

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.

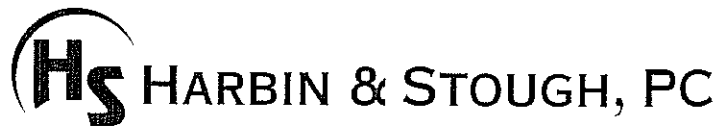
FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

March 2, 2012

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

We have audited the accompanying statement of financial position of Hale Empowerment and Revitalization Organization, Inc. (H.E.R.O.) (a nonprofit organization) as of September 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 H.E.R.O. as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

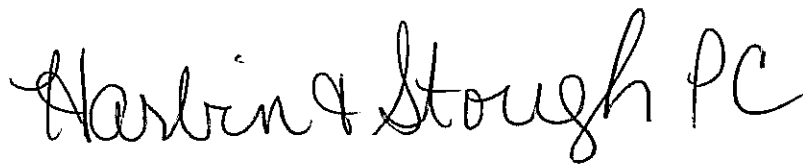
In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of H.E.R.O.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

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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 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 financial statements as a whole. 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 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 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, P.C.

Certified Public Accountants

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 91,830	\$ 14,441
Grants and Contracts Receivable	67,723	244,479
Prepaid Expenses	6,447	6,920
Mortgages Receivable – current	1,500	1,500
Accumulated Construction Costs – HUD Program	332,974	245,497
Unconditional Promise to Give Use of Building	<u>808</u>	<u>808</u>
 TOTAL CURRENT ASSETS	 <u>501,282</u>	 <u>513,645</u>
 PROPERTY AND EQUIPMENT:		
Vehicles	18,501	1,000
Rental Property	739,836	709,836
Building	470,484	354,516
Furniture and Equipment	57,872	34,943
Leasehold Improvements	46,931	46,931
Land	61,000	61,000
Idle Property	<u>-0-</u>	<u>46,284</u>
 TOTAL PROPERTY & EQUIPMENT	 1,394,624	 1,254,510
 Less: Accumulated Depreciation	 <u>210,244</u>	 <u>238,548</u>
 NET PROPERTY AND EQUIPMENT	 <u>1,184,380</u>	 <u>1,015,962</u>
OTHER ASSETS:		
Mortgages Receivable – Long Term	43,499	34,831
Long-term Unconditional Promise to Give Use of Building	<u>68,688</u>	<u>69,496</u>
 TOTAL OTHER ASSETS	 <u>112,187</u>	 <u>104,327</u>
 TOTAL ASSETS	 <u>\$1,797,849</u>	 <u>\$1,633,934</u>

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2011 AND 2010

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 90,484	\$ 30,761
Accrued Payroll Tax and Related Liability	2,541	8,350
Escrow Funds	2,283	1,215
Accrued Expenses	20,015	22,802
Deferred Revenue	15,325	-0-
Line of Credit	137,364	198,264
Current Portion of Long-Term Debt	<u>254,358</u>	<u>566,049</u>
 TOTAL CURRENT LIABILITIES	 <u>522,370</u>	 <u>827,441</u>
LONG-TERM LIABILITIES		
Regions Bank	708,697	601,149
People's Bank	-0-	30,000
Seedco	<u>160,000</u>	<u>-0-</u>
 TOTAL LONG-TERM LIABILITIES	 868,697	 631,149
LESS: CURRENT	<u>(254,358)</u>	<u>(566,049)</u>
 NET LONG-TERM LIABILITIES	 <u>614,339</u>	 <u>65,100</u>
TOTAL LIABILITIES	<u>1,136,709</u>	<u>892,541</u>
NET ASSETS:		
Unrestricted	413,325	484,540
Temporarily Restricted	69,496	70,304
Invested in Capital Assets-Net of Debt	<u>178,319</u>	<u>186,549</u>
 TOTAL NET ASSETS	 <u>661,140</u>	 <u>741,393</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,797,849</u>	 <u>\$ 1,633,934</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
STATEMENTS OF ACTIVITIES
SEPTEMBER 30, 2011 AND 2010

UNRESTRICTED NET ASSETS:	<u>2011</u>	<u>2010</u>
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Grants	\$ 1,583,558	\$ 1,426,249
Contributions	175,795	159,237
Inkind Donation	17,500	-0-
Interest Income	134	129
Mortgage Interest Income	3,455	2,809
Rental Income	56,971	32,415
Sale of Houses	48,535	-0-
Reimbursed Expense	13,827	11,015
Bill Pay	38,847	18,730
Thrift Store	22,161	20,909
Pie Lab	113,236	42,403
Program Fees	-0-	329
Other	<u>8,698</u>	<u>526</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 2,082,717	 1,714,751
NET ASSETS RELEASED FROM RESTRICTIONS:		
Expiration of Time Restrictions	<u>808</u>	<u>808</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 <u>\$ 2,083,525</u>	 <u>\$ 1,715,559</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF ACTIVITIES
 SEPTEMBER 30, 2011 AND 2010

EXPENSES:	<u>2011</u>	<u>2010</u>
Program Services:		
Housing and Related Programs	2,124,508	1,492,499
Supporting Services:		
Management and General	<u>35,028</u>	<u>16,287</u>
 TOTAL EXPENSES	 <u>2,159,536</u>	 <u>1,508,786</u>
 NET INCOME(LOSS) FROM OPERATIONS	 (76,011)	 206,773
 GAIN(LOSS) ON DISPOSAL OF ASSETS	 <u>(3,434)</u>	 <u>-0-</u>
 INCREASE(DECREASE) IN UNRESTRICTED NET ASSETS	 <u>(79,445)</u>	 <u>206,773</u>
 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(DECREASE) IN NET ASSETS	 (80,253)	 205,965
 NET ASSETS, BEFINNING OF YEAR	 <u>741,393</u>	 <u>535,428</u>
 NET ASSETS, END OF YEAR	 <u>\$ 661,140</u>	 <u>\$ 741,393</u>

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 STATEMENTS OF CASH FLOWS
 SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$2,233,538	\$1,593,477
Cash Payments to Suppliers for Goods & Services	(1,574,873)	(661,307)
Cash Payments to Employees and Professional Contractors for Services	<u>(549,667)</u>	<u>(518,150)</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>108,998</u>	<u>414,020</u>
 CASH FLOWS FROM CAPTIAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Issuance of Debt	295,200	303,184
Principal Paid on Debt	(118,551)	(13,300)
Acquisition of Capital Assets	<u>(203,179)</u>	<u>(745,802)</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(26,530)</u>	<u>(455,918)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Mortgages Receivable	(8,668)	15,931
Interest Earned	<u>3,589</u>	<u>2,938</u>
NET CASH FLOWS FROM INVESTING ACTIVITES	<u>(5,079)</u>	<u>18,869</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,389	(23,029)
CASH-BEGINNING OF YEAR	<u>14,441</u>	<u>37,470</u>
 CASH-END OF YEAR	<u>\$ 91,830</u>	<u>\$ 14,441</u>

(Continued)

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES:		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (83,842)	\$ 203,027
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (used in) Operating Activities:		
Depreciation	43,826	25,580
Net Unconditional Promise to Give Donated Facilities	808	808
Inkind Contribution	(17,500)	-0-
Disposal of Assets	(3,434)	-0-
(Increase) Decrease in Operating Assets:		
Grants and Contracts Receivable	176,756	(121,274)
Prepaid Expenses	473	(999)
Other Current Assets	(87,477)	293,600
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	59,723	(10,321)
Accrued Payroll Tax and Related Liability	5,809	5,597
Escrow Funds	1,068	158
Accrued Expenses	(2,537)	17,844
Deferred Revenue	<u>15,325</u>	<u>-0-</u>
NET ADJUSTMENTS	<u>192,840</u>	<u>210,993</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 108,998</u>	<u>\$ 414,020</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB No. 958-205, 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, 2011

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. ACCUMULAED 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, 2011 and 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 \$43,826 and \$25,580 in 2011 and 2010, respectively.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2011

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, 2011 and 2010, all advertising costs were expensed, amounting to \$1,064 and \$421, 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, 2011

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, FASB ASC 958-605-25, 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: Nine Year's Amortization of the Original Recorded Amount	<u>(10,504)</u>	
Net long-term Promises to Give		<u>\$ 69,496</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>64,648</u>
		<u>\$ 69,496</u>

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2011

4. OPERATING LEASES

As Lessee:

Effective October 1, 1998, the Organization's office facilities are rented for \$1 per year under an 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, 2011, including renewals for each of the next five years and in the aggregate are:

<u>Year ending September 30,</u>	<u>Amount</u>
2012	\$ 1
2013	1
2014	1
2015	1
2016	1
Subsequent to 2016	<u>81</u>
Total minimum Future Rental Payments	<u>\$ 86</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, 2011 and 2010 was \$137,364 and \$198,264, respectively.

6. NOTES PAYABLE –
REGIONS BANK

	<u>2011</u>	<u>2010</u>
Construction loan, secured by Yerby Branch lots 1, 8, 9, and 13. Interest at 4.25 % maturity date 1/10/12.	40,000	40,000

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2011

	<u>2011</u>	<u>2010</u>
Construction loan, secured by Yerby Branch lot 6 interest at 4.25% maturity date 1/8/12.	74,569	74,549
Construction loan, secured by Yerby Branch lot 15, interest At 4.25% maturity date 1/8/12.	74,569	74,569
Construction loan, secured by 1700 Ward St., interest at 4.25% Maturity date 11/11/12.	44,437	45,000
Construction loan, secured by 198 Yerby Branch (Lot 4 Rammed earth) interest at 4.25% maturity date 12/19/12.	65,400	68,700
Construction Loan, secured by 1691 N Ward St., interest at 4.25% maturity date 12/19/12.	73,682	74,616
Construction Loan, secured by Lot 12 Yerby Branch (41 YB) Interest at 4.25% maturity date 12/19/12.	73,451	74,445
Construction Loan, secured by Lot 17 Yerby Branch (98 YB) Interest at 4.25% maturity Date 12/19/12.	74,067	75,000

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
 NOTES TO FINANCIAL STATEMENT
 SEPTEMBER 30, 2011

Construction loan, secured by Lot 4 Yerby Branch (1699 N Ward St) interest at 4.25%, maturity Date 12/19/12.	73,322	74,250
Loan at variable interest of Prime at 2.65% maturity date 10/28/14.	115,200	-0-

Seedco Financial Services Inc.

Promissory note with Interest at 7%, maturity Date 5/31/16.	160,000	-0-
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<u>Peoples Bank</u>	<u>-0-</u>	<u>30,000</u>
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	868,697	631,149
LESS: CURRENT PORTION	<u>(254,358)</u>	<u>(566,049)</u>
NET LONG-TERM DEBT	<u>614,339</u>	<u>65,100</u>

Maturities over the next five years are as follows:

2011	\$254,538
2012	370,959
2013	147,200
2014	32,000
2015	<u>64,000</u>
TOTAL	<u>614,339</u>

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2011

7. 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 and 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 Program contract provides funds to assist qualified individuals with the utility bills. Revenue from these contracts totaled \$644,446 for the years ended September 30, 2011 and 2010, respectively. At September 30, 2011 and 2010, the amounts due from these contracts were \$0 and \$81,114, respectively.

8. 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>\$69,496</u>
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9. 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.

10. 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.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
NOTES TO FINANCIAL STATEMENT
SEPTEMBER 30, 2011

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.

(continued)

SUPPLEMENTAL INFORMATION

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Program Services</u>	<u>Supporting Services</u>	
	Housing and Related Programs	Management and General	<u>Total</u>
Salaries	\$ 465,803	\$ -0-	\$ 465,803
Insurance	8,576	-0-	8,576
Payroll taxes and other fringe benefits	105,739	7,870	113,609
Contract services	78,401	-0-	78,401
Travel	14,109	42	14,151
Telephone	12,754	-0-	12,754
Rent	1,125	808	1,933
Utilities	27,578	-0-	27,578
Maintenance and repairs	4,740	-0-	4,740
Bill Pay	38,945	-0-	38,945
Office supplies	16,848	-0-	16,848
Postage	1,462	21	1,483
Training	56,650	-0-	56,650
Client incentive and service delivery	735,590	-0-	735,590
Advertising	1,064	-0-	1,064
Professional services	40,425	250	40,675
Depreciation	32,869	10,957	43,826
Supplies	197,600	7,337	204,937
Program Admin.	183,009	-0-	183,009
Automobile and van	12,007	900	12,907
Interest expense	47,306	6,247	53,553
Tax /License/ Dues	4,390	-0-	4,390
Construction	25,206	-0-	25,206
Bank Charges	1,382	596	1,978
Miscellaneous	<u>10,930</u>	<u>-0-</u>	<u>10,930</u>
 TOTAL	 <u>\$ 2,124,508</u>	 <u>\$ 35,028</u>	 <u>\$ 2,159,536</u>

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 Related Programs	Management and General	<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 EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Housing Counseling Assistance Program	14.169	70,463
Rural Housing & Economic Development Program(5)	14.250	71,479
Rural Housing & Economic Development Program(6)	14.250	203,859
U.S. Department of Labor		
WIA Youth Activities	17.259	93,475
WIA Youth Activities	17.259	436
Youth Build	17.274	289,181
U.S. Department of Health and Human Services		
Compassion Capital Fund	93.009	14,004
Low-Income Home Energy Assistance Program-2010	93.568	160,790
Low-Income Home Energy Assistance Program-2011	93.568	<u>556,386</u>
TOTAL		<u>\$1,460,072</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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. One instance of noncompliance material to the financial statements of Hale Empowerment and Revitalization Organization, Inc. was disclosed during the audit. See Schedule of Findings and Questioned Costs: Reportable Condition 11-01.
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, except for the noncompliance described in item 11-01 in the accompanying schedule of findings and questioned costs.
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 Program-CFDA 93.568
 - ◆ YouthBuild-CFDA 17.274
8. The threshold for distinguishing Types A and B programs was \$300,000.

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

Reportable Conditions

11-01 Failure to submit in a timely manner the September 30, 2009 Audit Report to the Federal Audit Clearinghouse (FAC) for Low-Income Home Energy Assistance Program CFDA# 93.568

Condition: H.E.R.O. failed to submit, in a timely manner, the September 30, 2009 Audit Report to the FAC.

Criteria: Section 320 of the Office of Management and Budget (OMB) Circular A-133 requires single audits to be filed with the FAC within the earlier of 30 days after the auditor's report or nine months after the fiscal year end.

Effect: Noncompliance with OMB Circular A-133.

Cause: Misunderstanding of filing timing requirements.

Recommendation: Establish procedures to ensure audits are performed and submitted to the FAC in a timely manner.

Response: The Organization has indicated that they plan to comply in every way with the requirements of any grant that they may receive. In addition, the Organization provided a copy of the procedures policy manual and documentation from the Board of Directors meeting on September 28, 2011, indicating that a copy of the audit report will be filed with the FAC within 30 days of the completion of the audit report.

10-01 Duplication of Heating/Cooling Awards for Low-Income Home Energy Assistance Program 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.

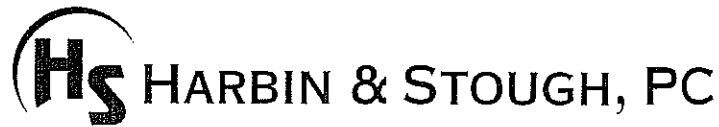
Effect: Invalid payments made on behalf of ineligible participants.

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.

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CERTIFIED PUBLIC ACCOUNTANTS

PATRICIA L. STOUGH
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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*

March 2, 2012

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 year ended September 30, 2011 and 2010, and have issued our report thereon dated March 2, 2012. 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. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

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

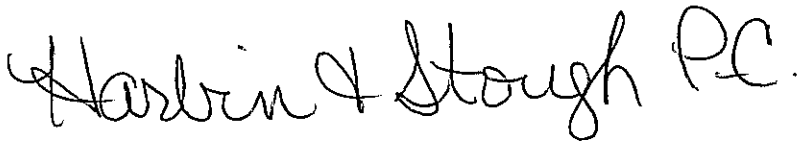
334-624-8483 ♦ Fax 334-624-4457 ♦ 1130 Main Street ♦ Greensboro, Alabama 36744

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 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 items 11-01 and 10-01.

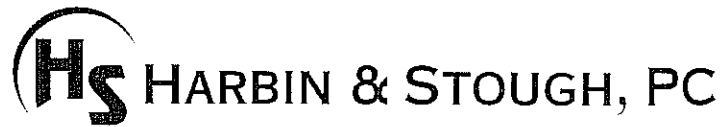
H.E.R.O.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit H.E.R.O.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, 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 P.C." in a cursive, slightly slanted font.

Harbin & Stough, P.C.
Certified Public Accountants

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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

March 2, 2012

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

Compliance

We have audited Hale Empowerment and Revitalization Organization, Inc. (H.E.R.O.)'s 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, 2011 and 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.

As described in item 11-01 in the accompanying schedule of findings and questioned costs, H.E.R.O. did not comply with requirements regarding the filing of the data collection form (OMB Circular A-133 § __.320 (a)) that is applicable to its Low-Income Home Energy Assistance Program (LIHEAP). Compliance with such requirements is necessary, in our opinion, for H.E.R.O. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011 and 2010.

Internal Control over Compliance

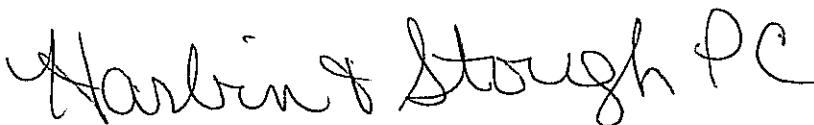
Management of H.E.R.O. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered H.E.R.O.'s internal control over compliance 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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.

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

Harbin & Stough, P.C.
Certified Public Accountants