

**Southeast Arkansas Economic
Development District, Inc.**

Independent Auditor's Report and Combined Financial Statements

June 30, 2020

Southeast Arkansas Economic Development District, Inc.

June 30, 2020

Contents

Independent Auditor's Report.....	1
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Combined Financial Statements

Statement of Financial Position.....	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Combined Financial Statements.....	6

Supplementary Information

Combining Schedule of Financial Position	13
Combining Schedule of Activities.....	14
Schedule of Indirect Costs	15
Schedule of Expenditures of Federal Awards	16

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor's Report	17
---	-----------

Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance – Independent Auditor's Report	19
---	-----------

Schedule of Findings and Questioned Costs.....	21
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Summary Schedule of Prior Audit Findings	26
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Independent Auditor's Report

Board of Directors
Southeast Arkansas Economic
Development District, Inc.
Pine Bluff, Arkansas

Report on the Financial Statements

We have audited the accompanying combined financial statements of Southeast Arkansas Economic Development District, Inc. and its combined affiliate (the Organization), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Southeast Arkansas Economic Development District, Inc. and its combined affiliate as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining schedule of financial position, combining schedule of activities, schedule of indirect costs and the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2021, on our consideration of the Organization's internal control over financial reporting and 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 the Organization's 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
January 25, 2021

**Southeast Arkansas Economic
Development District, Inc.**
Combined Statement of Financial Position
June 30, 2020

Assets

Current Assets

Cash	\$ 3,003,138
Grants receivable	100,446
Accounts receivable	<u>49,095</u>
Total current assets	<u>3,152,679</u>

Property and Equipment, at Cost

Land	34,261
Building	382,845
Railroad	4,950,170
Furniture and equipment	<u>130,596</u>
	5,497,872
Less accumulated depreciation	<u>771,930</u>
	<u>4,725,942</u>

Total assets	<u><u>\$ 7,878,621</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 34,460
Deferred revenue	1,664,389
Accrued expenses	<u>211,159</u>
Total current liabilities	1,910,008

Net Assets Without Donor Restriction

	<u>5,968,613</u>
Total liabilities and net assets	<u><u>\$ 7,878,621</u></u>

**Southeast Arkansas Economic
Development District, Inc.
Combined Statement of Activities
Year Ended June 30, 2020**

Revenues, Gains and Other Support Without Donor Restrictions

Grant funds	
Department of Commerce	\$ 70,000
Arkansas Department of Workforce Services	2,054,433
Arkansas Department of Environmental Quality	547,864
State of Arkansas, Act 118 Funds	9,362
State of Arkansas – recycling grant	142,061
Program administration	102,108
Solid waste fee	213,649
Other source income	35,431
Interest	4,265
	<hr/>
Total revenues, gains and other support	3,179,173

Expenses

Program costs and other program expenses	2,983,041
General and administrative	272,052
	<hr/>
Total expenses	3,255,093

Change in Net Assets Without Donor Restrictions and Change in Net Assets	(75,920)
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Net Assets, Beginning of Year	6,044,533
	<hr/>

Net Assets, End of Year	\$ 5,968,613
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**Southeast Arkansas Economic
Development District, Inc.**
Combined Statement of Cash Flows
Year Ended June 30, 2020

Operating Activities

Change in net assets	\$ (75,920)
Items not requiring (providing) operating activities cash flows	
Depreciation	88,438
Gain on disposal of assets	(4,051)
Changes in:	
Grants receivable	130,166
Accounts receivable	72,038
Accounts payable	(76,774)
Accrued expenses	25,652
Deferred revenue	<u>(12,449)</u>
Net cash provided by operating activities	<u>147,100</u>

Investing Activities

Purchase of property and equipment	(24,389)
Proceeds from sale of fixed assets	<u>12,000</u>
Net cash used in investing activities	<u>(12,389)</u>

Increase in Cash

134,711

Cash, Beginning of Year

2,868,427

Cash, End of Year

\$ 3,003,138

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Southeast Arkansas Economic Development District, Inc. (the Organization) administers various federal programs, primarily under the *Workforce Innovation and Opportunity Act*, for the purpose of assisting the employment and development of economically disadvantaged individuals and businesses primarily in southeastern Arkansas. The Organization also assists in economic development activities under the Economic Development Administration.

Southeast Arkansas Regional Solid Waste Management District (the District) was created in July 1989 pursuant to the provisions of Arkansas Code Ann. § 8-6-707 and Commission Regulation 22. The District manages and administers a comprehensive solid waste system that includes elements of recycling, disposal, collection, education, waste reduction and special material handling. The District includes 10 counties in southeast Arkansas.

The District follows the accounting guidance for governmental entities as issued by the Governmental Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from Financial Accounting Standards Board (FASB) revenue recognition criteria and presentation features. Modifications have been made to the District's financial information in the combined financials statements to report the financial information in accordance with FASB to be consistent with the financial information presented by the Organization.

Principles of Combination

The accompanying financial statements are the combined statements of the Organization and the District, which share common management and several members of the boards of directors (collectively, the Organization). All material transactions between the Organization and the District have been eliminated. The combined financial statements of the Organization as of June 30, 2020, and for the year then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying combined financial statements have been prepared on the accrual basis of accounting and include the accounts of the Organization and the District.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Cash

At June 30, 2020, the Organization's cash accounts exceeded federally insured limits by approximately \$2,652,000. The Organization has collateral arrangement covering approximately \$2,152,000 of the uninsured balance. However, the Organization has not obtained a legal interpretation of the enforceability of the collateral arrangement.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Property and Equipment

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	20 years
Railroad	10–50 years
Furniture and equipment	5–10 years

Property acquired with grant funds is considered to be owned by the Organization while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased, as well as any proceeds therefrom, is subject to federal regulation.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2020.

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Grants are recognized as revenue and receivables when the award conditions on which they depend are substantially met. Grants received in advance of satisfaction of award conditions are reported as deferred revenues until the conditions are substantially met.

Program Administration

The Organization performs administrative services for various grants awarded to other entities within the district. The revenue and receivables for these services are recognized when the award conditions on which they depend are substantially met.

Solid Waste Fee

The District manages and administers a comprehensive solid waste system that includes elements of recycling, disposal, collection, education, waste reduction and special material handling. The revenue and receivables for these services are recognized when the service is performed.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

Subsequent Events

Subsequent events have been evaluated through January 25, 2021, which is the date the combined financial statements were available to be issued.

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Note 2: Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the combined statement of cash flows, which identifies the sources and uses of the Organization's cash.

The Organization's financial assets available within one year of the combined statement of financial position date for general expenditure are:

Financial assets at year-end	
Cash	\$ 3,003,138
Grants receivable	100,446
Accounts receivable	<u>49,095</u>
Total financial assets	<u>3,152,679</u>
Financial assets not available to be used within one year	<u>-</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 3,152,679</u></u>

Note 3: Grant Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the combined financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2020, have been recorded as receivables. Following are the grant commitments that extend beyond June 30, 2020:

Grant	Term	Grant Amount	Earned as of June 30, 2020	Funding Available
WIOA Adult Program	7/1/2019 – 6/30/2021	\$ 808,894	\$ 64,217	\$ 744,677
WIOA Youth Activities	4/1/2019 – 6/30/2021	763,490	65,045	698,445
WIOA Dislocated Worker Formula Grants	7/1/2019 – 6/30/2021	370,084	42,875	327,209
Economic Development Support for Planning Organizations	1/1/2020 – 12/31/2020	<u>70,000</u>	<u>35,000</u>	<u>35,000</u>
		<u><u>\$2,012,468</u></u>	<u><u>\$ 207,137</u></u>	<u><u>\$ 1,805,331</u></u>

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Note 4: Pension Plan

The Organization has a defined contribution plan covering substantially all employees. The board of directors annually determines the amount, if any, of the Organization's contribution to the plan. Pension expense for the year ended June 30, 2020, was approximately \$58,000.

Note 5: Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the schedule below. The schedule presents the natural classification detail of expenses by function. Certain costs have been allocated among the program services and general and administrative categories based on the allocation of personnel expenses and other methods.

	Program Services	Solid Waste Program Services	General and Administrative	Total
Salaries and fringe benefits	\$ 1,497,481	\$ 83,305	\$ 112,731	\$ 1,693,517
Travel and meetings	52,006	-	7,955	59,961
Equipment and facility	263	20,126	-	20,389
Supplies and dues	-	-	68,780	68,780
Rent	47,814	-	3,599	51,413
Professional fees	-	26,993	55,618	82,611
Programs and training	276,106	-	-	276,106
Solid waste operations	-	723,353	-	723,353
Other expenses	23,159	-	6,361	29,520
Depreciation	82,247	-	6,191	88,438
Utilities, maintenance and telephone	117,483	-	8,843	126,326
Publications	6,475	-	-	6,475
Insurance	26,230	-	1,974	28,204
	<u>\$ 2,129,264</u>	<u>\$ 853,777</u>	<u>\$ 272,052</u>	<u>\$ 3,255,093</u>

Note 6: Operating Leases

Noncancelable operating leases for office space and equipment expire in various years. These leases generally contain annual or monthly renewal options. Rental expense for all operating leases was approximately \$30,000 for the year ended June 30, 2020.

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

Note 7: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Economic Dependency

The Organization is economically dependent upon federal funds received from the Department of Labor. For the year ended June 30, 2020, the Organization received approximately 65% of its total revenue from this federal agency.

Economic Uncertainties

As a result of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and changes in financial position of the Organization. The duration of these uncertainties and the ultimate financial effects, if any, cannot be reasonably estimated at this time.

Investigation

The Organization is the subject of an investigation regarding potential violation of federal procurement guidelines related to the Workforce Investment Act/Workforce Innovation Opportunity Act program. The investigation is related to costs of \$287,067 incurred in the 2014 and 2015 program years. Management believes the Organization is in compliance with the federal procurement guidelines and has filed its written objections to the assessment and requested a waiver of liability. No provision has been made in the combined financial statements for any adverse outcome that might ultimately result from this matter or any other matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 8: Future Change in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances.

Southeast Arkansas Economic Development District, Inc.

Notes to Combined Financial Statements

June 30, 2020

The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2019, for nonpublic entities and any interim periods within annual reporting periods that begin after December 15, 2020. The Organization is in the process of evaluating the impact the amendment will have on the combined financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. For nonpublic entities, the new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Organization is evaluating the impact the standard will have on the combined financial statements.

Note 9: Change in Accounting Principle

ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In 2020, the Organization adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective basis to all agreements not completed as of July 1, 2019, or entered into after July 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred and whether contributions are conditional or unconditional.

Supplementary Information

**Southeast Arkansas Economic
Development District, Inc.**
Combining Schedule of Financial Position
June 30, 2020

	Southeast Arkansas Economic Development District	Solid Waste District	Total
Assets			
Current Assets			
Cash	\$ 467,720	\$ 2,535,418	\$ 3,003,138
Grants receivable	100,446	-	100,446
Accounts receivable	10,307	38,788	49,095
	<u>578,473</u>	<u>2,574,206</u>	<u>3,152,679</u>
Total current assets			
Property and Equipment, at Cost			
Land	34,261	-	34,261
Building	382,845	-	382,845
Railroad	4,950,170	-	4,950,170
Furniture and equipment	130,596	-	130,596
	<u>5,497,872</u>	<u>-</u>	<u>5,497,872</u>
Less accumulated depreciation	771,930	-	771,930
	<u>4,725,942</u>	<u>-</u>	<u>4,725,942</u>
Total assets	<u>\$ 5,304,415</u>	<u>\$ 2,574,206</u>	<u>\$ 7,878,621</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 17,885	\$ 16,575	\$ 34,460
Deferred revenue	-	1,664,389	1,664,389
Accrued expenses	211,159	-	211,159
	<u>229,044</u>	<u>1,680,964</u>	<u>1,910,008</u>
Total current liabilities			
Net Assets Without Donor Restriction	<u>5,075,371</u>	<u>893,242</u>	<u>5,968,613</u>
Total liabilities and net assets	<u>\$ 5,304,415</u>	<u>\$ 2,574,206</u>	<u>\$ 7,878,621</u>

**Southeast Arkansas Economic
Development District, Inc.**
Combining Schedule of Activities
Year Ended June 30, 2020

	Southeast Arkansas Economic Development District	Solid Waste District	Total
Revenues, Gains and Other Support Without Donor Restrictions			
Grant funds			
Department of Commerce	\$ 70,000	\$ -	\$ 70,000
Arkansas Department of Workforce Services	2,054,433	-	2,054,433
Arkansas Department of Environmental Quality	-	547,864	547,864
State of Arkansas, Act 118 funds	9,362	-	9,362
State of Arkansas – recycling grant	-	142,061	142,061
Program administration	102,108	-	102,108
Solid waste fee	-	213,649	213,649
Other source income	31,567	3,864	35,431
Interest	597	3,668	4,265
	<hr/>	<hr/>	<hr/>
Total revenues, gains and other support	2,268,067	911,106	3,179,173
	<hr/>	<hr/>	<hr/>
Expenses			
Program costs and other program expenses	2,129,264	853,777	2,983,041
General and administrative	253,708	18,344	272,052
	<hr/>	<hr/>	<hr/>
Total expenses	2,382,972	872,121	3,255,093
	<hr/>	<hr/>	<hr/>
Change in Net Assets Without Donor Restrictions and Change in Net Assets	(114,905)	38,985	(75,920)
Net Assets, Beginning of Year	5,190,276	854,257	6,044,533
	<hr/>	<hr/>	<hr/>
Net Assets, End of Year	<u>\$ 5,075,371</u>	<u>\$ 893,242</u>	<u>\$ 5,968,613</u>

Southeast Arkansas Economic Development District, Inc.

Schedule of Indirect Cost Year Ended June 30, 2020

Salaries	\$	129,981
Release time		28,479
Fringe benefits		53,136
Telephone and internet		72,309
Supplies		27,336
Travel		5,102
Printing, publications and postage		10,256
Dues and registrations		10,675
Occupancy costs		51,825
Depreciation		8,079
Insurance		18,037
Professional		48,185
		<hr/>
Total indirect costs	\$	<u>463,400</u>

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Commerce/Economic Development Support for Planning Organizations	11.302		\$ -	\$ 70,000
Department of Labor/Arkansas Department of Workforce Services/Workforce Investment Act (WIA) National Emergency Grants	17.277		-	10,923
WIOA Cluster				
Department of Labor/Arkansas Department of Workforce Services/WIA Adult Program	17.258		-	862,915
Department of Labor/Arkansas Department of Workforce Services/WIA Youth Activities	17.259		-	767,958
Department of Labor/Arkansas Department of Workforce Services/WIA Dislocated Worker Formula Grants	17.278		-	412,637
Total WIOA Cluster			-	2,043,510
			\$ -	\$ 2,124,433

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southeast Arkansas Economic Development District, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Report

Board of Directors
Southeast Arkansas Economic
Development District, Inc.
Pine Bluff, Arkansas

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 combined financial statements of Southeast Arkansas Economic Development District, Inc. and its combined affiliate (the Organization), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements and have issued our report thereon dated January 25, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-002, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free of 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-001.

Organization's Response to Findings

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
January 25, 2021

Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Directors
Southeast Arkansas Economic
Development District, Inc.
Pine Bluff, Arkansas

Report on Compliance for the Major Federal Program

We have audited Southeast Arkansas Economic Development District, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
January 25, 2021

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☒ Yes ☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☒ Yes ☐ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

7. The Organization's major programs were:

Cluster/Program	CFDA Number
WIOA Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2020-001	<p>Criteria: Management is responsible for ensuring compliance with certain provisions of laws, regulations, contracts and grant agreements.</p> <p>Condition: An ongoing investigation by a state agency on the WIOA program for the 2014 and 2015 program years has alleged a potential violation of federal procurement requirements. The report states that there are questioned costs totaling \$287,067 related to 2014 and 2015.</p> <p>Effect: The noncompliance could have a direct and material effect on the combined financial statements.</p> <p>Cause: Proper procurement policies and procedures were not in place according to the state agency.</p> <p>Recommendation: We recommend the Organization strengthen controls and processes related to the procurement policies and procedures.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Management does not agree with the conclusion reached by the state agency and has submitted a request for waiver of liability from the State of Arkansas and this has been submitted to the Department of Labor for review.</p>

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Reference Number	Finding
2020-002	<p>Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition: The Organization's internal control over financial reporting did not detect adjustments related to the Organization's financial statements that were needed to prevent the financial statements from being materially misstated. Audit adjusting entries were required to properly present the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Significant misstatements in the financial statements could occur and not be prevented or detected in a timely manner.</p> <p>Cause: Proper accounting policies and procedures are not in place related to review of account reconciliations, journal entries and internal financial statements.</p> <p>Recommendation: We recommend the Organization strengthen controls and processes related to the preparation and review of account reconciliations, journal entries and internal financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding and recommendation. Management will work to ensure proper policies and procedures are established and followed.</p>

**Southeast Arkansas Economic
Development District, Inc.**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
No matters are reportable.	

**Southeast Arkansas Economic
Development District, Inc.**
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Reference Number	Summary of Finding	Status
2019-001	An ongoing investigation by a state agency on the WIOA program for the 2014 and 2015 program years has alleged a potential violation of federal procurement requirements. The original questioned costs in the amount of \$3,133,687 have been reduced to \$287,067.	Not resolved – see 2020-001