounts as of December 31, 2014 and 2013.

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, 2014 and 2013, 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.

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.

NOTE 3 – HEALTH INSURANCE

MESA is self-insured for health, dental and prescription drug benefits. The programs are administered by a third-party, which provides claims review and processing services. MESA records a liability for incurred but unreported claims at year end upon an actuarial estimate based on past experience and current claims outstanding.

Changes in funds' claim liability amount in 2013 and 2014 were:

Year	Balance at Beginning of Year	Current Year Claims and Change in Estimate	Claims Payments	Balance at End of Year
2013	$ -	$ 1,813,251	$ 1,493,362	$ 319,889
2014	$ 319,889	$ 2,105,441	$ 2,348,523	$ 76,807

NOTE 4 – LONG TERM LIABILITY

Long-term liability activity for the year ended December 31, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,700,642	$ 374,857	$ (215,993)	$ 1,859,506	$ -

Long-term liability activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,574,784	$ 452,852	$ (326,994)	$ 1,700,642	$ -

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").

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

OPERS administers three separate pension plans as described below:

The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan.

The Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulated retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

The Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member –Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street Columbus, OH 43215-4342, or by calling 614-222-5601 or 800-222-7377.

The ORC provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. The 2014 member contribution rates were 10.00% of earnable salary for members in state and local classifications. The 2014 employer contribution rate for state and local employers was 14.00% of earnable salary.

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		
	2014	2013	2012
Required and Actual Employer Pension Contributions	$ 1,442,523	$ 1,505,880	$ 988,155
Required and Actual Employer OPEB Contributions	$ 240,420	$ 115,837	$ 596,942
Required and Actual Employer OPERS Contributions	$ 1,682,943	$ 1,621,717	$ 1,585,097
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%

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 benefit recipients 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. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on or after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

The ORC permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

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.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, state and local employers contributed at a rate of 14.00% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2 percent for both plans, as recommended by the OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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:

	2014	2013
AMP	$ 16,128,037	$ 17,815,176
Ohio Municipal Electric Generation Agency Joint Venture 1	84,207	98,583
Ohio Municipal Electric Generation Agency Joint Venture 2	712,355	753,351
Ohio Municipal Electric Generation Agency Joint Venture 4	37,879	31,633
Ohio Municipal Electric Generation Agency Joint Venture 5	1,112,410	1,068,497
Ohio Municipal Electric Generation Agency Joint Venture 6	85,134	71,859
Ohio Municipal Electric Association	383,917	379,726
AMP Members	235,957	1,961,221
Totals	$ 18,779,896	$ 22,180,046

At December 31, 2014 and 2013, MESA had receivables from affiliates of $2,349,314 and $2,101,681, respectively. At December 31, 2014 and 2013, MESA had a receivable from members of AMP of $429,540 and $1,068,544, respectively. At December 31, 2014 and 2013, MESA had a payable to AMP for $29,487 and $413,951, respectively.

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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*

<u>INDEPENDENT AUDITORS' REPORT</u>

To the Board of Participants
Municipal Energy Services Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statement of net position as of December 31, 2014 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 15, 2015