

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2017

SOUTHEAST COUNCIL OF GOVERNMENTS

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of **South Eastern Council of Governments** (SECOG) as of and for the year ended December 31, 2017, and related notes to the financial statements, which collectively comprise SECOG's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

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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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of SECOG as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance 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 schedule of the proportionate share of net pension liability/(asset) and the schedule of contributions as listed in the table of contents, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SECOG's basic financial statements. The accompanying Schedule of Overhead, Salaries and Benefits Expense is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of overhead, salaries and benefits expense and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of overhead, salaries and benefits expense and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2018, on our consideration of SECOG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 SECOG's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
July 6, 2018

SOUTH EASTERN COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION
AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 647,323	\$ -	\$ 647,323
Receivables:			
Participating agencies - federal	17,601	-	17,601
Federal grants	12,500	-	12,500
Other grants and contracts receivable	201,259	-	201,259
Prepaid expenses	26,442	-	26,442
Deposits	8,159	-	8,159
Net pension asset	-	3,880	3,880
Capital assets:			
Capital assets not being depreciated	-	90,301	90,301
Capital assets being depreciated, net	-	226,110	226,110
Total capital assets	-	316,411	316,411
Total Assets	<u>913,284</u>	<u>320,291</u>	<u>1,233,575</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension related	-	388,766	388,766
Total assets and deferred outflows	<u>\$ 913,284</u>	<u>\$ 709,057</u>	
LIABILITIES			
Accounts payable	\$ 5,771	\$ -	5,771
Payable to participating agencies - federal	17,601	-	17,601
Amounts held for others	14,950	-	14,950
Tenant deposits	2,180	-	2,180
Unearned revenue:			
Members	34,181	-	34,181
Rent	4,430	-	4,430
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	-	24,127	24,127
Portion due or payable after one year:			
Accrued compensated absences	-	50,096	50,096
Total Liabilities	<u>79,113</u>	<u>74,223</u>	<u>153,336</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension related	-	80,114	80,114
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable - insurance deposit	8,159	(8,159)	-
Nonspendable - prepaid expenses	26,442	(26,442)	-
Assigned - building improvements	100,000	(100,000)	-
Unassigned	699,570	(699,570)	-
Total Fund Balances	<u>834,171</u>	<u>(834,171)</u>	<u>-</u>
Net Position:			
Investment in capital assets	-	316,411	316,411
Restricted for SDRS pension	-	312,532	312,532
Restricted for insurance deposit	-	8,159	8,159
Unrestricted	-	751,789	751,789
Total Net Position	<u>-</u>	<u>1,388,891</u>	<u>\$ 1,388,891</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 913,284</u>	<u>\$ 709,057</u>	

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017

Total fund balances for governmental fund	\$	834,171
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$	90,301
Building and improvements, net of \$269,805 accumulated depreciation		201,630
Equipment, net of \$60,501 accumulated depreciation		<u>24,480</u>
Total capital assets		316,411
Pension related deferred outflows are components of the net pension asset and therefore are not reported in the funds.		
		3,880
Pension related deferred outflows are components of the net pension asset and therefore are not reported in the funds.		
		388,766
Long-term liabilities applicable to governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year end are:		
Compensated absences	\$	<u>(74,223)</u>
Total long-term liabilities		(74,223)
Pension related deferred inflows are components of the net pension asset and therefore are not reported in the funds.		
		<u>(80,114)</u>
Total net position of governmental activities	\$	<u>1,388,891</u>

The accompanying notes are an integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES
AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2017

	General Fund	Reconciliation	Statement of Activities
EXPENDITURES/PROGRAM EXPENSES			
Planning:			
Salaries and fringe benefits	\$ 1,204,012	\$ 2,864	\$ 1,206,876
Building	37,174	-	37,174
Professional fees	10,503	-	10,503
Travel	11,581	-	11,581
Insurance	10,074	-	10,074
Supplies and materials	10,525	-	10,525
Dues, subscriptions and memberships	5,943	-	5,943
Postage and freight	3,229	-	3,229
Telecommunications	6,986	-	6,986
Auto	4,470	-	4,470
Copy machine	781	-	781
Computer expense	6,571	-	6,571
Advertising and public information	463	-	463
Office equipment	477	-	477
Professional development	1,873	-	1,873
Miscellaneous	44	-	44
Grants - donations	264,400	-	264,400
Participating agency grant pass through			
Federal grants	924,717	-	924,717
Depreciation	-	28,065	28,065
Capital outlay	13,670	(13,670)	-
 Total expenditures/program expenses	 2,517,493	 17,259	 2,534,752
PROGRAM REVENUES			
Charges for goods and services:			
Member dues	283,576	-	283,576
Other contract revenue	1,163,551	-	1,163,551
Operating grants and contracts:			
SECOG - federal	166,514	-	166,514
Participating agencies - federal	924,717	-	924,717
 Total program revenues	 2,538,358	 -	 2,538,358
GENERAL REVENUES			
Interest income	8,246	-	8,246
Rental income	55,631	-	55,631
Other general revenue	5,314	160,281	165,595
 Total general revenues	 69,191	 160,281	 229,472
 Change in fund balances/net position	 90,056	 143,022	 233,078
Fund balances/net position			
Beginning	744,115	411,698	1,155,813
Ending	 \$ 834,171	 \$ 554,720	 \$ 1,388,891

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Net change in fund balances - total governmental fund	\$ 90,056
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$28,065) exceeded capital outlay (\$13,670) in the current period.	(14,395)
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences.	(4,022)
Changes in the net pension asset and the pension related deferred inflows and outflows are direct components of pension liability and are not reflected in the governmental funds.	<u>161,439</u>
Change in net position of governmental activities	<u>\$ 233,078</u>

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Eastern Council of Governments (SECOG) conform to generally accepted accounting principles as applicable to governments.

Nature of Business

SECOG is a voluntary association of cities and counties within the six county South Eastern South Dakota Region. SECOG was established in 1972 to assist local governments in preparing and causing to be prepared general physical, economic and human resource comprehensive plans containing recommendations for the coordinated, unified, and orderly growth of the entire region. SECOG was established by Executive Order of the Governor #70-7 under the authority granted in Chapter 1-24 of the South Dakota Codified Laws as of 1967. The basic operations of SECOG are financed by federal grants, member dues and other grant and contract revenues.

Reporting Entity

SECOG's financial statements include the accounts of all SECOG operations. The criteria for including organizations within SECOG's reporting entity, as set forth by the Governmental Accounting Standards Board (GASB), primarily include the degree of oversight responsibility maintained by the Executive Board. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Members of SECOG are Counties and First Class Municipalities located within the following six county region in South Dakota: Clay, Lincoln, McCook, Minnehaha, Turner and Union.

According to the terms of the Joint Cooperative Agreement, the Executive Board, which is the policy making and oversight body for SECOG, is comprised of not more than twenty-one voting members and one non-voting member, who shall act as Chairman. The voting members consist of 12 Joint Cooperative Agreement Members including one from each County in the SECOG region, two members of the Sioux Falls City Council, the Mayors of Brandon, Harrisburg, Sioux Falls and Vermillion; eight Private Sector Representatives residing in the SECOG region; and one State Legislator from SECOG's six county region.

SECOG's financial statements do not include the operations of member governments and various local agencies for which grants and funding are issued by SECOG because none of the criteria for inclusion set forth by the GASB have been met.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

SECOG represents a special purpose organization engaged in a single governmental program that provides member local governments with assistance in planning the growth and expansion of infrastructure and economic and human resources. As such, SECOG presents combined fund financial statements and government-wide statements.

Government-wide Statements: The statement of net position and the statement of activities display information about the reporting entity as a whole. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position reports all financial and capital resources in a net position form. Net position is displayed in three components, as applicable, net investment in capital assets, restricted, and unrestricted.

The Statement of Activities presents the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. SECOG presently has no proprietary or fiduciary funds.

All of SECOG's activities are accounted for within the General Fund, which is a governmental fund type. The GASB sets forth minimum criteria for the determination of major funds. As all activities are accounted for within this fund, it is presented as a major governmental fund described as follows:

General Fund - the General Fund is the main operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when they occur; and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds and similar fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. A 60 day availability period is used for recognition of governmental fund revenues. The revenues which are accrued at December 31, 2017, consist primarily of grants receivable.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenue or deferred inflows of financial resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Capital Assets

Capital assets include land, buildings, vehicles and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment for capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

Purchased capital assets are valued at cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 1,000	Straight-line	15-40 yrs.
Machinery and equipment	\$ 1,000	Straight-line	2-5 yrs.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. No depreciation expense is recognized.

Capital assets acquired under a grant would revert back to the funding source if SECOG ceased to exist. The member jurisdictions shall be entitled to a prorated share of the value of any real or personal property of SECOG after payment of all outstanding obligations. The prorated share is based on the percentage of resources contributed by that jurisdiction in the past five years compared to the total contributed in the past five years by all the member public agencies entitled to a share of the remaining real or personal property.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences.

Long-term liabilities for the governmental fund are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures.

Compensated Absences

Regular, full-time employees accrue annual leave at a range of 3.375 hours to 6.375 hours per pay period, depending on length of service. The accrual is prorated for regular part-time employees. Employees may accumulate annual leave without limitation, provided that as of December 31 of each calendar year, the employee's maximum balance is not exceeded. The maximum balance is dependent upon length of service and hire date.

Sick leave is accrued by eligible employees at four hours per pay period for regular, full-time employees and is prorated for regular part-time employees. Sick leave is accrued proportionally. Sick leave may accrue without limit. In the event of resignation, retirement, layoff, or death, one-fourth of accumulated sick leave (up to 480 hours) will be paid to employees who have been employed with SECOG for at least seven years. The accumulated leave is paid at the rate of pay as of the employee's last day on the payroll.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. SECOG's contributions and net pension asset are recognized on an accrual basis of accounting.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than SECOG's taxpayers or citizenry, as a whole. Program revenues are classified as follows:

1. Charges for services – member dues – All member governments are required to pay dues to SECOG in order to be a part of the organization. Dues are determined by census results and are recognized as revenues in the period they are due.
2. Charges for services – other contract revenues – These are program specific revenues from other than federal, state and member sources.
3. Federal grants and contracts – These are program specific operating grants arising from mandatory and voluntary non-exchange transactions with other governments which fund SECOG's programs. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the providers have been met. Such revenue is subject to review by the funding agency. Minor adjustments may result in subsequent periods.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in three components

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Nonspendable”, “Restricted”, “Committed”, “Assigned”, and “Unassigned” components.

Application of Net Position

It is SECOG’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

In accordance with GASB, SECOG classifies governmental fund balances as follows:

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Executive Board.
5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

SECOG uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, SECOG would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. SECOG does not have a formal minimum fund balance policy.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Budgetary Comparison Schedules

SECOG is not legally required to adopt a budget for the General Fund; therefore, the budgetary comparison information is not presented as required supplementary information or as a basic financial statement.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - Deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Investments - In general, SDCL 4-5-6 permits funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, SECOG's deposits may not be returned to it. SECOG does not have a deposit policy for custodial credit risk. As of December 31, 2017, SECOG's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2017, SECOG had no investments.

Authorized Investments – SECOG has adopted an investment policy that allows investment of SECOG's funds only in checking accounts, savings accounts, certificates of deposit, and money market accounts with qualified FDIC and NCUA public depositories within the SECOG region.

Investment Interest Rate Risk, Credit Risk and Concentration of Credit Risk – SECOG's investment policy has limited investment of funds to deposits in insured financial institutions and is not exposed to these investment risks.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

Receivables are primarily due from various grants and programs. Management anticipates collecting the receivables from these programs, therefore, no allowance for doubtful accounts has been provided for these receivables.

Grants receivable consist of receivables for reimbursement of expenditures under various programs and grants. All amounts are expected to be collected within the next year. A summary of grants receivable as of December 31, 2017, is as follows:

Grants receivable – participating agencies:
Federal Highway (MPO) \$ 17,601

Grants receivable – SECOG:
Federal Highway (MPO) \$ 12,500

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of SECOG. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although SECOG expects such amounts, if any, to be immaterial.

4. LEASING ACTIVITIES

SECOG has entered into long-term lease agreements with four tenants for rental of office space. The leases have terms expiring or coming up for renewal at various times over the next three years. SECOG recognized \$55,631 in rental income under these leases during the year ended December 31, 2017.

The following is a schedule, by year, of the original minimum lease payments receivable for the tenants with long-term leases as of December 31, 2017:

<u>Year</u>	
2018	\$ 52,991
2019	55,705
2020	<u>6,113</u>
Total	<u>\$ 114,809</u>

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

5. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 90,301	\$ -	\$ -	\$ 90,301
Total capital assets not being depreciated	90,301	-	-	90,301
<i>Capital assets being depreciated:</i>				
Buildings and improvements	471,435	-	-	471,435
Equipment	83,102	13,670	(11,791)	84,981
Total capital assets being depreciated	554,537	13,670	(11,791)	556,416
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	249,721	20,084	-	269,805
Equipment	64,311	7,981	(11,791)	60,501
Total capital assets being depreciated	314,032	28,065	(11,791)	330,306
Total capital assets being depreciated, net	240,505	(14,395)	-	226,110
Governmental activities capital assets, net	\$ 330,806	\$ (14,395)	\$ -	\$ 316,411

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2017, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental activities:</i>					
Compensated absences	\$ 70,201	\$ 28,614	\$ (24,592)	\$ 74,223	\$ 24,127
Total	\$ 70,201	\$ 28,614	\$ (24,592)	\$ 74,223	\$ 24,127

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

7. RESTRICTED NET POSITION

As of December 31, 2017, net position restrictions as shown on the Statement of Net Position are for an insurance deposit in the amount of \$8,159, the access to which is controlled by the South Dakota Public Assurance Alliance, and net pension asset components in the amount of \$312,532, which recognizes SECOG's proportionate share of the restricted net pension asset resulting from their membership in the South Dakota Retirement System.

8. ALLOCATION OF FRINGE BENEFITS AND INDIRECT COSTS

SECOG's fringe benefits and indirect costs are based on actual expenditures determined in accordance with the guidelines established by the grantor agency and applicable cost principles. Fringe benefits are allocated to grants as a percentage of SECOG's salaries and wages. Indirect costs represent the administrative burden of SECOG, and are allocated as a percentage of direct salaries and fringe benefits.

The rate used for fringe benefits for the year ended December 31, 2017, was 42.39%. The indirect cost rate for the year ended December 31, 2017, was 18.46%.

SECOG's operations consist of general operations and participating agency grants that are accounted for within the general fund. The allocation of fringe benefits and indirect costs refers to allocations in connection with specific grants and contracts.

9. PENSION PLAN

Plan Information

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 provide 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 SDCL 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://sdrs.sd.gov/publications.aspx> or by writing to the SDRS , P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

9. PENSION PLAN, continued

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 percent prior to 2008 and 1.55 percent 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 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent 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

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 is 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.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

9. PENSION PLAN, continued

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 statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% 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 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. SECOG's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016 and 2015 was \$49,431, \$51,745 and \$45,342 respectively, equal to the required contributions each year.

Pension Liability (Assets), Pension Revenue and Expense, 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 South Dakota Retirement System, for SECOG as of June 30, 2017 are as follows:

Proportionate share of pension liability	\$4,975,134
Less proportionate share of net position restricted for pension benefits	<u>4,979,014</u>
Proportionate share of net pension liability/(asset)	<u>\$ (3,880)</u>

At December 31, 2017, SECOG reported an asset of \$3,880 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 SECOG's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, SECOG's proportion was 0.04276020%.

For the year ended December 31, 2017, SECOG recognized pension revenue of \$89,025. At December 31, 2017, SECOG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

9. PENSION PLAN, continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 62,177	\$ -
Changes in assumptions	301,299	-
Net difference between projected and actual earnings on pension plan investments	-	74,607
Changes in proportion and difference between SECOG's contributions and proportionate share of contributions	345	5,507
SECOG's contributions subsequent to the measurement date	<u>24,945</u>	<u>-</u>
Total	<u>\$ 388,766</u>	<u>\$ 80,114</u>

\$24,945 reported as deferred outflow of resources related to pensions resulting from SECOG's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/(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:

<u>Year Ended December 31</u>	
2018	\$ 76,924
2019	129,973
2020	95,188
2021	<u>(18,378)</u>
Total	<u>\$ 283,707</u>

Actuarial Assumptions

The total pension liability 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 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Investment Rate of Return	6.50 % net of pension plan investment expense

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

9. PENSION PLAN, continued

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 Retiree 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 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 weighing 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100%</u>	

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 plan member contributions will be made at the current contribution rate and that matching employer contributions 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).

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

9. PENSION PLAN, continued

Sensitivity of liability (asset) to changes in the discount rate

The following presents SECOG's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what SECOG's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
SECOG's proportionate share of the net pension liability/(asset)	\$ 710,719	\$ (3,880)	\$ (585,797)

Pension Plan Fiduciary Net Position

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

10. RISK MANAGEMENT

SECOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2017, SECOG managed its risks as follows:

Employee Health Insurance

SECOG purchases health insurance for its employees from a commercial carrier.

Liability and Property Insurance

SECOG is a member of the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2017

10. RISK MANAGEMENT, continued

Liability and Property Insurance, continued

SECOG's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against SECOG. SECOG pays an annual premium to the pool to provide coverage for general liability, property coverage, auto liability and damage, and errors and omissions of public officials. The agreement with the South Dakota Public Assurance Alliance provides that the liability coverage will be provided up to \$1,000,000. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. SECOG carries a \$500 deductible for the official liability coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. SECOG would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve based on years of membership. SECOG has reached the end of six full years of membership and is eligible to receive 100% of the amount allocated to the cumulative reserve.

As of December 31, 2017, SECOG has a vested balance in the cumulative reserve fund of \$8,159.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

SECOG is a member of the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. SECOG's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. SECOG pays an annual premium, to provide worker's compensation coverage to its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$1,675,000 per individual per incident.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2017

10. RISK MANAGEMENT, continued

Unemployment Benefits

SECOG provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION ASSET

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
SECOG's proportion of the net pension liability/(asset)	0.0397775%	0.0377751%	0.0409752%	0.0427602%
SECOG's proportionate share of net pension liability/(asset)	\$ (250,695)	\$ (160,215)	\$ 138,410	\$ (3,880)
SECOG's covered-employee payroll	\$ 608,500	\$ 689,656	\$ 779,145	\$ 868,794
SECOG's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	-41.20%	-23.23%	17.76%	-0.45%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	107.3%	104.1%	96.9%	100.1%

Note: 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 of previous fiscal year.

See Independent Auditor's Report

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 37,370	\$ 45,342	\$ 51,745	\$ 49,431
Contributions in relation to the contractually required contribution	<u>37,370</u>	<u>\$ 45,342</u>	<u>\$ 51,745</u>	<u>\$ 49,431</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SECOG's covered-employee payroll	\$ 622,833	\$ 755,703	\$ 798,166	\$ 823,843
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.48%	6.00%

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF OVERHEAD, SALARIES AND BENEFITS EXPENSE
YEAR ENDED DECEMBER 31, 2017

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Total salaries	\$ 784,881	\$ 76,936	\$ 861,817
Percent of total	<u>91.07%</u>	<u>8.93%</u>	
Fringe Benefits:			
Holiday, vacation, sick and administrative leave			\$ 104,350
Retirement expense			48,258
Social Security, Medicare and Unemployment			67,412
Dental, health and self funded deduction			<u>125,039</u>
Total fringe benefits before carry forward	\$ 314,245	\$ 30,814	345,059
Over (under) recovered fringe benefit costs for Year Ended 2017 (calculated below)	19,535	2,002	21,537
Carry Forward - over recovered from 2015 (from Audit Report)	<u>(88,438)</u>	<u>(31,234)</u>	<u>(119,672)</u>
Total Fringe Benefit Costs	<u>\$ 245,342</u>	<u>\$ 1,582</u>	<u>\$ 246,924</u>
Fringe Benefits Distribution:			
Salaries	\$ 784,881	\$ 79,936	\$ 864,817
Fringe Benefit Rate applied to 2017	<u>42.39%</u>	<u>42.39%</u>	
Fringe Benefit Costs Recovered	332,711	33,885	\$ 366,596
Actual Fringe Benefit Costs (based on Percent of Total Salaries)	<u>313,176</u>	<u>31,883</u>	<u>345,059</u>
Over (Under) Recovered Fringe Benefit Costs	<u>\$ 19,535</u>	<u>\$ 2,002</u>	<u>\$ 21,537</u>
Salaries	\$ 784,881	\$ 76,936	\$ 861,817
Benefits	<u>245,342</u>	<u>1,582</u>	<u>246,924</u>
Total salaries and benefits	<u>\$ 1,030,223</u>	<u>\$ 78,518</u>	<u>\$ 1,108,741</u>
Reimbursable Overhead:			
Accounting, legal and professional fees		8,428	
Advertising and public information		-	
Building expense		37,174	
Auto expense		4,470	
Computer hardware		1,168	
Computer software		5,133	
Copy machine		781	
Dues, subscriptions and memberships		5,304	
Equipment and facility maintenance		-	
Insurance		10,074	
Office furniture and equipment		477	
Postage and freight		3,229	
Professional development		1,873	
Staff travel		4,327	
Supplies and materials		9,013	
Telecommunications		5,631	
Miscellaneous		<u>44</u>	
Total indirect general and administrative expenses		97,126	
Depreciation		<u>28,065</u>	
Total indirect general and administrative expenses plus depreciation		<u>125,191</u>	
Total overhead before carry forward		203,709	
Over (under) recovered for Year Ended 2017		<u>(13,530)</u>	
Carry forward from 2015		<u>(116,788)</u>	
Total Indirect Costs		<u>\$ 73,391</u>	
Direct salaries	\$ 784,881		
Fringe benefits (based on % of total direct)	<u>245,342</u>		
Direct salaries and fringe	\$ 1,030,223		
Indirect Cost Rate applied to 2017	<u>18.46%</u>		
Indirect costs recovered		\$ 190,179	
Actual indirect costs		<u>203,709</u>	
Over (Under) Recovered Costs for 2017		<u>\$ (13,530)</u>	

See Independent Auditor's Report

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Contract/ Grant Number	Expenditures/Disbursements		
			SECOG	Passed Through to Subrecipients	Total
<u>U.S. Department of Transportation</u>					
Passed through the State of South Dakota Department of Transportation					
Highway Planning and Construction Cluster:					
Highway Planning and Construction (Federal Aid Highway Program) - (Note 2) 20.205					
Metropolitan Planning Organization - (Note 3)		311290	\$ 89,758	\$ 924,717	\$ 1,014,475
GPS/GIS Automated Mapping/Inventory		311295	4,784	-	4,784
Total			<u>94,542</u>	<u>924,717</u>	<u>1,019,259</u>
Total U.S. Department of Transportation			<u>94,542</u>	<u>924,717</u>	<u>1,019,259</u>
<u>U.S. Department of Commerce</u>					
Direct Funding					
Economic Development Support For Planning Organizations 11.302					
Economic Development Administration		ED16DEN3020041	<u>69,000</u>	-	<u>69,000</u>
Total U.S. Department of Commerce			<u>69,000</u>	-	<u>69,000</u>
<u>U.S. Department of Housing and Urban Development</u>					
Passed through the South Dakota Housing Development Authority					
Home Investment Partnerships Program	14.239	**	<u>2,972</u>	-	<u>2,972</u>
Total U.S. Department of Housing and Urban Development			<u>2,972</u>	-	<u>2,972</u>
Total Federal Funding			<u>\$ 166,514</u>	<u>\$ 924,717</u>	<u>\$ 1,091,231</u>

** Pass-through entity identifying number not available

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued
YEAR ENDED DECEMBER 31, 2017

- Note 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of SECOG and is presented on the full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. SECOG has elected not to use the 10 percent de minimis indirect cost rate as allowed by uniform guidance. Indirect costs are based on actual expenditures determined in accordance with the guidelines established by the grantor agency.
- Note 2: For the Metropolitan Planning Organization program, SECOG and participating agencies were reimbursed for eligible costs at the rate of 81.95%. Amounts reflected represent the 81.95% portion.
- Note 3: For the Metropolitan Planning Organization program, individual award amounts passed through to subrecipients, include the following:

City of Sioux Falls, South Dakota	\$ 842,446
Minnehaha County, South Dakota	63,841
Lincoln County, South Dakota	17,707
City of Harrisburg, South Dakota	<u>723</u>
	<u>\$ 924,717</u>

*Wahlenberg
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certified public accountants

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 Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, 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 the governmental activities and each major fund of South Eastern Council of Governments (SECOG) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise SECOG's basic financial statements, and have issued our report thereon dated July 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SECOG'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SECOG's internal control. Accordingly, we do not express an opinion on the effectiveness of SECOG's internal control.

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Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SECOG'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*.

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 report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
July 6, 2018

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

We have audited South Eastern Council of Governments' (SECOG) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SECOG's major federal program for the year ended December 31, 2017. SECOG's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for SECOG's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SECOG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of SECOG's compliance.

Opinion on Each Major Federal Program

In our opinion, SECOG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of SECOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SECOG's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SECOG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the *limited* purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
July 6, 2018

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017**

FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no prior findings reported.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior findings reported.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Numbers
20.205

Name of Federal Program or Cluster
Highway Planning and Construction (Federal Aid Highway Program)

Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS - continued
DECEMBER 31, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

There are no major federal award program findings reported.