Financial Statements
December 31, 2017

Northeast Council of Governments

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, 2017, 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.

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, 2017, 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.

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 30, 2018, 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 30, 2018

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, 2017. 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:

	2017	2016
Assets		
Cash and cash equivalents	$ 131,938	$ 199,211
Certificates of deposit	1,984,979	1,830,054
Accounts receivable	67,990	73,774
Due from NECOG Development Corporation	9,604	8,327
Accrued interest receivable	12,332	10,695
Prepaid expenses	2,693	3,266
Total current assets	2,209,536	2,125,327
Net pension asset	1,496	-
Capital assets, net of accumulated depreciation	19,031	35,086
Deferred Outflows of Resources		
Pension related deferred outflows	153,716	130,493
	$ 2,383,779	$ 2,290,906
Liabilities		
Accounts payable	$ 1,961	$ 715
Accrued annual leave	27,734	25,362
Lease payable	6,952	5,623
Unearned revenue	47,195	55,934
Total current liabilities	83,842	87,634
Net pension liability	-	57,140
Deferred Inflows of Resources		
Pension related deferred inflows	29,438	1,140
Net Position		
Net investment in capital assets	19,031	35,086
Net position - restricted for pension	125,774	72,213
Net position - unrestricted	2,125,694	2,037,693
Total net position	2,270,499	2,144,992
	$ 2,383,779	$ 2,290,906

Major Factors Affecting the Statement of Net Position

Total assets and deferred outflows of resources increased by $92,873. This increase is primarily due to an increase in certificates of deposit. Accounts receivable decreased by $5,784 due to an increase of contract revenue collections in 2017. Due to SDRS being fully funded as of the last plan year ended June 30, 2017, the net pension asset increased by $1,496.

As of the plan year end of June 30, 2017, SDRS was funded at 100.1% causing a decrease in the net pension liability by $57,140. Pension related deferred outflows and inflows increased in 2017 due to differences between expected and actual experience, changes in plan assumptions, difference between projected and actual earnings on pension plan investments, changes in proportionate between NECOG contributions and proportionate share of contributions, and contributions subsequent to the measurement date.

Total liabilities and deferred inflows of resources decreased by $32,634. Pension related deferred inflows related to GASB No. 68 and 71 increased by $28,298 and was an offsetting factor of the overall decrease in total liabilities and deferred inflows in 2017, which the main reason for the overall decrease is from the net decrease in the pension liability noted above. A decrease in unearned revenue was recognized in 2017 related to the timing of contract revenue collection and closing of contracts for projects started in prior years.

Total net position increased by $125,507 from the results of operations for year ended December 31, 2017.

Statement of Revenues, Expenses and Changes in Net Position

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

Statement of Activities

	2017	2016	% Change
Revenues			
Federal grants and funding revenues	$ 115,082	$ 146,542	-21%
Contract revenues	196,341	166,061	18%
Local revenues	143,699	141,367	2%
NECOG Development Corporation administrative fees	105,748	104,216	1%
Interest income	29,584	25,434	16%
Other operating revenues	-	131	-100%
Total revenues	590,454	583,751	1%
Expenses			
Salaries	342,560	330,304	4%
Payroll taxes and benefits	87,221	80,661	8%
GASB pension (revenue) expense adjustments	(53,561)	20,659	-359%
Staff travel	9,679	9,733	-1%
Directors fees and travel	1,572	1,283	23%
Insurance	6,840	6,707	2%
Professional fees	11,539	35,333	-67%
Office rent	18,333	18,333	0%
Equipment rental and maintenance contracts	3,717	3,717	0%
Expendable equipment purchases	6,001	4,081	47%
Utilities and telecommunications	4,977	4,829	3%
Membership and conference registration	6,126	5,878	4%
Office expenses	3,841	4,772	-20%
Depreciation expense	16,055	16,055	0%
Local match expense on grants	-	441	-100%
Miscellaneous expense	47	179	-74%
Total expenses	464,947	542,965	-14%
Changes in Net Position	125,507	40,786	208%
Net Position - Beginning	2,144,992	2,104,206	
Net Position - Ending	$ 2,270,499	$ 2,144,992	

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

Contract revenue increased $30,280 (18%), largely due to increased project administration workload. Federal grants and funding revenue decreased $31,460 (-21%) due in large part to the loss of a USDA Rural Development Cooperative and Admin Grant Agreement in the current year. Total expenses decreased $78,018, due to a decrease in professional fees of $23,794 related to the loss of the USDA Rural Development Cooperative and Admin Grant Agreement, and a $74,220 decrease in expenses from last year due to the changes related to adjustments for GASB Statements No. 68 and 71 accounting for pensions.

Net position at the beginning of the year, was $2,144,992 and at the end of the year was $2,270,499 (including net investment in capital assets), resulting in an increase in net position of $125,507.

Capital Asset and Debt Administration

Capital Assets – During 2017 and 2016, NECOG did not acquire or dispose any capital assets.

Debt Outstanding – NECOG had no debt outstanding in 2017 or 2016.

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	$ 131,938
Certificates of deposit	1,984,979
Accounts receivable	67,990
Due from NECOG Development Corporation	9,604
Accrued interest receivable	12,332
Prepaid expenses	2,693
Total current assets	2,209,536
Noncurrent Assets	
Capital assets, at cost:	
Automobiles	41,020
Leasehold improvements	3,595
Office equipment	46,800
	91,415
Less accumulated depreciation	(72,384)
Total capital assets	19,031
Net Pension Asset	1,496
Total assets	2,230,063
Deferred Outflows of Resources	
Pension related deferred outflows	153,716
Total assets and deferred outflows of resources	$ 2,383,779

Liabilities, Deferred Inflows of Resources and Net Position	
Current Liabilities	
Accounts payable	$ 1,961
Accrued annual leave	27,734
Lease payable	6,952
Unearned revenue	47,195
Total current liabilities	83,842
Total liabilities	83,842
Deferred Inflows of Resources	
Pension related deferred inflows	29,438
Net Position	
Net investment in capital assets	19,031
Net position - restricted for pension	125,774
Net position - unrestricted	2,125,694
Total net position	2,270,499
Total liabilities, deferred inflows of resources and net position	$ 2,383,779

Operating Revenues	
Contract revenues	$ 196,341
Federal grant and funding revenues	31,007
Local revenues and support	143,699
NECOG Development Corporation administrative fees	105,748
Total revenues	476,795
Operating Expenses	
Salaries	342,560
Payroll taxes	25,440
Employee benefits	61,781
GASB pension (revenue) expense adjustments	(53,561)
Staff vehicle expense	3,388
Travel	6,291
Directors fees and travel	1,572
Insurance	6,840
Professional fees	11,539
Office rent	18,333
Equipment rentals	717
Office supplies	6,001
Maintenance contracts	3,000
Utilities and telecommunications	4,977
Memberships and conferences	6,126
Postage	1,500
Subscriptions and publications	2,341
Depreciation expense	16,055
Miscellaneous and other expenses	47
Total operating expenses	464,947
Operating Income	11,848
Nonoperating Revenue	
Grant income	84,075
Interest income	29,584
Total nonoperating revenue	113,659
Changes in Net Position	125,507
Net Position, Beginning	2,144,992
Net Position, End of Year	$ 2,270,499

Cash Flows used for Operating Activities		
Receipts from customers	$	297,857
Receipts from grants and federal funding		31,007
Receipts from local revenues and support		143,699
Payments to suppliers and others		(96,293)
Payments to employees		(400,640)
Net Cash used for Operating Activities		(24,370)
Cash Flows from Noncapital Financing Activities		
Nonoperating grants received		84,075
Net Cash from Noncapital Financing Activities		84,075
Cash Flows used for Investing Activities		
Purchase of certificates of deposit		(995,261)
Maturities of certificates of deposit		840,336
Interest received		27,947
Net Cash used for Investing Activities		(126,978)
Net Change in Cash and Cash Equivalents		(67,273)
Cash and Cash Equivalents - Beginning		199,211
Cash and Cash Equivalents - Ending	$	131,938
Reconciliation of Operating Income to Net Cash used for Operating Activities		
Operating income	$	11,848
Adjustments to reconcile operating income to:		
Depreciation		16,055
Change in assets and liabilities:		
Accounts receivable		5,784
Pension liability/asset and deferred outflows/inflows		(53,561)
Due from NECOG Development Corporation		(1,277)
Prepaid expenses		573
Accounts payable		1,246
Accrued leave and lease payable		3,701
Unearned revenue		(8,739)
Net Cash used for Operating Activities	$	(24,370)

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 2017, all activities were accounted for through the general fund; there were no separate special purpose funds in 2017. 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 2017, 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 2017. 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.

Certificates of Deposit

Certificates of deposit recorded in the financial statements represent non-negotiable time deposits held with local financial institutions and are carried at cost plus accrued interest.

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, and 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 2017 was 36% 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 2017.

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 liability (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.

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.

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.

As of December 31, 2017, NECOG did not have any investments as all deposits were either in checking, savings, or certificate of deposit accounts.

The actual bank balances of NECOG were as follows:

	Bank Balance
Insured (FDIC)	$ 2,130,600
Uninsured	906
Total deposits	$ 2,131,506
NECOG's carrying amount of deposits at December 31	$ 2,116,917

Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

	Balance 1/1/2017	Additions	Disposals	Balance 12/31/2017
Cost				
Automobiles	$ 41,020	$ -	$ -	$ 41,020
Leasehold improvements	3,595	-	-	3,595
Office equipment	46,800	-	-	46,800
	$ 91,415	$ -	$ -	$ 91,415
Accumulated Depreciation				
Automobiles	$ 31,034	$ 7,132	$ -	$ 38,166
Leasehold improvements	1,196	719	-	1,915
Office equipment	24,099	8,204	-	32,303
	$ 56,329	$ 16,055	$ -	$ 72,384

The provision reported above of $16,055 is the depreciation expense charged to current year operations.

NECOG reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2017.

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, 2017 was $18,333.

Future minimum noncancelable lease payments are as follows:

Years Ending December 31,	Amount
2018	$ 17,004
2019	17,004
2020	19,268
2021	20,400
2022	20,400
2023-2025	47,600

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 2017, NECOG charged the Development Corporation administrative fees totaling $105,748. NECOG also had a receivable from the Development Corporation totaling $9,604 as of December 31, 2017.

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

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS 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.aspx 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 are 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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets if greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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, 2017, 2016 and 2015 were $20,554, $19,818, and $19,264, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2017, SDRS is 100.1% 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 the measurement period ending June 30, 2017 and reported by NECOG as of December 31, 2017 are as follows:

Proportionate share of pension liability	$ 1,918,163
Less proportionate share of net position restricted for pension benefits	1,919,659
Proportionate share of net pension liability (asset)	$ (1,496)

At December 31, 2017, NECOG reported an asset of $1,496 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (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, 2017, NECOG's proportion was 0.0165%, which is a decrease of 0.00043% from its proportion measured at June 30, 2016.

For the year ended December 31, 2017, NECOG recognized a net pension revenue of $33,007 (pension revenue adjustment of $53,561 offset by pension contributions of $20,554). At December 31, 2017, 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	$ 23,972	$ -
Changes in assumption	116,166	-
Net difference between projected and actual earnings on pension plan investments	-	28,765
Changes in proportion and difference between the NECOG contributions and proportionate share of contributions	3,310	673
NECOG contributions subsequent to the measurement date	10,268	-
	$ 153,716	$ 29,438

There is $10,268 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, 2018. 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
2017	$ 30,975
2018	51,739
2019	37,970
2020	(6,674)
	$ 114,010

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.0%
Investment rate of return	6.50%, net of pension plan investment expenses

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Mortality Table, projected generationally with Scale MP-2016.

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, 2017 (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	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. 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 liability (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents NECOG's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what NECOG's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
NECOG's proportionate share of the net pension liability (asset)	$ 274,018	$ (1,496)	$ (225,854)

Pension Plan Fiduciary Net Position

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

Required Supplementary Information
December 31, 2017

Northeast Council of Governments

Pension Plan	Fiscal Year Ending	NECOG's Proportion of the Net Pension Liability (Asset)	NECOG's Proportionate Share of the Net Pension Liability (Asset) (a)	NECOG's Employer's Covered-Employee Payroll (b)	NECOG's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2017	0.0165%	$ (1,496)	$ 334,964	-0.4%	100.1%
SDRS	6/30/2016	0.0169%	57,140	321,656	17.8%	96.9%
SDRS	6/30/2015	0.0177%	(75,183)	328,481	-22.9%	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.

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, NECOG will present information for those years for which information is available.

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	12/31/2017	$ 20,554	$ 20,554	$ -	$ 342,560	6%
SDRS	12/31/2016	19,818	19,818	-	330,304	6%
SDRS	12/31/2015	19,264	19,264	-	325,917	6%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, NECOG will present information for those years for which information is available.

Notes to Required Supplementary Information

Changes of Benefit Terms:

No changes to benefit terms were changed from those used in the June 30, 2017 actuarial valuation.

Changes of Assumptions:

No actuarial assumptions were changed from those used in the June 30, 2017 actuarial valuation.

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, 2017, 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 30, 2018.

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 2017-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 deficiency described in the accompanying auditor's comments, item 2017-B, to be a significant deficiency.

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 findings 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 30, 2018

Prior Audit Findings

Finding 2016-A Preparation of Financial Statements, Footnotes, and Proposed Journal Entries

Current Status: This finding has not been resolved as of December 31, 2017 and is restated as current year finding 2017-A.

Finding 2016-B Lack of Segregation of Duties

Current Status: This finding has been resolved as of December 31, 2017.

Finding 2016-C Information Technology Controls

Current Status: This finding has not been resolved as of December 31, 2017 and is restated as current year finding 2017-B.

Current Audit Findings and Recommendations

Finding 2017-A Preparation of Financial Statements, Footnotes, and Proposed Journal Entries

Material Weakness

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.

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, 2017. As a part of the financial statement preparation process, the auditors proposed material audit adjustments 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.

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 Corrective Action: Ongoing

Plan to Monitor Completion of Corrective Action: Ongoing

Finding 2017-B Information Technology Controls

Significant Deficiency

Criteria: An organization's internal control structure over information technology should restrict unauthorized access to computers.

Condition: NECOG has not implemented the information technology control of login passwords which is designed to protect computers, data files and accounting software systems from unauthorized access.

Cause: NECOG has not prioritized the need for login passwords on individual computers.

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.

Recommendation: We would recommend that NECOG implement logical access controls such as passwords on employee computers to ensure proper authorization as well as protect financial statement 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 for all employee computers. NECOG has password access controls for primary agency financial functions. Management will continue to review financial transactions and other authorizations 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 Corrective Action: December 31, 2018

Plan to Monitor Completion of Corrective Action: Ongoing