

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2020

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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, 2020, 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, 2020, 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 23, 2021 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.

R/M/C, CPA's

Springfield, Missouri
February 23, 2021

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2020

ASSETS

Cash and cash equivalents	\$ 1,182,978
Certificates of deposit	272,298
Accounts receivable	635,570
Prepaid expenses	42,685
Inventories	20,826
Promissory note	20,000
Investment in Divine Estates, LP	132,500
Investment in Zahn Apartments Management 2006, Inc.	5,000
Property and equipment, net of accumulated depreciation of \$4,753,737	6,363,442
Due from other programs	<u>9,202</u>
	<u>\$ 8,684,501</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 211,550
Accrued payroll	365,645
Accrued vacation leave	397,728
Security deposits	7,541
Long-term debt	<u>393,657</u>
	1,376,121
Net assets:	
Without donor restrictions	<u>7,308,380</u>
	<u>\$ 8,684,501</u>

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

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2020

Revenues and support:		
Public support:		
Contributions		\$ 384,289
Program revenues:		
Grants		17,813,822
Other revenues:		
Rent		100,189
Miscellaneous		<u>411,335</u>
		18,709,635
Expenditures:		
Program services:		
Agency	\$ 472,206	
Community Services Block Grant	911,222	
Head Start	10,517,261	
Weatherization	909,057	
Energy Crisis Intervention Program	1,753,297	
Housing	1,772,618	
Other assistance programs	<u>71,720</u>	
	16,407,381	
Management and general	<u>1,086,384</u>	<u>17,493,765</u>
Change in net assets without donor restrictions		1,215,870
Net assets without donor restrictions, beginning of year		<u>6,092,510</u>
Net assets without donor restrictions, end of year		<u>\$ 7,308,380</u>

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, 2020

	<u>Agency</u>	Community Services Block <u>Grant</u>	<u>Head Start</u>	<u>Weatherization</u>
Salaries	\$ -	\$ 467,239	\$ 6,175,097	\$ 262,589
Fringe	(183)	113,517	1,579,168	84,083
Professional services	28,807	24,862	147,357	177,593
Travel	-	2,615	4,218	3,270
Space cost and rent	15,499	72,373	421,969	6,501
Consumable supplies	7,343	19,871	495,826	21,588
Equipment	59,971	11,212	49,481	-
Other direct cost	4,898	163,655	650,662	353,433
Other in-kind costs	-	-	309,302	-
Aid and emergency	-	35,878	378,562	-
Bad debt expense	180,000	-	-	-
Interest expense	1,245	-	6,337	-
Transfer to other programs	9,723	-	721	-
Depreciation	<u>164,903</u>	<u>-</u>	<u>298,561</u>	<u>-</u>
	<u>\$ 472,206</u>	<u>\$ 911,222</u>	<u>\$ 10,517,261</u>	<u>\$ 909,057</u>

<u>Energy Crisis Intervention Program</u>	<u>Housing</u>	<u>Other Assistance Programs</u>	<u>Management and General</u>	<u>Total</u>
\$ 145,155	\$ 203,163	\$ 41,991	\$ 548,924	\$ 7,844,158
48,596	70,130	11,321	132,209	2,038,841
22,086	-	-	37,868	438,573
-	353	-	1,862	12,318
6,600	6,416	-	25,465	554,823
2,714	9,610	98	18,584	575,634
750	-	65	200	121,679
13,314	1,463,665	18,245	48,133	2,716,005
-	-	-	-	309,302
1,514,082	19,018	-	-	1,947,540
-	-	-	-	180,000
-	-	-	-	7,582
-	263	-	273,139	283,846
-	-	-	-	463,464
<u>\$ 1,753,297</u>	<u>\$ 1,772,618</u>	<u>\$ 71,720</u>	<u>\$ 1,086,384</u>	<u>\$ 17,493,765</u>

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, 2020

Cash flows from operating activities:	
Change in net assets	\$ 1,215,870
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	463,464
Interest added to certificates of deposit	(3,100)
Changes in:	
Accounts receivable	1,320,058
Prepaid expenses	(28,443)
Inventories	187,318
Promissory note	180,000
Due from other program	(9,202)
Accounts payable	(588,006)
Accrued payroll	190,280
Accrued vacation leave	33,709
Security deposits	<u>3,094</u>
Net cash provided by operating activities	<u>2,965,042</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(1,805,055)</u>
Cash flows from financing activities:	
Principal payments on long-term debt	(44,689)
Proceeds from line-of-credit	340,000
Payments on line-of-credit	<u>(850,000)</u>
Net cash used in financing activities	<u>(554,689)</u>
Increase in cash and cash equivalents	605,298
Cash and cash equivalents, beginning of year	<u>577,680</u>
Cash and cash equivalents, end of year	<u>\$ 1,182,978</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	<u>\$ 7,582</u>
Supplemental disclosure of non-cash investing and financing activities:	
Purchase of property through issuance of long-term debt	<u>\$ 128,143</u>

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

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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

For financial reporting purposes, accounting principles generally accepted in the United States of America requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of unrestricted contributions, grants, and other income.
- With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met by actions of the Agency. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. There are no net assets with donor restrictions at September 30, 2020.

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

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.

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

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, 2020, cash equivalents consisted primarily of a sweep account.

The Organization maintained balances in excess of \$250,000 at Southwest Bank at September 30, 2020. 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.

Contributions

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

Gifts of land, buildings, equipment, and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions.

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

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.

The Liheap grant funds the program in advance so that the money is available to meet the utility crisis timely. As a result, funds received are held in Agency accounts and interest earned on those funds in excess of \$500 are to be refunded to the state. At September 30, 2020, the Agency recorded a due to Liheap of \$6,997 for interest earned on the Liheap funds.

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 statutes 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, 2020 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 2020, 2019 and 2018 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. Expenses that can be identified with a specific program and support activity are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using various allocation methods.

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 \$397,728 at September 30, 2020.

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

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. Liquidity and availability

The Agency's activities are funded primarily through federal grants. These amounts are available to meet general expenditures of the Agency. As part of its liquidity management, the Agency has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

The Agency's financial assets as of September 30, 2020 are reflected below. The financial assets are reduced by amounts that are not available for general use due to donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end	\$ 2,120,048
Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions:	
Restricted by donors with purpose restrictions	<u> -</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,120,048</u>

3. Property and equipment

Property and equipment at September 30, 2020 consists of:

Land	\$ 603,429
Buildings	8,108,010
Equipment, furniture and fixtures	213,445
Vehicles	<u>2,192,295</u>
	11,117,179
Less accumulated depreciation	<u>(4,753,737)</u>
	<u>\$ 6,343,442</u>

Depreciation expense for the year ended September 30, 2020 was \$463,464.

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.

4. Long-term debt

Long-term debt at September 30, 2020, 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 2.55%, due November 8, 2020, secured by certificate of deposit with a balance of \$107,169 at September 30, 2020. \$ 36,870

Note payable to bank, payable \$2,423 monthly, including interest at 5.0%, due April 17, 2025, secured by school buses with a net book value of \$153,630 at September 30, 2020. 116,409

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 \$81,354 at September 30, 2020. 50,184

Note payable to bank, payable \$1,341 monthly, with a balloon payment at maturity, including interest at 5.0%, due November 6, 2021, secured by deed of trust on property with a net book value of \$350,964 at September 30, 2020. 190,194

\$ 393,657

Aggregate annual maturities of notes payable at September 30, 2020, reflecting the terms of the refinancing described above, are:

Year ending
September 30,

2021	\$ 81,889
2022	226,102
2023	41,771
2024	27,500
2025	<u>16,395</u>

\$ 393,657

5. Line-of-credit

The Agency has a line-of-credit with Southwest Missouri Bank. A maximum of \$850,000 may be drawn, with Agency assets serving as collateral. Advances bear interest at 7.0%. The line-of-credit expires March 15, 2021. The Agency had \$-0- drawn on the line-of-credit at September 30, 2020.

6. 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, 2020, \$309,340 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 \$2,793,722, 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.

7. 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.

7. Related parties (continued)

Divine Estates Management, LLC

Economic Security Corporation of Southwest Area is 100% owner of Divine Estates Management, LLC (DE Management). At September 30, 2019, 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.

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, 2019, 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.

7. Related parties (continued)

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, 2019, 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 (see note 12) 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.

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.

8. Joplin Bungalows, LLC

Joplin Bungalows, LLC was created in 2018 to develop, construct, maintain, operate and manage a twenty unit affordable housing complex commonly known as “Joplin Bungalows” located in Joplin, Missouri. Economic Security Corporation of Southwest Area (ESC) is the sole member of the LLC and serves as the administrative entity for Joplin Bungalows, LLC under common control of the ESC board of directors.

9. 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.

10. 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 \$230,030 for the year ended September 30, 2020.

11. Major source of revenue

The U.S. Department of Health and Human Services provided 60% of total fiscal year 2020 grant revenue through direct support of the Head Start Program.

12. 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 were used for the development of a low-income housing apartment complex located in the City of Carthage, Missouri. The note was to mature on the earlier of the repayment in full of the outstanding principal balance or July 31, 2023. The promissory note was non-interest bearing and principal was to be paid from 25% of net available cash flow from the operations of the Drake Hotel Apartments. Subsequent to year-end, the Agency agreed to a \$20,000 settlement in full satisfaction of the promissory note. As a result, the promissory note was written down to the collectible balance on the September 30, 2020 statement of financial position.

13. Rental income

The Organization has entered into various lease agreements to lease office space in the buildings disclosed in Note 3 to other entities. The operating leases renew on an annual basis. In addition, the Organization rents units in the Joplin Bungalows, LLC complex disclosed in note 8.

Rental income from the above leases for the year ended September 30, 2020 was \$100,819.

14. 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:

<u>Year ending</u> <u>September 30,</u>	
2021	\$ 54,716
2022	<u>17,200</u>
	<u>\$ 71,916</u>

The total amount of rent expense under these operating leases for the year ended September 30, 2020 was \$82,486.

15. COVID-19

On March 11, 2020, the World Health Organization (“WHO”) recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Agency and financial results will depend on future developments, including the duration and spread of the outbreak within the state and the related impact on the economy which could impact grant awards, contributions, and other revenues, all of which are highly uncertain.

On March 27, 2020, the Federal CARES Act (established the Coronavirus Relief Fund (the “Fund”) was signed by President Trump and appropriated \$150 billion to the Fund. Under the CARES Act, the Fund is to be used to make payments for specified Coronavirus public health-related used to States and certain local governments; the District of Columbia and U.S. Territories; and Tribal governments.

15. COVID-19 (continued)

We consider the impact of the COVID-19 pandemic on the Agency and determined that there were no material adverse impacts on the financial statements for the year ended September 30, 2020.

16. Subsequent events

The Organization has evaluated subsequent events through February 23, 2021, 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 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, 2020

Revenues:		
Missouri Department of Social Services/DFS 90%		\$ 969,821
Miscellaneous revenue		<u>263</u>
Total revenues		970,084
Expenditures:		
Salaries	\$ 467,239	
Fringe benefits	113,517	
Professional services	24,862	
Travel	2,615	
Space cost	72,373	
Consumable supplies	19,871	
Equipment	11,212	
Other direct costs	163,655	
Aid and emergency	35,878	
Indirect costs	<u>58,862</u>	<u>970,084</u>
Excess of revenues under expenditures		-
Net assets, beginning of year (grant basis)		<u>137,908</u>
Net assets, end of year (grant basis)		<u>\$ 137,908</u>

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, 2020

Revenues:		
MO Department of Social Services/DFS		\$ 1,765,621
Expenditures:		
Salaries	\$ 145,155	
Fringe	48,596	
Professional services	22,086	
Space cost	6,600	
Consumable supplies	2,714	
Equipment	750	
Other direct cost	13,314	
Aid and emergency	1,514,082	
Indirect costs	<u>18,435</u>	<u>1,771,732</u>
Excess revenues over (under) expenditures		(6,111)
Net assets, beginning of year		<u>6,111</u>
Net assets, end of year		<u>\$ -</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-19-LIHEAP-20-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF OCTOBER 1, 2019 TO SEPTEMBER 30, 2020

	Division of <u>Energy</u>	<u>Subgrantee</u>
Beginning agency fund balance	\$ -	\$ -
Revenue:		
Grant income	<u>370,699</u>	<u>370,699</u>
Expenditures:		
Administration	14,120	14,120
Insurance	750	750
Training and technical assistance	565	565
Program operations	<u>355,264</u>	<u>355,264</u>
	<u>370,699</u>	<u>370,699</u>
Ending fund balance	<u>\$ -</u>	<u>\$ -</u>
Ending cash on hand		<u>\$ -</u>
Ending inventory		<u>\$ -</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-19-EE0007930-3-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF JULY 1, 2019 TO JUNE 30, 2020

	Division of <u>Energy</u>	<u>Subgrantee</u>
Beginning agency fund balance	\$ -	\$ -
Revenue:		
Grant income	<u>237,802</u>	<u>237,802</u>
Expenditures:		
Administration	21,097	21,097
Insurance	1,000	1,000
Training and technical assistance	5,408	5,408
Program operations	<u>210,297</u>	<u>210,297</u>
	<u>237,802</u>	<u>237,802</u>
Ending fund balance	<u>\$ -</u>	<u>\$ -</u>
Ending cash on hand		<u>\$ -</u>
Ending inventory		<u>\$ -</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-20-EE0007930-4-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF JULY 1, 2020 TO SEPTEMBER 30, 2021

	Division of <u>Energy</u>	<u>Subgrantee</u>
Beginning agency fund balance	\$ -	\$ -
Revenue:		
Grant income	<u>44,245</u>	<u>44,245</u>
Expenditures:		
Administration	1,509	1,509
Insurance	200	200
Program operations	<u>42,536</u>	<u>42,536</u>
	<u>44,245</u>	<u>44,245</u>
Ending fund balance	<u>\$ -</u>	<u>\$ -</u>
Ending cash on hand		<u>\$ -</u>
Ending inventory		<u>\$ -</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

G-20-16-20-0213E-3-05

WEATHERIZATION PROGRAMS

RECONCILIATION OF REVENUES AND EXPENSES

FOR PERIOD OF NOVEMBER 1, 2019 TO SEPTEMBER 30, 2020

	Division of <u>Energy</u>	<u>Subgrantee</u>
Beginning agency fund balance	\$ <u> -</u>	\$ <u> -</u>
Revenue:		
Grant income	<u> 80,201</u>	<u> 80,201</u>
Expenditures:		
Administration	3,666	3,666
Program operations	<u> 76,535</u>	<u> 76,535</u>
	<u> 80,201</u>	<u> 80,201</u>
Ending fund balance	\$ <u> -</u>	\$ <u> -</u>
Ending cash on hand		\$ <u> -</u>
Ending inventory		\$ <u> -</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2020

	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services:</u>			
Head Start	07CH709505	93.600	\$ 8,015,042
Head Start	07HP00008503	93.600	1,606,685
Head Start – CARES Act	07CH001435C	93.600	<u>518,943</u>
			10,140,670
Passed through Missouri Department of Social Services:			
Community Services Block Grant	PG282000007	93.569	969,821
Low-Income Housing Energy Assistance	ER11020006	93.568	1,765,621
Passed through Missouri Department of Economic Development:			
Weatherization Assistance for Low-Income Persons	G-19-LIHEAP-20-05	93.568	<u>370,699</u>
Total Department of Health and Human Services			<u>13,246,811</u>
<u>U.S. Department of Agriculture:</u>			
Passed through Missouri Department of Health:			
Child and Adult Care Food Program	ERS46110006	10.558	<u>336,930</u>
<u>U.S. Department of Energy:</u>			
Passed through Missouri Department of Economic Development:			
Weatherization Assistance for Low-Income Persons	G-20-EE0007930-4-05/ G-19-EE0007930-3-05	81.042	<u>251,616</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through Department of Mental Health:			
Shelter Plus Care	ER197SPC006	14.238	211,994
Rental Assistance Program	ER197-RAP1606	14.235	113,741
Passed through Missouri Housing Development Commission:			
Home Investment Partnership Act	2020-HERO-006	14.239	874,595
Emergency Solutions Grant	20-711-E	14.231	27,174
Rental Assistance Program	MO0032L7P021811	14.235	83,454
Chronically Homeless	MO0030L7P021811	14.181	45,797
Rapid Re-Housing Continuum of Care	MO0183L7P021805/ MO0237L7P021802	14.257	107,093
Continuum of Care Planning Grant	M00031L7P021912	14.267	14,156
Passed through City of Joplin:			
CDBG – Disaster Recovery Grant	CS190278001-ESC	14.269	1,701,591
CDBG – Coordinated Entry Grant	None	14.218	28,988
Home Investment Partnership Act	None	14.239	<u>71,599</u>
Total Department of Housing and Urban Development			<u>3,280,182</u>
			<u>\$ 17,115,539</u>

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2020

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.

ROBERTS, MCKENZIE, MANGAN & CUMMINGS

A Professional Corporation

4035 S. Fremont

Springfield, Missouri 65804

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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, 2020, 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 23, 2021.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

R/M/C, CPA's

Springfield, Missouri
February 23, 2021

ROBERTS, MCKENZIE, MANGAN & CUMMINGS

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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, 2020. 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, 2020.

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.

R/M/MC, CPA's

Springfield, Missouri
February 23, 2021

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified?

Yes No
- Significant deficiencies identified?

Yes No
- Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?

Yes No
- Significant deficiencies identified?

Yes 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 No

ECONOMIC SECURITY CORPORATION OF SOUTHWEST AREA

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

YEAR ENDED SEPTEMBER 30, 2020

The Organization’s major programs were:

	<u>CFDA Number</u>
Head Start	93.600
Low-income Housing Energy Assistance	93.568
CSBG	93.569
Home Investment Partnership Act	14.239

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

Section II – Financial Statement Findings

There were no findings or significant deficiencies for the year ended September 30, 2020.

Section III – Federal Award Findings and Questioned Costs

There were no findings or significant deficiencies for the year ended September 30, 2020.