

MUNICIPAL ENERGY
SERVICES AGENCY

FINANCIAL STATEMENTS
December 31, 1999 and 1998



CROWE CHIZEK

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SERVICES AGENCY**

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MUNICIPAL ENERGY SERVICES AGENCY
Columbus, Ohio

FINANCIAL STATEMENTS
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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Participants
Municipal Energy Services Agency

We have reviewed the Independent Auditor's Report of the Municipal Energy Services Agency, Franklin County, prepared by Crowe, Chizek and Company LLP for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Municipal Energy Services Agency is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a printed name and title.

JIM PETRO
Auditor of State

June 2, 2000



REPORT OF INDEPENDENT AUDITORS

Board of Participants
Municipal Energy Services Agency
Columbus, Ohio

We have audited the accompanying general-purpose financial statements of the Municipal Energy Services Agency (MESA) as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the management of MESA. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Energy Services Agency as of December 31, 1999 and 1998, and results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2000, 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 grants.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Columbus, Ohio
February 15, 2000

MUNICIPAL ENERGY SERVICES AGENCY
BALANCE SHEETS
December 31, 1999 and 1998

ASSETS	<u>1999</u>	<u>1998</u>
Current assets		
Cash and cash equivalents	\$ 292,403	\$ 34,494
Accounts receivable	18,583	42,524
Due from AMP-Ohio, Inc.	284,727	371,347
Other assets	<u>50,644</u>	<u>40,363</u>
Total assets	<u>\$ 646,357</u>	<u>\$ 488,728</u>
PARTICIPANTS' EQUITY AND LIABILITIES		
Current liabilities		
Accrued salaries and related benefits	\$ 584,575	\$ 421,957
Accounts payable	<u>61,782</u>	<u>66,771</u>
Total liabilities	646,357	488,728
Participants' equity	<u> --</u>	<u> --</u>
Total participants' equity and liabilities	<u>\$ 646,357</u>	<u>\$ 488,728</u>

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY
 STATEMENTS OF OPERATIONS
 Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
REVENUES		
Engineering and other services	\$ 4,485,535	\$ 3,070,177
Other income	<u>10,786</u>	<u>5,383</u>
	4,496,321	3,075,560
EXPENSES		
AMP-Ohio services	131,660	82,318
Salaries	3,203,921	2,161,262
Employee benefits	967,483	540,867
Professional fees	10,454	132,105
General and administrative	77,958	70,739
Utilities	45,683	30,006
Insurance	48,560	51,938
Membership	<u>15,526</u>	<u>10,221</u>
	<u>4,501,245</u>	<u>3,079,456</u>
Operating margin	(4,924)	(3,896)
NONOPERATING REVENUES		
Interest income	<u>4,924</u>	<u>3,896</u>
NET MARGINS	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY
STATEMENTS OF CASH FLOWS
Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities		
Net margins	\$ -0-	\$ -0-
Adjustments to reconcile net margins to net cash provided by operating activities		
Changes in assets and liabilities		
Accounts receivable	23,941	(23,513)
Due from AMP-Ohio	86,620	(322,523)
Other assets	(10,281)	(654)
Accrued salaries and related benefits	162,618	259,885
Accounts payable	<u>(4,989)</u>	<u>59,323</u>
Net cash provided by operating activities	257,909	(27,482)
Cash and cash equivalents, beginning of year	<u>34,494</u>	<u>61,976</u>
Cash and cash equivalents, end of year	<u>\$ 292,403</u>	<u>\$ 34,494</u>

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 1999

NOTE 1 - ORGANIZATION

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. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training and other technical aspects of the operation and maintenance of municipal electric and other utility systems. It also provides administrative services to American Municipal Power-Ohio, Inc.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies followed by MESA:

Basis of accounting: The accounting records of MESA are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Accounts of MESA are maintained on an accrual basis of accounting in accordance with generally accepted accounting principles.

Cash and cash equivalents: For purposes of statements of cash flows, cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less.

Revenue recognition: Revenues are recognized when earned as services are performed.

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

(Continued)

MUNICIPAL ENERGY SERVICES AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 1999

NOTE 3 - RELATED AGREEMENTS

MESA has entered into agreements with related entities to provide certain engineering and other technical services. Revenues earned from these agreements in 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
American Municipal Power-Ohio, Inc.	\$ 3,296,961	\$ 2,130,412
OMEGA JV-1	6,698	9,068
OMEGA JV-3	3,148	2,697
OMEGA JV-4	17,564	41,076
OMEGA JV-5	769,505	381,190
Participants	50,658	288,981
Ohio Municipal Electric Association	229,523	105,490
Ohio Public Power Educational Institute	111,478	111,263
Total	<u>\$ 4,485,535</u>	<u>\$ 3,070,177</u>

As of December 31, 1999 and 1998, American Municipal Power owed MESA \$284,727 and \$371,347, respectively, related to these services.

NOTE 4 - CASH AND CASH EQUIVALENTS

As of December 31, 1999 and 1998, the carrying amount of MESA's cash deposits were \$95,911 and \$34,494, and the bank balance was \$104,000 and \$90,007. The difference between cash deposits and bank balance is due primarily to outstanding checks. At December 31, 1999 \$198,146 was invested in certain money market funds associated with the bank. The bank balance is insured by the Federal Deposit Insurance Corporation.

NOTE 5 - PENSION PLANS

Public Employees Retirement System of Ohio: All full-time, permanent employees of MESA participate in the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer defined benefit public pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate effective for 1999 was 8.5% for employees. The 1999 employer-contribution rate was 13.55% of covered payroll.

(Continued)

MUNICIPAL ENERGY SERVICES AGENCY
NOTES TO FINANCIAL STATEMENTS

December 31, 1999

NOTE 5 – PENSION PLANS (Continued)

MESA's total current-year payroll was \$3,132,820, all of which related to employees who were covered by PERS. The employee contributions to PERS totaled \$266,290 while employer contributions totaled \$424,497, which represented 8.5% and 13.55% of MESA's total current-year covered payroll, respectively.

The Public Employees Retirement System issues a stand alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215 or by calling (614) 466-2085 or (800) 222-PERS (7377).

Post-Employment Benefits: PERS provides post retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund health care through their contributions to PERS. The 1999 employer-contribution rate was 13.55% of covered payroll; 4.2% was the portion that was used to fund health care for the year.

MESA's 1999 employer contributions to PERS totaled \$424,497. Of this amount, \$131,578 was used to fund health care for the year for employees. This represents 4.2% of the covered current-year payroll.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

SUPPLEMENTARY INFORMATION



CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS ON
COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Participants
Municipal Energy Services Agency
Columbus, Ohio

We have audited the financial statements of Municipal Energy Services Agency (MESA) as of and for the year ended December 31, 1999 and have issued our report thereon dated February 15, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of MESA are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which would 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control of MESA over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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



Crowe, Chizek and Company LLP

Columbus, Ohio
February 15, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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MUNICIPAL ENERGY SERVICES AGENCY
FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By: Susan Babbitt

Date: JUNE 29, 2000