



Dave Yost • Auditor of State

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Northeast Ohio Public Energy Council
Cuyahoga County
31360 Solon Road, Suite 33
Solon, Ohio 44139

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Northeast Ohio Public Energy Council, Cuyahoga County, Ohio (the Council), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Northeast Ohio Public Energy Council, Cuyahoga County, Ohio, as of December 31, 2014 and 2013, and the respective changes in financial position thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 the Council's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

October 9, 2015

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**
Management's Discussion and Analysis
For The Years Ended December 31, 2014 and 2013
Unaudited

The management's discussion and analysis of the Northeast Ohio Public Energy Council, Cuyahoga County, Ohio, (NOPEC's) financial performance provides an overall review of NOPEC's financial activities for the years ended December 31, 2014 and 2013. 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 2014 and 2013 are as follows:

- NOPEC is the largest public energy aggregation in the United States with 134 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 position increased \$6,129,151 or 24% for 2014 and an additional \$1,432,441 or 6% for 2013. The increase in 2014 is due mainly to a new natural gas contract and the increase in 2013 is due to revenues that exceeded expenses for the year.

- NOPEC's receipts are primarily management fees received from energy suppliers. Management fees represented 99% of total revenues in 2014 and 2013, respectively.

Using the Basic Financial Statements

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

Report Components

The combined statements of net position 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 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.

Reporting NOPEC as a Whole

The combined statements of net position and statements of activities reflect how NOPEC performed financially during 2014 and 2013.

The combined statements report NOPEC's net position. These reports are one way to measure NOPEC's financial health. Over time, increases or decreases in net position 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.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**
Management's Discussion and Analysis
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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.

NOPEC as a Whole

Table 1 provides a summary of NOPEC's net position for 2014 and 2013 compared to 2012:

Table 1

	2014	2013	2012
Assets			
Cash and Cash Equivalents	\$30,944,440	\$27,061,439	\$21,072,749
Accounts Receivable	2,458,776	1,823,411	1,636,236
Prepaid Expenses	842,501	1,189,449	1,316,548
Net Investment in Capital Assets	784,168	589,165	468,390
Total Assets	\$35,029,885	\$30,663,464	\$24,493,923
Liabilities			
Accounts Payable	384,571	173,124	239,854
Deferred Revenue	2,829,653	4,803,829	0
Total Liabilities	3,214,224	4,976,953	239,854
Net Position			
Net investment in Capital Assets	784,168	589,165	468,390
Unrestricted	31,031,493	25,097,345	23,785,679
Total Net Assets	\$31,815,661	\$25,686,510	\$24,254,069

There is no related debt to the Capital Assets. Capital Assets were \$784,168 and \$589,165 at December 31, 2014 and 2013, respectively. The Capital Assets are used to provide services to citizens in member communities.

As mentioned previously, net position of governmental activities increased \$6,129,151 or 24% for 2014 and an additional \$1,432,441 or 6% for 2013 and an additional \$4,078,373 or 20% for 2012. The increase in assets in 2014, 2013 and 2012 was the result of changes in overall net assets and a 2014 purchase of additional office space and office equipment.

Table 2 reflects the changes in net position in 2014, 2013 and 2012.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**
Management's Discussion and Analysis
For The Years Ended December 31, 2014 and 2013
Unaudited

Table 2

	For the Years Ended December 31		
	2014	2013	2012
Revenues			
Program Revenues:			
Charges for Services	\$11,720,017	\$6,553,555	\$9,347,776
Total Program Revenues	<u>\$11,720,017</u>	<u>\$6,553,555</u>	<u>\$9,347,776</u>
General Revenues:			
Interest and Other	135,356	40,057	20,429
Total General Revenues	<u>135,356</u>	<u>40,057</u>	<u>20,429</u>
Total Revenues	<u>11,855,373</u>	<u>6,593,612</u>	<u>9,368,205</u>
Program Expenses:			
General Government	5,726,222	5,161,171	5,289,832
Total Program Expenses	<u>5,726,222</u>	<u>5,161,171</u>	<u>5,289,832</u>
Increase in Net Position	6,129,151	1,432,441	4,078,373
Net Position, January 1	25,686,510	24,254,069	20,175,696
Net Position, December 31	<u>\$31,815,661</u>	<u>\$25,686,510</u>	<u>\$24,254,069</u>

Management fees historically represent a significant portion of NOPEC's total receipts. In addition, NOPEC received additional charges for services in 2014, 2013 and 2012, respectively, as a result of acquisition costs related to entering new gas and electric contracts. Other receipts consist of interest earned, reimbursed expenses and office rental income.

Program expenses represent the overhead costs of running NOPEC's activities. These include marketing and communication services to member communities and potential member communities, legal fees, aggregation services and other supporting services. In 2014 and 2013, NOPEC also paid FirstEnergy \$3,560,940 and \$3,317,000 to extend the electric contract discount through the end of 2014 and 2013 respectively, which were the largest single expense categories for NOPEC during 2014 and 2013.

Governmental Activities

NOPEC is a jointly governed organization consisting of 134 member communities currently.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**
Management's Discussion and Analysis
For The Years Ended December 31, 2014 and 2013
Unaudited

NOPEC's Funds

Total governmental funds had revenues of \$11,855,372 and expenditures of \$5,921,224 for the year ended December 31, 2014; and revenues of \$6,593,612 and expenditures of \$5,281,946 for the year ended December 31, 2013. The fund balance of the General Fund increased \$5,934,148 in 2014 and \$1,311,666 in 2013 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 formal budgets for 2014 and 2013.

Net Investment in Capital Assets

At the end of Fiscal 2014, NOPEC had \$784,168 (net of accumulated depreciation) invested in three office condominium buildings and equipment. The following table shows fiscal 2014 balances compared to 2013.

	Capital Assets at December 31 (net of depreciation)	
	Governmental Activities	
	2014	2013
Building	\$705,791	\$496,918
Equipment	78,377	92,247
	\$784,168	\$589,165

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, 31360 Solon Rd., Suite 33, Solon, Ohio 44139 Tel. 440-248-1992.

NORTHEAST OHIO PUBLIC ENERGY COUNCIL

CUYAHOGA COUNTY

Statement of Net Position

December 31, 2014 and 2013

	Government Activities	Government Activities
	2014	2013
Assets		
Equity in Pooled Cash and Cash Equivalents	\$30,944,440	\$27,061,439
Accounts Receivable	2,458,776	1,823,411
Prepaid Expenses	842,501	1,189,449
Net Investment in Capital Assets	784,168	589,165
Total Assets	<u>35,029,885</u>	<u>30,663,464</u>
Liabilities		
Accounts Payable and Accrued Expenses	384,571	173,124
Deferred Revenue	2,829,653	4,803,829
Total Liabilities	<u>3,214,224</u>	<u>4,976,953</u>
Net Position		
Net Investment in Capital Assets	784,168	589,165
Unrestricted	31,031,493	25,097,345
Total Net Position	<u>\$31,815,661</u>	<u>\$25,686,510</u>

See accompanying notes to the basic financial statements.

NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
Statement of Activities
For the Year Ended December 31, 2014

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net Revenue and Changes in Net Assets Governmental Activities</u>
Governmental Activities			
General Government	\$5,726,222	\$11,720,017	\$5,993,795
<i>Total Government Activities</i>	<u>\$5,726,222</u>	<u>\$11,720,017</u>	<u>5,993,795</u>
		General Revenues	
		Interest and other	<u>135,356</u>
		<i>Total General Revenues</i>	<u>135,356</u>
		Change in Net Position	6,129,151
		<i>Net Position Beginning of Year</i>	<u>25,686,510</u>
		<i>Net Position End of Year</i>	<u>\$31,815,661</u>

See accompanying notes to the basic financial statements.

NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
Statement of Activities
For the Year Ended December 31, 2013

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net Revenue and Changes in Net Assets Governmental Activities</u>
Governmental Activities			
General Government	\$5,161,171	\$6,553,555	\$1,392,384
<i>Total Government Activities</i>	<u>\$5,161,171</u>	<u>\$6,553,555</u>	<u>1,392,384</u>
		General Revenues	
		Interest and rental income	<u>40,057</u>
		<i>Total General Revenues</i>	<u>40,057</u>
		Change in Net Position	1,432,441
		<i>Net Position Beginning of Year</i>	<u>24,254,069</u>
		<i>Net Position End of Year</i>	<u>\$25,686,510</u>

See accompanying notes to the basic financial statements.

NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
Balance Sheet
General Fund
December 31, 2014 and 2013

	2014	2013
Assets		
Equity in Pooled Cash and Cash Equivalents	\$30,944,440	\$27,061,439
Accounts Receivable	2,458,777	1,823,411
Prepaid Expenses	842,501	1,189,449
Total Assets	\$34,245,718	\$30,074,299
 Liabilities and Fund Balances		
Liabilities		
Accounts Payable and Accrued Expenses	384,572	\$173,125
Deferred Revenue	2,829,653	4,803,829
Total Liabilities	3,214,225	4,976,954
 Fund Balances		
Nonspendable	\$842,501	\$1,189,449
Unassigned	30,188,992	23,907,896
	31,031,493	25,097,345
<i>Total Liabilities and Fund Balances</i>	\$34,245,718	\$30,074,299

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**

*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2014 and 2013*

	<u>2014</u>	<u>2013</u>
Total Governmental Fund Balances	\$31,031,493	\$25,097,345
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds	784,168	589,165
<i>Net Position of Governmental Activities</i>	<u><u>\$31,815,661</u></u>	<u><u>\$25,686,510</u></u>

See accompanying notes to the basic financial statements

NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Years Ended December 31, 2014 and 2013

	<u>2014</u> <u>General Fund</u>	<u>2013</u> <u>General Fund</u>
Revenues:		
Management Fees	\$11,720,017	\$6,553,555
Interest and Other	135,355	40,057
Total Revenues	<u>11,855,372</u>	<u>6,593,612</u>
Expenses:		
Current:		
Communication Services	76,136	76,869
Legal Fees	625,947	499,948
Accounting/Audit/Investment Fees	107,833	79,964
Consulting/Database and Strategic Planning	21,916	63,470
CRES	3,041	37,713
Marketing and Membership	313,143	267,271
Office/Postage/Telephone/Insurance	123,807	101,476
Salaries, Wages and Payroll Taxes	780,287	650,062
Electric Program discount	3,560,940	3,317,000
Capital Outlay	221,849	144,047
Meetings/Travel	86,325	44,126
Total Expenses	<u>5,921,224</u>	<u>5,281,946</u>
Excess of Revenues Over Expenditures	<u>5,934,148</u>	<u>1,311,666</u>
Fund Balance, Beginning of Year	<u>25,097,345</u>	<u>23,785,679</u>
Fund Balance, End of Year	<u>\$31,031,493</u>	<u>\$25,097,345</u>

See accompanying notes to the basic financial statements.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**

Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balances of Governmental Funds to the Statement of Activities
For the Years Ended December 31, 2014 and 2013

	2014	2013
Net Change in Fund Balances - Total Governmental Funds	\$5,934,148	\$1,311,666
<p>Government funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense/ This is the amount by which capital outlays exceeded depreciation expense in the respective period.</p>		
Capital outlays	221,849	144,047
Depreciation	(26,846)	(23,272)
Change in Net Position of Governmental Activities	\$6,129,151	\$1,432,441

See accompanying notes to the basic financial statements.

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**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

NOTE 1 DESCRIPTION OF THE ENTITY

The Northeast Ohio Public Energy Council, (NOPEC) is a regional council of governments consisting of approximately 134 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.

Reporting Entity: In evaluating how to define the governmental reporting entity, NOPEC complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which NOPEC (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either 1) NOPEC's ability to impose its will over the component unit, or 2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on NOPEC.

On this basis, NOPEC's financial reporting entity has no component units as part of NOPEC's primary government in the determination of NOPEC's reporting entity.

NOPEC's management believes these financial statements present all activities for which NOPEC is financially accountable.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of NOPEC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of NOPEC's accounting policies are described below:

A. Basis of Accounting

NOPEC adopted GASB No. 34 effective January 1, 2005 and GASB 54 and 63 effective January 1, 2011. 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.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Cash and Investments

Beginning in 2013, NOPEC invested in a variety of federal government securities through a separate investment account managed by Baird Investment Management. Investments in these securities are valued at historical cost plus interest posted, which is the amount the investments could be sold for on December 31, 2014 and 2013. NOPEC also invested in CDARS (Certificate of Deposit Account Registry Service) in one-year certificates of deposit aggregated from private financial institutions around the United States in amounts covered within established FDIC limits for each account and institution. Investments in CDARS are valued at historical cost plus interest accrued to date, which is the amount the investments could be sold for on December 31, 2014 and 2013.

NOPEC also invested in STAR Ohio (the State Treasurer's investment pool), an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014 and 2013.

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.

D. Basis of Presentation

NOPEC's basic financial statements consist of government-wide statements, which include statements of net position 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 position 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 position present the financial condition of the governmental activities of NOPEC at December 31, 2014 and 2013. 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.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY**
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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

F. Measurement Focus and Basis of Accounting

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 Position.

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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. NOPEC generally considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

In applying the susceptible-to-accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within sixty days after year-end and available to pay obligations of the current period): income taxes, investment earnings, and shared revenues. Reimbursements due for federal or state funded projects are accrued as revenue at the time the expenditures are made or, when received in advance, deferred until expenditures are made. Therefore property tax and special assessment receivables are recorded and deferred until they become available. Other revenues, including licenses, fees, fines and forfeitures and charges for services are recorded as revenue when received in cash because they are generally not measurable until actually received.

When both restricted and unrestricted resources are available for use, it is NOPEC's policy to use restricted resources first, then unrestricted resources as they are needed.

G. 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.

H. Net Investment in Capital Assets

Capital assets result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets are capitalized at cost using a threshold of \$500 and updated for additions and retirements during the year. Capital assets are depreciated using the straight-line method over 50 years for buildings and 5 years for equipment.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Cost for maintenance and repairs are expensed when incurred. However, costs for repairs and upgrading that materially add to the value of an asset and meet the above criteria are capitalized.

I. Accounts payable and accrued liabilities

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

J. Net Position

Net position represents the difference between assets and liabilities. Net position is 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.

K. Compensated Absences

NOPEC accrues for accumulated, unpaid vacation and sick leave earned using the termination payment method specified under GASB Statement No. 16, Accounting for Compensated Absences. Normally, all vacation time is to be taken in the year available unless approval for carryover is obtained. NOPEC employees also earn sick leave which, if not taken, accumulates until retirement. Upon retirement, an employee with ten or more years of service is paid 25% of accumulated sick leave, subject to certain limitations, calculated at current wage rates. As of December 31, 2014 and 2013, NOPEC employees did not have any carryover vacation or adequate service credit to be eligible for sick leave payout. Therefore, there is no accrual of compensated absences necessary.

L. Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which NOPEC is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the NOPEC Board of Directors. Those committed amounts cannot be used for any other purpose unless the NOPEC Board of Directors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by NOPEC for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications.

NOPEC applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 3 REVENUES AND DEFERRED 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 2014 and 2013, 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. Accounts receivable consist of billed but unpaid administrative fees.

NOPEC entered into a new natural gas contract in August, 2013 and received approximately \$4,803,829 in September and October 2013 in advance of the inception of the contract. A portion of these revenues are deferred at December 31, 2014 and 2013 based on the inception and term of the contract.

NOTE 4 EQUITY IN POOLED CASH AND INVESTMENTS AND CREDIT RISK

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

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NOTE 4 EQUITY IN POOLED CASH INVESTMENTS AND CREDIT RISK - (Continued)

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 or withdraw able 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.

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 NOPEC'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 NOPEC's interim monies available for investment.

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NOTE 4 EQUITY IN POOLED CASH INVESTMENTS AND CREDIT RISK - (Continued)

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.

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

The carrying amount of NOPEC's deposits total \$4,760,195, and \$10,970,075, as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$4,804,351 and \$10,970,075 of NOPEC's bank balances of \$4,804,351 and \$10,970,075, respectively were insured by FDIC and collateralized by a bank's pooled securities account. As such, securities were held by the pledging financial institutions' trust departments in NOPEC's name and all state statutory requirements for the investment of money had been followed. Noncompliance with federal requirements could potentially subject NOPEC 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, 2014 and 2013, NOPEC had the following investments and maturities:

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NOTE 4 EQUITY IN POOLED CASH INVESTMENTS AND CREDIT RISK - (Continued)

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	2014	Investment Maturity	2013	Investment Maturity
<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>12 months or less</u>	<u>Balance at Fair Value</u>	<u>12 months or less</u>
Baird Account	\$26,004,674	\$26,004,674	\$15,911,852	\$15,911,852
STAR Ohio	179,571	179,571	179,512	179,512
	<u>\$26,184,245</u>	<u>\$26,184,245</u>	<u>\$16,091,364</u>	<u>\$16,091,364</u>

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.

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.

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NOTE 5 NET INVESTMENT IN CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013 was as follows:

	Balances		Disposals	Balances
	1/1/2014	Additions		12/31/2014
Governmental Activities				
Depreciable Assets				
Buildings	\$528,180	\$220,000	\$0	\$748,180
Equipment	132,035	1,849		133,884
Total Depreciable Assets	660,215	221,849	0	882,064
Less Accumulated Depreciation				
Buildings	31,192	10,564		41,756
Equipment	39,858	16,282	0	56,140
Total Accumulated Depreciation	71,050	26,846	0	97,896
Total Depreciable Assets, Net	589,165	195,003	0	784,168
Governmental Activities Capital Assets, Net	\$589,165	\$195,003	\$0	\$784,168

	Balances		Disposals	Balances
	1/1/2013	Additions		12/31/2013
Governmental Activities				
Depreciable Assets				
Buildings	\$482,371	\$45,809	\$0	\$528,180
Equipment	33,797	98,238		132,035
Total Depreciable Assets	516,168	144,047	0	660,215
Less Accumulated Depreciation				
Buildings	21,262	9,930		31,192
Equipment	26,516	13,342	0	39,858
Total Accumulated Depreciation	47,778	23,272	0	71,050
Total Depreciable Assets, Net	468,390	120,775	0	589,165
Governmental Activities Capital Assets, Net	\$468,390	\$120,775	\$0	\$589,165

Depreciation expense was fully allocated to the General Government function of the organization.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
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NOTE 6 DEFINED BENEFIT PENSION PLAN

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) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2014 and 2013, member and employer contribution rates were consistent across all three plans. For the years ended December 31, 2014 and 2013, members were required to contribute 10.0 percent and 10.0 percent, respectively, of their annual covered salary to fund pension obligations. For calendar year 2014 and 2013, the employer pension contribution rate was 14.0 percent of covered payroll. Contributions are authorized by State statute and the contribution rates are determined actuarially. NOPEC's required contributions (including post-employment benefits) to OPERS for the years ended December 31, 2014 and 2013 and 2012, was \$88,400, \$67,809 and \$34,402 respectively. The full amount has been contributed for 2014, 2013 and 2012.

NOTE 7 POST RETIREMENT BENEFIT PLANS

Ohio Public Employees Retirement System

OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan. For qualifying members for the Traditional Pension and Combined Plans, this plan includes a medical plan, prescription drug program, and Medicare part B premium reimbursement. Those belonging to 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 recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

**NORTHEAST OHIO PUBLIC ENERGY COUNCIL
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NOTE 7 POST RETIREMENT BENEFIT PLANS (Continued)

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

The Ohio Revised Code provides 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 benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014 and 2013, local government employer units contributed at 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. 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, OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits.

For 2014, 2013 and 2012, the employer contribution allocated to the health care plan was 4.5% of covered payroll. NOPEC's contributions to fund post-employment benefits for 2014, 2013 and 2012 were \$28,414, \$21,796 and \$9,829, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected.

The OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) on September 9, 2004, effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2008 and January 1, 2009 which allowed additional funds to be allocated to the healthcare plan.

NOTE 8 RISK MANAGEMENT AND CONTINGENCIES

NOPEC is exposed to various risks of loss. For 2014 and 2013, 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.

NOTE 9 RELATED PARTY TRANSACTIONS

In 2007, NOPEC authorized creation of NOPEC, Inc., a not-for-profit corporation to be the PUCO-certified retail electric and gas supplier (CRES) for NOPEC's electric and gas aggregation programs. NOPEC funded certain of the CRES Development expenses in 2014 and 2013 totaling \$3,401 and \$37,713.

NOTE 10 PREPAID EXPENSES

Prepaid expenses consist of payments made for the respective "electric program discount" for the following year.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northeast Ohio Public Energy Council
Cuyahoga County
31360 Solon Road, Suite 33
Solon, Ohio 44139

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities and major fund of the Northeast Ohio Public Energy Council, Cuyahoga County, (the Council) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated October 9, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Council's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

October 9, 2015



Dave Yost • Auditor of State

NORTHEAST OHIO PUBLIC ENERGY COUNCIL

CUYAHOGA 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
NOVEMBER 5, 2015**