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May 27, 2009

Board of Directors
Area Five Agency on Aging
and Community Services, Inc.
1801 Smith St.
Logansport, IN 46947-1579

We have reviewed the audit report prepared by Crowe Horwath, LLC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Area Five Agency on Aging and Community Services, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the finding in the report. Page 32 contains one current audit finding.

STATE BOARD OF ACCOUNTS

**AREA FIVE AGENCY ON AGING
AND
COMMUNITY SERVICES, INC.**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.

Logansport, Indiana

FINANCIAL STATEMENTS

December 31, 2007 and 2006

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Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Area Five Agency on Aging and Community Services, Inc
Logansport, Indiana

We have audited the accompanying consolidated statements of financial position of Area Five Agency on Aging and Community Services, Inc. and subsidiaries (Organizations) as of December 31, 2007 and 2006, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Area Five Agency on Aging and Community Services, Inc. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years 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 September 12, 2008, on our consideration of Area Five Agency on Aging and Community Services, Inc.'s internal control over financial reporting and 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules of consolidating information, which is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, as well as the accompanying schedule of expenditures of federal awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which is presented for purposes of additional analysis, are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in an audit of the consolidated financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 12, 2008

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash	\$ 440,760	\$ 141,779
Grants receivable	662,266	1,153,454
Accounts receivable	113,522	163,603
Investments (Note 4)	1,700	1,700
Other assets	<u>87,544</u>	<u>83,569</u>
Total current assets	1,305,792	1,544,105
Non-current assets		
Development fees receivable	544,360	544,360
Loans receivable (Note 3)	4,016,467	3,894,587
Property and equipment, net (Note 5)	<u>3,422,356</u>	<u>3,615,478</u>
Total non-current assets	<u>7,983,183</u>	<u>8,054,425</u>
	<u>\$ 9,288,975</u>	<u>\$ 9,598,530</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 598,130	\$ 901,178
Self-insurance reserve (Note 11)	252,568	229,997
Accrued payroll, vacation and withholdings	424,018	473,184
Other liabilities	86,449	17,777
Bonds payable - current portion (Note 6)	44,724	42,193
Notes payable - current portion (Note 7)	<u>582,404</u>	<u>555,279</u>
Total current liabilities	1,988,293	2,219,608
Non-current liabilities		
Bonds payable (Note 6)	586,693	631,417
Notes payable (Note 7)	<u>1,520,749</u>	<u>1,558,468</u>
Total non-current liabilities	<u>2,107,442</u>	<u>2,189,885</u>
Total liabilities	4,095,735	4,409,493
Net assets		
Unrestricted	1,213,719	1,304,631
Unrestricted - board designated (Note 9)	<u>3,979,521</u>	<u>3,884,406</u>
Total net assets	<u>5,193,240</u>	<u>5,189,037</u>
	<u>\$ 9,288,975</u>	<u>\$ 9,598,530</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Revenue		
Grant assistance	\$ 10,030,193	\$ 9,833,873
Program income	82,469	89,406
Local grant assistance and program support	149,931	63,568
Service fee income	44,412	40,081
Investment income	141,191	140,636
Rental income	216,512	201,370
Net gain (loss) from construction projects	22,302	(215)
Gain (loss) on sale of property and equipment	8,000	(7,278)
Other income	<u>42,894</u>	<u>35,136</u>
	<u>10,737,904</u>	<u>10,396,577</u>
Expenses		
Program services:		
In-home services	2,950,538	3,281,881
Community services	2,849,140	2,754,912
Energy assistance	2,343,376	2,169,212
HeadStart	1,452,733	1,377,016
Weatherization	376,573	427,551
Treehouse childcare	-	25,940
Housing	<u>276,454</u>	<u>256,318</u>
Total program service expenses	10,248,814	10,292,830
Management and general	<u>484,887</u>	<u>510,249</u>
	<u>10,733,701</u>	<u>10,803,079</u>
Change in net assets	4,203	(406,502)
Net assets at beginning of year	<u>5,189,037</u>	<u>5,595,539</u>
Net assets at end of year	<u>\$ 5,193,240</u>	<u>\$ 5,189,037</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2007

	Program Services									
	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather- ization	Treehouse Childcare	Housing	Program Services	Management & General	Total Expenses
Salaries and wages	\$ 786,463	\$ 1,655,358	\$ 172,312	\$ 761,446	\$ 157,413	\$ -	\$ 28,243	\$ 3,561,235	\$ 87,573	\$ 3,648,808
Payroll taxes and benefits	239,615	656,863	50,548	212,043	61,558	-	7,685	1,228,312	21,003	1,249,315
	<u>1,026,078</u>	<u>2,312,221</u>	<u>222,860</u>	<u>973,489</u>	<u>218,971</u>	<u>-</u>	<u>35,928</u>	<u>4,789,547</u>	<u>108,576</u>	<u>4,898,123</u>
Contracted services	1,442,716	175,635	3,049	12,184	112,746	-	163,354	1,909,684	8,626	1,918,310
Specific assistance	-	-	2,027,389	-	-	-	-	2,027,389	-	2,027,389
Occupancy	23,586	32,864	4,633	38,075	1,835	-	1,719	102,712	22,809	125,521
Depreciation	24,305	25,909	4,087	34,404	3,405	-	9,978	102,088	86,358	188,446
Telephone/postage	16,294	28,539	5,485	5,338	3,410	-	677	59,743	3,747	63,490
Materials/supplies	11,486	65,139	59,905	96,197	21,281	-	543	254,551	6,669	261,220
Equipment	-	48,990	-	39,190	-	-	-	88,180	-	88,180
Maintenance	1,928	3,105	494	6,735	207	-	2,736	15,205	2,100	17,305
Legal	284	90	48	127	108	-	46	703	13,494	14,197
Insurance	9,498	6,408	1,219	13,351	6,993	-	2,998	40,467	18,750	59,217
Travel	26,966	79,914	2,939	42,540	205	-	193	152,757	62	152,819
Food costs	301,937	-	-	116,056	-	-	-	417,993	2,261	420,254
Interest expense	21,748	12,966	941	22,207	461	-	17,315	75,638	121,985	197,623
Housing development	-	-	-	-	-	-	7,511	7,511	-	7,511
Miscellaneous	43,712	57,360	10,327	52,840	6,951	-	33,456	204,646	89,450	294,096
	<u>\$ 2,950,538</u>	<u>\$ 2,849,140</u>	<u>\$ 2,343,376</u>	<u>\$ 1,452,733</u>	<u>\$ 376,573</u>	<u>\$ -</u>	<u>\$ 276,454</u>	<u>\$ 10,248,814</u>	<u>\$ 484,887</u>	<u>\$ 10,733,701</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2006

Program Services

	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather- ization	Treehouse Childcare	Housing	Total Program Services	Management & General	Total Expenses
Salaries and wages	\$ 917,596	\$ 1,628,844	\$ 147,241	\$ 748,317	\$ 116,808	\$ 14,023	\$ 37,040	\$ 3,609,869	\$ 59,096	\$ 3,668,965
Payroll taxes and benefits	277,437	649,033	42,755	237,336	57,585	5,764	15,152	1,285,062	28,024	1,313,086
	<u>1,195,033</u>	<u>2,277,877</u>	<u>189,996</u>	<u>985,653</u>	<u>174,393</u>	<u>19,787</u>	<u>52,192</u>	<u>4,894,931</u>	<u>87,120</u>	<u>4,982,051</u>
Contracted services	1,543,426	132,357	1,942	11,253	179,556	-	135,687	2,004,221	9,742	2,013,963
Specific assistance	-	-	1,889,186	-	-	-	-	1,889,186	-	1,889,186
Occupancy	21,261	31,058	4,062	36,078	957	1,103	1,676	96,195	25,042	121,237
Depreciation	27,262	24,940	4,757	34,326	2,825	-	9,496	103,606	91,228	194,834
Telephone/postage	18,338	28,647	5,462	5,175	2,482	53	492	60,649	8,523	69,172
Materials/supplies	41,582	75,413	60,560	63,978	49,618	298	470	291,919	20,657	312,576
Equipment	-	-	-	-	5,965	-	-	5,965	-	5,965
Maintenance	3,410	3,660	858	6,128	411	289	3,662	18,418	33,982	52,400
Legal	-	717	-	-	-	-	-	717	6,370	7,087
Insurance	8,563	5,426	1,111	12,804	4,327	-	2,263	34,494	35,413	69,907
Travel	28,926	70,338	1,949	37,453	394	94	522	139,676	7,338	147,014
Food costs	314,636	-	-	125,491	-	2,490	-	442,617	1,352	443,969
Interest expense	23,878	11,814	918	21,109	297	1,158	17,656	76,830	106,394	183,224
Housing development	-	-	-	-	-	-	5,713	5,713	4,908	10,621
Miscellaneous	55,566	92,665	8,411	37,568	6,326	668	26,489	227,693	72,180	299,873
	<u>\$ 3,281,881</u>	<u>\$ 2,754,912</u>	<u>\$ 2,169,212</u>	<u>\$ 1,377,016</u>	<u>\$ 427,551</u>	<u>\$ 25,940</u>	<u>\$ 256,318</u>	<u>\$ 10,292,830</u>	<u>\$ 510,249</u>	<u>\$ 10,803,079</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ 4,203	\$ (406,502)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	188,446	194,834
(Gain) loss on sale of property and equipment	(8,000)	7,278
Changes in assets and liabilities:		
Grants receivable	491,188	(34,764)
Accounts receivable	50,081	39,885
Development fees receivable	-	21,640
Other assets	(3,975)	13,119
Accounts payable	(303,048)	434,302
Self-insurance reserve	22,571	(20,248)
Accrued payroll, vacation and withholdings	(49,166)	(8,151)
Other liabilities	<u>68,672</u>	<u>3,312</u>
Net cash from operating activities	<u>460,972</u>	<u>244,705</u>
 Cash flows from investing activities		
Purchase of property and equipment	-	(68,530)
Proceeds from sale of property and equipment	12,676	80,000
Principal payments received on loans receivable	85,578	35,235
New loans made	<u>(207,458)</u>	<u>(158,910)</u>
Net cash used in investing activities	<u>(109,204)</u>	<u>(112,205)</u>
 Cash flows from financing activities		
Proceeds from issuance of notes payable	72,000	113,933
Principal payments on notes payable	(82,594)	(176,512)
Principal payments on bonds payable	<u>(42,193)</u>	<u>(39,710)</u>
Net cash used in financing activities	<u>(52,787)</u>	<u>(102,289)</u>
 Net change in cash	298,981	30,211
 Cash at beginning of year	<u>141,779</u>	<u>111,568</u>
 Cash at end of year	<u>\$ 440,760</u>	<u>\$ 141,779</u>
 Supplemental disclosures of cash flow information		
Interest paid	\$ 197,623	\$ 183,224

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The consolidated financial statements include the accounts of Area Five Agency on Aging and Community Services, Inc. (Area Five) and its wholly owned subsidiaries, Dependable Dental Solutions, LLC (DDS) and Construction Management Associates, LLC (CMA). The mission of Area Five is to meet the needs of the elderly, disabled, and disadvantaged members of the communities served. Area Five provides services to eligible residents of Cass, Fulton, Howard, Miami, Tipton, and Wabash counties in the State of Indiana. Area Five administers various programs funded by the Federal government and the State of Indiana that are used to provide for planning and development of programs that intervene at critical points in poverty and the aging process and that will enable families and individuals to become more self-sufficient. CMA is construction management company, and DDS is a dental practice that was formed to serve Area Five clients.

Area Five, DDS, and CMA have been consolidated for this financial statement presentation. The consolidated financial statements have been prepared on the accrual basis of accounting wherein revenues and expenses are recognized in the period earned and incurred, respectively. In September 2006, DDS ceased operations. In February 2007, DDS liquidated its remaining assets and paid off its capital lease liability.

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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Areas where significant estimates are used in the accompanying financial statements include the allowance for doubtful accounts, allocation of expenses, and the self-insurance reserve liability. Actual results could differ from those estimates.

Income Taxes: Area Five is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not considered to be a private foundation. However, Area Five is subject to income taxes on certain types of unrelated business income. CMA and DDS, Area Five's wholly-owned subsidiaries, are single member limited liability companies that have elected to be taxed as corporations. The amount of taxes paid by Area Five, CMA and DDS is not material to the financial statements.

Cash: Cash consists of bank deposits in accounts that are federally insured up to \$100,000 per financial institution.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Accounts and Development Fees Receivable: Area Five's grants receivable, accounts receivable and development fees receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Interest is not charged on accounts receivable, grants receivable or development fees receivable.

Allowance for Doubtful Accounts: The allowance for uncollectible accounts is determined by management based upon each entity's historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts, grants and development fees receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with their collection policy. At December 31, 2007 and 2006, management estimated that no allowance was needed.

Loans receivable: Loans receivable include loan agreements on qualifying tax credit projects, which are owned by a partnership, with Area Five as the general partner. The tax credit projects support the development of low-income and elderly housing. Terms and interest rates of the loans vary, but the principal and accrued interest is due to be re-paid at the end of the tax credit project in the form of an asset transfer. An allowance for loan loss is considered by management by examining the underlying tax credit project value. If management estimates that a tax credit project values has diminished below the carrying value of the loan plus accrued interest, the loan may be put in a nonaccrual status. Management has estimated no allowance was necessary at December 31, 2007 and 2006.

Property and Equipment: Property and equipment with a cost basis of \$5,000 and greater are recorded at cost, except for donated items, which are recorded at fair market value at its donation date. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which may range from three to thirty years. Buildings and equipment acquired with government grants have been expensed as purchased, due to the reversionary interest that is maintained by the grantor. If applicable, upon expiration of the grantor's reversionary interest period, property and equipment are recorded at fair value as of the expiration date and depreciated.

Accounts Payable: Area Five's accounts payable balance includes amounts due to various vendors for the provision of grant funded services to clients. The payables may exist due to time lags between the dates of service and reimbursement of grant funds to Area Five by the grantor. Amounts due for non-grant funded goods and services purchased by Area Five are also included in accounts payable.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classifications: The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires, among other things, that the consolidated financial statements report the changes in and total of each of the net asset classes based upon the donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted.

The following classes of net assets are maintained:

Unrestricted Net Assets - The unrestricted net asset class includes general and board designated assets and liabilities of Area Five. The unrestricted net assets may be used at the discretion of management to support Area Five's purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of Area Five related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. There were no temporarily restricted net assets reported by management at December 31, 2007 and 2006.

Permanently Restricted Net Assets - The permanently restricted net asset class includes assets of Area Five for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. There were no permanently restricted net assets reported by management at December 31, 2007 and 2006.

Functional Expenses: Expenses are allocated directly or indirectly to various program and supporting services in the consolidated statement of functional expenses. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural classification. All remaining costs are allocated using both statistical and non-statistical allocation methodologies.

Government Grants: Support funded by grants is recognized as Area Five performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: In accordance with SFAS No. 116, contributions are recorded when the unconditional promise to give is made. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and nature of donors' restrictions. There were no outstanding unconditional promises reported by management as of December 31, 2007 and 2006.

Donated Services and In-Kind Contributions: Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time in relation to Area Five's program services; however, these services did not meet the above criteria for reporting in the accompanying financial statements. For purposes of applicable grant matching requirements, Area Five has valued these contributed services at \$499,806 and \$810,557 for the years ended December 31, 2007 and 2006.

Net Profit from Construction Projects: CMA recognizes revenue and related costs from construction contracts on a percentage-of-completion method of accounting, measured by the percentage of costs incurred to date to management's estimate of the total cost for each contract. This method is used because management considers costs incurred to date to be the best available measure of progress on contracts in process. The net profit from construction projects in the statement of activities is reported net of contract costs of \$11,040 and \$250,202 for the year ended December 31, 2007 and 2006.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets.

NOTE 2 - GOVERNMENT GRANT ACTIVITIES

Area Five receives a majority of its federal and state grant funds through two third parties, the Indiana Family and Social Services Administration and the Indiana Housing and Community Development Authority, by submitting claims to the third parties for approval and payment. Area Five depends significantly on these third parties for funding to carry out its program activities.

The grant amounts are appropriated each year by federal and state agencies. If significant budget cuts are made at the federal and state level, the amount of funds that Area Five receives could be reduced significantly and have an impact on its operations.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 2 - GOVERNMENT GRANT ACTIVITIES (Continued)

In 2007 and 2006, Area Five used certain funds received under Title III-B to issue its own contracts to subgrantees and service providers. Although the expenditures made and units of service performed by these subgrantees and service providers are certified as bona fide, documentation of the purpose of such expenditures and units of service performed are subject to audit and review by funding sources. Some of the contracts include a local cost sharing provision similar to those which apply to contracts awarded to Area Five.

Area Five could become liable for any funds required to be returned to the federal agency issuing the contract if a subgrantee or service provider is unable to adequately document expenditures, substantiate its local cost sharing requirement, document the units of services performed, or if they are unable to refund any unearned federal funds.

NOTE 3 - LOANS RECEIVABLE

Area Five has received grant funds for the following loan programs:

- Home Investment Partnerships Program,
- Affordable Housing Program (AHP)
- Small Business Incubator (SBI)

The loan programs support the development of low-income and elderly housing, as well as the development of small businesses in the community. Loans receivable, including accrued interest at December 31, 2007 and 2006, are due from the following:

	<u>2007</u>	<u>2006</u>
Logansport Housing Associates LP	\$ 1,235,926	\$ 1,237,750
Chase Crossing LP	1,371,558	1,317,318
Hilltop Farms LP (Phase 1)	364,157	355,758
Hilltop Farms LP (Phase 2)	857,880	823,580
Various SBI Loans	<u>186,946</u>	<u>160,181</u>
	<u>\$ 4,016,467</u>	<u>\$ 3,894,587</u>

The loans earn interest at annual rates that range between 1% and 6.78%. Several of these loans receivable are related to tax credit housing projects, and the amounts are payable to Area Five at the end of the tax credit project periods, which range up to 15 years, with maturity dates between 2011 and 2017. Payments may be in the form of standard cash payments or a transfer of assets at the end of the tax credit project. Area Five's management has estimated that there are no impairments on loans receivable and no allowance was necessary.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Area Five owns 75 \$10 par value shares (75%) of Community Investments, Inc. Community Investments, Inc. is a 1% general partner in Logansport Housing Associates Limited Partnership (Bend in the Woods Estates) and Chase Crossing Limited Partnership.	\$ 750	\$ 750
Area Five owns 25 \$10 par value shares (25%) of Manchester Development Corporation. Manchester Development Corporation is a 1% general partner in Fellowship Apartments Limited Partnership.	250	250
Area Five owns 70 \$10 par value shares (51%) of Peru Development Corporation. Peru Development Corporation is a 1% general partner in Hilltop Farms Limited Partnership (Phase One).	700	700
Area Five owns 100 \$0 par value shares (100%) of Miami Development Corporation. Miami Development Corporation is a 1% general partner in Hilltop Farms Phase Two Limited Partnership.	-	-
	<u>\$ 1,700</u>	<u>\$ 1,700</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment of Area Five, CMA and DDS consists of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 177,028	\$ 177,028
Building	3,908,290	3,908,290
Building Improvements	489,479	489,479
Rental Buildings	345,496	345,496
Modular Classroom	44,647	44,647
Property held for sale	90,093	90,093
Equipment	<u>185,669</u>	<u>216,581</u>
	5,240,702	5,271,614
Accumulated depreciation	<u>(1,818,346)</u>	<u>(1,656,136)</u>
	<u>\$ 3,422,356</u>	<u>\$ 3,615,478</u>

The property held for sale relates to a house in Kokomo, which is not currently in use at December 31, 2007 and 2006. The house is not being depreciated at December 31, 2007 and 2006.

Area Five owns facilities and equipment that were purchased or built using federal grant funds. For financial statement purposes, the grant-funded portion of the facility's or equipment's cost is not capitalized until any reversionary interest of the grantor has expired. Facilities and equipment with reversionary interest remaining include:

	<u>Cost</u>	<u>Grant-funded Portion</u>
Child Services Center (through August 2009)	\$ 1,319,781	\$ 500,000
Headstart School (indefinite)	184,077	100,000
Vehicles	84,345	84,345
Copier	<u>9,800</u>	<u>9,800</u>
Total	<u>\$ 1,598,003</u>	<u>\$ 694,145</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 6 - BONDS PAYABLE

Area Five constructed their own Human Services Building in 1993. Area Five issued two series of bonds totaling \$1,100,000 (Series 1993 A and 1993 B) to pay for the majority of the construction costs. The Series 1993 B bonds were retired in 2002. Series 1993 A bonds are described below:

- \$850,000 of Series 1993 A City of Logansport, Indiana Economic Development Revenue Bonds with a maturity date of May 1, 2018 and an annual interest rate equal to 80% of the one year Treasury Bill plus a margin of 250 basis points rounded to the nearest .0125%. For 2007 and 2006, the interest expense paid on Series 1993 A Bonds was \$41,430 and \$47,946. The balance of the Series 1993 A bonds payable as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Original bonds issued	\$ 850,000	\$ 850,000
Principal payments	<u>(218,583)</u>	<u>(176,390)</u>
	631,417	673,610
Less: Current portion	<u>(44,724)</u>	<u>(42,193)</u>
	<u>\$ 586,693</u>	<u>\$ 631,417</u>

The future maturities of bonds payable are as follows:

2008	\$ 44,724
2009	47,631
2010	50,610
2011	53,776
2012	57,066
Thereafter	<u>377,610</u>
	<u>\$ 631,417</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 7 - NOTES PAYABLE

Area Five has the following notes payable as of December 31:

	<u>2007</u>	<u>2006</u>
Revolving line of credit with Security Federal Savings Bank in the amount of \$550,000 with a variable interest rate of 8.00% and 8.75% as of December 31, 2007 and 2006, respectively. The line of credit is secured by properties at Kokomo, Wabash and Logansport, Indiana and is payable upon demand.	\$ 473,801	\$ 401,801
Fifteen year mortgage with First National Bank and Trust in the amount of \$766,581 with a variable interest rate of 7.00% and 6.00% as of December 31, 2007 and 2006, respectively. Monthly principal and interest payments vary according to the interest rate and the maturity of the loan is July 2018. The mortgage is secured by property located at 661 East Main Street in Peru, Indiana.	606,745	646,802
Fifteen year mortgage with Security Federal Savings Bank in the amount of \$500,000 with an interest rate of 6.50% per annum. Monthly principal and interest payments are \$4,356, and the maturity of the loan is April 2017. The mortgage is secured by a facility located at 105 Olive Street in Wabash, Indiana.	365,052	392,610
Fifteen year mortgage with Key Bank National Association in the amount of \$84,077 with a variable interest rate of 8.40% and 8.64% as of December 31, 2007 and 2006, respectively. Monthly principal and interest payments vary according to the interest rate, and the maturity of the loan is June 2011. The mortgage is secured by the Headstart building located in Rochester, Indiana.	30,225	36,412
Thirty year mortgage with Security Federal Savings Bank in the amount of \$75,000 with an interest rate of 7.50% per annum. Monthly principal and interest payments are \$524, and the maturity of the loan is September 2025. The mortgage is secured by a single family home located at 92 Central Avenue in Logansport, Indiana.	61,515	63,128

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 7 - NOTES PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Thirty year mortgage with Security Federal Savings Bank in the amount of \$60,000 with an interest rate of 6.75% per annum. Monthly principal and interest payments are \$433, and the maturity of the loan is July 2023. The mortgage is secured by a duplex located at 91/95 Central Avenue in Logansport, Indiana.	\$ 49,854	\$ 51,615
Twenty year mortgage with Security Federal Savings Bank in the amount of \$72,300 with an interest rate of 7.125% per annum. Monthly principal and interest payments are \$563, and the maturity of the loan is July 2021. The mortgage is secured by the duplex located at 70/72 Central Avenue in Logansport, Indiana.	58,711	61,189
Fifteen year mortgage with Security Federal Savings Bank in the amount of \$280,000 with an interest rate of 6.75% per annum. Monthly principal and interest payments are \$2,478, and the maturity of the loan is March 2017. The mortgage is secured by the building located at 111 East Sycamore Street in Kokomo, Indiana.	204,152	219,536
Thirty year mortgage with Security Federal Savings Bank in the amount of \$70,734 with an interest rate of 7.00% per annum. Monthly principal and interest payments are \$469, and the maturity of the loan is November 2032. The mortgage is secured by the duplex located at 71/73 Central Avenue in Logansport, Indiana.	66,329	67,283
Construction loan with Security Federal Savings Bank for up to \$100,000 with an interest rate of 6.00% per annum. The note was converted to a term loan in early 2008. The note is secured by the property at 1106 West Mulberry Street in Kokomo, Indiana.	70,581	53,371
Construction loan that was converted in 2007 to a fifteen year mortgage with First National Bank of Monterey in the amount of \$120,000 with a variable interest rate of 7.25% as of December 31, 2007 and 2006. Monthly principal and interest payments vary according to the interest rate, and the maturity of the loan is February 2022. The note is secured by the property at 661 East Main Street in Peru, Indiana.	<u>116,189</u>	<u>120,000</u>
	2,103,153	2,113,747
Less: Current portion, including revolving line of credit	<u>(582,404)</u>	<u>(555,279)</u>
	<u>\$ 1,520,749</u>	<u>\$ 1,558,468</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - NOTES PAYABLE (Continued)

The total interest expense paid on all notes payable for the years 2007 and 2006 was \$169,308 and \$132,499, respectively. The future maturities of notes payable are as follows:

2008	\$ 582,404
2009	184,741
2010	122,786
2011	127,844
2012	129,676
Thereafter	<u>955,702</u>
	<u>\$ 2,103,153</u>

NOTE 8 - OPERATING LEASES

Area Five is the lessee in an operating lease agreement for office space in Rochester, Indiana. The lease, which runs through May 15, 2012, has required annual payments of \$6,531. Area Five also leases space in North Manchester and Akron through leases which expire in 2008. Area Five leases a vehicle and office equipment for a total of \$1,278 a month. These leases expire from 2008 to 2011. As of December 31, 2007, future minimum rental payments required under the operating leases are as follows:

2008	\$ 19,800
2009	9,520
2010	9,520
2011	8,103
2012	<u>1,905</u>
	<u>\$ 48,848</u>

Area Five is the lessor in operating lease agreements for office space located in Kokomo, Logansport, and Peru and of housing duplexes located in Logansport. The carrying value of these properties at December 31, 2007 and 2006 is \$3,674,815 and \$3,674,815, with related accumulated depreciation of \$1,374,113 and \$1,237,229. The future minimum rental receipts required under the leases are as follows:

2008	\$ 154,686
2009	146,793
2010	146,093
2011	<u>46,111</u>
	<u>\$ 493,683</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 9 - BOARD DESIGNATED NET ASSETS

Area Five's Board of Directors has designated a portion of Area Five's unrestricted net assets for the following purposes:

	<u>2007</u>	<u>2006</u>
Loans receivable under the Home Investment Partnerships and Affordable Housing Programs, and development fee receivable from Logansport Housing Associates.	\$ 3,829,521	\$ 3,734,406
Future improvements to the Logansport, Peru and Wabash facilities	<u>150,000</u>	<u>150,000</u>
	<u>\$ 3,979,521</u>	<u>\$ 3,884,406</u>

NOTE 10 - RETIREMENT PLAN

Area Five has a defined contribution plan where all employees are eligible once they have at least two years of service of 1,000 hours each year. Employees may not contribute to the plan. Area Five contributes 4% of the employees' gross earnings. For the year ended December 31, 2007 and 2006, Area Five contributed \$124,006 and \$136,906 to the plan.

NOTE 11 - EMPLOYEE SELF-INSURANCE PROGRAM

Area Five has adopted a partially self-funded insurance plan for employee group medical insurance. Expenses are recorded as incurred. Insurance policies in force at December 31, 2007 and 2006 limit Area Five's maximum plan cost to a monthly set-aside amount per employee. The maximum plan cost fluctuates on a monthly basis, depending on the number of enrolled employees. Area Five's portion of the predetermined funding provision is charged to expense each month. A reinsurance policy is in place to limit the maximum claim liability to \$60,000 per covered individual. Unpaid claims incurred prior to December 31 and filed within three months of year-end are accrued at December 31.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 12 - RELATED PARTY TRANSACTIONS

All related party transactions between Area Five, CMA and DDS have been eliminated in consolidation. Related party transactions include rent paid to Area Five by CMA and DDS, as well as certain accounts receivable and accounts payable.

In addition, Area Five has development fees receivable and loans receivable from the following related parties at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Logansport Housing Associates LP	\$ 1,440,926	\$ 1,442,750
Chase Crossing LP	1,371,558	1,317,318
Hilltop Farms LP (Phase 1)	364,157	355,757
Hilltop Farms LP (Phase 2)	<u>1,197,241</u>	<u>1,162,940</u>
	<u>\$ 4,373,882</u>	<u>\$ 4,278,765</u>

Interest earned on these related party receivables totaled approximately \$132,000 annually for the years ended December 31, 2007 and 2006.

NOTE 13 - GUARANTEES AND CONTINGENCIES

Area Five is the operating deficit guarantor in two housing partnership agreements. To provide assurance to the limited partners in these housing partnerships, Area Five agreed to guarantee the operating obligations of the housing entities up to a certain thresholds specified in the various partnership agreements. In total, the guarantees amount to approximately \$183,409 at December 31, 2007 and 2006.

Area Five's primary grantor, Indiana Family and Social Services Administration (FSSA), conducted a compliance review for the twelve months ended June 30, 2007 and June 30, 2005. Their report requests that Area Five repay FSSA certain amounts in relation to various findings and unallowable claims. The findings and related payback were appealed by Area Five. The appeal process has not yet been completely resolved, and accordingly, Area Five is not able to estimate the amount due to FSSA at this time.

SUPPLEMENTARY INFORMATION

AREA FIVE ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2007

	Area Five Agency on Aging & Community Services	Dependable Dental Solutions, LLC	Construction Management Associates, LLC	Eliminations	Consolidated Total
ASSETS					
Current assets					
Cash	\$ 436,757	\$ -	\$ 4,003	\$ -	\$ 440,760
Grants receivable	662,266	-	-	-	662,266
Accounts receivable	99,862	-	13,660	-	113,522
Amounts due from affiliated entities	68,809	-	-	(68,809)	-
Investments	29,191	-	-	(27,491)	1,700
Other assets	8,178	-	79,366	-	87,544
Total current assets	<u>1,305,063</u>	-	<u>97,029</u>	<u>(96,300)</u>	<u>1,305,792</u>
Non-current assets					
Development fees receivable	544,360	-	-	-	544,360
Loans receivable	4,016,467	-	-	-	4,016,467
Property and equipment, net	<u>3,422,356</u>	-	-	-	<u>3,422,356</u>
Total non-current assets	<u>7,983,183</u>	-	-	-	<u>7,983,183</u>
	<u>\$ 9,288,246</u>	<u>\$ -</u>	<u>\$ 97,029</u>	<u>\$ (96,300)</u>	<u>\$ 9,288,975</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 597,491	\$ -	\$ 639	\$ -	\$ 598,130
Amounts due to affiliated entities	-	809	68,000	(68,809)	-
Self-insurance reserve	252,568	-	-	-	252,568
Accrued payroll, vacation and withholdings	424,018	-	-	-	424,018
Other liabilities	86,359	-	90	-	86,449
Bonds payable	44,724	-	-	-	44,724
Notes payable	582,404	-	-	-	582,404
Total current liabilities	<u>1,987,564</u>	<u>809</u>	<u>68,729</u>	<u>(68,809)</u>	<u>1,988,293</u>
Non-current liabilities					
Bonds payable	586,693	-	-	-	586,693
Notes payable	<u>1,520,749</u>	-	-	-	<u>1,520,749</u>
Total non-current liabilities	<u>2,107,442</u>	-	-	-	<u>2,107,442</u>
Total liabilities	4,095,006	809	68,729	(68,809)	4,095,735
Net assets					
Unrestricted	1,213,719	(809)	28,300	(27,491)	1,213,719
Unrestricted - board-designated	<u>3,979,521</u>	-	-	-	<u>3,979,521</u>
Total net assets	<u>5,193,240</u>	<u>(809)</u>	<u>28,300</u>	<u>(27,491)</u>	<u>5,193,240</u>
	<u>\$ 9,288,246</u>	<u>\$ -</u>	<u>\$ 97,029</u>	<u>\$ (96,300)</u>	<u>\$ 9,288,975</u>

AREA FIVE ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2006

	Area Five Agency on Aging & Community Services	Dependable Dental Solutions, LLC	Construction Management Associates, LLC	Eliminations	Consolidated Total
ASSETS					
Current assets					
Cash	\$ 130,191	\$ 616	\$ 10,972	\$ -	\$ 141,779
Grants receivable	1,153,454	-	-	-	1,153,454
Accounts receivable	100,464	4,067	59,072	-	163,603
Amounts due from affiliated entities	101,000	-	4,403	105,403	-
Investments	55,850	-	-	54,150	1,700
Other assets	4,203	-	79,366	-	83,569
Total current assets	<u>1,545,162</u>	<u>4,683</u>	<u>153,813</u>	<u>159,553</u>	<u>1,544,105</u>
Non-current assets					
Development fees receivable	544,360	-	-	-	544,360
Loans receivable	3,894,587	-	-	-	3,894,587
Property and equipment, net	<u>3,615,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,615,478</u>
Total non-current assets	<u>8,054,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,054,425</u>
	<u>\$ 9,599,587</u>	<u>\$ 4,683</u>	<u>\$ 153,813</u>	<u>\$ 159,553</u>	<u>\$ 9,598,530</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 898,573	\$ 381	\$ 2,224	\$ -	\$ 901,178
Amounts due to affiliated entities	4,403	1,000	100,000	105,403	-
Self-insurance reserve	229,997	-	-	-	229,997
Accrued payroll, vacation and withholdings	472,533	-	651	-	473,184
Other liabilities	17,687	-	90	-	17,777
Bonds payable	42,193	-	-	-	42,193
Notes payable	555,279	-	-	-	555,279
Total current liabilities	<u>2,220,665</u>	<u>1,381</u>	<u>102,965</u>	<u>105,403</u>	<u>2,219,608</u>
Non-current liabilities					
Bonds payable	631,417	-	-	-	631,417
Notes payable	<u>1,558,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,558,468</u>
Total non-current liabilities	<u>2,189,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,189,885</u>
Total liabilities	<u>4,410,550</u>	<u>1,381</u>	<u>102,965</u>	<u>105,403</u>	<u>4,409,493</u>
Net assets					
Unrestricted	1,304,631	3,302	50,848	54,150	1,304,631
Unrestricted - board-designated	<u>3,884,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,884,406</u>
Total net assets	<u>5,189,037</u>	<u>3,302</u>	<u>50,848</u>	<u>54,150</u>	<u>5,189,037</u>
	<u>\$ 9,599,587</u>	<u>\$ 4,683</u>	<u>\$ 153,813</u>	<u>\$ 159,553</u>	<u>\$ 9,598,530</u>

AREA FIVE ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2007

	Area Five Agency on Aging & Community Services	Dependable Dental Solutions, LLC	Construction Management Associates, LLC	Eliminations	Consolidated Total
Revenue					
Grant assistance	\$10,030,193	\$ -	\$ -	\$ -	\$10,030,193
Program income	82,469	-	-	-	82,469
Local grant assistance and program support	149,931	-	-	-	149,931
Service fee income	44,412	-	-	-	44,412
Investment income (loss)	114,436	-	96	26,659	141,191
Rental income	216,512	-	-	-	216,512
Net gain from construction projects	-	-	22,302	-	22,302
Gain on sale of property and equipment	-	-	8,000	-	8,000
Other income	<u>42,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,894</u>
Total revenue	10,680,848	-	30,398	26,659	10,737,904
Expenses					
Program services:					
In-home services	2,950,538	-	-	-	2,950,538
Community services	2,849,140	-	-	-	2,849,140
Energy assistance	2,343,376	-	-	-	2,343,376
HeadStart	1,452,733	-	-	-	1,452,733
Weatherization	376,573	-	-	-	376,573
Treehouse	-	-	-	-	-
Housing	<u>276,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,454</u>
Total program service expenses	10,248,814	-	-	-	10,248,814
Management and general	<u>427,830</u>	<u>4,111</u>	<u>52,946</u>	<u>-</u>	<u>484,887</u>
Total expenses	10,676,644	4,111	52,946	-	10,733,701
Change in net assets	4,203	(4,111)	(22,548)	26,659	4,203
Net assets at beginning of year	<u>5,189,037</u>	<u>3,302</u>	<u>50,848</u>	<u>(54,150)</u>	<u>5,189,037</u>
Capital contributions					
Net assets at end of year	<u>\$ 5,193,240</u>	<u>\$ (809)</u>	<u>\$ 28,300</u>	<u>\$ (27,491)</u>	<u>\$ 5,193,240</u>

AREA FIVE ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2006

	Area Five Agency on Aging & Community Services	Dependable Dental Solutions, LLC	Construction Management Associates, LLC	Eliminations	Consolidated Total
Revenue					
Grant assistance	\$ 9,565,178	\$ -	\$ -	\$ -	\$ 9,565,178
Program income	358,101	-	-	-	358,101
Local grant assistance and program support	63,568	-	-	-	63,568
Service fee income	40,081	-	-	-	40,081
Investment income (loss)	74,095	-	70	(66,471)	140,636
Rental income	203,245	-	-	1,875	201,370
Net loss from construction projects	-	-	(215)	-	(215)
Loss on sale of property and equipment	-	(7,278)	-	-	(7,278)
Other income	<u>34,821</u>	<u>315</u>	<u>-</u>	<u>-</u>	<u>35,136</u>
Total revenue	<u>10,339,089</u>	<u>(6,963)</u>	<u>(145)</u>	<u>(64,596)</u>	<u>10,396,577</u>
Expenses					
Program services:					
In-home services	3,281,881	-	-	-	3,281,881
Community services	2,754,912	-	-	-	2,754,912
Energy assistance	2,169,212	-	-	-	2,169,212
HeadStart	1,377,016	-	-	-	1,377,016
Weatherization	427,551	-	-	-	427,551
Treehouse	25,940	-	-	-	25,940
Housing	<u>256,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>256,318</u>
Total program service expenses	10,292,830	-	-	-	10,245,894
Management and general	<u>452,761</u>	<u>9,422</u>	<u>49,941</u>	<u>1,875</u>	<u>510,249</u>
Total expenses	<u>10,745,591</u>	<u>9,422</u>	<u>49,941</u>	<u>1,875</u>	<u>10,803,079</u>
Change in net assets	(406,502)	(16,385)	(50,086)	(66,471)	(406,502)
Net assets at beginning of year	<u>5,595,541</u>	<u>(295,130)</u>	<u>(168,912)</u>	<u>(464,042)</u>	<u>5,595,539</u>
Capital contributions	-	314,817	269,846	584,663	-
Net assets at end of year	<u>\$ 5,189,037</u>	<u>\$ 3,302</u>	<u>\$ 50,848</u>	<u>\$ 54,150</u>	<u>\$ 5,189,037</u>

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2007

Federal Grantor/ Program Title	Federal CFDA Number	Expenditures	Amounts awarded to subrecipients
<u>U.S. Department of Agriculture</u>			
Pass-through program: Indiana State Department of Health WIC	10.557	\$ 229,063	\$ -
Pass-through program: Indiana Department of Education Child and Adult Care Food Program	10.558	120,815	-
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through program: Indiana Housing and Community Development Authority Home - CHDO	14.239	13,430	-
Home Owner Occupied Rehabilitation	14.239	111,156	-
<u>U.S. Department of Energy</u>			
Pass-through program: Indiana Housing and Community Development Authority Weatherization Assistance for Low-Income Persons	81.042	176,234	-
<u>U.S. Department of Health and Human Services</u>			
Head Start	93.600	1,331,339	-
Pass-through programs: Indiana Family and Social Services Administration			
Aging Cluster:			
Title III-A Administration	93.044	69,931	-
Title III-B Supportive Services	93.044	257,191	138,914
Title III-C Nutrition Services	93.045	455,014	-
Nutrition Services Incentive Program	93.053	71,647	-
Title VII Ombudsman	93.042	18,456	-
Title III-D Preventative Health	93.043	9,732	-
Title III-E National Family Caregiver Support	93.052	34,707	-
Temporary Assistance for Needy Families	93.558	1,792,460	-
Child Care Development Fund	93.596	284,031	-
Social Services Block Grant	93.667	190,225	-
Medical Assistance Program	93.778	133,837	-
Pass-through program: Indiana Housing and Community Development Authority			
Low-Income Home Energy Assistance	93.568	165,537	-
Energy Assistance	93.568	2,337,561	-
Leveraging	93.568	5,215	-
Community Service Block Grant	93.569	324,612	-
IDA	93.602	23,087	-
		<u>\$ 8,155,280</u>	<u>\$ 138,914</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Area Five Agency on Aging and Community Services, Inc., for the year ended December 31, 2007, and is presented in conformity with accounting principles generally accepted in the United States of America. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.



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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

Board of Directors
Area Five Agency on Aging and Community Services, Inc.
Logansport, Indiana

We have audited the consolidated financial statements of Area Five Agency on Aging and Community Services, Inc. (Area Five) as of and for the year ended December 31, 2007, and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered Area Five'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 Area Five's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Area Five's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. However, we noted other matters, which we have reported to management in a separate letter dated September 12, 2008.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Area Five'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.

This report is intended for the information and use of the Board of Directors, management 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 12, 2008



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON THE INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Area Five Agency on Aging and Community Services, Inc.
Logansport, Indiana

Compliance: We have audited the compliance of Area Five Agency on Aging and Community Services, Inc. (Area Five) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Area Five'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 Area Five's management. Our responsibility is to express an opinion on Area Five'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 Area Five'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 on Area Five's compliance with those requirements.

In our opinion, Area Five Agency on Aging and Community Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance: The management of Area Five is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Area Five's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Area Five's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 07-01 to be a significant deficiency. We also noted other matters which we have reported to management in a separate letter dated September 12, 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

This report is intended for the information and use of the Board of Directors, management 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 12, 2008

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2007

1. Summary of Auditor's Results:
 - a. An unqualified opinion was issued on the financial consolidated statements of Area Five Agency on Aging and Community Services, Inc. for the year ended December 31, 2007.
 - b. The audit did not disclose any noncompliance which is material to the financial statements.
 - c. An unqualified opinion was issued to Area Five Agency on Aging and Community Services, Inc. on their compliance for major programs.
 - d. There was one audit finding required to be disclosed under OMB Circular A-133 Section 510(a). This finding is considered to be a significant deficiency in internal control over a major program. This significant deficiency is not considered to be a material weakness.
 - e. Major programs identified:
 - U.S. Department of Health and Human Services - Pass through Indiana Family and Social Services Administration: Temporary Assistance for Needy Families (93.558)
 - U.S. Department of Health and Human Services - Pass through Indiana Housing and Community Development Authority: Community Services Block Grant (93.569)
 - f. Type A Programs are defined as Federal programs with Federal Awards expended during the audit period exceeding \$300,000.
 - g. Area Five Agency on Aging and Community Services, Inc. qualified as a low-risk auditee for the year ended December 31, 2007.
 2. Finding related to the financial statements which are required to be reported in accordance with GAGAS:

None
 3. Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):
-

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2007

FINDING 07-01 - INTERNAL CONTROLS OVER ELIGIBILITY TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM CFDA #:93.558	
Observation:	While testing Area Five's compliance with the grant's eligibility requirements, we noted one individual in our testing sample of 33, who received services but was not eligible according to the income level requirements. While investigating the cause of this exception, it was noted that there is not a consistent or documented internal control process in place to monitor the accuracy of income levels entered into the database the tracks eligibility. In addition, income ranges (i.e., "\$30,001 and over") are currently for client income reporting, and the eligibility cut-off level may fall within a range, which further necessitates the need for an independent review.
Questioned Cost	Not determinable
Recommendation:	We recommend that management implement an internal control procedure of documented monitoring and review of client income level entry into the program database. In addition, exact dollar amounts should be used for income levels, since the eligibility cut-off level may fall in the middle of the ranges used.
Management's Response:	Area Five Agency agrees with the recommendation of this finding. Management will implement an internal control procedure to document monitoring and review of client's exact dollar amounts of income level entry into the program database.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
December 31, 2007

There were no audit findings or questioned costs in the prior year.