

ACTION, INC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

(WITH COMPARATIVE TOTALS FOR 2010)
(WITH ACCOMPANYING INDEPENDENT AUDITORS' REPORT)

ACTION, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

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Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Action, Inc.

We have audited the accompanying statement of financial position of Action, Inc. (a nonprofit organization) as of September 30, 2011, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Action, Inc.'s management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from Action, Inc.'s 2010 financial statements which were audited by another auditor and whose report dated February 10, 2011, expressed an unqualified opinion on those statements.

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 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, 2011, 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 February 13, 2012 on our consideration of Action, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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.

Bruce D. Norling, CPA, P.C.

February 13, 2012

ACTION, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash & Cash Equivalents	\$ 2,490,540	\$ 2,681,004
Certificates of Deposit	809,437	608,036
Investments	16,285	15,562
Prepaid Expenses	20,393	2,840
Accounts Receivable	<u>2,686,236</u>	<u>3,136,023</u>
TOTAL CURRENT ASSETS	<u>6,022,891</u>	<u>6,443,465</u>
FIXED ASSETS		
Property & Equipment, net	4,130,726	3,816,570
OTHER ASSETS		
Deposits	3,922	4,007
Deferred Asset	<u>58,485</u>	<u>-</u>
TOTAL OTHER ASSETS	62,407	4,007
LONG-TERM ASSETS		
Certificate of Deposit	<u>-</u>	<u>96,435</u>
TOTAL ASSETS	<u>\$ 10,216,024</u>	<u>\$ 10,360,477</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 2,336,204	\$ 2,319,085
Accrued Expenses	225,384	213,163
Deferred Revenue	1,621,630	1,789,511
Current Portion of Notes Payable	<u>42,196</u>	<u>40,017</u>
TOTAL CURRENT LIABILITIES	<u>4,225,414</u>	<u>4,361,776</u>
LONG-TERM DEBT		
	<u>1,167,718</u>	<u>1,208,027</u>
Total Liabilities	<u>5,393,132</u>	<u>5,569,803</u>
NET ASSETS		
Net Assets - Temporarily Restricted	316,553	373,835
Net Assets - Unrestricted	<u>4,506,339</u>	<u>4,416,839</u>
TOTAL NET ASSETS	<u>4,822,892</u>	<u>4,790,674</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,216,024</u>	<u>\$ 10,360,477</u>

The accompanying notes are an integral part of these financial statements.

ACTION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUES						
Program revenue and other support	\$ 25,794,173	\$ -	\$ 25,794,173	\$ 25,705,570	\$ -	\$ 25,705,570
Rental income	186,691	-	186,691	196,599	-	196,599
Contributions	315,751	72,875	388,626	206,244	211,192	417,436
In-kind contributions	131,363	-	131,363	94,467	-	94,467
Investment income	5,837	-	5,837	34,627	-	34,627
Net assets released from program restrictions	130,157	(130,157)	-	93,177	(93,177)	-
TOTAL SUPPORT AND REVENUES	<u>26,563,972</u>	<u>(57,282)</u>	<u>26,506,690</u>	<u>26,330,684</u>	<u>118,015</u>	<u>26,448,699</u>
EXPENSES						
Program expenses:						
Fuel assistance	2,020,231	-	2,020,231	2,604,508	-	2,604,508
Weatherization	3,782,168	-	3,782,168	4,114,558	-	4,114,558
Energy management	15,922,520	-	15,922,520	14,408,283	-	14,408,283
Housing	241,045	-	241,045	217,284	-	217,284
Emergency shelter	495,515	-	495,515	478,338	-	478,338
Youth compass program	179,228	-	179,228	164,081	-	164,081
Employment and training	265,423	-	265,423	190,192	-	190,192
Advocacy	274,845	-	274,845	149,994	-	149,994
Homemaker	1,896,011	-	1,896,011	1,849,529	-	1,849,529
Waste water alternative	4,643	-	4,643	208,104	-	208,104
Housing opportunities for persons with AIDS	455,655	-	455,655	427,651	-	427,651
Other	157,050	-	157,050	118,465	-	118,465
TOTAL PROGRAM EXPENSES	<u>25,694,334</u>	<u>-</u>	<u>25,694,334</u>	<u>24,930,987</u>	<u>-</u>	<u>24,930,987</u>
Supportive services:						
Management and general	768,252	-	768,252	776,609	-	776,609
Fund raising	11,886	-	11,886	10,430	-	10,430
TOTAL EXPENSES	<u>26,474,472</u>	<u>-</u>	<u>26,474,472</u>	<u>25,718,026</u>	<u>-</u>	<u>25,718,026</u>
CHANGES IN NET ASSETS	89,500	(57,282)	32,218	612,658	118,015	730,673
NET ASSETS , Beginning of Year	4,416,839	373,835	4,790,674	3,804,181	255,820	4,060,001
NET ASSETS , End of Year	<u>\$ 4,506,339</u>	<u>\$ 316,553</u>	<u>\$ 4,822,892</u>	<u>\$ 4,416,839</u>	<u>\$ 373,835</u>	<u>\$ 4,790,674</u>

The accompanying notes are an integral part of these financial statements.

ACTION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER, 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 32,218	\$ 730,673
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	118,267	99,772
Changes in Operating Assets:		
(Increase) Decrease in Accounts Receivable	449,787	(235,541)
(Increase) Decrease in Prepaid Expenses	(17,553)	440
Increase (Decrease) Advance to Subrecipients	-	68,883
Increase (Decrease) in Deferred Asset	(58,485)	-
Increase (Decrease) in Deposits	85	(1,376)
Changes in Operating Liabilities:		
Increase (Decrease) in Accounts Payable	17,119	666,488
Increase (Decrease) in Accrued Expenses	12,221	15,193
Increase (Decrease) in Deferred Revenue	(167,881)	(187,166)
Net Cash From Operating Activities	385,778	1,157,366
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(810,160)	(704,471)
Sale of Investments	704,471	677,524
Purchase of Property and Equipment	(432,423)	(153,441)
Net Cash from Investing Activities	(538,112)	(180,388)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	2,767	64,347
Loan Repayments	(40,897)	(318,009)
Net Cash From Financing Activities	(38,130)	(253,662)
 NET INCREASE (DECREASE) IN CASH	(190,464)	723,316
CASH, Beginning of year	2,681,004	1,957,688
CASH, End of year	\$ 2,490,540	\$ 2,681,004
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	\$ 71,438	\$ 75,640

The accompanying notes are an integral part of these financial statements.

ACTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER, 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2011 Total</u>	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2010 Total</u>
Salaries	\$ 2,204,762	\$ 458,078	\$ -	\$ 2,662,840	\$ 2,109,737	\$ 394,764	\$ -	\$ 2,504,501
Payroll taxes	187,239	38,771	-	226,010	185,578	33,367	-	218,945
Fringe benefits	309,423	71,918	-	381,341	209,985	52,801	-	262,786
Direct care consultants	1,437,930	-	-	1,437,930	1,485,960	-	-	1,485,960
Consultants	293,874	4,233	-	298,107	731,217	10,035	250	741,502
Temporary labor	669	1,053	-	1,722	195	5,614	-	5,809
Depreciaton	114,996	3,271	-	118,267	96,146	3,626	-	99,772
Travel	106,863	17,831	-	124,694	111,087	3,547	-	114,634
Occupancy	150,481	16,411	-	166,892	108,345	27,146	-	135,491
Interest	69,582	1,856	-	71,438	43,918	31,722	-	75,640
Utilities	71,191	3,596	-	74,787	51,513	16,781	-	68,294
Office supplies and expenses	45,078	14,629	-	59,707	42,419	17,477	81	59,977
Insurance	41,637	4,137	-	45,774	50,353	6,166	-	56,519
Equipment	22,107	10,649	-	32,756	57,725	7,250	-	64,975
Postage	8,887	5,695	-	14,582	9,037	4,102	2,298	15,437
Printing	6,729	4,802	-	11,531	6,480	9,740	7,224	23,444
Professional fees	23,900	24,897	-	48,797	31,582	55,800	-	87,382
Telephone	43,030	13,984	-	57,014	35,813	20,625	-	56,438
Data processing	48,978	58,577	480	108,035	55,891	55,327	577	111,795
Licenses and dues	11,246	738	-	11,984	10,450	1,998	-	12,448
Training	19,978	8,108	-	28,086	80,600	3,260	-	83,860
Recognition	7,658	-	-	7,658	9,270	-	-	9,270
Fuel expense	1,691,130	-	-	1,691,130	1,823,155	-	-	1,823,155
Food	23,711	-	-	23,711	17,194	-	-	17,194
Other	27,428	4,250	-	31,678	17,899	7,763	-	25,662
Advertising	1,618	768	-	2,386	5,247	7,698	-	12,945
Outside contracts	419,555	-	-	419,555	648,481	-	-	648,481
Heating system	485,751	-	-	485,751	2,386,929	-	-	2,386,929
Rent assistance	405,475	-	-	405,475	470,459	-	-	470,459
Program operations	17,282,065	-	11,406	17,293,471	13,943,855	-	-	13,943,855
In-kind	131,363	-	-	131,363	94,467	-	-	94,467
Totals	\$ 25,694,334	\$ 768,252	\$ 11,886	\$ 26,474,472	\$ 24,930,987	\$ 776,609	\$ 10,430	\$ 25,718,026

The accompanying notes are an integral part of the financial statements.

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

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. (the Agency) 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.

The Agency is 100% owner of a title holding company: Home Together Community Housing Corporation. The purpose of this company is to hold the title of the Agency's building and land that is used to provide homeless and low-income families with affordable housing facilities and services. The accompanying financial statements include all accounts and activity of the corporation.

Financial Statement Presentation

The financial statements of the Agency have been prepared on the accrual basis of accounting.

Net assets of the Agency are classified into three categories. The classifications are related to the existence or absence of donor-imposed restrictions as follows:

Permanently restricted net assets - Assets that must be maintained by the Agency in perpetuity. At September 30, 2011 and 2010, the Agency had no permanently restricted net assets.

Temporarily restricted net assets - Assets whose use is limited by either donor-imposed time restrictions or purpose restrictions.

Unrestricted net assets - Assets that are available for support of operations and not subject to donor-imposed stipulations. They are neither temporarily restricted nor permanently restricted.

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 \$5,000 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

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

relate the cost of depreciable assets to operations over their estimated service lives using the straight line method.

The Agency computes depreciation using the straight-line method over the following estimated lives:

Buildings	40 years
Building Improvements	19 - 41 years
Furniture & Equipment	5 - 10 years

Contributions

The Agency recognizes all contributions at their fair values in the period the contribution is received or promised. The Agency also distinguishes between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

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.

Use of Estimates

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.

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.

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

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.

Certificates of Deposit

Certificates of deposits are investments held that do not meet the criteria to be measured at fair value, therefore are recorded at their carrying value. Certificates of deposits with original maturities greater than three months and remaining maturities less than one year are classified as current assets. Certificates of deposits with remaining maturities greater than one year are classified as long-term assets. The Agency holds various certificates of deposit, all of which have maturities less than one year from September 30, 2011.

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, 2011 and 2010.

Nonprofit Status and Income Taxes

Action, Inc. qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to income tax. The Agency is not a private foundation under Section 509(a)(1). Certain unrelated business income as defined in the Internal Revenue Code, is subject to federal income tax. For the year ended September 30, 2011, there was no liability for tax on unrelated business income.

Beginning in 2009, Action, Inc. adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles in the United States, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Agency has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Agency believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Agency's financial condition, results of operations or cash flows. Accordingly, the Agency has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
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positions at September 30, 2011. The Agency's policy is to classify income tax related interest and penalties in operating expenses.

The Agency is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Agency's federal and state income tax returns are generally open to examination for the last three years.

Fair Value Measurements

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities the Agency has the ability to access. The Agency currently has no Level 1 liabilities that are measured at fair value on a recurring basis.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of model or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

Level 3: Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also included practical expedient investments with notice periods for redemption of more than 90 days.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair values of financial instruments for which the Agency did not elect the fair value option includes cash and cash equivalents, receivables, mortgages, and accounts payable. Certain of these instruments are short term in nature and accordingly fair values are estimated to approximate carrying values.

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

Investments and Investment Income

Investments with readily determinable fair values are carried at their fair values based on quoted prices in active markets (all Level 1 measurements) in the Statement of Financial Position. Interest income is included in the change in net assets in the accompanying Statement of Activities.

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, 2011 and 2010 amounted to \$80,072 and \$65,300, respectively.

3. FIXED ASSETS

Land, buildings and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 735,270	\$ 426,520
Buildings	1,574,214	1,574,214
Building Improvements	2,541,638	2,438,951
Furniture & Equipment	<u>236,384</u>	<u>215,398</u>
Total Fixed Assets	5,087,506	4,655,083
Accumulated Depreciation	<u>(956,780)</u>	<u>(838,513)</u>
Total	<u>\$ 4,130,726</u>	<u>\$ 3,816,570</u>

4. CASH

At September 30, 2011, 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. The Agency believes it is not exposed to any significant credit risk on cash.

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

5. INVESTMENTS

The Agency holds an investment account with a brokerage firm. At September 30, 2011 and 2010 the balance of this account was \$16,285 and \$15,562, respectively. The balance consisted of the following at September 30:

	<u>2011</u>	<u>2010</u>
Cash	\$ 8	\$ 6
Money Market Funds	14,750	14,832
Common Stocks	<u>1,527</u>	<u>725</u>
Total	<u>\$ 16,285</u>	<u>\$ 15,562</u>

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)
<u>September 30, 2011</u>		
Money Market Funds	\$ 14,750	\$ 14,750
Common Stocks	<u>1,527</u>	<u>1,527</u>
Total	<u>\$ 16,277</u>	<u>\$ 16,277</u>
 <u>September 30, 2010</u>		
Money Market Funds	\$ 14,832	\$ 14,832
Common Stocks	<u>725</u>	<u>725</u>
Total	<u>\$ 15,557</u>	<u>\$ 15,557</u>

Investment income from cash equivalents and investments is comprised of the following for the year ended September 30, 2011:

Interest & dividends, net of management fees of \$95	\$ 6,009
Net Unrealized Gains (Losses)	<u>(172)</u>
Total	<u>\$ 5,837</u>

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
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(WITH COMPARATIVE TOTALS FOR 2010)

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. Action, Inc. recognizes contribution of services if the services received required specified skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

7. LONG-TERM DEBT

	2011	2010
Adjustable rate construction mortgage payable in 2014 to First National Bank of Ipswich, secured by a building located on 370 Main Street, Gloucester, used as an energy building. Mortgage is payable in monthly installments of \$910 including principal and interest. The interest rate in 2011 was 6.50%.	\$ 117,549	\$ 120,778
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.	25,000	25,000
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 2011 and 2010 was 5.50%.	317,573	329,456
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 2011 and 2010 was 6.25%.	663,078	683,963

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(WITH COMPARATIVE TOTALS FOR 2010)

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	10,000	12,500
Interest free, note payable in 2015 to the City of Gloucester, secured by buildings located on 370 Main Street, in the City of Gloucester, MA. The note is payable in annual installments of \$2,400	9,600	12,000
Interest free, note payable in 2040 to the Community Economic Development Assistance Corporation in the amount of \$227,539, secured by buildings located on 180 Main Street, in the City of Gloucester, MA. The loan has an effective rate of 4.3% and an unamortized discount of \$160,425 as of September 30, 2011.	67,114	64,347
Subtotal	1,209,914	1,248,044
Less Current Portion	42,196	40,017
Long Term-Debt	\$1,167,718	\$1,208,207

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

September 30, 2012	\$	42,196
2013		44,512
2014		46,972
2015		155,033
2016		50,508
Thereafter		870,694
Total		\$ 1,209,914

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Fuel Assistance Program	\$ 141,194	\$ 165,456
Compass Youth Program	14,934	45,187
Shelter Program	160,425	163,192
Total Temporarily Restricted Net Assets	\$ 316,553	\$ 373,835

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

Purpose restriction accomplished:

Fuel Assistance Program	\$ 38,337
Compass Youth Program	89,503
Shelter Program	<u>2,767</u>
Net Assets Released From Program Restrictions	<u>\$ 130,157</u>

9. COMMITMENTS

Action, Inc. leases commercial space to tenants under noncancelable 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:

2012	\$ 33,000
2013	18,000
2014	<u>4,500</u>
Total	<u>\$ 55,500</u>

10. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2011, the Agency had established another charitable corporation, Home Together Community Housing Corporation. This Corporation was established for the purposes of purchasing and developing the project located at Marsh Street in Gloucester, MA. This project is an addition to the Agency's shelter program, in which they provide homeless and low-income families with affordable housing facilities and services. Action, Inc., acting through its Board of Directors is the sole member of the Corporation. The Agency purchased the site for the project for \$325,000.

11. 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 the Agency's financial statements. Accordingly, no provision for any liability that may result has been made in financial statements.

ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

12. SURPLUS REVENUE RETENTION

The Agency has no liability to the Commonwealth of Massachusetts under the Division of Purchased Services "Surplus Revenue Retention Policy" pursuant to 808 CMR 1.19(3). In accordance with this policy, the Agency is entitled to retain an annual net surplus of up to five percent (5%) per year of the total revenue attributable to Commonwealth purchasing agencies. The cumulative amount retained may not exceed twenty percent (20%) of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retained net asset.

Such surplus may be retained as unrestricted net assets to further its charitable purposes, provided that no portion of the surplus be used for any non-reimbursable cost set forth in 808 CMR 1.15.

The following is an analysis of the Agency's deficit revenue retention net asset pool included in unrestricted net assets:

Cumulative Deficit, June 30, 2010	\$ (1,730,831)
2011 Deficit	<u>(128,504)</u>
Cumulative Deficit June 30, 2011	<u>\$ (1,859,335)</u>

13. SUBSEQUENT EVENTS

The Agency did not have any recognized or non-recognized subsequent events after September 30, 2011, the date of the statement of financial position. Subsequent events have been evaluated through February 13, 2012, the date the financial statements were available to be issued.

ACTION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	PROGRAM TYPE	FEDERAL CFDA	PASS-THROUGH ENTITY IDENTIFYING NUMBER	EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Commonwealth of Massachusetts:</i>				
Community Services Block Grant	B	93.569	OCD SC OCD42001060BG02000	\$ 282,188
Fuel Assistance	A	93.568	OCD PO OCD44001058LP10000	2,019,717
Heartwap	A	93.568	OCD SC OCD44001058HW02000	236,100
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>2,538,005</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Supportive Housing Program	B	14.235		114,400
Housing Opportunities for Persons With AIDS	A	14.241		422,916
<i>Passed through City of Gloucester:</i>				
Community Development Block Grant	B	14.219	10042	10,319
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>547,635</u>
U.S. DEPARTMENT OF ENERGY				
<i>Passed through Commonwealth of Massachusetts:</i>				
Weatherization Assistance	A	81.042	OCD SC OCD390096100240000	427,625
ARRA - Weatherization Assistance	A	81.042	OCD SC OCD41401061ARRA002	3,436,580
TOTAL U.S. DEPARTMENT OF ENERGY				<u>3,864,205</u>
U.S. DEPARTMENT OF LABOR				
<i>Passed through Southern Essex Reg. Employment Board:</i>				
WIA Youth Activities	B	17.259		104,969
WIA Youth Activities - ARRA	B	17.259		10,000
TOTAL DEPARTMENT OF LABOR				<u>114,969</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 7,064,814</u>

NOTES TO SCHEDULE OF FEDERAL AWARDS

1. Definition of Reporting Entity

This Schedule of Expenditures of Federal Awards includes the federal grant activity of Action, Inc. ("The Agency"). The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

2. Summary of Significant Accounting Policies

- A. Basis of Presentation - This Schedule of Federal Awards is presented using the accrual method of accounting, which is described in note 1 to the financial statements.
B. The Agency identified the larger Federal Programs (Type A programs) as those programs that exceed \$300,000. All other programs are labeled as Type B programs.

Bruce D. Norling, CPA, P.C.

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
Action, Inc.

We have audited the financial statements of Action, Inc. (the Agency) as of and for the year ended September 30, 2011, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency'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 the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 other matters that we reported to management of the Agency in a separate letter dated February 13, 2012.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

Bruce D. Norling, CPA, P.C.
February 13, 2012

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' 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
Action, Inc.

Compliance

We have audited Action, Inc.'s (the Agency) 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 the Agency's major federal programs for the year ended September 30, 2011. The Agency'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 the Agency's management. Our responsibility is to express an opinion on the Agency'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 the Agency'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 the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Agency 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 the Agency'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 the Agency'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.

This report is intended solely for the information and use of the Board of Directors and management, federal awarding agencies, and the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

Bruce D. Norling, CPA, P.C
February 13, 2012

ACTION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Action, Inc. (the Agency).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Agency were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' 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.
5. The auditors' report on compliance for the major federal award programs for the Agency expresses an unqualified opinion on all major federal programs.
6. Audit findings 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 were:

U.S. Department of Energy
Weatherization Assistance (CFDA #81.042)
ARRA – Weatherization Assistance (CFDA #81.042)
8. The threshold for distinguishing Types A and B programs was \$300,000. Type A programs are those that exceed \$300,000.
9. The Agency was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT – NONE

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS – NONE

ACTION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2011

Prior Audit Findings: None