

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 & 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1-2
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION.....	3-4
STATEMENTS OF ACTIVITIES.....	5-6
STATEMENTS OF CASH FLOWS.....	7-8
NOTES TO FINANCIAL STATEMENTS.....	9-15
SUPPLEMENTAL INFORMATION:	
SCHEDULES OF FUNCTIONAL EXPENSES.....	17-18
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	19
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	20-21
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	22-23
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM	24-25

RICHARD P. HARBIN
Certified Public Accountant
rharbin@harbinandstough.com



CERTIFIED PUBLIC ACCOUNTANTS

PATRICIA L. STOUGH
Certified Public Accountant
pstough@harbinandstough.com

MEMBERS:

*American Institute
of Certified Public
Accountants*

*Alabama Society
of Certified Public
Accountants*

February 3, 2011

Board of Directors
Hale empowerment and Revitalization Organization, Inc.
Greensboro, Alabama

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Hale Empowerment and Revitalization Organization, Inc. (a nonprofit Organization), as of September 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hale Empowerment and Revitalization Organization, Inc., as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

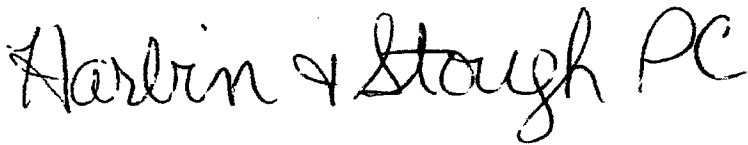
In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2011, on our consideration of Hale Empowerment and Revitalization

205-758-3333 ♦ Fax 205-758-3334 ♦ 2521 6th Street ♦ P.O. Box 2169 ♦ Tuscaloosa, Alabama 35403

334-624-8483 ♦ Fax 334-624-4457 ♦ 1130 Main Street ♦ Greensboro, Alabama 36744

Organization, Inc.'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Hale Empowerment and Revitalization Organization, Inc. taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements of Hale Empowerment and Revitalization Organization, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Hale Empowerment and Revitalization Organization, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Harbin & Stough PC". The signature is written in a cursive, flowing style.

Harbin & Stough, PC

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 14,441	\$ 37,470
Grants and Contracts Receivable	244,479	123,205
Prepaid Expenses	6,920	5,921
Mortgages Receivable – current	1,500	1,736
Accumulated Construction Costs – HUD Program	245,497	539,097
Unconditional Promise to Give Use of Building	<u>808</u>	<u>808</u>
 TOTAL CURRENT ASSETS	 <u>513,645</u>	 <u>708,237</u>
PROPERTY AND EQUIPMENT:		
Rental Property	709,836	-0-
Building	354,516	322,653
Furniture and Equipment	35,943	31,840
Leasehold Improvements	46,931	46,931
Land	61,000	61,000
Idle Property	<u>46,284</u>	<u>46,284</u>
 TOTAL PROPERTY & EQUIPMENT	 1,254,510	 508,708
 Less: Accumulated Depreciation	 <u>238,548</u>	 <u>212,968</u>
 NET PROPERTY AND EQUIPMENT	 <u>1,015,962</u>	 <u>295,740</u>
OTHER ASSETS:		
Mortgages Receivable – Long Term	34,831	50,526
Long-term Unconditional Promise to Give Use of Building	<u>69,496</u>	<u>70,304</u>
 TOTAL OTHER ASSETS	 <u>104,327</u>	 <u>120,830</u>
 TOTAL ASSETS	 <u>\$1,633,934</u>	 <u>\$1,124,807</u>

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2010 AND 2009

LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 30,761	\$ 41,082
Accrued Payroll Tax and Related Liability	8,350	2,753
Escrow Funds	1,215	1,057
Accrued Expenses	22,802	4,958
Line of Credit	198,264	155,822
Construction Loans	562,449	311,707
Current Portion of Long-Term Debt	<u>3,600</u>	<u>3,600</u>
TOTAL CURRENT LIABILITIES	<u>827,441</u>	<u>520,979</u>
LONG-TERM LIABILITIES		
Regions Bank – Net Current	<u>65,100</u>	<u>68,400</u>
TOTAL LIABILITIES	<u>892,541</u>	<u>589,379</u>
NET ASSETS:		
Unrestricted	671,089	464,316
Temporarily Restricted	<u>70,304</u>	<u>71,112</u>
TOTAL NET ASSETS	<u>741,393</u>	<u>535,428</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,633,934</u>	<u>\$ 1,124,807</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF ACTIVITIES
 SEPTEMBER 30, 2010 AND 2009

UNRESTRICTED NET ASSETS:	<u>2010</u>	<u>2009</u>
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Grants	\$1,426,249	\$ 980,524
Contributions	159,237	36,886
Interest Income	129	147
Mortgage Interest Income	2,809	1,390
Rental Income	32,415	10,200
Sale of Houses	-0-	121,124
Reimbursed Expense	11,015	2,136
Bill Pay	18,730	-0-
Thrift Store	20,909	7,109
Pie Lab	42,403	-0-
Program Fees	329	7,750
Other	<u>526</u>	<u>-0-</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 1,714,751	 1,167,266
NET ASSETS RELEASED FROM RESTRICTIONS:		
Expiration of Time Restrictions	<u>808</u>	<u>808</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 <u>1,715,559</u>	 <u>1,168,074</u>
EXPENSES:		
Program Services:		
Housing and Related Programs	1,492,499	1,257,871
Supporting Services:		
Management and General	<u>16,287</u>	<u>80,475</u>
 TOTAL EXPENSES	 <u>1,508,786</u>	 <u>1,338,346</u>
 INCREASE IN UNRESTRICTED NET ASSETS	 <u>206,773</u>	 <u>(170,272)</u>

(continued)

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
STATEMENTS OF ACTIVITIES
SEPTEMBER 30, 2010 AND 2009

TEMPORARILY RESTRICTED NET ASSETS:

REVENUES AND OTHER SUPPORT:		
Expiration of Time Restrictions	<u>(808)</u>	<u>(808)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(808)</u>	<u>(808)</u>
INCREASE IN NET ASSETS	205,965	(171,080)
NET ASSETS, BEFINNING OF YEAR	<u>535,428</u>	<u>706,508</u>
NET ASSETS, END OF YEAR	<u>\$ 741,393</u>	<u>\$ 535,428</u>

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF CASH FLOWS
 SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$1,593,477	\$1,207,391
Cash Payments to Suppliers for Goods & Services	(661,307)	(1,196,301)
Cash Payments to Employees and Professional Contractors for Services	<u>(518,150)</u>	<u>(316,181)</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>414,020</u>	<u>(305,091)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Issuance of Debt	303,184	696,966
Principal Paid on Debt	(13,300)	(307,437)
Proceeds from the Sale of Assets	-0-	-0-
Acquisition of Capital Assets	<u>(745,802)</u>	<u>(67,228)</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(455,918)</u>	<u>322,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Mortgages Receivable	15,931	(52,263)
Interest Earned	<u>2,938</u>	<u>1,537</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>18,869</u>	<u>(50,726)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,029)	(33,516)
CASH-BEGINNING OF YEAR	<u>37,470</u>	<u>70,986</u>
CASH-END OF YEAR	<u>\$ 14,441</u>	<u>\$ 37,470</u>

(Continued)

See Notes to Financial Statement.

- HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
- STATEMENTS OF CASH FLOWS (CONTINUED)
- SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES:		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	<u>\$ 203,027</u>	<u>\$(172,617)</u>
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (used in) Operating Activities:		
Depreciation	25,580	15,574
Net Unconditional Promise to Give Donated Facilities	808	808
(Increase) Decrease in Operating Assets:		
Grants and Contracts Receivable	(121,274)	41,662
Prepaid Expenses	(999)	(1,446)
Other Current Assets	293,600	(139,569)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(10,321)	(50,515)
Accrued Payroll Tax and Related Liability	5,597	1,774
Escrow Funds	158	1,057
Accrued Expenses	<u>17,844</u>	<u>(1,819)</u>
NET ADJUSTMENTS	<u>210,993</u>	<u>(132,474)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 414,020</u>	<u>\$(305,091)</u>

(continued)

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

Hale Empowerment and Revitalization Organization, Inc., is a not-for-profit entity that was incorporated on September 15, 1994. The Organization's mission is to empower families to create change in their built environment through increased accessibility of information and education about homeownership, home repair and rental assistance programs for Hale County. The Organization's primary sources of revenue are derived from grants and contributions from governments, other not-for-profit entities and the general public.

B. BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

C. BASIS OF PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates 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 and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2010

E. GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants and contracts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable. The Organization considers all receivables to be fully collectible and accordingly, no allowance for doubtful accounts is provided.

F. ACCUMULATED CONSTRUCTION COSTS – HUD PROGRAM

In 2003, the United States Department of Housing and Urban Development (HUD) awarded the Organization a grant for its Rural Housing and Economic Development program. The Organization used the grant funds to purchase a parcel of land and began construction of residential homes that will be sold to qualifying low-income residence of Hale County. The purchase of the land and the initial construction costs are included in the accumulated construction costs- HUD program on the September 30, 2010 statement of financial position.

G. PROPERTY AND EQUIPMENT

Donations of furniture and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributing of cash that must be used to acquire furniture and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment purchased with unrestricted funds are recorded at cost. It is the Organization's policy to capitalize expenditures for property and equipment in excess of \$1,000. Depreciation of property and equipment is provided for over the estimated useful lives of assets using the straight-line method, and amounted to \$25,580 and \$15,574 in 2010 and 2009, respectively.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2010

H. CONTRIBUTIONS

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that (1) create or enhance non-financial assets or that require specialized skills, (2) are provided by individuals possessing those skills, and (3) would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

I. INCOME TAXES

The Organization is a not-for-profit Organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

J. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers time deposits, certificates of deposit, and all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

K. ADVERTISING COSTS

The Organization expenses the production costs of advertising as incurred, except for direct response advertising, which is capitalized and amortized over its expected period of future benefits. For the years, ended September 30, 2010 and 2009, all advertising costs were expensed, amounting to \$421 and \$284, respectively .

L. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2010

2. CREDIT RISK

The Organization has on deposit cash balances in financial institutions located in Greensboro, Alabama. The balances are insured by the Federal deposit Insurance Corporation up to \$250,000. At September 30, 2010, the Organization's cash balances were under this limit.

3. LONG-TERM PROMISES TO GIVE

As stated in Note 4, the organization leases office facilities from the City of Greensboro for \$1 per year on a ninety-nine year lease that expires in August, 2097. In regards to donated office space, Statement of Financial Accounting Standards No. 116, *Accounting for contributions Received and Contributions Made*, requires that the done record the lesser of the present value of the fair rental value of the facility or the fair the lease was \$80,000, which is less than the present value of the fair rental value of the facility. Each year, the Organization will reduce the balance of the unconditional promise to give by one year's amortization of the recorded value at the inception of the lease. A summary of long-term promises to gibe is shown below:

Fair Market value of the Building	\$ 80,000
Less: Eight Year's Amortization of the Original Recorded Amount	<u>(9,696)</u>
Net long-term Promises to Give	<u>\$ 70,304</u>
Value of Unconditional Promise to give to be Received in Less than One Year	\$ 808
Value of Unconditional Promise to give to be Received in One to Five Years	4,040
Value of Unconditional Promise to give to be Received in more than Five Years	<u>65,456</u>
	<u>\$ 70,304</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2010

4. OPERATING LEASES

As Lessee:

Effective October 1, 1998, the Organization's office facilities are rented for \$1 per year under and annual lease expiring in August 2097 (Note 3).

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of September 30, 2010, including renewals for each of the next five years and in the aggregate are:

<u>Year ending September 30,</u>	<u>Amount</u>
2011	\$ 1
2012	1
2013	1
2014	1
2015	1
Subsequent to 2015	<u>82</u>
Total minimum Future Rental Payments	<u>\$ 87</u>

5. LINE OF CREDIT

The Organization has a line of credit in the amount of \$200,000 dated 9/28/09 with Regions Bank. The interest is stated at prime plus 2.75%. The outstanding balance as of September 30, 2010 was \$198,264.

6. OTHER LOANS

Regions Bank – eight different properties with interest at 4.25%.	\$492,449
People's Bank – loan dated 9/24/10 with interest at 6.25%	30,000
Regions Bank – loan dated 7/10/08 with interest at 4.25%	<u>40,000</u>
Total Construction loans	<u>\$562,449</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2010

7. LONG TERM DEBT

Regions Bank – mortgage dated 9/24/09; secured by 198 WBP; interest at prime plus 1% principal of \$300 plus interest due monthly \$68,700

Maturities over the next five years are as follows:

2011	\$3,600	2016-2020	18,000
2012	3,600	2021-2025	18,000
2013	3,600	2026-2029	<u>14,700</u>
2014	3,600		
2015	3,600	TOTAL	<u>\$68,700</u>

8. ECONOMIC DEPENDENCY

The Organization generated a significant portion of its revenue from contracts in 2010 with the U.S. Department of Housing and Urban Development, specifically the Rural Housing and Economic Development Program and the U.S. Department of Health & Human Services, specifically the Low-Income Home Energy Assistance program. The rural housing program contract primarily provides for the reimbursement of actual expenditures on a monthly basis. The Low-Income Home Energy Assistance contract provides funds to assist qualified individuals with the utility bills. Revenue from these contracts totaled \$610,934 for the year ended September 30, 2010. At September 30, 2010, the amount due from these contracts was \$24,860.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaled \$70,304 for 2010. Temporarily restricted net assets were restated for 2006 due to subsequently adopted bylaws changing the sole mission of the Organization to the mission of the housing resource center’s mission mentioned in Note 1A. The following is a summary of these temporarily restricted net assets:

For office lease agreement (see Note 3 and 4)	<u>\$70,304</u>
-----------------------------------------------	-----------------

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

10. RETIREMENT PLAN

Effective January 1, 1997, the Organization offers employees the opportunity to participate in a 403(b) retirement plan. The plan provides that employees can voluntarily contribute to the plan through salary reduction.

11. RELATED PARTY

The Board of Directors consists of nine voting directors, two of whom serve on West Alabama Youth Services, Inc., Board of Directors.

The Director of Housing is also the Director of Hale County's Chapter of Habitat for Humanity.

12. CONTINGENCIES

The Organization has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Management believes that such disallowances, if any, would be immaterial to the financial statements.

13. HOUSING PROGRAMS

In 2005, the following entities were created: Hale Housing Company, LLC – The Organization is the sole 100% member; Cauldwell Creek GP, Inc. – Hale Housing Company, LLC is the 100% stockholder; and Cauldwell Creek, Ltd – General partners are Cauldwell Creek GP, Inc. (.005% partner) and Bennette & Company, LLC (.005% partner) and the limited partner is a tax credit investor (99.99% partner). Cauldwell Creek, Ltd. plans to own single-family rental housing. The financial activity within these entities is immaterial to the Organization's financial statements.

14. SUBSEQUENT EVENT

On October 25, 2010 the Organization purchased property in Greensboro for \$103,000.

SUPPLEMENTAL INFORMATION

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Program Services</u>	<u>Supporting Services</u>	
	Housing and <u>Related Programs</u>	Management <u>and General</u>	<u>Total</u>
Salaries	\$ 453,252	\$ -0-	\$453,252
Insurance	6,694	1,971	8,665
Payroll taxes and other fringe benefits	99,668	-0-	99,668
Contract services	73,593	-0-	73,593
Travel	19,802	-0-	19,802
Telephone	8,990	-0-	8,990
Rent	930	808	1,738
Utilities	26,233	-0-	26,233
Maintenance and repairs	2,453	-0-	2,453
Bill Pay	19,799	-0-	19,799
Office supplies	11,196	-0-	11,196
Postage	836	152	988
Training	68,799	-0-	68,799
Client incentive and service delivery	497,704	-0-	497,704
Advertising	421	-0-	421
Professional services	22,822	-0-	22,822
Depreciation	12,545	13,034	25,579
Supplies	82,083	46	82,129
Program Admin.	28,676	-0-	28,676
Automobile and van	7,185	82	7,267
Interest expense	30,048	-0-	30,048
License/ Dues	2,260	120	2,380
Construction	10,373	-0-	10,373
Bank Charges	2,282	-0-	2,282
Miscellaneous	2,675	74	2,749
Taxes	<u>1,180</u>	<u>-0-</u>	<u>1,180</u>
 TOTAL	 <u>\$1,492,499</u>	 <u>\$16,287</u>	 <u>\$1,508,786</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Program Services</u>	<u>Supporting Services</u>	
	Housing and Related Programs	Management and General	Total
Salaries	\$ 216,514	\$ 32,353	\$248,867
Insurance	9,022	1,348	10,370
Payroll taxes and other fringe benefits	42,943	6,417	49,360
Contract services	64,062	1,433	65,495
Travel	18,546	5,945	24,491
Telephone	6,211	690	6,901
Rent	606	202	808
Utilities	10,751	2,688	13,439
Maintenance and repairs	1,200	133	1,333
Classroom and equipment rent	487	1,463	1,950
Office supplies	8,259	1,636	9,895
Postage	680	1,256	1,936
Training	1,250	-0-	1,250
Client incentive and service delivery	538,616	1,316	539,932
Advertising	125	159	284
Professional services	32,022	582	32,604
Depreciation	14,017	1,557	15,574
Supplies	95,668	6,194	101,862
Program Admin.	10,978	-0-	10,978
Automobile and van	1,513	370	1,883
Interest expense	820	11,795	12,615
License/ Dues	1,507	170	1,677
Construction	177,177	-0-	177,177
Bank Charges	102	2,172	2,274
Miscellaneous	<u>4,795</u>	<u>596</u>	<u>5,391</u>
TOTAL	<u>\$1,257,871</u>	<u>\$80,475</u>	<u>\$1,338,346</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Department of Agriculture		
RCDI Grant 3	10.446	\$ 15,000
Housing Counseling & Development	10.783	24,172
U.S. Department of Housing and Urban Development		
Housing Counseling Assistance Program	14.169	96,144
YouthBuild	14.243	17,376
Rural Housing & Economic Development Program	14.250	207,408
U.S. Department of Labor		
WIA Youth Activities	17.259	85,984
	17.274	204,715
U.S. Department of Health & Human Services		
Compassion Capital Fund	93.009	48
Low-Income Home Energy Assistance	93.568	<u>514,436</u>
TOTAL		<u>\$ 1,165,283</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Hale Empowerment and Revitalization Organization, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Hale Empowerment and Revitalization Organization, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Hale Empowerment and Revitalization Organization, Inc. expresses an unqualified opinion.
6. Audit finding that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:
 - ◆ Low-Income Home Energy Assistance-CFDA 93.568
 - ◆ Housing Counseling Assistance Program-CFDA 14.169
8. The threshold for distinguishing Types A and B programs was \$500,000.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Reportable Conditions

- 10-01 Duplication of Heating/Cooling Awards for Low-Income Home Energy Assistance CFDA# 93.568
- Condition: Awards for heating and cooling assistance were awarded in duplicate or in error in nine different instances totaling \$4,013.
- Criteria: Recipients can only receive one award and intake workers cannot process their own applications.
- Effect: Invalid payments made on behalf of ineligible participants.
- Cause: Intake workers were obtaining heating and cooling assistance and the computer program did not initially prevent the award. However, subsequent internal controls through the State of Alabama and the entity discovered the error.
- Recommendation: The computer program should be adjusted to catch duplication of awards, the questioned cost should be repaid and the intake workers removed from service.
- Response: The Organization has reimbursed the funds and terminated the employees and the computer program now immediately prevents duplication of awards.

RICHARD P. HARBIN
Certified Public Accountant
rharbin@harbinandstough.com

PATRICIA L. STOUGH
Certified Public Accountant
pstough@harbinandstough.com



CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute
of Certified Public
Accountants

Alabama Society
of Certified Public
Accountants

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

February 3, 2011

To the Board of Directors of
Hale Empowerment and Revitalization Organization, Inc.
Greensboro, Alabama

We have audited the financial statements of Hale Empowerment and Revitalization Organization, Inc. (H.E.R.O.) (a nonprofit organization) as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated February 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered H.E.R.O.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of H.E.R.O.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. See 10-01. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether H.E.R.O.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

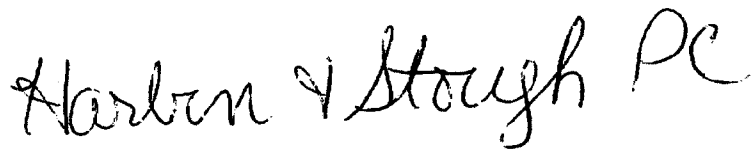
205-758-3333 • Fax 205-758-3334 • 2521 6th Street • P.O. Box 2169 • Tuscaloosa, Alabama 35403

334-624-8483 • Fax 334-624-4457 • 1130 Main Street • Greensboro, Alabama 36744

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-01.

H.E.R.O.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit H.E.R.O.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Harbin & Stough PC". The signature is written in a cursive, flowing style.

Harbin & Stough, P.C.

RICHARD P. HARBIN
Certified Public Accountant
rharbin@harbinandstough.com



CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

American Institute
of Certified Public
Accountants

Alabama Society
of Certified Public
Accountants

PATRICIA L. STOUGH
Certified Public Accountant
pstough@harbinandstough.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

February 3, 2011

To the Board of Directors of
Hale Empowerment and Revitalization Organization, Inc.
Greensboro, Alabama

Compliance

We have audited Hale Empowerment and Revitalization Organization, Inc.'s (H.E.R.O.) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of H.E.R.O.'s major federal programs for the year ended September 30, 2010. H.E.R.O.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of H.E.R.O.'s management. Our responsibility is to express an opinion on H.E.R.O.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 H.E.R.O.'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. Our audit does not provide a legal determination of H.E.R.O.'s compliance with those requirements.

In our opinion, H.E.R.O. complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01.

Internal Control Over Compliance

Management of H.E.R.O. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered H.E.R.O.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on

205-758-3333 • Fax 205-758-3334 • 2521 6th Street • P.O. Box 2169 • Tuscaloosa, Alabama 35403

334-624-8483 • Fax 334-624-4457 • 1130 Main Street • Greensboro, Alabama 36744

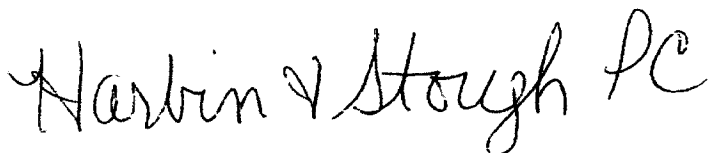
the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of H.E.R.O.'s internal control over compliance.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

H.E.R.O.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit H.E.R.O.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Harbin & Stough PC". The signature is written in dark ink and is positioned above the printed name of the firm.

Harbin & Stough, P.C.