

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 and 2013

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## INDEPENDENT AUDITOR'S REPORT

June 10, 2015

To the Board of Trustees of  
Hale Empowerment and Revitalization Organization, Inc.  
Greensboro, AL

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Hale Empowerment and Revitalization Organization, Inc. (HERO, Inc.) (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014 and 2013, 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 HERO, Inc. as of September 30, 2014 and 2013, 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.

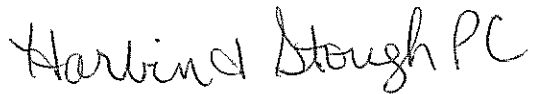
### ***Other Matters***

#### ***Other Information***

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2015, on our consideration of HERO, 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 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 HERO, Inc.'s internal control over financial reporting and compliance.



Harbin & Stough, P.C.  
Certified Public Accountants

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 SEPTEMBER 30, 2014 AND 2013

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 49,861	\$ 50,990
Grants and Contracts Receivable	66,254	66,556
Prepaid Expenses	10,682	11,926
Mortgages Receivable – current	16,809	27,191
Accumulated Construction Costs – HUD Program	149,658	226,456
Unconditional Promise to Give Use of Building	<u>808</u>	<u>808</u>
 TOTAL CURRENT ASSETS	 <u>294,072</u>	 <u>383,927</u>
 PROPERTY AND EQUIPMENT:		
Vehicles	55,431	55,431
Rental Property	864,685	854,685
Building	419,791	434,484
Furniture and Equipment	64,344	61,958
Leasehold Improvements	46,931	46,931
Land	<u>82,000</u>	<u>82,000</u>
 TOTAL PROPERTY & EQUIPMENT	 1,533,182	 1,535,489
 Less: Accumulated Depreciation	 <u>(375,389)</u>	 <u>(319,870)</u>
 NET PROPERTY AND EQUIPMENT	 <u>1,157,793</u>	 <u>1,215,619</u>
OTHER ASSETS:		
Mortgages Receivable – Long Term	-0-	16,658
Long-term Unconditional Promise to Give Use of Building	66,264	67,072
Investment in Bike Lab (net of amortization)	<u>13,125</u>	<u>14,625</u>
 TOTAL OTHER ASSETS	 <u>79,389</u>	 <u>98,355</u>
 TOTAL ASSETS	 <u>\$1,531,254</u>	 <u>\$1,697,901</u>

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 SEPTEMBER 30, 2014 AND 2013

LIABILITIES AND NET ASSETS	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 48,973	\$ 64,886
Accrued Payroll Tax and Related Liability	1,151	2,670
Escrow Funds	16,854	12,945
Accrued Expenses	10,445	14,874
Deferred Revenue	-0-	18,543
Line of Credit	306,694	256,267
Sales Tax Payable	263	1,292
Current Portion of Long-Term Debt	<u>61,937</u>	<u>134,082</u>
 TOTAL CURRENT LIABILITIES	 <u>446,317</u>	 <u>505,559</u>
LONG-TERM LIABILITIES		
Regions Bank	32,191	556,997
United Bank	514,406	-0-
TruFund	178,608	132,752
American Honda	<u>3,071</u>	<u>7,816</u>
 TOTAL LONG-TERM LIABILITIES	 728,276	 697,565
LESS: CURRENT	<u>(61,937)</u>	<u>(134,082)</u>
 NET LONG-TERM LIABILITIES	 <u>666,339</u>	 <u>563,483</u>
TOTAL LIABILITIES	<u>1,112,656</u>	<u>1,069,042</u>
NET ASSETS:		
Unrestricted	228,704	299,192
Temporarily Restricted	67,072	67,880
Invested in Capital Assets-Net of Debt	<u>122,822</u>	<u>261,787</u>
 TOTAL NET ASSETS	 <u>418,598</u>	 <u>628,859</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,531,254</u>	 <u>\$ 1,697,901</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
STATEMENTS OF ACTIVITIES  
SEPTEMBER 30, 2014 AND 2013

UNRESTRICTED NET ASSETS:	<u>2014</u>	<u>2013</u>
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Grants	\$ 804,133	\$ 1,192,791
Contributions	133,925	167,072
Interest Income	272	138
Mortgage Interest Income	1,626	3,363
Rental Income	77,893	68,015
Sale of Houses	107,372	421,700
Reimbursed Expense	67,974	71,222
Thrift Store	19,698	23,547
Pie Lab	7,700	160,413
Program Fees	187,223	905,729
HEROkids Daycare	30	53,091
Bike Lab Sales	57,474	63,719
Other	<u>578</u>	<u>977</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 1,465,898	 3,131,777
NET ASSETS RELEASED FROM RESTRICTIONS:		
Expiration of Time Restrictions	<u>808</u>	<u>808</u>
 TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	 <u>\$ 1,466,706</u>	 <u>\$ 3,132,585</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
STATEMENTS OF ACTIVITIES  
SEPTEMBER 30, 2014 AND 2013

EXPENSES:	<u>2014</u>	<u>2013</u>
Program Services:		
Housing and Related Programs	1,594,719	3,077,791
Supporting Services:		
Management and General	<u>81,440</u>	<u>79,586</u>
 TOTAL EXPENSES	 <u>1,676,159</u>	 <u>3,157,377</u>
 NET INCOME(LOSS) FROM OPERATIONS	 (209,453)	 (24,792)
 GAIN(LOSS) ON DISPOSAL OF ASSETS	 <u>-0-</u>	 <u>-0-</u>
 INCREASE(DECREASE) IN UNRESTRICTED NET ASSETS	 <u>(209,453)</u>	 <u>(24,792)</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	 (210,261)	 (25,600)
 NET ASSETS, BEFINNING OF YEAR	 <u>628,859</u>	 <u>654,459</u>
 NET ASSETS, END OF YEAR	 <u>\$ 418,598</u>	 <u>\$ 628,859</u>

See Notes to Financial Statement.



HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
STATEMENTS OF CASH FLOWS  
SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$1,476,582	\$3,114,592
Cash Payments to Suppliers for Goods & Services	(945,542)	(1,244,927)
Cash Payments to Employees and Professional Contractors for Services	<u>(642,654)</u>	<u>(1,740,161)</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(111,614)</u>	<u>129,504</u>
 CASH FLOWS FROM CAPTIAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Issuance of Debt	572,485	132,752
Principal Paid on Debt	(541,774)	(284,902)
Line of Credit Increase (Decrease)	50,427	(47,000)
Acquisition of Business Asset	-0-	(15,000)
Acquisition of Capital Assets	<u>2,307</u>	<u>(135,849)</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>83,445</u>	<u>(349,999)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Mortgages Receivable	27,040	594
Interest Earned	<u>-0-</u>	<u>-0-</u>
NET CASH FLOWS FROM INVESTING ACTIVITES	<u>27,040</u>	<u>594</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,129)</u>	<u>(219,901)</u>
CASH-BEGINNING OF YEAR	<u>50,990</u>	<u>270,891</u>
 CASH-END OF YEAR	<u>\$ 49,861</u>	<u>\$ 50,990</u>

(Continued)

See Notes to Financial Statement.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</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>(210,261)</u>	\$ <u>(25,600)</u>
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (used in) Operating Activities:		
Depreciation	57,018	58,538
Net Unconditional Promise to Give Donated Facilities	808	808
(Increase) Decrease in Operating Assets:		
Grants and Contracts Receivable	302	8,506
Prepaid Expenses	1,244	10,959
Other Current Assets	76,798	222,709
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(15,913)	2,978
Accrued Payroll Tax and Related Liability	(1,519)	(1,075)
Escrow Funds	3,909	5,974
Accrued Expenses	(4,428)	(2,439)
Sales Tax Payable	(1,029)	(597)
Deferred Revenue	<u>(18,543)</u>	<u>(151,257)</u>
NET ADJUSTMENTS	<u>98,647</u>	<u>155,104</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (111,614)</u>	<u>\$ 129,504</u>

See Notes to Financial Statements.

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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 work as a catalyst for community development in areas of the Alabama Black Belt to end rural poverty. 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, 2014

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

The United States Department of Housing and Urban Development (HUD) awarded the Organization grants for its Rural Housing and Economic Development program. The Organization used the grant funds to purchase 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, 2014 and 2013 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.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

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 \$52,646 and \$43,826 in 2014 and 2013, respectively.

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. The Organizations federal exempt tax return (Form 990) for years ending 9/30/12, 9/30/13, and 9/30/14 are subject to examination by the IRS, generally for three years after they were filed.

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.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
 NOTES TO FINANCIAL STATEMENT  
 SEPTEMBER 30, 2014

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, 2014 and 2013, all advertising costs were expensed, amounting to \$3,254 and \$1,064, 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.

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, 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Fair Market value of the Building	\$ 80,000	\$ 80,000
Less: Fourteen Year's Amortization of the Original Recorded Amount	<u>(12,928)</u>	<u>(12,120)</u>
Net long-term Promises to Give	<u>\$ 67,072</u>	<u>\$ 67,880</u>

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

Value of Unconditional Promise to give to be Received in Less than One Year	\$ 808	\$ 808
Value of Unconditional Promise to give to be Received in One to Five Years	4,040	4,040
Value of Unconditional Promise to give to be Received in more than Five Years	<u>62,224</u>	<u>63,032</u>
	<u>\$ 67,072</u>	<u>\$ 67,880</u>

The City of Greensboro deeded the property to HERO on 2/28/11. The property will be free of any deed restriction in October 2014 when the CDBG 10 year waiting period ends.

4. OPERATING LEASES

As Lessee:

Effective October 1, 1998, the Organization's storage 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, 2014, including renewals for each of the next five years and in the aggregate are:

<u>Year ending September 30,</u>	<u>Amount</u>
2015	\$ 1
2016	1
2017	1
2018	1
2019	1
Subsequent to 2019	<u>80</u>
Total minimum Future Rental Payments	<u>\$ 85</u>

5. LINE OF CREDIT

a) 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 3%, as of 9/30/14 the rate was 6.25% and 6.1% as of 9/30/13.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

b) The Organizations has a line of credit in the amount of \$115,200. The interest rate is 5.1%

	2014	2013
Line A	191,852	141,426
Line B	114,841	114,841
Total Line of Credit	306,693	256,267

	2014	2013
6. <u>NOTES PAYABLE –</u> <u>REGIONS BANK –</u> (all will be renewed to be due in future years)		
Construction loan, secured by Yerby Branch lots 1, 8, 9, and 13. Interest at 4.25 % maturity date 11/15/14.	32,191	37,996
Construction loan, secured by Yerby Branch lot 6 interest at 4.25% maturity date 1/8/12.	-0-	70,837
Construction loan, secured by Yerby Branch lot 15, interest At 4.25% maturity date 1/8/12.	-0-	70,837
Construction loan, secured by 1700 Ward St., interest at 4.25% Maturity date 11/11/12.	-0-	41,812
Construction loan, secured by 198 Yerby Branch (Lot 4 Rammed earth) interest at 4.25% maturity date 12/19/12.	-0-	61,200

(continued)



HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

Construction Loan, secured by 1691 N Ward St., interest at 4.25% maturity date 12/19/12.	-0-	68,704
Construction Loan, secured by Lot 12 Yerby Branch (41 YB) Interest at 4.25% maturity date 12/19/12.	-0-	68,152
Construction Loan, secured by Lot 17 Yerby Branch (98 YB) Interest at 4.25% maturity Date 12/19/12.	-0-	69,087
Construction loan, secured by Lot 4 Yerby Branch (1699 N Ward St) interest at 4.25%, maturity Date 12/19/12.	-0-	68,372
Loan at United Bank 59 payments of \$3,324.47 with interest at 4.56 % - Balance due on 3/3/19 secured by 8 properties.	514,406	-0-

Trufund Financial Services Inc.

Promissory note with Interest at 7%, maturity date 5/31/16.	126,844	127,052
Promissory note with Interest at 7%, maturity date 4/30/19.	51,764	5,700

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

American Honda	3,071	7,816
Purchased 2012 Honda Civic interest at 9% monthly payments of \$299.56 matures 2/18/17		
	728,276	697,565
LESS: CURRENT PORTION	<u>(61,937)</u>	<u>(134,082)</u>
NET LONG-TERM DEBT	<u>666,339</u>	<u>563,483</u>
Maturities over the next five years are as follows:		
2015	\$ 61,937	
2016	155,017	
2017	29,760	
2018	31,441	
2019	27,641	
Thereafter	<u>422,480</u>	
Total	<u>728,276</u>	

7. ECONOMIC DEPENDENCY

The Organization generated a significant portion of its revenue from contracts in 2014 and 2013 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 \$522,358 and \$476,539 for the years ended September 30, 2014 and 2013, respectively.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaled \$67,022 for 2014 and \$67,022 for 2013. 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:

	<u>2014</u>	<u>2013</u>
For office lease agreement (see Note 3 and 4)	<u>\$67,072</u>	<u>\$67,880</u>

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.

The Executive Director of Housing is also the Executive Director of Habitat for Humanity, Hale County, Inc.

11. 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.

(continued)

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENT  
SEPTEMBER 30, 2014

12. 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.

13. SUBSEQUENT EVENTS

Management has reviewed transactions through June 10, 2015, the date the financials were available to be released. Nothing unusual was found to be disclosed.

14. COMPENSATED ABSENCES

There has been no accrual for employee's compensated absences because the amount cannot be reasonably estimated.

## SUPPLEMENTAL INFORMATION

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Program Services</u>	<u>Supporting Services</u>	
	Housing and	Management	
	<u>Related Programs</u>	<u>and General</u>	<u>Total</u>
Salaries	\$ 220,027	\$ -0-	\$ 220,027
Insurance	43,874	22,373	66,247
Payroll taxes and other fringe benefits	21,161	-0-	21,161
Contract services	420,708	400	421,108
Travel	4,921	225	5,146
Telephone	5,418	924	6,342
Rent	300	-0-	300
Utilities	15,606	551	16,157
Maintenance and repairs	3,296	-0-	3,296
Bill Pay	-0-	-0-	-0-
Office supplies	-0-	-0-	-0-
Postage	13,213	429	13,642
Training	-0-	-0-	-0-
Client incentive and service delivery	529,111	55	529,166
Advertising	1,382	-0-	1,382
Professional services	9,679	2,506	12,185
Depreciation	20,124	36,894	57,018
Supplies	107,758	3,084	110,842
Program Admin.	6,457	100	6,557
Automobile and van	6,244	1,529	7,773
Interest expense	46,255	9,539	55,794
Tax/License/ Dues	7,535	1,153	8,688
Construction	104,610	-0-	104,610
Bank Charges	5,904	632	6,536
Miscellaneous	<u>1,136</u>	<u>1,046</u>	<u>2,182</u>
 TOTAL	 <u>\$ 1,594,719</u>	 <u>\$ 81,440</u>	 <u>\$ 1,676,159</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Program Services</u>	<u>Supporting Services</u>	
	Housing and	Management	
	<u>Related Programs</u>	<u>and General</u>	<u>Total</u>
Salaries	\$ 422,419	\$ 586	\$ 423,005
Insurance	90,238	282	90,520
Payroll taxes and other fringe benefits	54,398	132	54,530
Contract services	1,315,824	257	1,316,081
Travel	19,458	2,766	22,224
Telephone	11,156	-0-	11,156
Rent	-0-	-0-	-0-
Utilities	29,924	-0-	29,924
Maintenance and repairs	2,584	-0-	2,584
Bill Pay	-0-	-0-	-0-
Office supplies	173	-0-	173
Postage	5,225	-0-	5,225
Training	650	-0-	650
Client incentive and service delivery	475,621	150	475,771
Advertising	1,369	-0-	1,369
Professional services	19,721	5,212	24,933
Depreciation	20,041	38,497	58,538
Supplies	218,203	22,364	240,567
Program Admin.	72,970	-0-	72,970
Automobile and van	5,604	-0-	5,604
Interest expense	63,273	-0-	63,273
Tax /License/ Dues	23,895	971	24,866
Construction	220,062	-0-	220,062
Bank Charges	4,983	7,561	12,544
Miscellaneous	<u>-0-</u>	<u>808</u>	<u>808</u>
 TOTAL	 <u>\$ 3,077,791</u>	 <u>\$ 79,586</u>	 <u>\$ 3,157,377</u>

HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 and 2013

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	
		<u>2014</u>	<u>2013</u>
U.S. Department of Housing and Urban Development			
Housing Counseling Assistance Program	14.169	15,910	13,743
Section 4 Capacity Building	14.252	20,548	23,118
Rural Housing & Economic Development Program	14.250	-0-	8,996
U.S. Department of Labor			
Youth Build	17.274	29,698	-0-
Environmental Protection Agency			
Science to Achieve Results	63.306	20,304	21,246
U.S. Department of Health and Human Services			
Low-Income Home Energy Assistance Program-2012	93.568	-0-	106,991
Low-Income Home Energy Assistance Program-2013	93.568	11,889	382,435
Low-Income Home Energy Assistance Program-2014	93.568	533,484	-0-
PPHF Cooperative Agreement to support navigators in federally facilitated and state partnership exchanges	93.750	53,684	2,158
U.S. Department of Homeland Security			
Disaster Housing Assistance Grant	97.109	<u>8,339</u>	<u>215,353</u>
TOTAL		<u>\$ 693,856</u>	<u>\$ 774,040</u>



HALE EMPOWERMENT AND REVITALIZATION ORGANIZATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 and 2013

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 13-01.
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 13-01 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 for 2014 and 2013 included:
  - ◆ Low-Income Home Energy Assistance Program-CFDA 93.568
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 YEARS ENDED SEPTEMBER 30, 2014 and 2013

Reportable Conditions

13-01 Failure to submit in a timely manner the September 30, 2013 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, 2013 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.

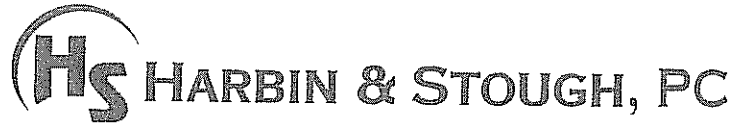
Effect: Noncompliance with OMB Circular A-133.

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 indicating that a copy of the audit report will be filed with the FAC within 30 days of the completion of the audit report.

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MEMBERS:

American Institute  
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Accountants

Alabama Society  
of Certified Public  
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INDEPENDENT AUDITOR'S 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

June 10, 2015

To the Board of Trustees of  
Hale Empowerment and Revitalization Organization, Inc.  
Greensboro, AL

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 financial statements of Hale Empowerment and Revitalization Organization, Inc. (HERO, Inc.) (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014 and 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered HERO, Inc.'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 HERO, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of HERO, Inc.'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**

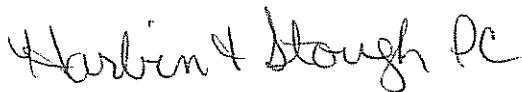
As part of obtaining reasonable assurance about whether HERO, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 13-01.

### **HERO, Inc.'s Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Harbin & Stough, P.C.  
Certified Public Accountants

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**MEMBERS:**

*American Institute  
of Certified Public  
Accountants*

*Alabama Society  
of Certified Public  
Accountants*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

June 10, 2015

To the Board of Trustees of  
Hale Empowerment and Revitalization Organization, Inc.  
Greensboro, AL

**Report on Compliance for Each Major Federal Program**

We have audited Hale Empowerment and Revitalization Organization, Inc.'s (HERO, Inc.) 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 HERO, Inc.'s major federal programs for the year ended September 30, 2014 and 2013. HERO, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of HERO, Inc.'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 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 HERO, Inc.'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 HERO, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, HERO, Inc. 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, 2014 and 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, 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 13-01. Our opinion on each major federal program is not modified with respect to these matters.

HERO, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. HERO, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

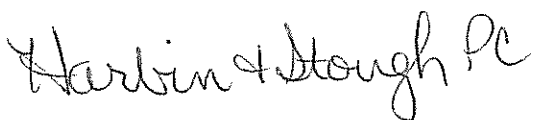
**Report on Internal Control Over Compliance**

Management of HERO, Inc. 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 HERO, Inc.'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 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 HERO, Inc.'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Harbin & Stough, P.C.

Certified Public Accountants