



**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2006-2005**



**Mary Taylor, CPA**  
Auditor of State



**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northeast Ohio Public Energy Council  
Summit County  
583 East Aurora Road  
Macedonia, Ohio 44056

To the Board of Directors:

We have audited the accompanying basic financial statements of Northeast Ohio Public Energy Council, Summit County, Ohio, (the Council) as of and for the years ended December 31, 2006 and 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeast Ohio Public Energy Council, Summit County, Ohio, as of December 31, 2006 and 2005, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 8 to the basic financial statements, during the year ended December 31, 2005, the Council implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the Council'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

November 30, 2007

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

Management's Discussion and Analysis  
For The Years Ended December 31, 2006 and 2005  
Unaudited

The management's discussion and analysis of the Northeast Ohio Public Energy Council, Summit, County, Ohio, (NOPEC's) financial performance provides an overall review of NOPEC's financial activities for the years ended December 31, 2006 and 2005. The intent of this discussion and analysis is to look at NOPEC's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of NOPEC's financial performance.

**Highlights**

Key highlights for 2006 and 2005 are as follows:

NOPEC is the largest public energy aggregation in the United States with 128 member communities. NOPEC is funded through management fees received from energy suppliers with which it has contracts. NOPEC does not receive any public funds.

Net assets increased \$641,413 or 34 percent for 2005 and an additional \$7,104,743 or 279% for 2006. The increases are due to NOPEC's \$1,500,000 draw on a letter of credit from a supplier due to a contract dispute with that supplier. The dispute was submitted to binding arbitration and resulted in a \$4,974,123 award to NOPEC in 2006.

NOPEC's receipts are primarily management fees received from energy suppliers, although the arbitration award in 2006 was not a management fee. Management fees represented 93% of total revenues in 2005. In 2006, the arbitration award represented 60% of total revenues, while management fees from energy suppliers represented 37% of total revenues.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as adopted January 1, 2005.

**Report Components**

The combined statements of net assets and statements of activities provide information about the activities of NOPEC as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information for NOPEC's only fund, the General Fund.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. NOPEC has elected to present its financial statements on the accrual method of accounting. Prior to 2005, NOPEC used the modified cash basis of accounting. The change was made to upgrade the financial accounting and reporting by NOPEC to generally accepted accounting principles, effective January 1, 2005.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

Management's Discussion and Analysis  
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**Reporting NOPEC as a Whole**

The combined statements of net assets and statements of activities reflect how NOPEC performed financially during 2006 and 2005.

The combined statements report NOPEC's net assets. These reports are one way to measure NOPEC's financial health. Over time, increases or decreases in net assets is one indicator of whether NOPEC's financial health is improving or deteriorating. When evaluating financial condition, you should also consider other nonfinancial factors as well, such as the number of member communities.

In the combined statements of activities, all activity of NOPEC is reported:

Governmental activities. NOPEC is a council of governments that obtains utility services at bulk rates for individual utility customers in the communities it represents. The respective energy suppliers pay to NOPEC management fees based on a number of factors, including the number of customers that it obtains through NOPEC's member communities. NOPEC pays its costs of operating the organization with the management fees received from the energy suppliers.

**Reporting NOPEC's Most Significant Fund**

Fund financial statements provide detailed information about major funds – not NOPEC as a whole. NOPEC has only governmental funds.

Governmental Funds – All of NOPEC's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of NOPEC's operations. This information helps determine whether there are more or less financial resources that can be spent to finance NOPEC's activities. NOPEC's only major governmental fund is the General Fund.



**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

Management's Discussion and Analysis  
For The Years Ended December 31, 2006 and 2005  
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**NOPEC as a Whole**

Table 1 provides a summary of NOPEC's net assets for 2006 and 2005 compared to 2004:

As of December 31,	<b>Net Assets (Table 1)</b>		
	2006	2005	Restated 2004
<b>Assets</b>			
Cash and Cash Equivalents	\$8,985,811	\$3,507,127	\$1,982,897
Accounts Receivable	755,356	0	54,769
Other Assets	3,801	0	0
<b>Total Assets</b>	<b>\$9,744,968</b>	<b>\$3,507,127</b>	<b>\$2,037,666</b>
<b>Liabilities</b>			
Accounts Payable	96,265	63,463	135,119
Deferred Revenue	0	899,704	0
<b>Total Liabilities</b>	<b>96,265</b>	<b>963,167</b>	<b>135,119</b>
<b>Net Assets</b>			
Unrestricted	9,648,703	2,543,960	1,902,547
<b>Total Net Assets</b>	<b>\$9,648,703</b>	<b>\$2,543,960</b>	<b>\$1,902,547</b>

As mentioned previously, net assets of governmental activities increased \$641,413 or 34% for 2005 and an additional \$7,104,743 or 279% for 2006. The primary reasons contributing to the increases in net assets are as follows:

- NOPEC's \$1,500,000 draw on the letter of credit of a supplier in 2005 in a contract dispute with a supplier. The dispute was submitted to arbitration and resulted in NOPEC's receipt of an arbitration award of \$4,974,123 in 2006.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

Management's Discussion and Analysis  
For The Years Ended December 31, 2006 and 2005  
Unaudited

Table 2 reflects the changes in net assets in 2006, 2005 and 2004.

**(Table 2)  
Changes in Net Assets**

For the Years Ended December 31.	Activities <u>2006</u>	Activities <u>2005</u>	Restated Activities <u>2004</u>
Revenues			
Program Revenues:			
Charges for Services	\$3,082,876	\$1,361,570	\$1,007,479
Total Program Revenues	<u>\$3,082,876</u>	<u>\$1,361,570</u>	<u>\$1,007,479</u>
General Revenues:			
Interest	223,700	45,867	13,976
Miscellaneous	0	50,003	16,961
Arbitration Award	4,974,123	0	0
Total General Revenues	<u>5,197,823</u>	<u>95,870</u>	<u>30,937</u>
Total Revenues	<u>8,280,699</u>	<u>1,457,440</u>	<u>1,038,416</u>
Program Expenses:			
General Government	1,175,956	816,027	1,020,129
Total Program Expenses	<u>1,175,956</u>	<u>816,027</u>	<u>1,020,129</u>
Increase in Net Assets	7,104,743	641,413	18,287
Net Assets, January 1	<u>2,543,960</u>	<u>1,902,547</u>	<u>1,884,260</u>
Net Assets, December 31	<u>\$9,648,703</u>	<u>\$2,543,960</u>	<u>\$1,902,547</u>

Management fees historically represent about 97% of NOPEC's total receipts. However, in 2006 a significant event related to an arbitration award resulted in \$4,974,123 in receipts. Other receipts are very insignificant and consist of interest earned and reimbursements received.

Program expenses represent the overhead costs of running NOPEC's activities. These include communication services to member communities and potential member communities, legal fees, aggregation services and other supporting services.

**Governmental Activities**

NOPEC is a jointly governed organization consisting of 128 member communities.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

Management's Discussion and Analysis  
For The Years Ended December 31, 2006 and 2005  
Unaudited

**NOPEC's Funds**

Total governmental funds had revenues of \$8,280,699 and expenditures of \$1,175,956 for the year ended December 31, 2006; and revenues of \$1,457,440 and expenses of \$816,027 for the year ended December 31, 2005. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$7,104,743 in 2006 and \$641,413 in 2005 indicating that the General Fund is in a surplus condition.

**General Fund Budgeting Highlights**

NOPEC is not bound by the budgetary laws prescribed by the Ohio Revised Code. However, NOPEC did maintain a formal budget for 2006 and 2005.

**Current Issues**

The main challenge for NOPEC is to obtain utility services for its member communities at the lowest possible bulk rates.

**Contacting NOPEC's Financial Management**

This financial report is designed to provide our member communities, citizens, investors, and creditors with a general overview of NOPEC's finances and to reflect NOPEC's accountability for the funds it receives. Questions concerning any of the information in this report or requests for additional information should be directed to NOPEC, 583 E. Aurora Rd., Macedonia, Ohio 44056 Tel. 330-468-9976.

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**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

*Statements of Net Assets  
December 31, 2006 and 2005*

	Government Activities 2006	Government Activities 2005
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$8,985,811	\$3,507,127
Accounts Receivable	755,356	0
Other Assets	3,801	0
<b>Total Assets</b>	<b>9,744,968</b>	<b>3,507,127</b>
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	96,265	63,463
Deferred revenue	0	899,704
<b>Total Liabilities</b>	<b>96,265</b>	<b>963,167</b>
<b>Net Assets</b>		
Unrestricted	9,648,703	2,543,960
<b>Total Net Assets</b>	<b>\$9,648,703</b>	<b>\$2,543,960</b>

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

*Statement of Activities  
For the Year Ended December 31, 2006*

	Expenses	Program Revenues Charges for Services	Net Revenue and Changes in Net Assets Governmental Activities
<b>Governmental Activities</b>			
General Government	\$1,175,956	\$3,082,876	\$1,906,920
<i>Total Governmental Activities</i>	\$1,175,956	\$3,082,876	1,906,920
		<b>General Revenues</b>	
		Interest	223,700
		Arbitration award	4,974,123
		<i>Total General Revenues</i>	5,197,823
		Change in Net Assets	7,104,743
		<i>Net Assets Beginning of Year</i>	2,543,960
		<i>Net Assets End of Year</i>	\$9,648,703

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

*Statement of Activities  
For the Year Ended December 31, 2005*

	Expenses	Program Revenues Charges for Services	Net Revenue and Changes in Net Assets Governmental Activities
<b>Governmental Activities</b>			
General Government	\$816,027	\$1,361,570	\$545,543
<i>Total Government Activities</i>	<u>\$816,027</u>	<u>\$1,361,570</u>	<u>545,543</u>
		<b>General Revenues</b>	
		Interest	45,867
		Miscellaneous	50,003
		<i>Total General Revenues</i>	<u>95,870</u>
		Change in Net Assets	641,413
		<i>Net Assets Beginning of Year (Restated)</i>	<u>1,902,547</u>
		<i>Net Assets End of Year</i>	<u>\$2,543,960</u>

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

*Balance Sheets  
General Fund  
December 31, 2006 and 2005*

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	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$8,985,811	\$3,507,127
Accounts Receivable	755,356	0
Other Assets	3,801	0
Total Assets	<u>\$9,744,968</u>	<u>\$3,507,127</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	96,265	63,463
Deferred Revenue	0	899,704
Total Liabilities	<u>96,265</u>	<u>963,167</u>
<b>Fund Balances</b>		
Undesignated Reported in General Fund	<u>\$9,648,703</u>	<u>\$2,543,960</u>
Total Liabilities and Fund Balances	<u>\$9,744,968</u>	<u>\$3,507,127</u>

See accompanying notes to the basic financial statements.



**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

*Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
December 31, 2006 and 2005*

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	<u>2006</u>	<u>2005</u>
<b>Total Governmental Fund Balances</b>	<u>\$9,648,703</u>	<u>\$2,543,960</u>
<i>Net Assets of Governmental Activities</i>	<u>\$9,648,703</u>	<u>\$2,543,960</u>

See accompanying notes to the basic financial statements

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

Statements of Revenues, Expenditures and  
Changes in Fund Balances - General Fund  
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Management Fees	\$3,082,876	\$1,361,570
Miscellaneous	0	50,003
Interest	223,700	45,867
Arbitration Award	<u>4,974,123</u>	<u>0</u>
 Total Revenues	 <u>8,280,699</u>	 <u>1,457,440</u>
<b>Expenses:</b>		
Current:		
Communication Services	281,960	277,417
Legal Fees	754,749	362,887
Accounting/Audit Services	36,000	35,435
Aggregation Services	0	52,139
Consulting and Strategic Planning	14,042	35,382
CRES Development	5,761	0
Literature/Media	1,825	2,551
Office/Postage/Telephone/Insurance	38,891	36,297
Salaries, Wages and Payroll Taxes	32,948	0
Meetings/Travel	<u>9,780</u>	<u>13,919</u>
 Total Expenses	 <u>1,175,956</u>	 <u>816,027</u>
 Excess of Revenues Over Expenditures	 <u>7,104,743</u>	 <u>641,413</u>
 Fund Balance, Beginning of Year	 <u>2,543,960</u>	 <u>1,902,547</u>
 Fund Balance, End of Year	 <u><u>\$9,648,703</u></u>	 <u><u>\$2,543,960</u></u>

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

Reconciliation of the Statements of Revenues, Expenditures and Changes  
In Fund Balances of Governmental Funds to the Statement of Activities  
For the Years Ended December 31, 2006 and 2005

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	<u>2006</u>	<u>2005</u>
<b>Net Change in Fund Balances - Total Governmental Funds</b>	<u>\$7,104,743</u>	<u>\$641,413</u>
Change in Net Assets of Governmental Activities	<u>\$7,104,743</u>	<u>\$641,413</u>

See accompanying notes to the basic financial statements.

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**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

**NOTE 1. DESCRIPTION OF THE ENTITY**

The Northeast Ohio Public Energy Council, (NOPEC) is a regional council of governments consisting of approximately 128 member communities (including municipal corporations, townships and counties, all of which are political subdivisions of the State of Ohio) from nine Northeast Ohio counties. NOPEC is governed by a General Assembly, made up of one representative from each member community. The representatives from each county elect one person to serve on the nine-member NOPEC Board of Directors. The Council, established under Ohio Revised Code Chapter 167, in 2000, was formed to serve as a vehicle for communities to proceed jointly with aggregation programs for the purchase of electricity and natural gas. NOPEC seeks to provide electricity and natural gas at the lowest possible rates while also ensuring stability in prices by pursuing long-term contracts with suppliers.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NOPEC's management believes these financial statements present all activities for which NOPEC is financially accountable. The government-wide statements do not include any fiduciary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NOPEC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements.

A. Basis of Accounting

NOPEC adopted GASB No. 34 effective January 1, 2005. As such, these financial statements follow the accrual basis of accounting in accordance with generally accepted accounting principles as applied to governmental units. These statements also include disclosure of material matters, as prescribed or permitted by the Auditor of State.

B. Cash and Investments

During the year, NOPEC invested in STAROhio (the State Treasurer's investment pool), an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2006 and 2005.

C. Budgetary Process

NOPEC is not bound by the budgetary laws prescribed by the Ohio Revised Code. NOPEC does pass an annual budget preceding the fiscal year.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Basis of Presentation

NOPEC's basic financial statements consist of government-wide statements, which include statements of net assets and statements of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements. The statements of net assets and the statements of activities display information about NOPEC as a whole. These statements include all the financial activities of NOPEC.

The statements of net assets present the financial condition of the governmental activities of NOPEC at December 31, 2006 and 2005. The statements of activities present a comparison between direct expenses and program revenues for each program or function of NOPEC's governmental activities. Program revenues include monies provided by the recipient of the services offered by the program. Revenues which are not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the governmental programs are self-financing or draw from the general revenues of NOPEC.

Fund Financial Statements. NOPEC segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of NOPEC at this more detailed level. The focus of governmental fund financial statements is on major funds. The major fund is presented in a separate column.

E. Fund Accounting

NOPEC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is NOPEC's only governmental fund:

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

General Fund - The general fund accounts for all financial resources.

F. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of NOPEC are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

G. Deferred Revenue

Deferred revenue arose from a contractual dispute with a supplier in 2005. NOPEC obtained and held \$899,704 of funds in 2005 until a successful 2006 arbitration ruling for NOPEC. Receipt of a 2006 arbitration award of \$4,974,123 included the previously deferred revenue and is included in the Statement of Activities as general revenue.

H. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

I. Accounts payable and accrued liabilities

All payables and accrued liabilities are reported in the government-wide financial statements.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions on enabling legislation adopted by NOPEC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**NOTE 3. REVENUES**

NOPEC is funded through administrative fees received from energy suppliers with which it contracts to provide aggregated electricity and natural gas services to its members. NOPEC does not receive any public funds.

For 2006 and 2005, NOPEC's administrative fees were based on annual contractually agreed upon amounts, on the number of new customers and on the respective consumption of natural gas by its customers.

**NOTE 4. EQUITY IN POOLED CASH AND INVESTMENTS AND CREDIT RISK**

State statutes classify monies held by the NOPEC into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the NOPEC Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including, but not limited to, passbook accounts.



**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 4 EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Interim monies may be deposited or invested in the following:

1. Bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

NOPEC may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
3. Obligations of NOPEC.

Protection of NOPEC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 4 EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Council, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Deposits with Financial Institutions**

The carrying amount of NOPEC's deposits were \$115,202 and \$1,597,514, as of December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, \$31,086 and \$1,515,110 of NOPEC's bank balances of \$131,086 and \$1,615,110, respectively were uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust departments in the Council's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Council to a successful claim by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, NOPEC will not be able to recover deposits or collateral securities that are in the possession of an outside party. NOPEC has no deposit policy for custodial credit risk beyond the requirements of the State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with NOPEC or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of December 31, 2006 and 2005, NOPEC had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>December 31, 2006</u>	<u>Balance at Fair Value</u>	<u>December 31, 2005</u>
		<u>Investment Maturity</u>		<u>Investment Maturity</u>
		<u>6 months or less</u>		<u>6 months or less</u>
STAR Ohio	\$8,870,609	\$8,870,609	\$1,909,613	\$1,909,613

*Interest Rate Risk:* The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase.

*Custodial Credit Risk:* For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, NOPEC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. NOPEC has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 4 EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

*Credit Risk:* STAR Ohio carries a rating of AAA by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

**NOTE 5. DEFINED BENEFIT PENSION PLAN**

NOPEC began participation in the Ohio Public Employees Retirement System (OPERS) in 2006, with the hiring of its first employee. OPERS administers one pension plan for NOPEC.

**Ohio Public Employees Retirement System**

NOPEC participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2006, members were required to contribute 9.0 percent of their annual covered salaries. NOPEC's contribution rate for pension benefits for 2006 was 13.70 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

NOPEC's contributions for pension obligations for the year ended December 31, 2006, was \$3,912, 100 percent has been contributed for 2006.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 6 POST RETIREMENT BENEFIT PLANS**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00 percent) plus and an additional factor ranging from .50 percent to 6.00 percent for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00 percent.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. NOPEC's actual employer contributions for 2006 which were used to fund postemployment benefits were \$1,275. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. OPERS took additional actions to improve the solvency of the health care fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL  
SUMMIT COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Continued)

**NOTE 7. RISK MANAGEMENT AND CONTINGENCIES**

NOPEC is exposed to various risks of loss. For 2006 and 2005, NOPEC contracted with the Hylant Group for various types of liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there were no significant reductions in coverage from the prior year.

NOPEC was not a party to any legal proceedings as of December 31, 2006.

**NOTE 8. RESTATEMENT OF PRIOR YEAR NET ASSETS**

For 2005, NOPEC has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

GASB 34 creates new basic financial statements for reporting on NOPEC's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

As a result of NOPEC's adoption of the accrual basis of accounting and GASB 34 effective January 1, 2005, net assets as of December 31, 2004 were adjusted by the effects of the conversion from the modified cash basis of accounting (used prior to January 1, 2005) to the accrual basis of accounting.

Net Assets at December 31, 2004 – Modified Cash Basis	\$1,982,896
Effects of change to accrual basis as of January 1, 2005:	
Revenue effects at December 31, 2004	54,770
Expense effects at December 31, 2004	<u>(135,119)</u>
Net Assets at January 1, 2005 – Accrual basis	<u>\$1,902,547</u>

**NOTE 9. SUBSEQUENT EVENTS**

In 2007, NOPEC authorized creation of NOPEC, Inc., a new not-for-profit corporation to be the PUCO-certified retail electric and gas supplier (CRES) for NOPEC's electric and gas aggregation programs. NOPEC also funded certain of the CRES Development expenses in 2006.

Two claims have been filed against NOPEC in 2007, that are covered by the existing liability insurance. NOPEC management believe that the ultimate disposition of these claims and the legal proceedings will not have a material effect, if any, on the financial condition of NOPEC and that NOPEC has adequate liability insurance coverage to protect itself against any material loss.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Northeast Ohio Public Energy Council  
Summit County  
583 East Aurora Road  
Macedonia, Ohio 44056

To the Board of Directors:

We have audited the financial statements of Northeast Ohio Public Energy Council, Summit County, Ohio, (the Council) as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 30, 2007. The Council implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Council's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Council's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Council's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain internal control matters that we reported to the Council's management in a separate letter dated November 30, 2007

### **Compliance and Other Matters**

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Council's management in a separate letter dated November 30, 2007.

We intend this report solely for the information and use of management and the Board of Directors. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

November 30, 2007





**Mary Taylor, CPA**  
Auditor of State

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

**SUMMIT 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.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 3, 2008**