Financial Statements
December 31, 2021

Northeast Council of Governments

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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, 2021, 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, 2021, 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.

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.

Auditor's 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 April 25, 2022, 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.

Eide Bailly LLP

Aberdeen, South Dakota
April 25, 2022

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, 2021. This report is presented to provide additional information about NECOG and to meet the requirements of GASB 34. This analysis should be read in conjunction with the independent auditor's report, financial statements, and the notes to the financial statements.

Nature of Operations for the Organization

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

Financial Statements

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

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

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

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

Statement of Net Position

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

	2021	2020
Assets		
Current assets	$ 2,745,205	$ 2,613,079
Net pension asset	134,617	750
Capital assets, net of accumulated depreciation	19,067	26,591
Total assets	2,898,889	2,640,420
Deferred Outflows of Resources		
Pension related deferred outflows	171,211	108,181
	$ 3,070,100	$ 2,748,601
Liabilities		
Current liabilities	$ 153,302	$ 225,911
Deferred Inflows of Resources		
Pension related deferred inflows	260,976	99,925
Net Position		
Net investment in capital assets	19,067	26,591
Net position - restricted for pension	44,852	9,006
Net position - unrestricted	2,591,903	2,387,168
Total net position	2,655,822	2,422,765
	$ 3,070,100	$ 2,748,601

Major Factors Affecting the Statement of Net Position

Total assets and deferred outflows of resources increased by $321,499. This increase is primarily due to an increase in cash and cash equivalents and accounts receivable. Accounts receivable increased by $34,988 due to an increase of contract revenues in 2021. Cash and cash equivalents increased by $281,860 due to maturing certificates of deposit and increase of contract revenues in 2021.

As of the plan year-end of June 30, 2021, SDRS was funded at 105.52% causing a increase in the net pension asset of $133,867. Pension related deferred outflows and inflows increased in 2021 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 and deferred inflows of resources increased by $88,442. Pension related deferred inflows related to GASB No. 68 and 71 increased by $161,051 and was a contributing factor of the overall increase in total liabilities and deferred inflows in 2021. Unearned revenue decreased related to the timing and receipt of contract payments received on contract work performed.

Total net position increased by $233,057 from the results of operations for year ended December 31, 2021.

Statement of Revenues, Expenses and Changes in Net Position

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

	2021	2020	% Change
Revenues			
Federal grants and funding revenues	$ 273,943	$ 267,469	2%
Contract revenues	309,315	203,987	52%
Local revenues	153,420	150,930	2%
NECOG Development Corporation administrative fees	111,128	93,338	19%
Interest income	35,360	42,450	-17%
Other operating revenues	167	637	-74%
Total revenues	883,333	758,811	16%
Expenses			
Salaries	411,150	398,092	3%
Payroll taxes and benefits	73,141	72,112	1%
GASB pension adjustments	(35,847)	35,054	-202%
Staff travel	4,565	2,172	110%
Directors fees and travel	654	175	274%
Insurance	8,965	6,937	29%
Professional fees	108,120	109,082	-1%
Office rent	18,333	18,333	0%
Equipment rental and maintenance contracts	3,660	3,495	5%
Office supplies	19,175	6,405	199%
Utilities and telecommunications	5,319	5,123	4%
Membership and conference registration	8,998	4,549	98%
Office expenses	3,669	4,050	-9%
Depreciation expense	7,524	10,141	-26%
RLF match expense to NECOG DC	12,800	70,445	-82%
Miscellaneous expense	50	165	-70%
Total expenses	650,276	746,330	-13%
Changes in Net Position	233,057	12,481	1767%
Net Position - Beginning	2,422,765	2,410,284	
Net Position - Ending	$ 2,655,822	$ 2,422,765	

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

Federal revenue increased $6,474 (2%), largely due to pass-through dollars related to federal grants. Total expenses decreased $96,054, largely due to GASB pension adjustments and the increase in NECOG's net pension asset as of the SDRS plan year ended June 30, 2021.

Net position at the beginning of the year, was $2,422,765 and at the end of the year was $2,655,822 (including net investment in capital assets), resulting in an increase in net position of $233,057.

Capital Asset and Debt Administration

Capital Assets – During 2021, NECOG did not acquire any new capital assets.

Debt Outstanding – NECOG had no debt outstanding in 2021 or 2020.

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. Continued increased federal spending related to COVID-19 may increase our receipt of federal and state revenue.

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.

Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents	$ 460,156
Certificates of deposit	2,092,563
Accounts receivable	154,583
Due from NECOG Development Corporation	22,097
Accrued interest receivable	13,556
Prepaid expenses	2,250
Total current assets	2,745,205
Noncurrent Assets	
Capital assets, at cost:	
Automobiles	31,838
Leasehold improvements	3,595
Office equipment	52,581
	88,014
Less accumulated depreciation	(68,947)
Total capital assets	19,067
Net pension asset	134,617
Total assets	2,898,889
Deferred Outflows of Resources	
Pension related deferred outflows	171,211
Total assets and deferred outflows of resources	$ 3,070,100

Liabilities, Deferred Inflows of Resources and Net Position	
Current Liabilities	
Accounts payable	$ 17,514
Accrued annual leave	31,724
Lease payable	6,607
Unearned revenue	97,457
Total current liabilities	153,302
Total liabilities	153,302
Deferred Inflows of Resources	
Pension related deferred inflows	260,976
Net Position	
Net investment in capital assets	19,067
Net position - restricted for pension	44,852
Net position - unrestricted	2,591,903
Total net position	2,655,822
Total liabilities, deferred inflows of resources and net position	$ 3,070,100

Operating Revenues		
Contract revenues	$	309,315
Federal grant and funding revenues		133,508
Local revenues and support		153,420
NECOG Development Corporation administrative fees		111,128
Other operating revenues		167
Total revenues		707,538
Operating Expenses		
Salaries		411,150
Payroll taxes		31,453
Employee benefits		41,688
GASB pension adjustments - reduction of expense		(35,847)
Staff vehicle expense		1,904
Travel		2,661
Directors fees and travel		654
Insurance		8,965
Professional fees		108,120
Office rent		18,333
Equipment rentals		660
Office supplies		19,175
Maintenance contracts		3,000
Utilities and telecommunications		5,319
Memberships and conferences		8,998
Postage		1,500
RLF match expense		12,800
Subscriptions and publications		2,169
Depreciation expense		7,524
Miscellaneous and other expenses		50
Total operating expenses		650,276
Operating Income		57,262
Nonoperating Revenue		
Grant income		140,435
Interest income		35,360
Total nonoperating revenue		175,795
Changes in Net Position		233,057
Net Position, Beginning of Year		2,422,765
Net Position, End of Year	$	2,655,822

Cash Flows from (used for) Operating Activities		
Receipts from customers	$	310,069
Receipts from grants and federal funding		133,508
Receipts from local revenues and support		153,420
Payments to suppliers and others		(192,276)
Payments to employees		(485,549)
Other receipts		167
Net Cash used for Operating Activities		(80,661)
Cash Flows from Noncapital Financing Activities		
Nonoperating grants received		140,435
Net Cash from Noncapital Financing Activities		140,435
Cash Flows from (used for) Investing Activities		
Purchase of certificates of deposit		(524,342)
Maturities of certificates of deposit		705,873
Interest received		40,555
Net Cash from Investing Activities		222,086
Net Change in Cash and Cash Equivalents		281,860
Cash and Cash Equivalents - Beginning		178,296
Cash and Cash Equivalents - Ending	$	460,156
Reconciliation of Operating Income to Net Cash used for Operating Activities		
Operating income	$	57,262
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation		7,524
Change in assets and liabilities:		
Accounts receivable		(34,988)
Pension liability/asset and deferred outflows/inflows		(35,846)
Due from NECOG Development Corporation		(2,004)
Accounts payable		4,099
Accrued annual leave		(1,259)
Lease payable		(2,067)
Unearned revenue		(73,382)
Net Cash used for Operating Activities	$	(80,661)

Note 1 - Nature of Operations and Significant Accounting Policies

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

Reporting Entity

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

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

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

Basis of Accounting and Financial Statement Presentation

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

The accounts are organized on the basis of funds. During 2021, all activities were accounted for through the general fund; there were no separate special purpose funds in 2021. The operations of the general fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Governmental resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For 2021, NECOG's funds are grouped into one broad fund category and fund type as follows.

Proprietary Funds

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

The general operating fund was the only enterprise fund maintained by NECOG for 2021. It is the only major fund for financial reporting purposes.

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

Cash and Cash Equivalents

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

Certificates of Deposit

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

Accounts Receivable, Unearned Revenue and the Recognition of Revenue

Resources from 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 2021 was 35% 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 $5,000; items costing less than this amount (individually) are charged as expense to current-year operations, as expendable equipment or supplies. Major renewals and betterments are capitalized in the capital asset accounts and depreciated; while replacements, maintenance, and repairs which do not improve or extend the lives of respective assets are charged to current-year operations as repairs and maintenance expense. Depreciation is computed on the straight-line method using estimated useful lives of 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 2021.

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.

Note 2 - Deposits and Investments

NECOG's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are required by SDCL 4-6A to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. NECOG maintains its cash balances, savings accounts and certificates of deposit at financial institutions in the general local area. The cash balances are held in institutions insured by the FDIC or NCUA.

Custodial Credit Risk Deposits: The risk that, in the event of a bank failure, NECOG's deposits may not be returned. NECOG does not have a formal deposit policy for the custodial credit risk but maintains its cash accounts in several commercial bank deposit accounts to help lower this risk. NECOG believes it is not exposed to any significant credit risk on cash and cash equivalents, and NECOG has not experienced any losses on such accounts. As of December 31, 2021, NECOG maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

As of December 31, 2021, NECOG did not have any investments as all deposits were either in checking, savings or certificate of deposit accounts.

The actual bank balances of NECOG were as follows:

	Bank Balance
Insured (FDIC)	$ 2,571,235
Uninsured, collateral jointly held by State/NECOG's agent in the name of the State and the pledging financial institution	3,053
Total deposits	$ 2,574,288
NECOG's carrying amount of deposits at December 31	$ 2,552,719

Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2021, is as follows:

	Balance 1/1/2021	Additions	Disposals	Balance 12/31/2021
Cost				
Automobiles	$ 31,838	$ -	$ -	$ 31,838
Leasehold improvements	3,595	-	-	3,595
Office equipment	52,581	-	-	52,581
	$ 88,014	$ -	$ -	$ 88,014
Accumulated Depreciation				
Automobiles	$ 7,655	$ 6,368	$ -	$ 14,023
Leasehold improvements	3,595	-	-	3,595
Office equipment	50,173	1,156	-	51,329
	$ 61,423	$ 7,524	$ -	$ 68,947

The provision reported above of $7,524 is the depreciation expense charged to current-year operations.

NECOG reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment during the year ended December 31, 2021.

Note 4 - Operating Lease

NECOG leases its office facilities. The lease began on May 1, 2015, and ends on April 30, 2030, with an option to opt out of the lease after 10 years. The lease contains graduated payments over the lease term, so rent expense is amortized on a straight-line basis over the noncancelable portion of the lease term. Differences between rent expense and the actual amounts paid will constitute a lease payable or a prepaid lease amount on the statement of net position. Total rent expense for the year ending December 31, 2021 was $18,333.

Future minimum noncancelable lease payments are as follows:

Years Ending December 31,	Amount
2022	$ 20,400
2023	20,400
2024	20,400
2025	6,800
	$ 68,000

Note 5 - Related Party Transactions

In January 1995, NECOG spun off the Revolving Loan Fund, forming a new separate corporation, under Internal Revenue Code Section 501 (c)(3). The new corporation is NECOG Development Corporation (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 the year 2021, NECOG charged the Development Corporation administrative fees totaling $111,128. NECOG also had a receivable from the Development Corporation totaling $22,097 as of December 31, 2021.

During 2021, NECOG provided RLF matching funds to the Development Corporation to help meet the local match requirement of an EDA grant award. RLF matching funds disbursed to the Development Corporation were $12,800.

Note 6 - Risk Management

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

Note 7 - Concentration

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

Note 8 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at https://sdrs.sd.gov/publications.aspx or by writing to the SDRS, PO Box 1098, Pierre, South Dakota, 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund 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.

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 if greater than 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, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B Judicial members, 9% of salary; and Class B Public Safety members, 8% of salary. NECOG's share of contributions made to the SDRS for the years ended December 31, 2021, 2020, and 2019, were $24,075, $22,647, and $22,365, respectively, equal to the required contributions each year.

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

At June 30, 2021, SDRS is 105.52% 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, 2021, and reported by NECOG as of December 31, 2021, are as follows:

Proportionate share of pension liability	$ 2,437,431
Less proportionate share of net position restricted for pension benefits	2,572,048
Proportionate share of net pension liability (asset)	$ (134,617)

At December 31, 2021, NECOG reported an asset of $(134,617) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, 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, 2021, NECOG's proportion was 0.0175780%, which is an increase of 0.0003093% from its proportion measured at June 30, 2020.

For the year ended December 31, 2021, NECOG recognized a reduction of pension expense of $35,847. At December 31, 2021, 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	$ 4,833	$ 353
Changes in assumption	154,809	67,414
Net difference between projected and actual earnings on pension plan investments	-	192,304
Changes in proportion and difference between the NECOG contributions and proportionate share of contributions	7	905
NECOG contributions subsequent to the measurement date	11,562	-
	$ 171,211	$ 260,976

At December 31, 2021, there is $11,562 reported as deferred outflow of resources related to pensions resulting from NECOG contributions subsequent to the measurement date that will be recognized as an reduction of the net pension liability in the year ending December 31, 2022. 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
2022	$ (25,402)
2023	(17,105)
2024	(4,722)
2025	(54,098)
	$ (101,327)

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	6.50% at entry to 3.0% after 25 years of service
Discount rate	6.50% net of plan investment expenses. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. 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 6.5%, 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 (5.5%) or one percentage point higher (7.5%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
NECOG's proportionate share of the net pension liability (asset)	$ 217,979	$ (134,617)	$ (420,844)

Pension Plan Fiduciary Net Position

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

Required Supplementary Information
December 31, 2021

Northeast Council of Governments

Pension Plan	Fiscal Year Ending	NECOG's Proportion of the Net Pension Liability	NECOG's Proportionate Share of the Net Pension Liability	NECOG's Employer's Covered Payroll (b)	NECOG's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SDRS	6/30/2021	0.0176%	$ (134,617)	$ 393,801	-34.2%	105.52%
SDRS	6/30/2020	0.0173%	(750)	375,996	-0.2%	100.04%
SDRS	6/30/2019	0.0172%	(1,826)	366,328	-0.5%	100.09%
SDRS	6/30/2018	0.0168%	(392)	349,220	-0.1%	100.02%
SDRS	6/30/2017	0.0165%	(1,496)	334,964	-0.4%	100.10%
SDRS	6/30/2016	0.0169%	57,140	321,656	17.8%	96.89%
SDRS	6/30/2015	0.0177%	(75,183)	328,481	-22.9%	104.10%

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

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

Pension Plan	NECOG Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	NECOG's Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2021	$ 24,075	$ 24,075	$ -	$ 401,250	6%
SDRS	12/31/2020	22,647	22,647	-	374,546	6%
SDRS	12/31/2019	22,365	22,365	-	372,751	6%
SDRS	12/31/2018	21,502	21,502	-	358,368	6%
SDRS	12/31/2017	20,554	20,554	-	342,560	6%
SDRS	12/31/2016	19,818	19,818	-	330,304	6%
SDRS	12/31/2015	19,264	19,264	-	325,917	6%

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

Notes to Required Supplementary Information

Changes from Prior Valuation

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

Benefit Provision Changes

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

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% (0.5% prior to 2021) 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%. That condition existed as of June 30, 2020, and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by $1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Council of Governments (NECOG) which comprise the statement of financial position as of December 31, 2021, 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 April 25, 2022.

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.

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 auditor's comments as item 2021-001 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 auditor's comments. NECOG's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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.

Eide Bailly LLP

Aberdeen, South Dakota
April 25, 2022

Prior Audit Findings

Finding 2020-001 Preparation of Financial Statements, Footnotes, and Audit Journal Entries

Current Status: This finding has not been resolved as of December 31, 2021, and is restated as current year finding 2021-001.

Current Audit Findings and Recommendations

Finding 2021-001 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, 2021. 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.