ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2018

CONTENTS

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Economic Security Corporation of Southwest Area
Joplin, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Economic Security Corporation of Southwest Area (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Economic Security Corporation of Southwest Area as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18 to 23 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal* Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2019 on our consideration of Economic Security Corporation of Southwest Area's 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Economic Security Corporation of Southwest Area's internal control over financial reporting and compliance.

RMMC, CPA's

Springfield, Missouri
February 16, 2019

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2018

ASSETS

Cash and cash equivalents	$ 588,310
Certificates of deposit	266,068
Accounts receivable	730,897
Prepaid expenses	9,035
Inventories	25,985
Promissory note	200,000
Investment in Divine Estates, LP	132,500
Investment in Zahn Apartments Management 2006, Inc.	5,000
Property and equipment, net of accumulated depreciation of $4,418,114	2,258,436
	$ 4,216,231

LIABILITIES AND NET ASSETS

Accounts payable	$ 263,144
Accrued payroll	116,254
Accrued vacation leave	334,880
Security deposits	3,541
Long-term debt	141,473
	859,292
Net assets:	
Unrestricted	3,356,939
	$ 4,216,231

The accompanying notes are an integral part of these financial statements.

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2018

Revenues, gains and other support:		
Public support:		
Contributions		$ 119,621
Program revenues:		
Grants		15,087,401
Patient fees		11,326
Medicaid		7,061
Other revenues:		
Rent		25,011
Miscellaneous		209,501
		15,459,921
Expenses and losses:		
Program services:		
Agency	$ 165,508	
Community Services Block Grant	630,678	
Head Start	9,806,596	
Weatherization	700,844	
Family Planning	131,177	
Energy Crisis Intervention Program	1,509,232	
Housing	1,397,321	
Other assistance programs	47,752	
	14,389,108	
Management and general	779,847	15,168,955
Change in unrestricted net assets		290,966
Unrestricted net assets, beginning of year		3,065,973
Unrestricted net assets, end of year		$ 3,356,939

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2018

	Agency	Community Services Block Grant	Head Start	Weatherization
Salaries	$ -	$ 343,832	$ 5,377,031	$ 209,474
Fringe	15	81,815	1,343,915	82,084
Professional services	9,821	2,715	81,059	-
Travel	-	9,289	23,274	9,089
Space cost and rent	-	73,170	396,515	4,957
Consumable supplies	41	9,075	977,047	235,074
Equipment	-	8,794	388	-
Other direct cost	2,738	77,858	923,765	160,166
Other in-kind costs	-	-	115,126	-
Aid and emergency	6,795	24,130	418,180	-
Interest expense	2,082	-	917	-
Transfer to other programs	50,265	-	-	-
Depreciation	93,751	-	149,379	-
	$ 165,508	$ 630,678	$ 9,806,596	$ 700,844

Family Planning	Energy Crisis Intervention Program	Housing	Other Assistance Programs	Management and General	Total
$ 80,282	$ 121,560	$ 246,857	$ 28,504	$ 521,937	$ 6,929,477
3,716	33,427	70,204	9,550	116,154	1,740,880
5,337	-	-	-	30,704	129,636
341	151	195	-	9,111	51,450
11,366	6,150	470,186	7,781	31,507	1,001,632
7,959	5,693	484,419	(660)	22,465	1,741,113
-	-	-	-	-	9,182
20,127	49,918	25,497	1,520	47,969	1,309,558
-	-	-	-	-	115,126
2,049	1,292,333	12,373	1,057	-	1,756,917
-	-	-	-	-	2,999
-	-	87,590	-	-	137,855
-	-	-	-	-	243,130
$ 131,177	$ 1,509,232	$ 1,397,321	$ 47,752	$ 779,847	$ 15,168,955

The accompanying notes are an integral part of these financial statements.

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2018

Cash flows from operating activities:	
Change in net assets	$ 290,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	243,130
Interest added to certificates of deposit	(3,183)
Changes in:	
Accounts receivable	166,484
Prepaid expenses	2,362
Inventories	(2,551)
Accounts payable	131,110
Accrued payroll	(75,471)
Accrued vacation leave	7,583
Net cash provided by operating activities	760,430
Cash flows from investing activities:	
Purchase of property and equipment	(554,805)
Cash flows from financing activities:	
Principal payments on long-term debt	(26,224)
Increase in cash and cash equivalents	179,401
Cash and cash equivalents, beginning of year	408,909
Cash and cash equivalents, end of year	$ 588,310
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	$ 2,999
Supplemental disclosure of non-cash investing and financing activities:	
Purchase of Head Start buses through issuance of long-term debt	$ 83,833

The accompanying notes are an integral part of these financial statements.

1. Nature of operations and summary of significant accounting policies

Nature of operations

Economic Security Corporation of Southwest Area is the community action agency serving Barton, Jasper, Newton and McDonald Counties in Southwest Missouri. The Organization provides a range of services and activities impacting the causes of poverty to help people function at their own financial, physical, mental and social levels and aid in their attempts to attain new levels.

Basis of accounting

Revenues and expenditures are recognized on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned. Expenditures under the accrual basis of accounting are recorded when the liability is incurred.

Financial statement presentation

In accordance with FASB Accounting Standards Codification 958-216-45, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to funding source or donor imposed stipulations.

Temporarily restricted net assets – Net assets subject to funding source or donor imposed restrictions that may or will be met, either by actions of the Agency and/or the passage of time. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no such funds during the year ended September 30, 2018.

Permanently restricted net assets – Net assets subject to funding source or donor imposed restrictions that they be maintained permanently by the Agency. The Organization had no such funds during the year ended September 30, 2018.

The Organization has adopted a policy of recording those donations whose restriction is met in the same accounting period as unrestricted support.

1. Nature of operations and summary of significant accounting policies (continued)

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 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.

Cash and cash equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018, cash equivalents consisted primarily of a sweep account.

The Organization maintained balances in excess of $250,000 at Southwest Bank at September 30, 2018. FDIC insurance covers the first $250,000 in deposits at each bank and the balance in excess of the FDIC coverage is insured by pledged securities.

Accounts receivable

Accounts receivable primarily consists of amounts due on grants and contracts from federal, state and other funding and pass-through agencies. The grants and contracts are generally paid on an expense reimbursement or units of service basis. The receivable is due upon the Organization's submission of a request for reimbursement. Funding agencies generally pay within 30 days.

The Organization's policy is that fees are due from clients when services are rendered; however, unsecured credit is occasionally extended to clients. After 90 days, accounts receivable from clients are considered to be uncollectible and are written off. No allowance for doubtful accounts has been established.

Inventories

Inventories are valued at the lower of cost, determined using the first-in, first-out method, or market, and consist primarily of consumable supplies.

Property and equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Depreciation includes amortization on assets acquired under capital lease obligations. The Organization's policy is to capitalize all fixed assets costing more than $5,000.

Funding agencies retain a reversionary interest in property and equipment purchased with grant funds.

1. Nature of operations and summary of significant accounting policies (continued)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment, and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets.

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.

Income taxes

Economic Security Corporation of Southwest Area is a nonprofit organization exempt from income taxes under Internal Revenue Code Section 501(c)(3) and a similar section of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FASB ASC 740-10), effective January 1, 2009. Under the interpretation, the Organization would record a liability for uncertain tax positions when it is probable that a tax position would not be upheld under examination and the amount can be reasonably estimated. The Organization, with advice from their CPA as needed, continually evaluates expiring statues of limitations, changes in tax law and new authoritative rulings in determining if there are unreasonable tax positions subject to the provisions of FASB Interpretation No. 48 when preparing their annual 990. At September 30, 2018, the Organization has determined that there were no unreasonable tax positions whereby a liability would need to be recorded.

The federal 990's of the Organization for 2018, 2017 and 2016 are subject to examination by the respective taxing authorities, generally for three years after they were filed.

Functional allocation of expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and management and general categories.

1. Nature of operations and summary of significant accounting policies (continued)

Compensated absences

Sick and annual leave are accumulated on a monthly basis according to Organization policies. Sick leave cannot be taken as cash upon termination; therefore the Organization records no liability for amounts that could be used under Organization sick leave policies.

A liability for unpaid annual leave has been accrued as an Organization liability in the amount of $334,880 at September 30, 2018.

Indirect costs

The Organization maintains an indirect cost rate with the Department of Health and Human Services. Administrative costs are allocated to the various programs based upon that rate.

2. Property and equipment

Property and equipment at September 30, 2018 consists of:

Land	$ 529,259
Buildings	3,815,368
Equipment, furniture and fixtures	202,054
Vehicles	2,129,869
	6,676,550
Less accumulated depreciation	(4,418,114)
	$ 2,258,436

Depreciation expense for the year ended September 30, 2018 was $243,130.

The Federal Head Start property and equipment was acquired with funds received from the Department of Health and Human Services (HHS). Under terms of the grant agreement, the property and equipment may revert to HHS if it is no longer used in the Agency's Head Start program. Additionally, proceeds from the sale of Head Start property and equipment is to be deposited and used in the Head Start program.

3. Long-term debt

Long-term debt at September 30, 2018, consists of outstanding obligations under various notes payable to banks as follows:

Note payable to bank, payable $450 monthly, with a balloon payment at maturity, including interest at 2.35%, due October 8, 2018, secured by certificate of deposit with a balance of $105,789 at September 30, 2018.	$ 45,903
Total forward	$ 45,903

3. Long-term debt (continued)

Total forward	$ 45,903
Note payable to bank, payable $1,130 monthly, including interest at prime, due October 15, 2018, secured by real property with a net book value of $71,575 at September 30, 2018.	14,186
Note payable to bank, payable $1,595 monthly, including interest at 5.25%, due August 8, 2023, secured by three school buses, with a net book value of $146,437 at September 30, 2018.	81,384
	$ 141,473

Aggregate annual maturities of notes payable at September 30, 2018, reflecting the terms of the refinancing described above, are:

Year ending September 30,	
2019	$ 75,316
2020	16,046
2021	16,908
2022	17,818
2023	15,385
	$ 141,473

4. Contributed services and in-kind contributions

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the year ended September 30, 2018, $115,126 of contributed professional services and in-kind contributions, all of which apply to the Head Start Program, is reflected in the financial statements. Other services with an estimated fair value of $2,990,890, which have not been included in the financial statements because they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America, were contributed by parents and others to the Head Start Program.

In addition to receiving cash contributions and contributed services, the Organization receives other in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an asset or expense in the financial statements, and similarly increase contribution revenue by a like amount.

5. Related parties

Economic Security Community Development Corporations

Economic Security Corporation of Southwest Area (ESC) and Economic Security Community Development Corporation (ESCDC) are related parties. ESCDC was incorporated in September, 2001, to obtain a Missouri Housing Development Commission (MHDC) loan/grant to construct residential facilities and rent to low-income families. The bylaws of ESCDC name ESC as its only member. Certain members of ESC's board of directors also serve as board members of ESCDC's board of directors.

Although ESC has control over the direction and policies of ESCDC through common board membership and its function as an organization member, it does not have an economic interest in ESCDC. ESCDC is a separate stand-alone not-for-profit organization whose purpose, under its agreement with MHDC, is limited to the operations of the low-income housing project being funded by MHDC. No other organization, including ESC, is responsible for or receives the benefits from the financial results of ESCDC.

ESC provides administration and operational services to ESCDC on a contractual basis. The accounts of ESCDC are maintained separate from the accounts of ESC and are not included in the financial statements of ESC.

Divine Estates Management, LLC

Economic Security Corporation of Southwest Area is 100% owner of Divine Estates Management, LLC (DE Management). At September 30, 2017, DE Management's only asset is its .002% ownership of Divine Estates, LP. For its ownership in DE Management and the resulting .002% ownership in Divine Estates, LP, ESC made a $132,500 capital contribution of real estate which had been acquired with Community Development Block Grant funds. DE Management is the Managing General Partner of Divine Estates, LP.

Divine Estates, LP, a Missouri single purpose limited partnership, was formed on March 28, 2003, for the purpose of developing, constructing and managing a thirty-six unit apartment project, known as Divine Estates, to serve low-income families.

Net profits, net losses and federal tax credits of Divine Estates, LP are allocated 99.89% to the Investment Limited Partner, USA XXXIIIDivine, LLC; .10% to the State Tax Credit Limited Partner, Divine Estates Credit Fund; .008% to the Non-Managing General Partner, Divine Properties, LLC; and .002% to the Managing General Partner, Divine Estates Management, LLC. State tax credits are allocated 100% to the State Tax Credit Limited Partner. The term of the Partnership shall continue until January 1, 2090, unless sooner dissolved in accordance with the provisions of the Partnership Agreement.

The major activities of Divine Estates, LP are governed by the Partnership Agreement and the Internal Revenue Code Section 42. Each building of the project is to be qualified and allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements.

5. Related parties (continued)

Zahn Apartments Management 2006, Inc.

Economic Security Corporation of Southwest Area is 100% owner of Zahn Apartments Management 2006, Inc. (ZA Management). At September 30, 2017, ZA Management's only asset is its .0051% ownership of Zahn Apartments, LP. For its ownership in ZA Management and the resulting .0051% ownership in Zahn Apartments, LP, ESC contributed real estate which had been acquired with Community Development Block Grant funds. ZA Management is the Managing General Partner of Zahn Apartments, LP.

Zahn Apartments, LP, a Missouri single purpose limited partnership, was formed on January 25, 2006 for the purpose of developing, constructing and managing an apartment project, known as Zahn Apartments, to serve low-income families.

Net profits, net losses and federal tax credits of Zahn Apartments, LP are allocated 99.89% to the Investment Limited Partner, MEF Investors 2006, LLC; .10% to the State Tax Credit Limited Partner, Zahn Credit Fund, LP; .0049% to the Non-Managing General Partner, Zahn Properties, LLC; and .0051% to the Managing General Partner, Zahn Apartments Management 2006, Inc.. State tax credits are allocated 100% to the State Tax Credit Limited Partner. The term of the Partnership shall continue indefinitely, unless sooner dissolved in accordance with the provisions of the Partnership Agreement.

The major activities of Zahn Apartments, LP are governed by the Partnership Agreement and the Internal Revenue Code Section 42. Each building of the project is to be qualified and allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements.

Drake Hotel Properties, Inc.

Economic Security Corporation of Southwest Area is 100% owner of Drake Hotel Properties, Inc. (DA Management). At September 30, 2017, DA Management's only asset is its .01% ownership of Drake Hotel Apartments, LP. For its ownership in DA Management and the resulting .01% ownership in Drake Apartments, LP, ESC contributed $200,000 which had been acquired with Community Development Block Grant funds. DA Management is the Managing General Partner of Drake Hotel Apartments, LP.

Drake Hotel Apartments, LP, a Missouri single purpose limited partnership, was formed on April 3, 2006 for the purpose of developing, constructing and managing an apartment project, known as Drake Hotel Apartments, to serve low-income families.

Net profits, net losses and federal tax credits of Drake Hotel Apartments, LP are allocated 99.88% to the Investment Limited Partner, MEF Drake Investors 2005, LLC; .10% to the State Tax Credit Limited Partner, Drake Hotel Credit Fund, LP; .01% to the Non-Managing General Partner, Alliant ALP 33, LLC; and .01% to the Managing General Partner, Drake Hotel Properties, Inc.. State tax credits are allocated 100% to the State Tax Credit Limited Partner. The term of the Partnership shall continue indefinitely, unless sooner dissolved in accordance with the provisions of the Partnership Agreement.

5. Related parties (continued)

The major activities of Drake Hotel Apartments, LP are governed by the Partnership Agreement and the Internal Revenue Code Section 42. Each building of the project is to be qualified and allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements.

Forest Park Apartments

Forest Park Apartments is a 32 unit multi-family development consisting of three separate four-plex buildings that is marketed to homeless families. Economic Security Corporation of Southwest Area is the Lead Referral Agency for which Missouri Housing Development Commission provided an allocation of tax credits.

The Primary reason for admission of the Organization as a partner in these real estate joint ventures is to qualify the projects for federal and state grants, tax credits, and permanent financing which are favorable to the development of the low income housing projects. While the Organization has an ownership interest in these real estate joint ventures, the financial nature of these interests are de minimis and are, therefore, not reported in the financial statements.

6. Administrative services

The Organization administers the operations of the Jasper County Public Housing Agency, Joplin, Missouri. The Jasper County Public Housing Agency provides housing programs for low income families through a contract with the U.S. Department of Housing and Urban Development. The accounts of the Housing Agency are maintained separate from the accounts of Economic Security Corporation of Southwest Area as the Housing Agency has a separate, independent board that is not controlled by the board of the Organization. As required by the U.S. Department of Housing and Urban Development, Jasper County Public Housing Agency has a separate audit.

7. Pension plan

The Organization provides a Tax Sheltered Savings Plan under Internal Revenue Code Section 403(b) for its employees. Any full-time or part-time regular employee may participate in the 403(b) program after they have been employed for 90 days. Employees can begin contributing their own funds into the program up to the maximum the law allows. After one year of employment the Organization will match dollar for dollar the amount that they contribute up to 4%. After they have been employed 5, 10 and 15 years, the Organization will match their contribution up to 5%, 6% and 7%, respectively. After 20 years the Organization will match up to 8%. That is the maximum benefit the Organization will allow. The combined Organization and employee contributions may not exceed limits established by law. Pension expense was $215,094 for 2018.

8. 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:

Major source of revenue

The U.S. Department of Health and Human Services provided 72% of total 2018 grant revenue through direct support of the Head Start Program.

9. Promissory note

During the year ended September 30, 2005, the Organization made a loan in the amount of $200,000 to the Drake Hotel Apartments, LP subject to a promissory note dated August 24, 2005. The funds are to be used for the development of a low-income housing apartment complex located in the City of Carthage, Missouri. The note will mature on the earlier of the repayment in full of the outstanding principal balance or July 31, 2023. The promissory note is non-interest bearing and principal will be paid from 25% of net available cash flow from the operations of the Drake Hotel Apartments.

The Organization received a grant in the amount of $200,000 to fund the project.

10. Rental income

The Organization has entered into three separate lease agreements to lease office space in the buildings disclosed in Note 2 to other entities. The operating leases renew on an annual basis.

Rental income from the above leases for the year ended September 30, 2018 was $25,011.

11. Operating leases

The Organization has entered into operating leases with various individuals and organizations to provide locations for Head Start classrooms. The long-term operating leases have various terms.

The minimum lease payments under these leases are as follows:

Year ending September 30,	
2019	$ 80,548
2020	75,148
2021	49,316
2022	17,200
	$ 222,212

11. Operating leases (continued)

The total amount of rent expense under these operating leases for the year ended September 30, 2018 was $86,986.

12. Subsequent events

The Organization has evaluated subsequent events through February 16, 2019, the date which the financial statements were available to be issued. There were no significant events noted that did not exist at the date of the consolidated statement of financial position but arose subsequent to that date.

SUPPLEMENTARY INFORMATION

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

SUPPLEMENTAL CSBG PROGRAM SCHEDULE

YEAR ENDED SEPTEMBER 30, 2018

Revenues:		
Missouri Department of Social Services/DFS 90%		$ 674,345
Expenditures:		
Salaries	$ 343,832	
Fringe benefits	81,815	
Travel	9,289	
Space cost	66,185	
Consumable supplies	7,145	
Other direct costs	108,256	
Professional services	2,715	
Equipment	11,441	
Indirect costs	43,667	674,345
Excess of revenues under expenditures		-
Net assets, beginning of year (grant basis)		137,908
Net assets, end of year (grant basis)		$ 137,908

Verification of reported performance:

Based on our audit, it is our opinion that Economic Security Corporation of Southwest Area billed properly for services completed in accordance with the provisions of the CSBG Award documents and materially complied with all material CSBG regulations.

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

SUPPLEMENTAL LIHEAP/ECIP PROGRAM SCHEDULE

YEAR ENDED SEPTEMBER 30, 2018

Revenues:		
MO Department of Social Services/DFS		$ 1,524,670
Expenditures:		
Salaries	$ 121,560	
Fringe	33,427	
Travel	151	
Space cost	6,150	
Consumable supplies	6,734	
Direct client services	1,292,333	
Other direct cost	48,877	
Indirect costs	15,438	1,524,670
Excess revenues over (under) expenditures		-
Net assets, beginning of year		-
Net assets, end of year		$ -

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-18-LIHEAP-18-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF OCTOBER 1, 2017 TO SEPTEMBER 30, 2018

	Division of Energy	Subgrantee
Beginning agency fund balance	$ -	$ -
Revenue:		
Grant income	293,913	293,913
Expenditures:		
Administration	12,348	12,348
Insurance	800	800
Training and technical assistance	8,386	8,386
Program operations	272,379	272,379
	293,913	293,913
Ending fund balance	$ -	$ -
Ending cash on hand		$ -
Ending inventory		$ -

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-17-EE0007930-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF OCTOBER 1, 2017 TO JUNE 30, 2018

	Division of Energy	Subgrantee
Beginning agency fund balance	$ -	$ -
Revenue:		
Grant income	185,313	185,313
Expenditures:		
Administration	5,660	5,660
Insurance	345	345
Training and technical assistance	1,889	1,889
Program operations	177,419	177,419
	185,313	185,313
Ending fund balance	$ -	$ -
Ending cash on hand		$ -
Ending inventory		$ -

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-18-EE0007930-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF JULY 1, 2018 TO SEPTEMBER 30, 2018

	Division of Energy	Subgrantee
Beginning agency fund balance	$ -	$ -
Revenue:		
Grant income	6,276	6,276
Expenditures:		
Administration	158	158
Training and technical assistance	206	206
Program operations	5,863	3,863
Insurance	49	49
	6,276	6,276
Ending fund balance	$ -	$ -
Ending cash on hand		$ -
Ending inventory		$ -

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-18-16-0213E-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF JANUARY 1, 2018 TO SEPTEMBER 30, 2018

	Division of Energy	Subgrantee
Beginning agency fund balance	$ -	$ -
Revenue:		
Grant income	74,381	74,381
Expenditures:		
Administration	3,923	3,923
Insurance	966	966
Program operations	69,492	69,492
	74,381	74,381
Ending fund balance	$ -	$ -
Ending cash on hand		$ -
Ending inventory		$ -

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2018

	Grant Award Number	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:			
Head Start Program	07CH709504	93.600	$ 7,631,091
Head Start Program	07HP00008502	93.600	2,068,267
			9,699,358
Passed through Missouri Department of Social Services:			
Community Services Block Grant	PG281800007	93.569	674,345
Low-Income Housing Energy Assistance	ER11017006	93.568	1,524,670
Passed through Missouri Family Health Counsel:			
Family Planning Services	None	93.217	93,313
Passed through Missouri Department of Economic Development:			
Weatherization Assistance for Low-Income Persons	G-18-LIHEAP-18-05	93.568	293,913
Total Department of Health and Human Services			12,285,599
U.S. Department of Agriculture:			
Passed through Missouri Department of Health:			
Child and Adult Care Food Program	ERS46110006	10.558	422,491
U.S. Department of Energy:			
Passed through Missouri Department of Economic Development:			
Weatherization Assistance for Low-Income Persons	G-18-EE0007930-2-05 and G-18-EE0007930-05	81.042	191,589
U.S. Department of Housing and Urban Development:			
Passed through Department of Mental Health:			
Shelter Plus Care	MO0031L7P021710	14.238	225,423
Passed through Missouri Housing Development Commission:			
Home Investment Partnership Act (HERO)	17-401-D 18-212-F 18-213-F 2018-HERO-006 18-500-HIP-F 18-501-HIP-M	14.239	771,060
Emergency Solutions Grant	18-710-S	14.231	3,227
Continuum of Care Planning Grant	M00238670021700	14.267	14,075
Supportive Housing Program	MO0032L7P021710 and ER197-FAP-1606	14.235	98,556
Supportive Housing Program with Disabilities	MO0030L7P021710	14.181	48,027
Rapid Re-Housing Continuum of Care	MO0183L7P021603 and MO0237L7P021701	14.257	105,145
Total Department of Housing and Urban Development			1,265,513
			$ 14,165,192

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Economic Security Corporation of Southwest Area and is presented on the modified accrual basis of accounting. The modification to the accrual basis of accounting is that property and equipment are recorded as expenditures in the year purchased according to grant requirements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect cost rate

Economic Security Corporation of Southwest Area maintains an indirect cost rate with the Department of Health and Human Services and is not eligible to use the 10 percent de minimus indirect cost rate.

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INDEPENDENT AUDITORS' 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*

Board of Directors
Economic Security Corporation of Southwest Area
Joplin, Missouri

We have audited, in accordance with the 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 consolidated financial statements of Economic Security Corporation of Southwest Area (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Economic Security Corporation of Southwest Area's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Economic Security Corporation of Southwest Area'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Economic Security Corporation of Southwest Area's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

RMMC, CPA's

Springfield, Missouri
February 16, 2019

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

Board of Directors
Economic Security Corporation of Southwest Area
Joplin, Missouri

Report on Compliance for Each Major Federal Program

We have audited Economic Security Corporation of Southwest Area's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Economic Security Corporation of Southwest Area's major federal programs for the year ended September 30, 2018. Economic Security Corporation of Southwest Area's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Economic Security Corporation of Southwest Area's major federal programs 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 Economic Security Corporation of Southwest Area'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 each major federal program. However, our audit does not provide a legal determination of Economic Security Corporation of Southwest Area's compliance.

Opinion on Each Major Federal Program

In our opinion, Economic Security Corporation of Southwest Area complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of Economic Security Corporation of Southwest Area 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 Economic Security Corporation of Southwest Area's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Economic Security Corporation of Southwest Area'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.

RMMC, CPA's

Springfield, Missouri
February 16, 2019

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified?

____Yes __X__No

- Significant deficiencies identified?

____Yes __X__No

- Noncompliance material to financial statements noted?

____Yes __X__No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?

____Yes __X__No

- Significant deficiencies identified?

____Yes __X__No

Type of auditors' report issued on compliance for major programs: Unmodified.

Any audit finding disclosed that are required to be reported in accordance with 2CFR section 200.516(a)?

____Yes __X__No

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL PROGRAMS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2018

The Organization's major programs were:

	CFDA Number
Head Start	93.600

The threshold used to distinguish between Type A and Type B programs on those terms are defined in the Uniform Guidance was $750,000.

The Organization qualified as a low-risk auditee? __X__ Yes ____ No

Findings required to be reported by *Government Auditing Standards*

No matters are reportable.