



Dave Yost • Auditor of State

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southeast Ohio Public Energy Council
Athens County
P.O. Box 825
Athens, Ohio 45701

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Southeast Ohio Public Energy Council, Athens County, Ohio (SOPEC), as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 SOPEC'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 SOPEC'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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, SOPEC prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though SOPEC does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of SOPEC as of December 31, 2016 and 2015, or changes in financial position or cash flows thereof for the years then ended.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Southeast Ohio Public Energy Council, Athens County, Ohio, as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017, on our consideration of SOPEC'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 SOPEC's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

November 2, 2017

Southeast Ohio Public Energy Council

Athens County

Combined Statement of Receipts, Disbursements

and Changes in Fund Balances (Regulatory Cash Basis)

All Governmental Fund Types

For the Year Ended December 31, 2016

	General	Special Revenue	Total (Memorandum Only)
Cash Receipts			
Charges For Services	\$30,551	\$0	\$30,551
<i>Total Cash Receipts</i>	<u>30,551</u>	<u>0</u>	<u>30,551</u>
Cash Disbursements			
Current:			
Business Expense	18	0	18
Business Registration Fees	120	0	120
Accounting Fees	871	0	871
Consulting	200	0	200
Legal Fees	38,160	0	38,160
Empower Dev. Services	21,763	0	21,763
UAC Dev. Services	11,908	0	11,908
Rent, Parking, Utilities	901	0	901
Postage, Mailing Service	1,369	0	1,369
Printing and Copying	6	14	20
Supplies	1,042	0	1,042
Telephone	632	40	672
Promotion	5,022	22	5,044
Insurance	478	0	478
Payroll Expense	2,553	16,909	19,462
Marketing	1,692	0	1,692
Director	19,664	0	19,664
Medicare Exp	457	276	733
Workers Comp	191	54	245
OPERS	3,759	2,659	6,418
Travel	1,679	0	1,679
Interest	1	0	1
Penalty	12	0	12
Other Cost	133	0	133
Prepaid Expense	270	0	270
<i>Total Cash Disbursements</i>	<u>112,901</u>	<u>19,974</u>	<u>132,875</u>
<i>Net Change in Fund Cash Balances</i>	(82,350)	(19,974)	(102,324)
<i>Fund Cash Balances, January 1</i>	<u>211,672</u>	<u>19,974</u>	<u>231,646</u>
Fund Cash Balances, December 31			
Unassigned (Deficit)	<u>129,322</u>	<u>0</u>	<u>129,322</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$129,322</u></u>	<u><u>\$0</u></u>	<u><u>\$129,322</u></u>

See accompanying notes to the basic financial statements.

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**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 1 - Reporting Entity

The Southeast Ohio Public Energy Council, Athens County, Ohio (SOPEC), is a regional council of governments consisting of six member communities (including municipal corporations, townships and counties, all of which are political subdivisions of the State of Ohio) from three Southeast Ohio counties. SOPEC is governed by a General Assembly, made up of one representative from each member community. The representatives from each community elect members to serve on the three-member SOPEC Board of Directors. SOPEC, established under Ohio Revised Code Chapter 167 in 2011, was formed to serve as a vehicle for communities to proceed jointly with aggregation programs for the purchase of electricity and natural gas.

Jointly Governed Organizations and Related Organizations

SOPEC participates in the Northeast Ohio Public Energy Council, a jointly governed organization, and is associated with UpGrade Ohio, a related organization. Notes 8 and 9 to the financial statements provides additional information for these entities. SOPEC's management believes these financial statements present all activities for which the SOPEC is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

SOPEC's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

SOPEC 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. The funds of SOPEC are presented below:

General Fund The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to SOPEC for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. SOPEC had the following significant Special Revenue Fund:

UpGrade Athens County This fund received contributions from businesses for "Upgrade Athens County" projects until February 2016 when UpGrade Athens County became a legally separate organization.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D) permit.

Budgetary Process

SOPEC's annual budget is primarily a management tool that assists its users in analyzing financial activity for its fiscal year ending December 31.

Although the annual budget is reviewed and approved by the Board of Directors, it is not a legally adopted budget and it is not subject to the budget procedures that are followed by the County Budget Commission.

Deposits and Investments

SOPEC's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

SOPEC records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Fund Balance

Fund balance is reported based primarily on the extent to which SOPEC must observe constraints imposed upon the use of its governmental-fund resources. The classification is as follows:

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

SOPEC 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.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Continued)**

Note 3 - Deposits

SOPEC maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	<u>2016</u>
Demand deposits	<u><u>\$129,322</u></u>

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Note 4 - Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Entity pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material)

SOPEC has obtained professional liability commercial insurance.

SOPEC is uninsured for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Note 5 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and SOPEC contributed an amount equaling 14%, of participants' gross salaries. SOPEC has paid all contributions required through December 31, 2016.

Note 6 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 7 - Leases

SOPEC leases buildings, vehicles and other equipment under noncancelable leases. SOPEC disbursed \$901 to pay lease costs for the year ended December 31, 2016.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Continued)**

Note 8 - Jointly Governed Organization

As a political subdivision, SOPEC is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments comprised of 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, as well as regional councils of governments from other regions in the state.

NOPEC is governed by a General Assembly, made up of one representative from each member community. The representatives from each community elect members to serve on the nine-member NOPEC Board of Directors. The NOPEC, 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.

Note 9 - Related Organization

In November 2015, UpGrade Ohio formally incorporated. It focused primarily on community-based energy efficiency and renewable energy initiatives. UpGrade Ohio began as a special project of the Southeast Ohio Public Energy Council under the name UpGrade Athens County. UpGrade Ohio is an educational and charitable organization whose mission is to educate, promote, and facilitate connections around local resources for reduced energy use and greater access to renewable energy sources, thereby assisting communities to transition to sustainable energy solutions, improve the quality of life, and lessen burdens of both local governments and individual citizens for economic development and sustainability. UpGrade Ohio fulfills this purpose through educational events, community outreach, private and public partnerships, public discussion groups, program development, activities, and publications. UpGrade Ohio has taken over the activities of UpGrade Athens County from SOPEC.

Note 10 - Contingent Liabilities

Reward: In March of 2015, SOPEC received a \$429,000 advance payment from AEP Energy for future administrative fees SOPEC would receive for administering the opt-out electric aggregation program. The advance payment was issued without interest, without a repayment schedule, and contingent upon the continued operations of the SOPEC opt-out electric aggregation program. To recover the advance, AEP Energy retained the monthly administrative fee payments. AEP Energy retained \$237,102 of earned administrative fees for SOPEC during 2016. A balance of \$4,464 remained at December 31, 2016. The advance was fully repaid in January 2017.

Southeast Ohio Public Energy Council**Athens County***Combined Statement of Receipts, Disbursements**and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2015*

	General	Special Revenue	Total (Memorandum Only)
Cash Receipts			
Corporate Contributions	\$0	\$2,500	\$2,500
Business Contributions	0	101,438	101,438
Program Service Fees	429,000	0	429,000
<i>Total Cash Receipts</i>	<u>429,000</u>	<u>103,938</u>	<u>532,938</u>
Cash Disbursements			
Current:			
Business Expense	17	0	17
Business Registration Fees	200	0	200
Accounting Fees	1,479	0	1,479
Consulting	0	1,800	1,800
Legal Fees	26,803	0	26,803
Empower Dev. Services	114,576	0	114,576
Rent, Parking, Utilities	1,019	2,854	3,873
Printing and Copying	335	670	1,005
Supplies	106	191	297
Telephone	335	2,455	2,790
Promotion	342	1,748	2,090
Insurance	1,850	0	1,850
Payroll Expense	59,442	64,902	124,344
Medicare Exp	785	831	1,616
Workers Comp	295	0	295
OPERS	7,957	8,513	16,470
Travel	130	0	130
Interest	20	0	20
Penalty	121	0	121
Conference Convention Meeting	1,516	0	1,516
<i>Total Cash Disbursements</i>	<u>217,328</u>	<u>83,964</u>	<u>301,292</u>
<i>Net Change in Fund Cash Balances</i>	211,672	19,974	231,646
<i>Fund Cash Balances, January 1</i>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Cash Balances, December 31			
Committed	0	19,974	19,974
Unassigned	211,672	0	211,672
<i>Fund Cash Balances, December 31</i>	<u>\$211,672</u>	<u>\$19,974</u>	<u>\$231,646</u>

See accompanying notes to the basic financial statements.

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**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Reporting Entity

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Jointly Governed Organizations and Related Organizations

SOPEC participates in the Northeast Ohio Public Energy Council, a jointly governed organization, and is associated with UpGrade Ohio, a related organization. Notes 8 and 9 to the financial statements provides additional information for these entities. SOPEC's management believes these financial statements present all activities for which the SOPEC is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

SOPEC's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

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UpGrade Athens County This fund received contributions from businesses for "Upgrade Athens County" projects.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D) permit.

Budgetary Process

SOPEC's annual budget is primarily a management tool that assists its users in analyzing financial activity for its fiscal year ending December 31.

Although the annual budget is reviewed and approved by the Council, it is not a legally adopted budget and it is not subject to the budget procedures that are followed by the County Budget Commission.

Deposits and Investments

SOPEC's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

SOPEC records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Fund Balance

Fund balance is divided into two classifications based primarily on the extent to which SOPEC must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Committed Council can *commit* amounts via formal action (resolution). SOPEC must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

SOPEC 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.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

Note 3 - Deposits

SOPEC maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	<u>2015</u>
Demand deposits	<u>\$231,646</u>

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Note 4 - Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Entity pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material)

SOPEC has obtained professional liability commercial insurance.

SOPEC is uninsured for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Note 5 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and SOPEC contributed an amount equaling 14%, of participants' gross salaries. SOPEC has paid all contributions required through December 31, 2015.

Note 6 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 7 - Leases

SOPEC leases buildings, vehicles and other equipment under noncancelable leases. SOPEC disbursed \$3,873 to pay lease costs for the year ended December 31, 2015.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

Note 8 – Jointly Governed Organizations

As a political subdivision, SOPEC is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments comprised of 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, as well as regional councils of governments from other regions in the state. NOPEC is governed by a General Assembly, made up of one representative from each member community. The representatives from each community elect members to serve on the nine-member NOPEC Board of Directors. The NOPEC, 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.

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In November 2015, UpGrade Ohio formally incorporated. It focused primarily on community-based energy efficiency and renewable energy initiatives. UpGrade Ohio began as a special project of the Southeast Ohio Public Energy Council under the name UpGrade Athens County. UpGrade Ohio is an educational and charitable organization whose mission is to educate, promote, and facilitate connections around local resources for reduced energy use and greater access to renewable energy sources, thereby assisting communities to transition to sustainable energy solutions, improve the quality of life, and lessen burdens of both local governments and individual citizens for economic development and sustainability. UpGrade Ohio fulfills this purpose through educational events, community outreach, private and public partnerships, public discussion groups, program development, activities, and publications. UpGrade Ohio has taken over the activities of UpGrade Athens County from SOPEC.

Note 10 - Contingent Liabilities

In March of 2015, SOPEC received a \$429,000 advance payment from AEP Energy for future administrative fees SOPEC would receive for administering the opt-out electric aggregation program. The advance payment was issued without interest, without a repayment schedule, and contingent upon the continued operations of the SOPEC opt-out electric aggregation program. To recover the advance, AEP Energy retained the monthly administrative fee payments. AEP Energy retained \$187,434 of earned administrative fees for SOPEC during 2015. A balance of \$241,566 remained at December 31, 2015.



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

Southeast Ohio Public Energy Council
Athens County
P.O. Box 825
Athens, Ohio 45701

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 cash balances, receipts, and disbursements by fund type of the Southeast Ohio Public Energy Council, Athens County, Ohio (SOPEC), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2017, wherein we noted SOPEC followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered SOPEC'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 SOPEC'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 SOPEC'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings that we consider material weaknesses. We consider Findings 2016-001 through 2016-003 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether SOPEC'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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2016-001 and 2016-002.

Entity's Responses to Findings

SOPEC's responses to the Findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit SOPEC's responses and, accordingly, we express no opinion on them.

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 SOPEC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering SOPEC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 2, 2017

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Noncompliance and Material Weakness

Ohio Rev. Code § 149.351 establishes guidelines against the destruction or damage of records. All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise disposed of, in whole or in part, except as provided by law or under the rules adopted by the Records Commission provided for under §§ 149.38 to 149.42 of the Ohio Revised Code.

SOPEC did not present minutes for two meetings held during the audit period: the Board of Directors meeting held on April 2, 2015 and the Finance Committee meeting held on December 16, 2015. Additionally, SOPEC's management could not provide supporting documentation for 18 percent of all disbursements in 2015 and 16 percent of total disbursements in 2016. As a result, the Board had no basis to determine whether these expenditures were for proper public purpose or properly classified and reported in the financial reports. We were, however, able to obtain adequate assurances over these transactions through alternative procedures.

The Board should require all supporting documentation be maintained to help ensure that all expenditures are accurate and appropriate. Further, the minute record for all Board meetings should be properly recorded, verified by the Board at the following meeting, and made available to the public in accordance with an approved public records policy.

Official's Response: During the period under audit, SOPEC appointed two Executive Directors to oversee records and maintain compliance with state law. The tenure of the first SOPEC Executive Director began on January 1, 2015, and ended on December 31, 2015, due to insufficient administrative oversight and poor maintenance of records during the 2015 calendar year. The missing meeting minutes on April 2, 2015, and December 16, 2015, both occurred during the tenure of the first Executive Director. In addition, the 18 percent of undocumented disbursements in 2015 occurred during this period as well.

From January 1, 2016, through April 30, 2016, SOPEC did not have an appointed Executive Director. In addition, SOPEC did not employ any paid staff to record meeting minutes, track expenses, and maintain records during this period of time. SOPEC believes that the 16 percent of undocumented disbursements in 2016 occurred during this period of time.

The tenure of the second SOPEC Executive Director began on May 1, 2016, through the present. This Executive Director began his tenure at a time when SOPEC did not have office space. SOPEC was forced to move locations several times since its inception and, as a result, invoices were misplaced. SOPEC's management and the Board of Directors recognize that this was an unusual event that is not likely to recur going forward due to the acquisition of a more permanent office

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-002

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Rule 117-2-03 of the Administrative Code.

Check numbers identified in the check register did not agree to the actual check in 2015 for 10% of payroll transactions tested and for 27.3% of non-payroll transactions tested. Check numbers identified in the check register did not agree to the actual check for 12.5% of non-payroll transactions tested in 2016. This resulted from miscommunication between the Council, who issued manual checks and the outside accounting firm who maintains the books.

Failure of underlying accounting records to agree to actual checks obscures the audit trail and provides for the opportunity for errors and/or irregularities to occur and remain undetected for an extended period.

The Board and management should establish procedures to monitor the accounting records provided by the outside accounting firm, to help ensure the check numbers in the system agree to the physical checks.

Official's Response: During the period under audit, SOPEC appointed two Executive Directors to oversee records and maintain compliance with state law. The tenure of the first SOPEC Executive Director began on January 1, 2015, and ended on December 31, 2015, due to insufficient administrative oversight and poor maintenance of records during the 2015 calendar year. The 10% incongruity between the check register and actual payroll checks issued, as well as the 27.3% incongruity between the check register and actual non-payroll checks issued, occurred during the tenure of the first Executive Director.

From January 1, 2016, through April 30, 2016, SOPEC did not have an appointed Executive Director. In addition, SOPEC did not employ any paid staff to record meeting minutes, track expenses, and maintain records during this period of time. SOPEC believes that the 12.5% of non-payroll checks issued in 2016 that did not match the check registry occurred during this period of time.

The tenure of the second SOPEC Executive Director began on May 1, 2016, through the present. The Board of Directors appointed the second Executive Director with the purpose of improving record keeping, expense documentation, and maintaining compliance with state law.

FINDING NUMBER 2016-003

Material Weakness - Segregation of Duties

When designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

**SOUTHEAST OHIO PUBLIC ENERGY COUNCIL
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-003 (Continued)

Material Weakness - Segregation of Duties (Continued)

The small size of the SOPEC's staff did not allow for an adequate segregation of duties; the Executive Director performed all accounting functions with the exception of accessing the QuickBooks system operated by the accounting firm. It is therefore important that the Board monitor financial activity closely.

There was no documentation of the extent to which the Board reviewed bank reconciliations, financial reports, or records to monitor financial activity of SOPEC. This could result in inaccurate reports to the Board, errors in the reconciliation, or errors and omissions occurring in the SOPEC's annual report without the timely knowledge of the Board.

Financial information should be presented to the Board on a regular basis. This information should include bank-to-book reconciliations as well as revenue and expenditure activity and budget versus actual reports. These reviews should be documented in the minutes of the Board of Directors meetings.

Official's Response: SOPEC will begin presenting bank-to-book reconciliations, revenue and expenditure activity, and budget versus actual reports during Board of Directors meetings throughout the year.

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Dave Yost • Auditor of State

SOUTHEAST OHIO PUBLIC ENERGY COUNCIL

ATHENS 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 16, 2017**