

Community Action Agency of Somerville, Inc.

Financial Statements
and
Independent Auditor's Report

November 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Community Action Agency of Somerville, Inc.:

We have audited the accompanying statement of financial position of Community Action Agency of Somerville, Inc. (a nonprofit organization) as of November 30, 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 Community Action Agency of Somerville, Inc. as of November 30, 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 June 29, 2011 on our consideration of Community Action Agency of Somerville, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 basic financial statements. 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.

James A. George, P.C.

James A. George, P.C.
Boston, Massachusetts
June 29, 2011

Community Action Agency of Somerville, Inc.
Statements of Financial Position
November 30, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash	\$ 88,754	\$ 304,266
Grants and Contracts Receivable	236,030	365,071
Prepaid Expenses	123,217	81,118
Total Current Assets	448,001	750,455
Property and Equipment, Net	2,482,402	2,549,735
Other Assets		
Beneficial Interest in Perpetual Trust	5,780	5,780
Total Other Assets	5,780	5,780
Total Assets	\$ 2,936,183	\$ 3,305,970

Liabilities and Net Assets

Current Liabilities		
Accounts Payable	\$ 34,237	\$ 159,014
Line of Credit	68,600	68,600
Accrued Wages and Related Liabilities	146,864	149,812
Current Portion of Long-Term Debt	28,608	21,609
Deferred Revenue	7,201	97,208
Total Current Liabilities	285,510	496,243
Long-Term Liabilities		
Long-Term Debt, Less Current Portion	1,452,188	1,510,834
Total Long-Term Liabilities	1,452,188	1,510,834
Total Liabilities	1,737,698	2,007,077
Net Assets		
Unrestricted Net Assets	1,198,485	\$ 1,298,893
Total Liabilities and Net Assets	\$ 2,936,183	\$ 3,305,970

See accompanying notes to the financial statements.

Community Action Agency of Somerville, Inc.
Statements of Activities
For the Years Ended
November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue and Public Support		
Grants and Contracts	\$ 5,895,777	\$ 5,304,502
In-Kind Contributions	486,818	390,042
Other Income	<u>120,840</u>	<u>120,789</u>
Total Revenue and Public Support	<u>6,503,435</u>	<u>5,815,333</u>
Expenses		
HeadStart	5,013,417	4,892,121
Community Organizing	1,070,226	467,687
Management and General	<u>520,200</u>	<u>571,414</u>
Total Expenses	<u>6,603,843</u>	<u>5,931,222</u>
Change in Unrestricted Net Assets	(100,408)	(115,889)
Net Assets as of the Beginning of the Year	<u>1,298,893</u>	<u>1,414,782</u>
Net Assets as of the End of the Year	<u><u>\$ 1,198,485</u></u>	<u><u>\$ 1,298,893</u></u>

See accompanying notes to the financial statements.

Community Action Agency of Somerville, Inc.
Statement of Cash Flows
November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (100,408)	\$ (115,889)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	67,334	67,662
(Increase) Decrease in Operating Assets		
Grants Receivable	129,041	111,196
Prepaid Expenses	(42,099)	2,490
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(124,776)	(100,094)
Accrued Wages and Related Liabilities	(2,949)	(25,470)
Due to Funding Source	-	-
Deferred Revenue	(90,007)	90,007
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(163,864)</u>	<u>29,902</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings (Payments) on Line of Credit	<u>(51,648)</u>	<u>(21,171)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(51,648)</u>	<u>(21,171)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(215,512)	8,731
BEGINNING CASH	<u>304,266</u>	<u>295,535</u>
ENDING CASH	<u><u>\$ 88,754</u></u>	<u><u>\$ 304,266</u></u>

See accompanying notes to the financial statements.

Community Action Agency of Somerville, Inc.
Statements of Functional Expenses
November 30, 2010 and 2009

	<u>2010</u>			<u>2009</u>		
	<u>Program Services</u>					
	<u>Headstart</u>	<u>Community Organizing</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Personnel Salaries	\$ 2,265,964	\$ 545,511	\$ 2,811,475	\$ 254,681	\$ 3,066,156	\$ 2,734,688
Fringe Benefits	1,151,830	187,128	1,338,958	99,292	1,438,250	1,417,670
Consultants	106,942	107,513	214,455	57,664	272,119	206,208
Travel	24,986	3,053	28,039	6,830	34,869	31,707
Space	433,457	89,180	522,637	52,792	575,429	547,524
Consumable Supplies	53,397	48,370	101,767	15,373	117,140	111,820
In-Kind Expenses	486,818	-	486,818	-	486,818	390,042
Other Direct Expenses	422,689	89,471	512,160	33,568	545,728	423,901
Depreciation	67,334	-	67,334	-	67,334	67,662
Total Expenses	<u>\$ 5,013,417</u>	<u>\$ 1,070,226</u>	<u>\$ 6,083,643</u>	<u>\$ 520,200</u>	<u>\$ 6,603,843</u>	<u>\$ 5,931,222</u>

See accompanying notes to the financial statements.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note A – Nature of Activities and Significant Accounting Policies

Nature of Activities

Community Action Agency of Somerville, Inc. is a non-profit corporation organized to cooperate with and assist governmental and private agencies in accomplishing the purposes described in the Economic Opportunity Act of 1964. Its principal activities consist of carrying out Community Action Programs in the area it serves.

Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, “*FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162.*” This guidance establishes the FASB Accounting Standards Codification, (ASC or the Codification) as the source of authoritative GAAP for nongovernmental entities. The Codification supersedes all existing non- Securities and Exchange Commission accounting and reporting standards. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the financial condition or results of operations of the Organization.

Net Assets

The Organization’s net assets have been broken down into three different classifications as follows:

Unrestricted net assets – consist of unrestricted amounts that are available for use in carrying out the mission of the Organization.

Temporarily restricted net assets – consist of those amounts that are donor restricted for a specific purpose. When a donor restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization has elected, however, to show those restricted contributions whose restrictions are met in the same reporting period as they are received as unrestricted support. The Organization had no temporarily restricted net assets at November 30, 2010.

Permanently restricted net assets – consist of contributions from donors who place restrictions on the use of donated funds mandating that the original principal remain invested in perpetuity. The Organization had no permanently restricted net assets at November 30, 2010.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note A – Nature of Activities and Significant Accounting Policies (Continued)

Cash

For the purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash.

Grants Receivable

The Organization's account receivable is comprised primarily of grants receivable from government agencies which do not present a significant concentration of credit risk and are deemed fully collectible. The Organization historically has not experienced significant amounts of bad debt and therefore no allowance for doubtful accounts has been provided.

Revenue Recognition

Revenue from grants and contracts is recognized in the period which the services are performed.

Inventory

Inventory consisting of weatherization products are recorded at the lower of cost or market using the FIFO method.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note A – Nature of Activities and Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment with a useful life greater than one year is stated at cost. Donated property is recorded at fair market value on the date of the gift. The Organization's policy is to capitalize property and equipment costing \$5,000 or more. Depreciation is calculated on a straight-line basis based on the following useful lives:

Furniture and Equipment	5-7 years
Vehicles	3-5 years
Building	40 years

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

During 2010, the Organization was required to adopt certain provisions of FASB ASC 740, "Income Taxes" which provide a new framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. With these changes, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Organization does not have any uncertain tax positions as of November 30, 2010. As of November 30, 2010, the Organization did not record any penalties or interest associated with uncertain tax positions. Therefore, the certain provisions of FASB ASC 740, which were adopted during 2010, had no impact on the Organization's financial statements.

Deferred Revenue

Grant monies received prior to the performance of services are deferred and recognized in the period in which services are performed.

Functional Expenses

The expenses incurred to provide the various programs and activities of the Organization 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 based on management's estimates.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note A – Nature of Activities and Significant Accounting Policies (Continued)

New Accounting Pronouncements

The Organization adopted the fair value provisions of FASB ASC 820. Under these provisions, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These provisions establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Organization's own assumptions.

Note B – Cash

The Organization maintains deposits in two accounts with one financial institution. Cash balances exceeded federally insured limits by \$0 and \$61,287 at November 30, 2010 and November 30, 2009, respectively.

Note C – Property and Equipment

Property and equipment consisted of the following at November 30, 2010:

Buildings	\$ 2,382,341
Furniture and Equipment	127,570
Vehicles	31,674
	<hr/> 2,541,585
Less: Accumulated Depreciation	(468,932)
	<hr/> <u>\$ 2,072,653</u>

The Organization also has land which is not depreciated with a balance of \$409,749 at November 30, 2010.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note D – Line of Credit

The Organization has a \$100,000 line of credit with a bank. The line of credit bears interest at the prime rate plus 1.0% (4.25% at November 30, 2010) and is due on demand.

Borrowings on the line of credit were \$68,600 at November 30, 2010 and 2009.

Note E – Operating Leases

The Organization leases office and classroom space from various leases from 1-5 years. The rental expense for the years ending November 30, 2010 and 2009 were \$334,896 and \$333,730, respectively. The approximate minimum future rental commitments under all such operating leases, with renewal options, as of November 30, 2010 are as follows:

2011	\$	195,100
2012		202,850
2013		51,200
	<u>\$</u>	<u>449,150</u>

The Organization also has several non-cancelable operating leases for office equipment with monthly payments that total \$599, expiring June 2010. The Organization is also responsible for usage charges per the lease agreements. Minimum rentals, on an annual basis, are \$3,907 for the year ending November 30, 2010.

Note F – Tax-Deferred Annuity Plan

During the year ended November 30, 2010, the Community Action Agency of Somerville, Inc. had tax-deferred annuity plans qualified under Section 403(b) of the Internal Revenue Code. The plans cover full-time employees of the Organization. The Community Action Agency of Somerville, Inc. contributes 6% of gross salaries for qualified administration employees and 4% of gross salaries for qualified union employees to the plans. Employees may make contributions to the plans up to the maximum amount allowed by the Internal Revenue Code. Plan expenses were approximately \$127,024 and \$113,852 for the years ended November 30, 2010 and 2009, respectively.

Note G – Expense Allocation

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

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note H – Contingencies

The Organization receives a significant portion of its support from various funding sources. Expenditure of these funds requires compliance with terms and conditions specified in the related contracts and agreements. These expenditures are subject to audit by the contracting agencies. Any disallowed expenditures would become a liability of the agency requiring repayment to the funding sources. Liabilities resulting from these audits, if any, will be recorded in the period in which the liability is ascertained.

Note I – Mortgage Payable

On July 21, 2004 the organization entered into a \$1,746,000 loan agreement to finance the acquisition, development and construction of a building to house the organization's Head Start program. During the acquisition and construction period, interest only was due on the amount of outstanding loan disbursements each month. At November 30, 2010 the unpaid principal balance was \$1,481,027. Starting on November 15, 2008, interest will be set for each 12 month period until the maturity date at a fixed rate equal to LIBOR plus 2%. The maturity date of the note is January 21, 2020. The note is a direct-reduction mortgage-style basis over a twenty nine year amortization period with a balloon payment maturity on January 21, 2020 Interest expense incurred in conjunction with the note during the year ended November 30, 2010 amounted to \$92,832.

Aggregate principal amounts payable under the note are as follows for the year ending November 30, 2010:

2011	\$	28,608
2012		30,373
2013		32,245
2014		34,235
2015		36,346
Thereafter		1,318,989
		\$ 1,480,796

Note J – Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Action Agency of Somerville, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-B3, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2010 and 2009

Note K – Contingencies

The organization has received \$225,000 from the City of Somerville, Massachusetts that has been recorded as revenue in 2005 for the funding of the Head Start building on Allen Street. A security interest has been attached to the property. If the property is continuously operated by Community Action Agency of Somerville, Inc. as a Head Start or equivalent facility serving low and moderate income households for a period of ten years then the attachment will be released.

The organization's federal and state funded grants and contracts are subject to audit by appropriate governmental agencies which may, at their discretion, request a return of funds as a result of non-compliance with the terms of the grants/contracts or applicable regulations. The amount of such recovery, if any, cannot be determined and accordingly, no provision has been recorded in these financial statements.

Note L – Donated Services and Facilities

During 2010, the Organization received donated services valued at \$486,818. This amount is recorded in the contributions line in the statement of activities.

The following is a summary of items measured at fair value on a non-recurring basis and the valuation inputs used to value them.

<u>Description</u>	<u>Balance at November 30, 2010</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
In-Kind Revenue	\$ 486,818	\$ -	\$ 486,818	\$ -
Total	<u>\$ 486,818</u>	<u>\$ -</u>	<u>\$ 486,818</u>	<u>\$ -</u>

Note L – Subsequent Events

The Organization has evaluated subsequent events through June 29, 2011 and the financial statements were available to be issued on June 30, 2011.

Community Action Agency of Somerville, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended
November 30, 2010

<u>Federal Grantor / Pass-Through Grantor / Program Name</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Direct Programs:			
Head Start Programs	93.600	N/A	\$ 3,787,583
ARRA - Headstart	93.708	N/A	<u>172,751</u>
Total Headstart Cluster			<u>3,960,334</u>
Passed Through MA:			
Executive Office of Communities & Development			
CSBG	93.569	N/A	392,012
ARRA - CSBG	93.710	N/A	<u>550,173</u>
Total CSBG Cluster			<u>942,185</u>
Department of Education			
Bureau of School Nutrition			
Childcare Food Services	10.558	DOE SCDOE10758A70532117A	177,925
Childcare Food Services	10.558	DOE SCDOE10758A70532117B	8,172
Childcare Food Services	10.558	DOE SCDOE10758G70532117A	20,645
Childcare Food Services	10.558	DOE SCDOE10758G70532117A	11,913
Childcare Food Services	10.558	DOE SCDOE10758G70532117B	949
Childcare Food Services	10.558	DOE SCDOE10758G70532117B	<u>555</u>
			<u>220,159</u>
Total Expenditures of Federal Awards			<u>\$ 5,122,678</u>

* Denotes program number not available.

See accompanying notes to schedule of expenditures of federal awards.

Community Action Agency of Somerville, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended November 30, 2010

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of The Community Action Agency of Somerville, Inc. (the Organization). The Organization receives federal awards directly and indirectly through pass-through entities.

Federal program expenditures included in the accompanying schedules are presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

2. Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

	<u>CFDA #</u>
Head Start Programs	93.600
ARRA - Head Start	93.708
Community Services Block Grant	93.569
ARRA - Community Services Block Grant	93.710

**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***

To the Board of Directors of
Community Action Agency of Somerville, Inc.:

We have audited the financial statements of Community Action Agency of Somerville, Inc. (a nonprofit organization) as of and for the year ended November 30, 2010, and have issued our report thereon dated June 29, 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 Community Action Agency of Somerville, Inc.'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 Community Action Agency of Somerville, Inc.'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (10-01 through 10-03).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Action Agency of Somerville, Inc.'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Community Action Agency of Somerville, Inc. in a separate letter dated June 29, 2011.

Community Action Agency of Somerville, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Community Action Agency of Somerville, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, 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 cursive script that reads "James A. George, P.C.".

JAMES A. GEORGE, P.C.
Boston, Massachusetts
June 29, 2011

**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**

To the Board of Directors of
Community Action Agency of Somerville, Inc.:

Compliance

We have audited Community Action Agency of Somerville, Inc.'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 Community Action Agency of Somerville, Inc.'s major federal programs for the year ended November 30, 2010. Community Action Agency of Somerville, Inc.'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 Community Action Agency of Somerville, Inc.'s management. Our responsibility is to express an opinion on Community Action Agency of Somerville, Inc.'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 Community Action Agency of Somerville, 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. Our audit does not provide a legal determination of Community Action Agency of Somerville, Inc.'s compliance with those requirements.

In our opinion, Community Action Agency of Somerville, Inc. 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 November 30, 2010.

Internal Control Over Compliance

Management of Community Action Agency of Somerville, Inc. 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 Community Action Agency of Somerville, Inc.'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 Community Action Agency of Somerville, 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.

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.

Community Action Agency of Somerville, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Community Action Agency of Somerville, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, board of directors, others within the entity, 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 "James A. George, P.C.".

JAMES A. GEORGE, P.C.
Boston, Massachusetts
June 29, 2011

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)(3) or (4)	Yes

Identification of Major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
93.708	ARRA - Head Start
93.568	Community Services Block Grant
93.710	ARRA - Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Section II - Financial Statement Findings

10-01 through 10-03

Section III - Federal Awards Findings and Questioned Costs

None.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

Internal Control over Financial Statements

10-01 Cash Cutoff

Condition

During our testing we noted that a check was written prior to year end and was never mailed. The check was subsequently held for two months prior to mailing.

Effect

Cash was understated at year end.

Cause

The Organization was not following internal control procedures for cash disbursements.

Criteria

Checks should be written and recorded when they are intended to be sent. Checks should not be held for long periods of time before sending as this allows for errors.

Recommendation

We recommend that the Organization reviews their current internal control procedures over cash disbursements and does not allow for the holding of checks over a long period of time.

Corrective Action Plan

Upon accounts payable checks being processed they will be distributed to the respective vendors. The outstanding check register will be monitored to the status of payments not cashed. Checks which reach a third month outstanding will be investigated as to the reason it has not been cashed and if necessary a replaced check will be cut. Payroll checks are processed by ADP and they have their own plan in place if a check is still open after 6 months, they deposit the funds back in the organizations account. The organization then reissues a new net check to the employee.

Responsibility

The organization's bookkeeper is responsible for the distribution of checks unless specifically requested by the requestor to be sent out with documentation or distributed on their own. It will be up to the Director of Finance and Administration when a check should be reissued.

Timing

The organization will implement the policy effective immediately and will review the outstanding check register on a monthly basis.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

10-02 Net Assets

Condition

The Organization's net assets did not agree to the prior year audit report.

Effect

The Organization had not properly reconciled its net assets to the prior year and the net assets were incorrectly stated at the time of audit.

Cause

The Organization did not reconcile the amount to the prior year.

Criteria

The Organization should have procedures in place in order to reconcile net assets.

Recommendation

We recommend that the Organization reviews their current internal control procedures over year end close and have a step to make sure that net assets roll forward correctly.

Corrective Action Plan

We will review the net assets from the prior year to make sure it rolls forward regardless if there are any software glitches.

Responsibility

The organization's Director of Finance and Administration is responsible for managing the corrective plan.

Timing

The organization will implement the policy during the current fiscal year ending 11/30/2011.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

10-03 Principal and Interest Payments

Condition

The Organization's note payable did not reconcile to the bank's balance at year end.

Effect

The Organization's net income was understated at year end.

Cause

During the current fiscal year, The Organization paid an extra principle payment. That payment was incorrectly applied to interest expense rather than principle.

Criteria

The Organization should reconcile notes payable at year end with statements which are sent directly from the bank to make sure they are in agreement.

Recommendation

We recommend that the Organization reviews all balance sheet accounts monthly to make sure that they agree to detailed records.

Corrective Action Plan

The organization will make sure that payments are recorded to the proper general ledger accounts for GAAP with explanation when needed.

Responsibility

The organization's Director of Finance and Administration is responsible for managing the corrective plan.

Timing

The organization will implement the policy during the current fiscal year ending 11/30/2011.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

Prior Year Findings

09-01 Cash Receipts

Condition

During our testing it was noted that numerous selections for testing were not able to be located.

Effect

There is no documentation for many of the receipts recorded throughout the year.

Cause

The Organization was not following internal control procedures for proper record keeping for cash receipts.

Criteria

The Organization should have procedures in place in order to provide backup documentation for all transactions.

Recommendation

We recommend that the Organization reviews their current internal control procedures over cash receipts and records and keeps backup for all receipt transactions.

Status

This finding appears to be resolved at November 30, 2010.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

09-02 Year End Closing

Condition

The Organization did not have the books closed for over six months after year end.

Effect

The audit was delayed and numerous reports were filed late due to the delay in closing the year end.

Cause

The Organization was not able to handle the staffing needs and workload at year end and therefore could not close the books in a timely manner.

Criteria

The Organization should have procedures in place in order to close the books in a reasonable time after year end.

Recommendation

We recommend that the Organization reviews their current internal control procedures over closing year end and set an internal deadline of closing the year end no later than two months following November 30.

Status

The books for November 30, 2010 were closed in a more timely manner. This finding appears to be resolved.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

09-03 Payroll Controls

Condition

The Organization does not have adequate controls surrounding payroll and record keeping of employee files.

Effect

The Organization did not have year-end payroll accruals recorded. The organization also had the following noted out of a sample of 25 employees: six employees were missing I-9 forms, two employee timesheets were missing or not properly completed, and sixteen employees were missing current personnel rate change forms.

Cause

The Organization does not have enough controls surrounding the payroll process and employee files.

Criteria

The Organization should have procedures in place in order to properly maintain payroll files and record accruals at year end.

Recommendation

We recommend that the Organization reviews their current internal control procedures over payroll and year end accruals.

Status

This finding remains unresolved. During our testing of the current year files, two employees were missing I-9 forms.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

09-04 Net Assets

Condition

The Organization's net assets did not agree to the prior year audit report.

Effect

The Organization had not properly reconciled its net assets to the prior year and the net assets were incorrectly stated at the time of audit.

Cause

The Organization did not reconcile the amount to the prior year.

Criteria

The Organization should have procedures in place in order to reconcile net assets.

Recommendation

We recommend that the Organization reviews their current internal control procedures over year end close and have a step to make sure that net assets roll forward correctly.

Status

Finding still unresolved. See finding 10-02.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

Findings over Federal Awards

09-05 Reporting

Condition

During testing it was noted that several required reports for grants were filed late without having proper approval documented that they could be extended.

Effect

The Organization was not following internal controls required by the federal grant.

Cause

Overall the entire process of the audit and books appeared to be months behind and therefore the reports would not be able to be filed on time.

Criteria

The Organization should have procedures in place in order to file required federal reports by the deadline.

Recommendation

We recommend that the Organization reviews their current internal control procedures over report filing.

Status

This finding appears to be resolved during the year ended November 30, 2010.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

09-06 Indirect Cost Rate

Condition

During testing it was noted that the organization was still using an indirect cost rate related to fiscal year 2007. The rate was changed during the fiscal year and should have been used in fiscal year 2009 per the agreement.

Effect

The Organization was not following the indirect cost rate required by the agreement.

Cause

The client did not receive the agreement until after the fiscal year started and believed that they were supposed to use the old rate.

Criteria

The Organization should have procedures in place in order to understand indirect cost rates and when they should be implemented.

Recommendation

We recommend that the Organization send the accountant or finance director for training in order to understand better federal requirements.

Status

This finding appears to have been resolved.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
For the Years Ended November 30, 2010 and 2009

09-07 *Period of Availability*

Condition

During testing it was noted that the organization spent grant money which was outside the period of availability.

Questioned Costs

\$28,940

Effect

The organization is out of compliance with the grant.

Cause

The Organization did not have proper controls in place and had not requested permission to spend the money outside the period of availability.

Criteria

Grant money must be spent within the period of availability and cannot be spent without receiving approval from the granting agency.

Recommendation

We recommend that the Organization send the accountant or finance director for training in order to understand better federal requirements.

Status

This finding appears to have been resolved.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Responses
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09-08 Budgeting

Condition

During testing it was noted that several of the line items on the grant budget were exceeded.

Effect

The organization is out of compliance with the grant.

Cause

The client did not have proper controls in place to have the expenditures stay in line with the budgeted amounts.

Criteria

Expenditure of federal funds needs to be in line with the budget unless proper approval is given by the awarding agency.

Recommendation

We recommend that the Organization send the accountant or finance director for training in order to understand better federal requirements.

Status

This finding appears to have been resolved.