Northeast Council of Governments
Financial Statements
December 31, 2025

Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks & Investments

Northeast Council of Governments
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December 31, 2025

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the financial Statements

Opinion

We have audited the financial statements of the business-type activities of Northeast Council of Governments as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Northeast Council of Governments' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeast Council of Governments as of December 31, 2025, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards),* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northeast Council of Governments and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter—Restatement

As discussed in Note 1 to the financial statements, the beginning net position (fund balance) has been restated to correct a misstatement related to the understatement of investments. In the prior period, investments were not reported at fair value as required by accounting

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principles generally accepted in the United States of America. Accordingly, beginning net position (fund balance) has been increased, and our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northeast Council of Governments' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northeast Council of Governments' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northeast Council of Governments' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of net pension liability (asset), and schedule of employer's contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 our report dated June 24, 2026, on our consideration of Northeast Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Northeast Council of Governments' 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' internal control over financial reporting and compliance.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants
Brookings, South Dakota

June 24, 2026

This section of the financial report represents management's discussion and analysis of the Northeast Council of Governments' (NECOG) financial performance during the year ended December 31, 2025. 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 and deferred outflows equal liabilities and deferred inflows 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.

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

	2025	2024
Assets		
Current assets	$ 3,504,665	$ 3,245,225
Net pension asset	1,273	609
Capital & right-of-use assets, net	86,792	8,570
Total assets	3,592,731	3,254,404
Deferred Outflows of Resources		
Pension related deferred outflows	119,716	105,151
	$ 3,712,447	$ 3,359,554
Liabilities		
Current liabilities	$ 153,611	$ 164,066
Other Liabilities	70,563	-
Deferred Inflows of Resources		
Pension related deferred inflows	67,534	76,415
Net Position		
Net investment in capital assets	(466)	1,770
Net position - restricted for pension	53,455	29,344
Net position - unrestricted	3,367,750	3,087,959
Total net position	3,420,739	3,119,072
	$ 3,712,447	$ 3,359,554

Major Factors Affecting the Statement of Net Position

Total assets and deferred outflows of resources increased by $352,893. This increase is primarily due to an increase in cash and cash equivalents, investments and in right of use assets (lease). There was also and increase in net pension assets and pension related deferred outflows.

As of the plan year-end of June 30, 2025, SDRS was funded at 100.10%, compared to 100.00% in the prior year, causing an increase in the net pension asset of $664. Pension related deferred outflows and inflows increased in 2025 due to differences between expected and actual experience, changes in plan assumptions, difference between projected and actual earnings on pension plan investments, changes in proportion between NECOG contributions and proportionate share of contributions, and contributions subsequent to the measurement date.

Total liabilities increased by $60,107. Lease payable of $70,563 was a contributing factor of the overall increase in total liabilities in 2025. Unearned revenue decreased $13,226 related to the timing and receipt of contract payments received on contract work performed.

Total net position increased by $301,667 from the results of operations for year ended December 31, 2025 and a correction in net position from a prior period.

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

	2025	2024	% Change
Revenues			
Contract revenues	$ 358,749	$ 315,099	14%
Federal grant and funding revenues	199,966	267,889	-25%
Local revenues and support	163,799	161,141	2%
NECOG Development Corporation administrative fees	122,117	74,203	65%
Interest income	123,216	121,294	2%
Other operating revenues	304	49	524%
Total revenues	968,151	939,674	3%
Expenses			
Salaries	453,566	442,715	2%
Payroll taxes and benefits	94,115	89,648	5%
GASB pension adjustments	(24,111)	16,662	-245%
Staff travel	8,113	5,776	40%
Directors fees and travel	1,406	654	115%
Insurance	7,791	7,698	1%
Professional fees	82,671	117,262	-29%
Equipment rental and maintenance contracts	5,155	4,349	19%
Office supplies	8,096	19,479	-58%
Utilities and telecommunications	4,461	4,464	0%
Memberships and conference registration	9,910	8,631	15%
Postage/subscriptions and publications	4,036	4,224	-4%
Depreciation and amortization	21,923	23,498	-7%
Miscellaneous	35	59	-41%
Total expenses	677,167	745,121	-9%
Changes in Net Position	290,984	194,552	50%
Net Position, Beginning, Restated	3,129,755	2,924,520	
Net Position, Ending	$ 3,420,739	$ 3,119,072	

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

Contract revenues increased $43,651 due to the completion of jobs started in the early 2020's. Total expenses decreased $67,954, after a negative GASB pension adjustment of 24,111.

Net position at the beginning of the year, was $3,119,072 and at the end of the year was $3,420,739 (including net investment in capital assets), resulting in an increase in net position of $301,667.

Capital Asset and Debt Administration

Capital Assets - During 2025 and 2024, NECOG did not acquire any new capital assets.

	12/31/2025	12/31/2024
Capital Assets		
Cost	$ 76,876	$ 76,876
Accumulated Depreciation	76,876	76,876
	$ -	$ -

Right of use assets increased from $8,570 at December 31, 2024 to $86,792 at December 31, 2025 due to the recognition of a new lease and the termination or remeasurement of a prior lease during the year.

Amortization expense related to right-of-use assets totaled $21,923 for the year ended December 31, 2025, consisting of $8,570 related to a prior lease through the date of its termination and $13,353 related to the current lease. As the prior lease is no longer outstanding at year-end, only the accumulated amortization related to the current lease is reflected in the table below.

	12/31/2025	12/31/2024
Right-of-Use Assets		
Cost	$ 100,145	$ 61,393
Accumulated Amortization	13,353	52,823
	$ 86,792	$ 8,570

Debt Outstanding - NECOG had no debt outstanding in 2025 or 2024, however NECOG leases its office facilities and has recorded the lease liability and corresponding right of use asset related to these transactions.

Long-term liabilities associated with this lease are $23,796 for 2026 until 2029 and $7,932 in 2030. Prior to exercising the lease extension, the lease liability as of December 31, 2024 was $6,800.

Currently Known Facts, Decisions or Conditions

There are no known facts, decisions or conditions that are expected to have a negative effect on our financial position.

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, South Dakota, 57401.

Northeast Council of Governments
Statement of Net Position
December 31, 2025

Assets and Deferred Outflows of Resources	
Current assets	
Cash and cash equivalents	$ 234,605
Certificates of deposit	3,093,168
Investments	12,173
Accounts receivable	142,757
Due from NECOG Development Corporation	18,723
Accrued interest receivable	633
Prepaid expenses	2,606
Total current assets	3,504,665
Noncurrent Assets	
Capital assets:	
Capital assets, at cost	76,876
Less accumulated depreciation	(76,876)
Total capital assets, net	-
Right of use asset (lease), net	86,792
Total noncurrent assets	86,792
Net pension asset	1,273
Total assets	3,592,731
Deferred Outflows of Resources	
Pension related deferred outflows	119,716
Total assets and deferred outflows of resources	$ 3,712,447
Liabilities, Deferred Inflows of Resources and Net Position	
Current liabilities	
Account payable	$ 3,079
Accrued annual leave	28,466
Lease payable, current	16,695
Unearned revenue	98,671
Assets held for others	6,699
Total current liabilities	153,611
Other Liabilities	
Lease payable, noncurrent	70,563
Total other liabilities	70,563
Total liabilities	224,174
Deferred Inflows of Resources	
Pension related deferred inflows	67,534
Net Position	
Net investment in capital assets	(466)
Net position - restricted for pension	53,455
Net position - unrestricted	3,367,750
Total net position	3,420,739
Total liabilities, deferred inflows of resources and net position	$ 3,712,447

Northeast Council of Governments
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2025

Operating Revenues		
Contract revenues	$	358,749
Federal grant and funding revenues		110,806
Local revenues and support		163,799
NECOG Development Corporation administrative fees		122,117
Other operating revenues		304
Total revenues		755,776
Operating Expenses		
Salaries		453,566
Payroll taxes		34,698
Employee benefits		59,417
GASB pension adjustments		(24,111)
Staff vehicle		3,552
Travel		4,561
Directors fees and travel		1,406
Insurance		7,791
Professional fees		82,671
Equipment rentals		780
Office supplies		8,096
Maintenance contracts		4,375
Utilities and telecommunications		4,461
Memberships and conferences		9,910
Postage		1,500
Subscriptions and publications		2,536
Depreciation and amortization		21,923
Miscellaneous and other		35
Total operating expenses		677,167
Operating Income		78,608
Nonoperating Revenue (Expense)		
Grant income		89,160
Interest income		126,685
Investment income		1,490
Interest Expense		(4,960)
Total nonoperating revenue		212,376
Changes in Net Position		290,984
Net Position, Beginning of Year, as previously reported		3,119,072
Error Correction		10,683
Net Position, Beginning of Year, as restated		3,129,755
Net Position, End of Year	$	3,420,739

Northeast Council of Governments
Statement of Cash Flows
Year Ended December 31, 2025

Cash Flows from Operating Activities		
Receipts from program revenues / charges for services	$	462,451
Receipts from grants and federal funding		110,806
Receipts from local revenues and support		163,799
Payments to suppliers and others		(130,058)
Payments to employees		(555,522)
Receipts from other sources		304
Net Cash Provided (Used) by Operating Activities		51,779
Cash Flows from Noncapital Financing Activites		
Receipts from noncapital grants		89,160
Net Cash Provided (Used) by Noncapital Financing Activites		89,160
Cash Flows from Capital and Related Financing Activities		
Principal paid on leasing activities		(19,687)
Interest paid on leasing activities		(4,960)
Net Cash Provided (Used) by Capital and Related Financing Activities		(24,647)
Cash Flows from Investing Activites		
Purchase of certificates of deposit		(2,056,748)
Maturities of certificates of deposit		1,956,648
Interest received		134,882
Net Cash Provided (Used) by Investing Activities		34,783
Net Increase (Decrease) in Cash and Cash Equivalents		151,075
Cash and Cash Equivalents - Beginning		83,530
Cash and Cash Equivalents - Ending	$	234,605
Reconciliation of Operating Income (Loss) to		
Net Cash Provided (Used) by Operating Activities		
Operating income	$	78,608
Adjustments to reconcile operating income (loss) to		
net cash provided (used) by operating activities:		
Depreciation and Amortization		21,923
Changes in assets and liabilities:		
Accounts Receivable		5,216
Prepaid expenses		900
Pension liability/asset and deferred outflows/inflows		(24,111)
Due from NECOG Development Corporation		(10,406)
Accounts payable		1,117
Assets held for others		(402)
Accrued annual leave		(7,841)
Unearned revenue		(13,226)
Net Cash provided (used) by Operating Activities	$	51,779
Noncash Investing, capital and financing activites:		
Noncash leasing activity: recognition of right-of-use asset and lease liability		100,145

See Notes to Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

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

Reporting Entity

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

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

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

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting.

NECOG uses an enterprise fund to account for activities such as the administration of grant programs, where revenues are generated from fees charged to other governmental entities. The use of this fund allows NECOG to maintain clear financial reporting for these self-sustaining services, ensuring that revenues are matched with related costs.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private sector businesses. In an enterprise fund, the entity charges fees for services provided to the public or other governments. The goal is that the costs (including depreciation) of providing goods or services are covered primarily by user fees or charges. Under the enterprise fund method, financial statements are prepared using accrual accounting, meaning revenues are recognized when earned and expenses when incurred, regardless of when the associated cash is received or paid. This method provides a more accurate picture of NECOG’s financial position.

NECOG is presented as a single proprietary fund. It is the only major fund for financial reporting purposes.

Proprietary Funds

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 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 contracts and grants are recorded as revenue when related costs are incurred using a percentage of completion method using historical gross profit percentage applied to actual costs to date to derive revenue earned. If the funding received under a contract or 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 contract or grant 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 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The indirect cost rate for 2025 was 32% of direct salaries, payroll taxes and employee benefits.

Capital Assets and Depreciation

Capital assets include automobiles, leasehold improvements and office equipment and are recorded at cost and depreciated over their estimated useful lives. NECOG uses a capital asset capitalization policy of $10,000; 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 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 2025.

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, which 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, which is the change in the net pension asset/liability not included in pension expense reported in the statement of net position.

Restatement of Net Position

The entity previously implemented GASB Statement No. 100, Accounting Changes and Error Corrections, which provides guidance for the reporting of accounting changes and corrections of errors in previously issued financial statements. During the current year, management identified a prior period adjustment that required correction in accordance with this standard. As a result, beginning net position has been increased by $10,683 to properly reflect the correction of the prior period understatement of investments. This restatement is reported as an adjustment to beginning net position in the period of correction and had no effect on current year revenues, expenses, or the change in net position.

Note 2 - Deposits and Investments

Deposits

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, IntraFi and NCUA. NECOG maintains its cash balances, savings accounts and certificates of deposit at financial institutions in the general local area.

Those deposits are secured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2025, all funds were fully insured.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, NECOG's deposits may not be returned. NECOG does not have a formal policy addressing custodial credit risk; however, it mitigates this risk by maintaining cash accounts across multiple financial institutions.

NECOG believes it is not exposed to significant custodial credit risk on cash and cash equivalents and has not experienced any losses on these accounts.

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.

Fair Value Hierarchy

NECOG measures certain investments at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Fair value is categorized into a three-level hierarchy based on the inputs used to measure fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2: Observable inputs other than quoted prices included in Level 1.
- Level 3: Unobservable inputs.

Fair Value Measurements – Level 1 Investments

NECOG's Level 1 investments consist of securities valued using quoted prices in active markets for identical assets at the measurement date. These investments generally include actively traded equity securities and exchange-traded funds. As of December 31, 2025, all investments are considered level 1.

Fair values are determined using quoted market prices obtained from active exchanges or pricing services. These prices are not adjusted by NECOG, and no valuation models or significant assumptions are used in determining fair value.

Transfers Between Levels

There were no transfers between Level 1, Level 2, or Level 3 during the reporting period.

Valuation Techniques

Fair values for Level 1 investments are determined using observable market prices provided by active exchanges or pricing services. The entity has the ability to access these markets at the measurement date.

Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2025, is as follows:

	Balance 1/1/2025	Additions	Disposals	Balance 12/31/2025
Capital Assets				
Cost				
Automobiles	$ 31,839	$	$	$ 31,839
Leasehold improvements	3,595			3,595
Office equipment	41,442			41,442
	$ 76,876	$	$	$ 76,876
Accumulated Depreciation				
Automobiles	$ 31,839	$	$	$ 31,839
Leasehold improvements	3,595			3,595
Office equipment	41,442			41,442
	$ 76,876	$	$	$ 76,876
Right-of-Use Assets				
Cost	$ 61,393	$ 100,145	$ (61,393)	$ 100,145
Accumulated Amortization	52,823	21,923	(61,393)	13,353
	$ 8,570	$ 78,222	$ -	$ 86,792

During 2025, NECOG recognized a new lease resulting in an addition to right-of-use assets. The prior lease was terminated or remeasured, resulting in the removal of the related right-of-use asset and accumulated amortization.

Amortization expense related to right-of-use assets totaled $21,923 for the year ended December 31, 2025. This amount includes amortization associated with both the prior lease up to the date of termination or remeasurement and the newly recognized lease.

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 during the year ended December 31, 2025.

Note 4 – Lease Payable

NECOG leases its office facilities. The lease began on May 1, 2015, and ends on April 30, 2030. The lease included an option to terminate at the end of year 10 (April 30, 2025) with 90 days' notice. Management did not exercise this option and has determined that it is reasonably certain the lease will continue through the full lease term. Accordingly, the lease term includes the full 15-year period.

Lease Liability

The lease liability is measured at the present value of future lease payments expected to be made over the lease term. The lease liability is reduced by lease payments made and increased by interest expense.

As of December 31, 2025, the lease liability totaled $87,258. During the year ended December 31, 2025, the entity made principal payments of $19,687 and recognized $4,960 in interest expense related to the lease obligation.

The lease liability was calculated using a discount rate of 7.00%, which represents NECOG's estimated incremental borrowing rate, as the interest rate implicit in the lease was not readily determinable.

Future Lease Payments

Future minimum noncancelable lease payments are as follows:

Years Ending December 31,	Amount
2026	$ 23,796
2027	23,796
2028	23,796
2029	23,796
2030	7,932
	$ 103,116
Less: Imputed interest	15,858
Present value of lease liability	$ 87,258

Right-to-Use Asset

NECOG has recorded a right-to-use lease asset related to this agreement.

As of December 31, 2025:

- Right-to-use asset: $100,145
- Accumulated amortization: $(13,353)
- Net book value: $86,792

The right-to-use asset is amortized on a straight-line basis over the lease term.

Amortization expense for the year ended December 31, 2025, was $21,923.

Note 5 – Related Party Transactions

In January 1995, NECOG spun off the Revolving Loan Fund, forming a separate corporation, under Internal Revenue Code Section 501 (c)(3). The separate corporation is NECOG Development Corporation (the 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 2025, NECOG charged the Development Corporation administrative fees totaling $122,117. NECOG also had a receivable from the Development Corporation totaling $18,723 as of December 31, 2025.

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

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is 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. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12C. 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.

Benefits Provided:

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- 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.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

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 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. NECOG’s share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024 and 2023, were $26,179, $26,095, and $24,569, respectively, equal to 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, 2025, SDRS is 100.10% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of SDRS for NECOG as of the measurement period ending June 30, 2025, and reported by NECOG as of December 31, 2025, are as follows:

Proportionate share of pension liability	$ 2,283,193
Less proportionate share of net position restricted for pension benefits	2,284,466
Proportionate share of net pension liability (asset)	$ (1,273)

At December 31, 2025, NECOG reported $(1,273) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2025, 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, 2025, NECOG's proportion was 0.014959%, which is a decrease of 0.000062% from its proportion measured at June 30, 2024.

For the year ended December 31, 2025, NECOG recognized pension expense of $24,111. At December 31, 2025, 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	$ 43,559	$ -
Changes in assumption		67,534
Net difference between projected and actual earnings on pension plan investments	61,990	
Changes in proportion and difference between the NECOG contributions and proportionate share of contributions	1,540	
NECOG contributions subsequent to the measurement date	12,627	
	$ 119,716	$ 67,534

At December 31, 2025, there is $12,627 reported as deferred outflow of resources related to pensions resulting from NECOG contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31:	Amount
2026	30,414
2027	3,630
2028	2,110
2029	3,401
	$ 39,555

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		2.50%
Salary increase		Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount rate		6.50% net of plan investment expenses. This is composed of an average inflation rate of 2.50 % and real returns of 4.00%.
Future COLAs		1.56%

Mortality rates were based on the RP-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020. Active and Terminated Vested Members: Teachers, Certified Regents, and Judicial: PubT-2010 Other Class A Members: PubG-2010 Public Safety Members: PubS-2010 Retired Members: Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65 Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above Public Safety Retirees: PubS-2010, 102% of rates at all ages Beneficiaries: PubG-2010 contingent survivor mortality table Disabled Members: Public Safety: PubS-2010 disabled member mortality table Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

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, 2025 (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
Public Equity	56.3 %	3.8 %
Investment Grade Debt	22.8 %	2.3 %
High Yield Debt	7.0 %	2.9 %
Real Estate	12.0 %	4.0 %
Cash	1.9 %	0.8 %
	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 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).

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)	$ 311,810	$ (1,273)	$ (257,762)

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

Northeast Council of Governments
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended December 31, 2025

South Dakota Retirement System Last 10 Years

	NECOG's proportion of the net pension liability/(asset)	NECOG's proportionate share of net pension liability/(asset)	NECOG's employer's covered payroll	NECOG's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability/(asset)
2025	0.0150%	(1,273)	445,066	-0.3%	100.10%
2024	0.0150%	(609)	421,395	-0.1%	100.00%
2023	0.0155%	(1,514)	400,038	-0.4%	100.10%
2022	0.0166%	(1,570)	396,801	-0.4%	100.10%
2021	0.0176%	(134,617)	393,801	-34.2%	105.52%
2020	0.0173%	(750)	375,996	-0.2%	100.04%
2019	0.0172%	(1,826)	366,328	-0.5%	100.09%
2018	0.0168%	(392)	349,220	-0.1%	100.02%
2017	0.0165%	(1,496)	334,964	-0.4%	100.10%
2016	0.0169%	57,140	321,656	17.8%	96.89%

See Independent Auditor's Report

Northeast Council of Governments
Schedule of Employer's Contributions
Year Ended December 31, 2025

South Dakota Retirement System Last 10 Years

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	NECOG's covered payroll	Contributions as a percentage of covered payroll
2025	26,179	26,179	-	436,314	6%
2024	26,095	26,095	-	434,915	6%
2023	24,569	24,569	-	409,475	6%
2022	24,021	24,021	-	400,351	6%
2021	24,075	24,075	-	401,250	6%
2020	22,647	22,647	-	374,546	6%
2019	22,365	22,365	-	372,751	6%
2018	21,502	21,502	-	358,368	6%
2017	20,554	20,554	-	342,560	6%
2016	19,818	19,818	-	330,304	6%

See Independent Auditor's Report

Notes to Required Supplementary Information

Changes from Prior Valuation

The June 30, 2025 Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2024 Actuarial Valuation.

The details of the changes since the last valuation are as follows.

Benefit Provision Changes

During the 2025 Legislative Session no significant SDRS benefit changes were made.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

As of June 30, 2025, the FVFR, assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, no less than 0% and no greater than 1.56%. For this June 30, 2025 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OFFINANCIAL 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, 2025, and the related statement 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 June 24, 2026.

Report on 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) as a basis for designing 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.

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.

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Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2025-001 that we consider to be a material weakness.

Report on 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 financial statements. 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 Finding

Government Auditing Standards requires the auditor to perform limited procedures on NECOG's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. 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 the response.

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.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants
Brookings, South Dakota

June 24, 2026

Prior Audit findings

Finding 2024-001 Preparation of Financial Statements, Footnotes, and Audit Journal Entries

Current Status: This finding has not been resolved as of December 31, 2025, and is restated as current year finding 2025-001.

Current Audit findings and Recommendations

Finding 2025-001 Preparation of Financial Statements, Footnotes, and Audit 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, processing and review of entries material to the financial statements being audited, in accordance with generally accepted accounting principles.

Condition: NECOG 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, 2025. During the course of our audit we noted there is not a formal documented review of manual adjusting journal entries which such condition may lead to misstatements present in the financial statements. As a result of our audit procedures, we identified certain audit adjustments that were proposed and corrected by management.

Cause: NECOG does not have adequate staff trained to prepare financial statements and the related footnotes in accordance with generally accepted accounting principles and there currently is not a formal direct review of manual adjusting journal entries being performed for accuracy and reasonableness, 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 and manual adjusting journal entries.

Management's 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.