Financial Statements
December 31, 2015

Northeast Council of Governments

EideBailly.

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Northeast Council of Governments
Aberdeen, South Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of Northeast Council of Governments, which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

www.eidebailly.com

24 2nd Ave. S.W. | P.O. Box 430 | Aberdeen, SD 57402-0430 | T 605.225.8783 | F 605.225.0508 | EOE

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Council of Governments as of December 31, 2015, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard
As discussed in Notes 1 and 9 to the financial statements, Northeast Council of Governments has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of net position as of January 1, 2015. Our opinion was not modified with respect to this matter.

Other Matters

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2016 on our consideration of Northeast Council of Governments's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Northeast Council of Governments's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
April 28, 2016

This section of the financial report represents management's discussion and analysis of the Northeast Council of Governments's (NECOG) financial performance during the year ended December 31, 2015. This report is presented to provide additional information about NECOG and to meet the requirements of GASB 34. This analysis should be read in conjunction with the independent auditor's report, financial statements, and the notes to the financial statements.

Nature of Operations for the Organization

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

Financial Statements

The financial statements used by NECOG include a statement of net position. The statement of net position reports all financial and capital assets for NECOG. The statement is presented in a format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity. Current assets are those that are convertible to cash within one year.

The financial statements also include a statement of revenues, expenses and changes in net position (similar to an income statement). This statement includes revenues; such as federal grants, administrative fees, contract and local revenues and interest income and expenses; such as payroll related costs, professional fees and other. The focus of the statement of revenues, expenses and changes in net position is to show the change in net position.

A statement of cash flows is also included, which discloses net cash from or used for operating activities, nonoperating grants received, investments in capital assets and other investing activities.

The notes to the financial statements provide additional information essential to understanding the financial statements.

Statement of Net Position

The following table reflects the condensed statement of net position compared to the prior year:

	2015	2014 *
Assets		
Cash and cash equivalents	$ 136,998	$ 107,469
Certificates of deposit	1,803,759	1,780,691
Accounts receivable	64,134	80,243
Due from NECOG Development Corporation	9,256	7,873
Accrued interest receivable	9,095	8,669
Prepaid expenses	3,380	3,549
Total current assets	2,026,622	1,988,494
Net pension asset	75,183	-
Capital assets, net of accumulated depreciation	51,142	29,066
Deferred Outflows of Resources		
Pension related deferred outflows	130,230	-
	$ 2,283,177	$ 2,017,560
Liabilities		
Accounts payable	$ 661	$ 740
Accrued annual leave	23,095	18,556
Lease payable	3,158	-
Unearned revenue	39,516	51,756
Total current liabilities	66,430	71,052
Deferred Inflows of Resources		
Pension related deferred inflows	112,541	-
Net Position		
Net investment in capital assets	51,142	29,066
Net position - restricted for pension	92,872	-
Net position - unrestricted	1,960,192	1,917,442
Total net position	2,104,206	1,946,508
	$ 2,283,177	$ 2,017,560

* Due to the implementation of GASB 68 in 2015, figures may not be comparable to prior year for some areas of the financial statements.

Major Factors Affecting the Statement of Net Position

Total assets and deferred outflows of resources increased by $265,617. This increase is primarily due to the addition in 2015 of Deferred Outflow of Resources and Net Pension Assets as required by GASB No. 68 and 71. Accounts receivable decreased by $16,109 due to an increase of revenue collections in 2015.

Net pension asset, pension related deferred outflows and pension related deferred inflows increased in 2015 due to the implementation of GASB Statements No. 68 and 71 (see Notes 1 and 9).

Total liabilities and deferred inflows of resources increased by $107,919. Pension related deferred inflows related to GASB No. 68 and 71 implementation of $112,541 was the main contributing factor of the increase in 2015. A decrease in unearned revenue was recognized in 2015 related to the timing of contract revenue collection and closing of contracts for projects started in prior years.

Total net position increased by $157,698, which was primarily related to the implementation of GASB Statements No. 68 and 71 which increased beginning net position by $81,345, and the change in net position of $76,353 due to the increase of expenses of $97,341, primarily due to not having a revolving loan fund match expense for the year ended December 31, 2015.

Statement of Revenues, Expenses and Changes in Net Position

The following table compares the revenues and expenses for the current and previous fiscal years:

	2015	2014 *	% Change
Revenues			
Federal grants and funding revenues	$ 99,730	$ 109,375	-9%
Contract revenues	211,629	190,119	11%
Local revenues	139,066	136,814	2%
NECOG Development Corporation administrative fees	91,184	88,259	3%
Gain (loss) on sale of assets	(1,871)	3,264	-157%
Interest income	23,983	23,445	2%
Other operating revenues	828	7,500	-89%
Total revenues	564,549	558,776	1%
Expenses			
Salaries	325,917	313,291	4%
Payroll taxes and benefits	67,598	74,727	-10%
Staff travel	10,371	10,934	-5%
Directors fees and travel	900	1,376	-35%
Insurance	6,449	6,607	-2%
Professional fees	13,376	18,898	-29%
Office rent	18,978	20,268	-6%
Equipment rental and maintenance contracts	3,724	4,259	-13%
Expendable equipment purchases	6,362	9,955	-36%
Utilities and telecommunications	6,187	7,682	-19%
Membership and conference registration	5,260	5,635	-7%
Office expenses	5,350	4,622	16%
Depreciation expense	15,309	15,859	-3%
RLF match expense to NECOG DC	-	87,200	-
Local match expense on grants	1,108	2,428	-
Miscellaneous expense	1,307	1,796	-27%
Total expenses	488,196	585,537	-17%
Changes in Net Position	76,353	(26,761)	-385%
Net Position - Beginning, as Previously Stated	1,946,508	1,973,269	
Adoption of New Accounting Standard (See Note 9)	81,345	-	
Net Position - Beginning, as Restated	2,027,853	1,973,269	
Net Position - Ending	$ 2,104,206	$ 1,946,508	

*Due to the implementation of GASB 68 in 2015, figures may not be comparable to prior year for some areas of the financial statements.

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

Contract revenue increased $21,510 (11%), largely due to increased project administration workload and activity within hourly contract administration. Federal grants and funding revenue decreased $9,645 due to the close-out of the DOJ pass through grant. Total expenses decreased $97,341 (17%), due to a decrease in expenses for NECOG's match to the Revolving Loan Fund of NECOG Development Corporation in the amount of $87,200, a decrease in professional fees of $5,522 related to the close-out of the DOJ pass through grant, and an increase in salaries expense of $12,626 due to an increase in employee wages. Payroll taxes and benefits decreased by $7,129, primarily related to pension revenue of $11,527 recorded as a reduction of payroll benefits as part of the implementation adjustments for GASB Statements No. 68 and 71.

Net position at the beginning of the year, before adoption on the new accounting standard described in Notes 1 and 9, was $1,946,508, restated to $2,027,853, and at the end of the year was $2,104,206 (including net investment in capital assets), resulting in an increase in net position of $157,698.

Capital Asset and Debt Administration

Capital Assets – During 2015, NECOG acquired new office equipment and made leasehold improvements totaling $39,256 in conjunction with moving to a new office location. During 2015, NECOG disposed of leasehold improvements with an unrecovered book cost of $1,871. During 2014, NECOG disposed of a fully depreciated vehicle, receiving proceeds in the amount of $3,264.

Debt Outstanding – NECOG had no debt outstanding in 2015 or 2014.

Financial Contact

If you have any questions about this report or need additional financial information, contact the Northeast Council of Governments Accountant at (605) 626-2595 or by writing to Northeast Council of Governments, 416 Production Street North, Suite 1, Aberdeen, SD 57401.

Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents	$ 136,998
Certificates of deposit	1,803,759
Accounts receivable	57,884
Grants receivable from other governments	6,250
Due from NECOG Development Corporation	9,256
Accrued interest receivable	9,095
Prepaid expenses	3,380
Total current assets	2,026,622
Noncurrent Assets	
Capital assets, at cost:	
Automobiles	41,020
Leasehold improvements	3,595
Office equipment	46,800
	91,415
Less accumulated depreciation	(40,273)
Total capital assets	51,142
Net Pension Asset	75,183
Total assets	2,152,947
Deferred Outflows of Resources	
Pension related deferred outflows	130,230
Total assets and deferred outflows of resources	$ 2,283,177

Liabilities, Deferred Inflows of Resources and Net Position	
Current Liabilities	
Accounts payable	$ 661
Accrued annual leave	23,095
Lease payable	3,158
Unearned revenue	39,516
Total current liabilities	66,430
Deferred Inflows of Resources	
Pension related deferred inflows	112,541
Net Position	
Net investment in capital assets	51,142
Net position - restricted for pension	92,872
Net position - unrestricted	1,960,192
Total net position	2,104,206
Total liabilities, deferred inflows of resources and net position	$ 2,283,177

Operating Revenues	
Contract revenues	$ 211,629
Federal grant and funding revenues	29,392
Local revenues and support	139,066
NECOG Development Corporation administrative fees	91,184
Other operating revenues	828
Total revenues	472,099
Operating Expenses	
Salaries	325,917
Payroll taxes	24,065
Employee benefits	43,533
Staff vehicle expense	3,817
Travel	6,554
Directors fees and travel	900
Insurance	6,449
Professional fees	13,376
Office rent	18,978
Equipment rentals	724
Office supplies	6,362
Maintenance contracts	3,000
Utilities and telecommunications	6,187
Memberships and conferences	5,260
Postage	2,523
Subscriptions and publications	2,827
Depreciation expense	15,309
Miscellaneous and other expenses	1,307
Total operating expenses	487,088
Operating Loss	(14,989)
Nonoperating Revenue (Expense)	
Grant income	70,338
Interest income	23,983
Loss on disposal of fixed assets	(1,871)
Local match expense on grants	(1,108)
Total nonoperating revenue (expense)	91,342
Changes in Net Position	76,353
Net Position, Beginning, as Previously Stated	1,946,508
Adoption of New Accounting Standard (See Note 9)	81,345
Net Position, Beginning, as Restated	2,027,853
Net Position, End of Year	$ 2,104,206

Cash Flows used for Operating Activities	
Receipts from customers	$ 305,299
Receipts from grants and federal funding	29,392
Receipts from local revenues and support	139,066
Payments to suppliers and others	(102,239)
Payments to employees	(373,281)
Other receipts	828
Net Cash used for Operating Activities	(935)
Cash Flows used for Noncapital Financing Activities	
Local match expense on grants	(1,108)
Nonoperating grants received	70,338
Net Cash from Noncapital Financing Activities	69,230
Cash Flows used for Capital and Related Financing Activities	
Purchase of fixed assets	(39,256)
Cash Flows from Investing Activities	
Purchase of certificates of deposit	(23,067)
Interest received	23,557
Net Cash from Investing Activities	490
Net Change in Cash and Cash Equivalents	29,529
Cash and Cash Equivalents - Beginning	107,469
Cash and Cash Equivalents - Ending	$ 136,998
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating loss	$ (14,989)
Adjustments to reconcile operating loss to:	
Depreciation	15,309
Change in assets and liabilities:	
Accounts receivable	16,109
Pension asset and deferred outflows/inflows	(11,528)
Due from NECOG Development Corporation	(1,383)
Prepaid expenses	169
Accounts payable	(79)
Accrued annual leave	7,697
Unearned revenue	(12,240)
Net Cash used for Operating Activities	$ (935)

See Notes to Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

The accounting policies of the Northeast Council of Governments (NECOG) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

The staff of NECOG provides technical and professional assistance to member units of government in writing grant proposals, comprehensive planning, analyzing local resources, and similar assistance. The financial statements presented in this report represent all the funds and fiscal activities under the control of the Board of Directors, through a five member Executive Board elected from the full board of NECOG. NECOG is governed by a board consisting of county commissioners, city officials, and private citizens. Control is determined by oversight, legal responsibilities, and financial accountability.

The accompanying financial statements have been prepared from records pertaining to and including all the funds, operations, activities, and financial affairs of NECOG.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized when incurred.

The accounts are organized on the basis of funds. During 2015, all activities were accounted for through the general fund; there were no separate special purpose funds in 2015. The operations of the general fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For 2015, NECOG's funds are grouped into one broad fund category and fund type as follows.

Proprietary Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The General Operating Fund was the only enterprise fund maintained by NECOG for 2015. It is the only major fund for financial reporting purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of NECOG's general fund are contract revenues from the administering of grant programs on the behalf of other governmental entities and annual dues received from its member cities and counties. Operating expenses for the fund includes all administrative costs of the entity and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is NECOG's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

For purpose of the statement of cash flows, NECOG considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents; all cash accounts and unrestricted temporary cash investments at the financial statement reporting date were considered to be cash equivalents in the accompanying statement of net position.

Accounts Receivable, Unearned Revenue and the Recognition of Revenue

Resources from grants are recorded as revenue, when the related costs are incurred using the percentage of completion method, measured by the ratio that costs incurred bears to total estimated costs. Adjustments to cost estimates are made periodically. If the funding received under a grant is less than the revenue earned, based on matching requirements and costs incurred, the revenue is accrued (recorded as revenue) and presented as an account receivable in the accompanying financial statements. If funding received under a grants exceeds the revenue earned, based on costs incurred, the revenue is deferred (not recognized as revenue until such time in the future when earned) and presented as unearned revenue in the accompanying financial statements.

Local funding provided by member counties and cities is recorded as revenues of the year to which the funding commitment is related. These revenues are applied as local funding match to individual grants on the basis of total expenditures of the grant in the cost sharing ratio specified in the grant agreement.

Federal funding is recorded as revenues by individual grant for the federal share of costs incurred to date determined by the cost-sharing ratio specified in the grant agreement or contract. If the funding received for a grant is less than the revenue earned, based on cost-sharing ratio, the revenue is accrued (the accrual is recorded as revenue) and presented as a receivable in the accompanying financial statements. If the funding received for a grant exceeds the revenue earned, based on cost-sharing ratio, the revenue is deferred (not recognized as revenue and deferred) and presented as unearned revenue in the accompanying financial statements.

Indirect Cost System

Indirect costs are applied or allocated to individual grants based upon a fixed ratio or percent of direct salaries, payroll taxes, and employee benefits charged to a grant. This rate is reviewed annually and revised as necessary in an attempt to minimize over- or under-applied indirect costs. The resulting over- or under-applied indirect costs for year-end are charged or credited, as appropriate, are carried forward to the next year's indirect cost allocation.

The indirect costs system has previously been approved by the U.S. Department of Commerce, Economic Development Administration and is operated in accordance with guidelines established by Office of Management and Budget 2 CFR, Part 225, Cost Principles for State, Local Governments, and Indian Tribal Governments. The indirect cost rate for 2015 was 37% of direct salaries, payroll taxes, and employee benefits.

Capital Assets and Depreciation

Capital assets include vehicles, leasehold improvements, office and computer equipment, and software and are recorded at cost and depreciated over their estimated useful lives. NECOG uses a capital asset capitalization policy of $5,000; items costing less than this amount (individually) are charged as expense to current year operations, as expendable equipment or supplies. Major renewals and betterments are capitalized in the capital asset accounts and depreciated; while replacements, maintenance, and repairs, which do not improve or extend the lives of respective assets, are charged to current year operations as repairs and maintenance expense. Depreciation is computed on the straight-line method using estimated useful lives of three to five years.

Accrued Annual Leave and Employee Benefits

The cost of compensated leave and employee benefits are accrued as they are vested to the employee.

Self-Insurance – Unemployment Benefits

NECOG is under the self-insurance method for paying unemployment claims. Under this method, NECOG pays unemployment benefit claims to the State system as they are billed rather than contributing to the State system. Costs resulting from claims are charged to income as expenses when incurred. There were no unemployment benefit costs during 2015.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Pensions

For purposes of measuring the net pension asset, deferred outflows/inflows of resources, and pension expense/(revenue) information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of New Accounting Standard - GASB Statement No. 68 and GASB Statement No. 71

As of January 1, 2015, NECOG adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension asset/liability, deferred outflows of resources, deferred inflows of resources, and pension revenue/expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 9 and the additional disclosures required by these standards are included in Note 8.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. NECOG has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension asset/liability not included in pension expense reported in the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. NECOG has one type of item that qualifies for reporting in this category. This item is the change in the net pension asset/liability not included in pension expense reported in the statement of net position.

Note 2 - Deposits and Investments

NECOG's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are required by SDCL 4-6A to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

NECOG maintains its cash balances, savings accounts, and certificates of deposit at financial institutions in the general local area. The cash balances are held in institutions insured by the FDIC or NCUA. All cash balances, including interest earned, where applicable, have market values at December 31, 2015 that are substantially the same as the carrying value in the accompanying financial statements. Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk Deposits: The risk that, in the event of a bank failure, NECOG's deposits may not be returned. NECOG does not have a formal deposit policy for the custodial credit risk, but maintains its cash accounts in several commercial bank deposit accounts to help lower this risk. NECOG believes it is not exposed to any significant credit risk on cash and cash equivalents and NECOG has not experienced any losses on such accounts.

NECOG maintains some of its cash deposits in Farmers State Bank of Turton which is an undercollaterallized bank, however, the deposits held with this financial institution at December 31, 2015 are within the FDIC insured limit of $250,000.

The actual bank balances of NECOG were as follows:

	Bank Balance
Insured (FDIC)	$ 1,956,119
Uninsured	-
Total deposits	$ 1,956,119
NECOG's carrying amount of deposits at December 31	$ 1,940,757

Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

	Balance 01/01/15	Additions	Disposals	Balance 12/31/15
Cost				
Automobiles	$ 41,020	$ -	$ -	$ 41,020
Leasehold improvements	36,787	3,595	36,787	3,595
Office equipment	31,624	35,661	20,485	46,800
	$ 109,431	$ 39,256	$ 57,272	$ 91,415
Accumulated Depreciation				
Automobiles	$ 15,697	$ 8,204	$ -	$ 23,901
Leasehold improvements	33,043	2,350	34,916	477
Office equipment	31,625	4,755	20,485	15,895
	$ 80,365	$ 15,309	$ 55,401	$ 40,273

The provision reported above of $15,309 is the depreciation expense charged to current year operations.

Note 4 - Operating Lease

NECOG leases its office facilities. In 2015, NECOG entered into a lease agreement with Aberdeen Development Corporation to lease office space. The lease began on May 1, 2015 and ends on April 30, 2030 with an option to opt out of the lease after 10 years. The lease contains graduated payments over the lease term, so rent expense is amortized on a straight line basis over the noncancelable portion of the lease term. Differences between rent expense and the actual amounts paid will constitute a lease payable or a prepaid lease amount on the statement of net position. Total rent expense for the year ending December 31, 2015 was $18,978.

Future minimum noncancelable lease payments are as follows:

Years Ending December 31,		Amount
2016	$	15,868
2017		17,004
2018		17,004
2019		17,004
2020		19,268
2021-2025		88,400

Note 5 - Related Party Transactions

In January 1995, NECOG spun off the Revolving Loan Fund, forming a new separate corporation, under Internal Revenue Code Section 501 (c)(3). The new corporation is NECOG Development Corporation (Development Corporation) and it issues its own separate annual financial report.

NECOG charges an administrative fee for the services it provides and expenses incurred for the Development Corporation. NECOG shares its offices with the Development Corporation; however, the Development Corporation is not a component unit of NECOG.

NECOG provides services and office space to the Development Corporation. During the year 2015, NECOG charged the Development Corporation administrative fees totaling $91,184. NECOG also had a receivable from the Development Corporation totaling $9,256 as of December 31, 2015.

Note 6 - Risk Management

Liability and casualty insurance are carried for risks of loss related to torts, theft, or damage to property; and errors and omissions of public officials through a commercial insurance carrier. All employees of NECOG are also covered by workers compensation insurance. NECOG reviews insurance coverage annually to determine if any additions or revisions need to be made for future years.

Note 7 - Concentration

NECOG receives a substantial amount of its revenues or support from federal, state, and local governments. A reduction in the level of funding or this support, if it were to occur, may have a significant negative impact on NECOG's operations and activities.

Note 8 - Retirement Plan

Employees of NECOG participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications/ or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more — 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
    - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
    - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statue to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. NECOG's share of contributions made to the SDRS for the years ended December 31, 2015, 2014 and 2013 were $19,264, $18,797, and $17,754, respectively, equal to the required contributions each year.

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for NECOG as of this measurement period and reported by NECOG as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	$ 1,910,291
Less proportionate share of total pension liability	1,835,109
Proportionate share of net pension asset	$ 75,183

At December 31, 2015, NECOG reported an asset of $75,183 for its proportionate share of the net pension asset.The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of NECOG's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, NECOG's proportion was 0.0177%.

For the year ended December 31, 2015, NECOG recognized pension expense of $7,737, which has been reduced by $11,527 in pension revenue related to GASB 68 adjustments. At December 31, 2015, NECOG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 15,393	$ -
Changes in assumption	59,615	-
Net difference between projected and actual earnings on pension plan investments	45,928	110,933
Changes in proportion and difference between the NECOG contributions and proportionate share of contributions	-	1,608
NECOG contributions subsequent to the measurement date	9,294	-
	$ 130,230	$ 112,541

There is $9,294 reported as deferred outflow of resources related to pensions resulting from NECOG contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	Amount
2016	$ 3,096
2017	3,096
2018	(10,050)
2019	12,253
	$ 8,395

Actuarial Assumptions

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate

The following presents NECOG's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what NECOG's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
NECOG's proportionate share of the net pension asset (liability)	$ (189,234)	$ 75,183	$ 290,792

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

Note 9 - Adoption of New Accounting Standard

As of January 1, 2015, NECOG adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension asset, deferred outflows of resources, and deferred inflows of resources as follows:

Net position at December 31, 2014, as previously stated	$ 1,946,508
Net pension asset at December 31, 2014	124,129
Deferred outflows of resources at December 31, 2014	91,531
Deferred inflows of resources at December 31, 2014	(143,762)
Deferred outflows of resources related to contributions made during the six months ended December 31, 2014	9,447
Net position at January 1, 2015, as restated	$ 2,027,853

Required Supplementary Information
December 31, 2015

Northeast Council of Governments

Pension Plan	Fiscal Year Ending *	NECOG's Proportion of the Net Pension Asset	NECOG's Proportionate Share of the Net Pension Asset (a)	NECOG's Employer's Covered-Employee Payroll (b)	NECOG's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2015	0.0177%	$ (75,183)	$ 323,626	-23.2%	104.1%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30.

Pension Plan	NECOG Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
SDRS	12/31/2015	$ 19,264	$ 19,264	$ -	$ 321,067	6.0%

Notes to Required Supplementary Information

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Northeast Council of Governments
Aberdeen, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Council of Governments (NECOG) which comprise the statement of financial position as of December 31, 2015, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2016.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying auditor's comments we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying auditor's comments, item 2015-A, to be a material weakness.

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. We consider the deficiencies described in the accompany auditor's comments, item 2015-B and 2015-C, to be significant deficiencies.

www.eidebailly.com
24 2nd Ave. S.W. | P.O. Box 430 | Aberdeen, SD 57402-0430 | T 605.225.8783 | F 605.225.0508 | EOE

Compliance and Other Matters
As part of obtaining reasonable assurance about whether NECOG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NECOG's Response to Findings
NECOG's response to the finding identified in our audit is described in the accompanying auditor's comments. NECOG's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Aberdeen, South Dakota
April 28, 2016

Prior Audit Findings

Finding 2014-A Preparation of Financial Statements, Footnotes and Journal Entries

Current Status: This finding has not been resolved as of December 31, 2015 and is restated as current year finding 2015-A.

Finding 2014-B Lack of Segregation of Duties

Current Status: This finding has not been resolved as of December 31, 2015 and is restated as current year finding 2015-B.

Finding 2014-C Information Technology Controls

Current Status: This finding has not been resolved as of December 31, 2015 and is restated as current year finding 2015-C.

Current Audit Findings and Recommendations

Finding 2015-A Preparation of Financial Statements, Footnotes, Proposed Journal Entries Including Restatement

Material Weakness

Condition: Northeast Council of Governments does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, NECOG requested the external auditors to prepare the financial statements, related footnotes and disclosures for the year ended December 31, 2015. As a part of the financial statement preparation process, the auditors proposed material audit adjustments including restatement of beginning net position that were not identified as a result of NECOG's existing internal controls and; therefore, could result in a misstatement of NECOG's financial statements.

Criteria: NECOG's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited, in accordance with generally accepted accounting principles.

Cause: NECOG does not have adequate staff trained to prepare financial statements and the related footnotes in accordance with generally accepted accounting principles, which could cause the need for auditors to, at times, propose material journal entries.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by NECOG personnel. This condition may affect NECOG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed, especially for transaction types infrequent in occurrence.

Management Response: Management and the Board of Directors will review for propriety the draft financial statements and footnotes prepared by the auditor and review all recommended audit adjusting entries proposed by the auditor. Due to NECOG's size, we will accept the risk associated with this condition based on cost and other considerations.

Explanation of Disagreement: No disagreement noted

Official Responsible for Ensuring Corrective Action Plan: Eric Senger, Executive Director

Planned Completion for Correction Action: Ongoing

Plan to Monitor Completion of Corrective Action: Ongoing

Finding 2015-B Lack of Segregation of Duties

Significant Deficiency

Condition: Northeast Council of Governments's expenditure process has a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The same individual who records expenditures into the accounting system also receives signed checks for mailing payments to vendors. These functions should be performed by two different individuals.

Effect: This condition increases the risk that fraud could occur in the financial reporting process.

Recommendation: We recommend that a person separate from the accounting function mail payments to vendors to mitigate this fraud risk.

Management Response: Management and the Board of Directors will discuss and consider whether duties can be reassigned to alleviate the lack of segregation of duties. In the meantime, management will continue to provide oversight and review of financial transactions to mitigate the risk associated with this condition as much as possible.

Explanation of Disagreement: No disagreement noted

Official Responsible for Ensuring Corrective Action Plan: Eric Senger, Executive Director

Planned Completion for Correction Action: December 31, 2016

Plan to Monitor Completion of Corrective Action: Ongoing

Finding 2015-C Information Technology Controls

Significant Deficiency

Condition: NECOG has not implemented certain information technology controls such as login passwords and offsite back-up procedures, which are designed to protect computers, data files and accounting software systems from unauthorized access or data loss.

Criteria: An organization's internal control structure over information technology should provide for the proper back-up of financial statement information, as well as restrict authorized access to computers and software applications.

Cause: NECOG has not prioritized the need for certain information technology controls such as login passwords and offsite backups.

Effect: The lack of controls in regards to passwords could cause NECOG to be vulnerable to unauthorized access of important files and financial statement information which could result in misstatements and improper recording of financial information. The lack of an offsite back-up of financial information could cause NECOG to be vulnerable to the loss of key financial information in the event of physical disaster.

Recommendation: We would recommend that NECOG implement logical access controls such as passwords on employee computers and additional password access to the accounting software to ensure proper authorization as well as protect financial statement information. We also recommend the implementation of an offsite back-up system to help protect from the loss of key financial information.

Management Response: Management and the Board of Directors will discuss and consider implementing certain best practice information technology controls, such as logical access passwords and offsite backups. In the meantime, management will continue to review of financial transactions to mitigate the risk associated with lack of passwords.

Explanation of Disagreement: No disagreement noted

Official Responsible for Ensuring Corrective Action Plan: Eric Senger, Executive Director

Planned Completion for Correction Action: December 31, 2016

Plan to Monitor Completion of Corrective Action: Ongoing