

ACTION, INC.

Financial Statements
and
Auditors' Report

September 30, 2008 with Comparative Totals for 2007



Daniel Dennis & Company LLP
Certified Public Accountants

116 Huntington Avenue
Boston, MA 02116

(617) 262-9898
FAX: (617) 437-9937

Web Site: <http://www.danieldennis.com>

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Certified Public Accountants

The Board of Directors
Action, Inc.

Independent Auditors' Report

We have audited the accompanying statement of financial position of Action, Inc. as of September 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Action's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Action's 2007 financial statements, and in our report dated February 14, 2008 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 Action, Inc. as of September 30, 2008, and the results of its operations, 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.

Daniel Dennis & Company LLP
February 10, 2009

Action, Inc.
Statement of Financial Position
September 30, 2008
With Comparative Totals for 2007

| | 2008 | 2007 | |
|--|---------------------|---------------------|--|
| Assets | | | |
| <i>Current Assets:</i> | | | |
| Cash | \$ 535,074 | \$ 1,140,627 | |
| Certificate of deposit | 581,651 | 103,421 | |
| Prepaid expenses | 6,385 | 6,573 | |
| Accounts receivable | 2,922,899 | 2,377,264 | |
| Total current assets | 4,046,009 | 3,627,885 | |
| <i>Fixed Assets:</i> | | | |
| Property and equipment - net (Note 3) | 3,123,416 | 3,154,226 | |
| <i>Other Assets:</i> | | | |
| Deposits | 2,363 | 12,303 | |
| Loan receivable | 687 | 7,401 | |
| Total assets | \$ 7,172,475 | \$ 6,801,815 | |
| Liabilities and Net Assets | | | |
| <i>Current Liabilities:</i> | | | |
| Accounts payable | \$ 1,524,183 | \$ 1,594,397 | |
| Accrued expenses | 240,837 | 217,762 | |
| Deferred revenue | 356,210 | 404,073 | |
| Current portion of notes payable (Note 5) | 51,736 | 55,323 | |
| Total current liabilities | 2,172,966 | 2,271,555 | |
| <i>Long-Term Debt (Note 5)</i> | | | |
| Total liabilities | 3,664,114 | 4,041,935 | |
| <i>Net Assets:</i> | | | |
| Net assets - temporarily restricted (Note 7) | 484,162 | 178,666 | |
| Net assets - unrestricted | 3,024,199 | 2,581,214 | |
| Total net assets | 3,508,361 | 2,759,880 | |
| Total liabilities and net assets | \$ 7,172,475 | \$ 6,801,815 | |

See accompanying notes to financial statements.

Action, Inc.

Statement of Activities

For the Year Ended September 30, 2008

With Summarized Comparative Totals for 2007

| | 2008 Total | 2007 Total |
|---|---------------|---------------|
| Revenue and Support | | |
| Program revenue and other support | \$ 17,272,773 | \$ 17,272,773 |
| Rental income | 167,072 | 171,021 |
| Contributions | 335,046 | 591,321 |
| In-kind contributions | 88,861 | 93,016 |
| Interest income | 42,329 | 40,120 |
| Net assets released from program restrictions | 158,304 | - |
| Total revenue and support | 18,064,385 | 16,650,588 |
| Expenses | | |
| Program expenses: | | |
| Fuel assistance | 1,814,586 | 1,814,586 |
| Weatherization | 581,869 | 581,869 |
| Energy management | 9,645,740 | 9,645,740 |
| Headstart | 1,443,949 | 1,443,949 |
| Housing | 285,284 | 285,284 |
| Emergency shelter | 380,558 | 380,558 |
| Youth compass program | 145,884 | 145,884 |
| Employment and training | 282,952 | 282,952 |
| Advocacy | 145,269 | 145,269 |
| Homemaker | 1,631,140 | 1,631,140 |
| Waste water alternative | 102,918 | 102,918 |
| Housing opportunities for persons with AIDS | 401,978 | 401,978 |
| Other | 90,651 | 90,651 |
| Total program expenses | 16,952,778 | 16,952,778 |
| Supportive services: | | |
| Management and general | 655,712 | 655,712 |
| Fund raising | 12,910 | 12,910 |
| Total expenses | 17,621,400 | 17,621,400 |
| Change in net assets | 442,985 | 748,481 |
| Net assets at beginning of year | 2,581,214 | 2,759,880 |
| Net assets at end of year | \$ 3,024,199 | \$ 3,508,361 |

See accompanying notes to financial statements.

Action, Inc.
 Statement of Functional Expenses
 For the Year Ended September 30, 2008
 With Summarized Comparative Totals for 2007

| | 2008 Total | 2007 Total |
|-------------------------------|----------------------|----------------------|
| Program Expenses | \$ 2,650,043 | \$ 2,744,709 |
| Salaries | 248,248 | 253,105 |
| Payroll taxes | 309,003 | 373,719 |
| Fringe benefits | 1,791 | 3,474 |
| Contract wages | 2,558 | 349,592 |
| Consultants | 7,906 | 8,553 |
| Temporary labor | - | 5,454 |
| Fund raising | - | - |
| Depreciation | 106,858 | 106,858 |
| Travel | 87,719 | 101,595 |
| Occupancy | 45,803 | 66,886 |
| Interest | 71,223 | 105,408 |
| Utilities | 63,288 | 85,174 |
| Office supplies and expenses | 23,389 | 32,972 |
| Insurance | 48,266 | 48,266 |
| Equipment | 8,545 | 9,264 |
| Postage | 9,515 | 14,027 |
| Printing | 9,271 | 15,309 |
| Professional fees | 10,254 | 51,670 |
| Telephone | 26,560 | 36,991 |
| Data processing | 37,927 | 73,941 |
| Licenses and dues | 5,155 | 14,030 |
| Training | 8,228 | 8,228 |
| Recognition | 8,878 | 8,878 |
| Fuel expense | 1,374,493 | 1,374,493 |
| MHFA contractor payments | 108,470 | 108,470 |
| Food | 13,682 | 13,682 |
| Other | 26,830 | 27,071 |
| Advertising | 2,534 | 2,709 |
| Scholarships | 51,413 | 51,413 |
| Outside contracts | 216,688 | 216,828 |
| Heating system | 931,772 | 931,772 |
| Rent assistance | 375,163 | 375,163 |
| Program operations | 8,191,570 | 8,191,570 |
| Headstart | 1,443,949 | 1,443,949 |
| In-kind | 88,861 | 88,861 |
| Totals | \$ 16,952,778 | \$ 17,621,400 |
| | \$ 655,712 | \$ 12,910 |
| Management and General | \$ 349,596 | \$ 5,141 |
| Fund Raising | \$ 392 | \$ 5,454 |
| 2008 Total | \$ 3,004,780 | \$ 3,004,780 |
| 2007 Total | \$ 2,744,709 | \$ 2,744,709 |

See accompanying notes to financial statements.

Action, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2008
With Comparative Totals for 2007

| 2008 | 2007 |
|--|------------|
| Cash flow from operating activities: | |
| Change in net assets | \$ 748,481 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation | 106,858 |
| (Increase) decrease in assets: | |
| Accounts receivable | (538,921) |
| Prepaid expenses | 188 |
| Deposits | 9,940 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (70,214) |
| Accrued expenses | 23,075 |
| Deferred revenue | (47,863) |
| Net cash from operating activities | 231,544 |
| Cash flow from investing activities: | |
| Purchase of investments | (581,651) |
| Sale of investments | 103,421 |
| Purchase of property and equipment | (76,048) |
| Net cash from investing activities | (554,278) |
| Cash flow from financing activities: | |
| Loans received | - |
| Loan repayments | (282,819) |
| Net cash from financing activities | (282,819) |
| Net change in cash | (605,553) |
| Cash, beginning of year | 1,140,627 |
| Cash, end of year | \$ 535,074 |
| Supplemental information: | |
| Interest expense paid | \$ 105,408 |
| | \$ 110,513 |

See accompanying notes to financial statements.

1.

Summary of Significant Accounting Policies

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Organization
Action, Inc. is a nonprofit organization, tax exempt under section 501(c)(3) of the Internal Revenue Code. The agency is organized under Chapter 180 of the Commonwealth of Massachusetts General Laws. The purpose of Action, Inc. is to operate programs that assist the low income, homeless, and elderly. The major programs are Shelter for the homeless, Homemaker Program for the elderly, and Advocacy and Energy programs for those in need.

Financial Statement Presentation

The financial statement presentation follows the Financial Accounting Standards Board Statement of Financial Accounting Standards (FASB) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under FASB Statement No. 117, Action, Inc. reports 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 and is required to present a statement of cash flows.

Revenue and Expenses

Revenue and expenses are recognized on the accrual basis of accounting.

Fixed Assets

Acquisitions of property, improvements, furniture, and equipment in excess of \$2,000 and having an estimated useful life of more than one year, are capitalized at cost. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight line method.

Headstart Program

The agency has delegated the operation of its Headstart Program to Child Development Programs of Cape Ann, Inc., a social service agency located in Gloucester, Massachusetts.

Contributions

FASB Statement No. 116 *Accounting for Contributions Received and Contributions Made* requires all entities that receive contributions to recognize revenues at their fair values in the period the contribution is received or promised. This statement also requires nonprofit organizations to distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. Action, Inc. had no permanently restricted net assets as of September 30, 2008 and 2007.

1. *Summary of Significant Accounting Policies - Continued*

Contributions - continued

Action, Inc. reports any gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions received where related restrictions are met in the same reporting period are classified as unrestricted revenue.

Revenue Recognition

Grants and contracts received from government agencies are generally cost reimbursement agreements. Accordingly, grant and contract income equals expenses incurred; therefore, the excess (deficit) is carried as a liability (deferred revenue) or as an asset (accounts receivable), respectively.

Estimates and Assumptions

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with summarized information for the year ended September 30, 2007, from which the summarized information was derived.

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.

Deferred Revenue

Deferred revenue represents amounts received in advance of incurring expenses for particular program activities that are considered exchange transactions. Such amounts are recorded as support when the related program expenditure is made.

1. *Summary of Significant Accounting Policies - Continued*

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management 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, contracts, and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. The balance in the allowance for doubtful accounts was zero at September 30, 2008 and 2007.

2. *Pension Plan*

Action, Inc. maintains a defined contribution retirement plan available to all employees who work at least 20 hours per week. Under the plan, participants may contribute a percentage of their annual salary, not to exceed the limits set by the Internal Revenue Code. The Agency matches employee contributions up to 8% of their annual salary. Pension expense for the year ended September 30, 2008 and 2007 amounted to \$66,040 and \$60,966, respectively.

3. *Fixed Assets*

Land, buildings and equipment consists of the following:

| | | |
|--------------------------|--------------|--------------|
| | 2008 | 2007 |
| Land | \$ 410,270 | \$ 410,270 |
| Building | 1,562,793 | 1,562,793 |
| Building improvements | 1,572,768 | 1,519,961 |
| Furniture & equipment | 209,078 | 185,837 |
| Total fixed assets | 3,754,909 | 3,678,861 |
| Accumulated depreciation | (631,493) | (524,635) |
| Total | \$ 3,123,416 | \$ 3,154,226 |

4. *Cash and Cash Equivalents*

At September 30, 2008, cash balances are held at financial institutions with Federal insured limits of up to \$250,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. Action, Inc. has not experienced any losses in such accounts. Action, Inc. believes it is not exposed to any significant credit risk on cash and cash equivalents.

5. Long Term Debt

| | | | | |
|---------|------|---------|----|--|
| | 2008 | | | <p>Adjustable rate first mortgage payable in 2008 to First National Bank of Ipswich, secured by a building located on Main Street, Gloucester, used as a community shelter. Mortgage is payable in monthly installments of \$1,190 including principal and interest. The interest rate in 2008 and 2007 was 6.25%.</p> |
| 6,348 | \$ | - | \$ | |
| 144,703 | | 140,635 | | <p>Adjustable rate first mortgage payable in 2026 to First National Bank of Ipswich, secured by a building located on Washington Street, Gloucester, used as an energy building. Mortgage is payable in monthly installments of \$1,293 including principal and interest. The interest rate in 2008 and 2007 was 6.25%.</p> |
| 25,000 | | 25,000 | | <p>Interest free, deferred payment loan payable to the City of Gloucester. Loan proceeds were used to aid in the establishment of a shelter for the homeless on Main Street, Gloucester. No repayment is required unless the property is sold, transferred, or used for purposes other than a permanent shelter.</p> |
| 373,746 | | 364,709 | | <p>Adjustable rate first mortgage payable in 2028 to First National Bank of Ipswich, secured by buildings located on 180 Main Street, 370 Main Street, and 47 Washington Street, all in the City of Gloucester. Mortgage is payable in monthly installments of \$2,476 including principal and interest. The interest rate in 2008 and 2007 was 5.50%.</p> |
| 752,706 | | 736,185 | | <p>Adjustable rate first mortgage payable in 2028 to First National Bank of Ipswich, secured by buildings located on 180 Main Street, 370 Main Street, and 47 Washington Street, all in the City of Gloucester. Mortgage is payable in monthly installments of \$5,322 including principal and interest. The interest rate in 2008 and 2007 was 6.25%.</p> |
| 484,000 | | 242,055 | | <p>Adjustable rate first mortgage payable in 2029 to First National Bank of Ipswich, secured by buildings located on 95 Prospect Street, in the City of Gloucester. Mortgage is payable in monthly installments of \$3,392 including principal and interest. The interest rate in 2008 and 2007 was 6.25%.</p> |
| 20,000 | | 17,500 | | <p>Interest free, note payable in 2015 to the City of Gloucester, secured by buildings located on 180 Main Street, in the city of Gloucester, MA. The note is payable in annual installments of \$2,500.</p> |

2007

5. Long Term Debt - Continued

| | | |
|---|--------------|--------------|
| | 2008 | 2007 |
| Interest free, note payable in 2015 to the City of Gloucester, secured by buildings located on 370 Main Street, in the City of Gloucester. The note is payable in annual installments of \$2,400. | 16,800 | 19,200 |
| Subtotal | 1,542,884 | 1,825,703 |
| Less current portion | 51,736 | 55,323 |
| Long term-debt | \$ 1,491,148 | \$ 1,770,380 |

The following are maturities of long-term debt for each of the next five years and thereafter:

| | | | |
|--------------------|-----------|------------|--------------|
| September 30, 2009 | \$ 51,736 | Total | \$ 1,542,884 |
| 2010 | 54,670 | Thereafter | 1,252,022 |
| 2011 | 57,788 | 2013 | 65,566 |
| 2012 | 61,102 | 2012 | 61,102 |
| 2013 | 65,566 | 2011 | 57,788 |
| | | 2010 | 54,670 |
| | | 2009 | 51,736 |

6. In Kind Revenue

Action, Inc. receives in-kind contributions consisting of donated goods that include food, clothes, medical and household supplies for the Shelter. The contributions that are reflected in the financial statements are those that are required to be recognized under SFAS 116, *Accounting for Contributions Received and Contributions Made*, which recognizes contribution of services if the services received require specified skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | | |
|---|------------|------------|
| | 2008 | 2007 |
| Fuel Assistance Program | \$ 422,662 | \$ 166,666 |
| Compass Youth Program | - | 12,000 |
| Housing Assistance Program | 11,500 | - |
| WRAP Program | 50,000 | - |
| Total temporarily restricted net assets | \$ 484,162 | \$ 178,666 |

7. *Temporarily Restricted Net Assets - Continued*

Purpose restriction accomplished:

| | | | | |
|---|----|----------------|--|--|
| Fuel Assistance Program | \$ | 144,004 | | |
| Compass Youth Program | | 12,000 | | |
| Housing Assistance Program | | 2,300 | | |
| Net assets released from program restrictions | \$ | <u>158,304</u> | | |

8. *Operating Lease Commitments*

Action Inc. leases commercial space to tenants under noncancelable operating leases with terms of one to three years. The following is a schedule by years of future minimum rentals under the leases at September 30, 2008:

| | | | | |
|--------------------|----|---------------|--|--|
| | | | | |
| September 30, 2009 | \$ | 51,000 | | |
| 2010 | | <u>15,800</u> | | |
| Total | \$ | <u>66,800</u> | | |

9. *Contingency*

The expenses reflected in the accompanying financial statements relating to Federal contracts are subject to audit by the funding sources. The possible disallowance of any items recorded as contract costs cannot be determined at this time. However, management does not believe that any such disallowance would be material to Action, Inc.'s financial statements. Accordingly, no provision for any liability that may result has been made in financial statements.