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October 28, 2014

Board of Directors
Area Five Agency on Aging & Community Services, Inc.
1801 Smith Street
Logansport, IN 46947

We have reviewed the audit report prepared by Crowe Horwath LLP, for the period January 1, 2011 to December 31, 2011. 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 Area Five Agency on Aging & Community Services, Inc., as of December 31, 2011, 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
Logansport, Indiana

FINANCIAL STATEMENTS
December 31, 2011 and 2010

CONTENTS

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 (Area Five) as of December 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these 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, 2011 and 2010, 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 25, 2012, 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 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 other 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 25, 2012

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash	$ 82,263	$ 31,098
Grants receivable	1,074,845	1,193,504
Accounts receivable	108,392	127,628
Total current assets	1,265,500	1,352,230
Non-current assets		
Investments (Note 4)	1,000	1,700
Development fees receivable, net (Note 3)	-	-
Loans receivable, net (Note 3)	2,022,347	2,243,396
Property and equipment, net (Note 5)	3,148,778	3,351,391
Total non-current assets	5,172,125	5,596,487
	$ 6,437,625	$ 6,948,717
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 500,688	$ 486,803
Self-insurance reserve (Note 11)	-	109,700
Accrued payroll, vacation and withholdings	467,457	545,436
Other liabilities	45,262	19,432
Bonds payable – current portion (Note 6)	57,066	53,776
Notes payable and line of credit – current portion (Note 7)	451,073	129,877
Total current liabilities	1,521,546	1,345,024
Non-current liabilities		
Other liabilities	48,000	11,000
Bonds payable (Note 6)	377,610	435,628
Notes payable (Note 7)	2,175,705	2,303,832
Total non-current liabilities	2,601,315	2,750,460
Total liabilities	4,122,861	4,095,484
Net assets		
Unrestricted	243,531	575,359
Unrestricted - board designated (Note 9)	2,071,233	2,277,874
Total net assets	2,314,764	2,853,233
	$ 6,437,625	$ 6,948,717

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2011 and 2010

	2011	2010
REVENUE		
Grant assistance	$ 7,247,700	$ 9,794,074
Program income	73,714	181,066
Local grant assistance and program support	170,007	112,017
Service fee income	9,686	17,645
Investment income	138,291	137,041
Rental income	228,941	217,549
Other income	40,275	44,264
Total revenue	7,908,614	10,503,656
EXPENSES		
Program services:		
In-home services	3,003,382	3,059,326
Community services	1,982,451	2,853,622
Energy assistance	521,073	1,987,983
HeadStart	1,528,264	1,444,553
Weatherization	560,512	630,434
Housing	93,295	105,538
Total program service expenses	7,688,977	10,081,456
Management and general	419,275	568,487
Total expenses	8,108,252	10,649,943
Change in net assets before loss on impairment	(199,638)	(146,287)
Loss on impairment of loans and development fees receivable (Note 3)	(338,831)	(132,190)
Change in net assets	(538,469)	(278,477)
Net assets at beginning of year	2,853,233	3,131,710
Net assets at end of year	$ 2,314,764	$ 2,853,233

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, 2011

	Program Services								
	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather-ization	Housing	Total Program Services	Management & General	Total Expenses
Salaries and benefits	$ 1,380,747	$ 1,651,859	$ 364,170	$ 1,098,974	$ 245,023	$ 33,780	$ 4,774,553	$ 30,849	$ 4,805,402
Occupancy	29,681	52,259	6,752	37,935	1,653	2,245	130,525	21,437	151,962
Depreciation	26,676	25,584	3,924	27,897	2,178	9,947	96,206	106,407	202,613
Interest expense	14,417	11,496	878	19,732	436	15,027	61,986	130,545	192,531
Telephone/postage	17,216	30,966	11,951	7,070	4,803	643	72,649	3,339	75,988
Contracted services	1,119,141	32,173	3,175	20,933	219,908	3,011	1,398,341	4,508	1,402,849
Food costs	240,870	-	-	79,995	-	-	320,865	3,728	324,593
Materials/supplies	58,363	38,086	91,660	92,561	63,286	12,141	356,097	22,085	378,182
Equipment	-	-	-	-	5,400	-	5,400	-	5,400
Travel	49,515	59,501	4,755	47,859	511	1,476	163,617	(7,041)	156,576
Miscellaneous	52,495	68,389	22,603	71,196	9,961	12,643	237,287	86,226	323,513
Legal	794	2,079	231	2,170	515	219	6,008	805	6,813
Maintenance	3,802	3,346	1,221	9,927	362	(501)	18,157	3,788	21,945
Insurance	9,665	6,713	1,123	12,015	6,450	2,665	38,631	12,599	51,230
Specific assistance	-	-	8,630	-	25	-	8,655	-	8,655
	$ 3,003,382	$ 1,982,451	$ 521,073	$ 1,528,264	$ 560,511	$ 93,296	$ 7,688,977	$ 419,275	$ 8,108,252

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, 2010

	Program Services								
	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather-ization	Housing	Total Program Services	Management & General	Total Expenses
Salaries and benefits	$ 1,280,888	$ 2,068,731	$ 344,284	$ 1,034,916	$ 274,362	$ 30,084	$ 5,033,265	$ 178,578	$ 5,211,843
Occupancy	28,944	54,152	6,835	41,870	1,539	2,505	135,845	22,927	158,772
Depreciation	27,101	26,106	3,949	27,672	2,303	9,967	97,098	105,028	202,126
Interest expense	13,278	10,370	792	16,796	256	15,606	57,098	96,676	153,774
Telephone/postage	21,335	36,306	12,935	6,929	5,185	780	83,470	3,526	86,996
Contracted services	1,316,422	237,549	6,812	32,946	262,740	6,460	1,862,929	23,388	1,886,317
Food costs	183,150	-	-	70,204	-	-	253,354	17,375	270,729
Materials/supplies	64,561	159,341	78,060	78,807	61,213	10,922	452,904	29,964	482,868
Equipment	3,613	44,514	566	869	1,263	537	51,362	18,178	69,540
Travel	48,553	66,782	2,320	38,040	917	1,076	157,688	(11,344)	146,344
Miscellaneous	56,035	134,519	16,487	64,213	13,112	21,763	306,129	60,439	366,568
Legal	3,951	6,515	577	1,185	657	620	13,505	7,382	20,887
Maintenance	1,517	1,844	430	17,889	111	2,542	24,333	3,251	27,584
Insurance	9,978	6,893	1,149	12,217	6,776	2,676	39,689	13,119	52,808
Specific assistance	-	-	1,512,787	-	-	-	1,512,787	-	1,512,787
	$ 3,059,326	$ 2,853,622	$ 1,987,983	$ 1,444,553	$ 630,434	$ 105,538	$10,081,456	$ 568,487	$10,649,943

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, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ (538,469)	$ (278,477)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	202,613	202,125
Bad debt expense	-	4,762
Loss on investment	700	-
Loss on impairment of loan and development fees receivable	338,831	132,190
Changes in assets and liabilities:		
Grants receivable	118,659	225,380
Accounts receivable	19,236	39,852
Accrued interest receivable	(132,190)	(132,190)
Accounts payable	13,885	(314,762)
Self-insurance reserve	(109,700)	(37,771)
Accrued payroll, vacation and withholdings	(77,979)	32,129
Other liabilities	62,830	(308,747)
Net cash from operating activities	(101,584)	(435,509)
Cash flows from investing activities		
Purchase of property and equipment	-	(6,571)
Principal payments received on loans receivable	35,103	49,673
New loans made	(20,695)	(36,755)
Net cash from investing activities	14,408	6,347
Cash flows from financing activities		
Proceeds from issuance of notes payable and draws on line of credit	1,813,359	612,702
Principal payments on notes payable and line of credit	(1,620,470)	(102,783)
Principal payments on bonds payable	(54,728)	(49,659)
Net cash from financing activities	138,341	460,260
Net change in cash	51,165	31,098
Cash at beginning of year	31,098	-
Cash at end of year	$ 82,263	$ 31,098
Supplemental disclosures of cash flow information		
Interest paid	$ 192,531	$ 151,659

See accompanying notes to consolidated financial statements.

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 a 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 2006, DDS ceased operations and in 2007, DDS liquidated its remaining assets and paid off its capital lease liability. In 2008, CMA ceased operations and had liquidated most of its assets as of December 31, 2009. Both entities legally exist with minimal assets and liabilities at both December 31, 2011 and 2010.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 uncollectible loans and development fees receivable, 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 may be 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.

Current accounting standards require Area Five to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended December 31, 2011 and 2010, management has determined that Area Five does not have any tax positions that result in any uncertainties regarding the possible impact on Area Five's financial statements. Area Five does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Area Five is generally no longer subject to examination by taxing authorities for years before 2008.

Area Five recognizes interest and/or penalties related to income tax matters in income tax expense. Area Five did not have any amounts accrued for interest and penalties at December 31, 2011 and 2010.

(Continued)

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

Cash: Cash consists of bank deposits in accounts that are federally insured up to $250,000 per financial institution. At times throughout the year, Area Five held cash in excess of the federally insured limit.

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, 2011 and 2010, management estimated the allowance as $507,286 in relation to the development fees receivable.

Investments: Investments include shares of partnership interests in various limited partnerships. Area Five wholly owns the corporations that are the general partners of the limited partnerships, but do not have a controlling interest in the partnership. Area Five reports these investments at cost.

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 at the end of the tax credit project with planned payment in the form of a property transfer.

An allowance for loan impairment is considered by management by examining the underlying tax credit project fair value using property appraisals. Management's policy is that all loans, including impaired loans, shall accrue interest. Each year management will estimate whether that interest is collectible.

Property and Equipment: Property and equipment purchased at $5,000 and greater are capitalized at cost, except for donated items, which are recorded at fair value at its donation date. Depreciation is computed using the straight-line method over the 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 then depreciated over the remaining useful life.

Impairment of Long-Lived Assets: In accordance with GAAP, Area Five reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2011 and 2010.

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)

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 GAAP, which 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. See detail of board designations at Note 9. The unrestricted, undesignated 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, 2011 and 2010.

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, 2011 and 2010.

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 typically recognized as earned as the eligible expenses are incurred. Some of Area Five's grant agreements are fee-for-service in nature, and support is recognized when earned. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions: Contributions are recorded when an 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. Temporarily restricted contributions whose restriction is fulfilled in the same year as the contribution are reported as unrestricted. There were no outstanding unconditional promises reported by management as of December 31, 2011 and 2010.

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 $620,980 and $401,896 for the years ended December 31, 2011 and 2010.

(Continued)

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

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 or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended December 31, 2011. Management has performed their analysis through September 25, 2012, the date the financial statements were available to be issued.

NOTE 2 - GOVERNMENT GRANT ACTIVITIES

Area Five receives a majority of its federal and state grant funds through three third parties, the Indiana Family and Social Services Administration (FSSA), the Indiana Housing and Community Development Authority and the United States Department of Health and Human Services, 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.

In 2011 and 2010, Area Five used certain FSSA funds received under Title III-B to issue its own contracts to sub-grantees and service providers. Although the expenditures made and units of service performed by these sub-grantees 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 or state agency issuing the contract if a sub-grantee 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. As of December 31, 2011 and 2010, the amounts payable to state agencies was $59,000 and $23,000, respectively.

NOTE 3 - LOANS AND DEVELOPMENT FEES RECEIVABLE

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

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

(Continued)

NOTE 3 - LOANS AND DEVELOPMENT FEES RECEIVABLE (Continued)

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, 2011 and 2010, are due from the following:

	2011	2010
Logansport Housing Associates LP	$ 1,414,000	$ 1,378,750
Chase Crossing LP	1,588,518	1,534,278
Hilltop Farms LP (Phase 1)	-	389,357
Hilltop Farms LP (Phase 2)	995,080	960,781
Various SBI and other loans	101,115	115,522
	4,098,713	4,378,688
Allowance for impaired loans	(2,076,366)	(2,135,292)
	$ 2,022,347	$ 2,243,396

The loans earn interest at annual rates that range between 1% and 6.8% and all loans are accruing interest for the years ended December 31, 2011 and 2010. 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, with original terms up to 15 years and maturity dates between 2012 and 2017. Payments may be in the form of cash payments or a transfer of assets at the end of the tax credit project.

Area Five also has development fees receivable from the limited partnerships. As of December 31, 2011 and 2010, Area Five had net development fee receivables of $0. The allowance for the estimated uncollectible portion of these receivables was $507,286 as of December 31, 2011 and 2010. Development fees do not earn interest.

Information on impaired loans and development fees is summarized below:

	2011	2010
Impaired loans and development fees with an allowance	$ 4,504,884	$ 4,770,452
Allowance for impaired loans and development fees	$ 2,583,652	$ 2,642,578
Average impaired loans	$ 2,252,442	$ 2,385,226
Interest income on impaired loans, fully reserved as part of allowance for impaired loans	132,190	132,190
Impaired loans written off	389,357	-

(Continued)

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2011 and 2010:

	2011	2010
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
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.	-	-
	$ 1,000	$ 1,700

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment of Area Five consists of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ 177,028	$ 177,028
Building	4,503,589	4,503,589
Building improvements	490,843	490,843
Rental buildings	345,496	345,496
Modular classroom	44,647	44,647
Equipment	185,669	185,669
	5,747,272	5,747,272
Accumulated depreciation	(2,598,494)	(2,395,881)
	$ 3,148,778	$ 3,351,391

(Continued)

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

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 at December 31, 2011 and 2010 include:

	2011		2010	
	Cost	Grant-funded Portion	Cost	Grant-funded Portion
Headstart School (indefinite)	$ 184,077	$ 100,000	$ 184,077	$ 100,000
Vehicles	311,656	311,656	311,656	311,656
Equipment	55,310	55,310	55,310	55,310
Total	$ 551,043	$ 466,966	$ 551,043	$ 466,966

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 2011 and 2010, the interest expense paid on Series 1993 A Bonds was $12,086 and $12,784. The balance of the Series 1993 A bonds payable as of December 31, 2011 and 2010 is as follows:

	2011	2010
Original bonds issued	$ 850,000	$ 850,000
Principal payments	(415,324)	(360,596)
	434,676	489,404
Less: Current portion	(57,066)	(53,776)
	$ 377,610	$ 435,628

The future maturities of bonds payable are as follows:

2012	$ 57,066
2013	60,711
2014	64,509
2015	68,544
2016	72,802
Thereafter	111,044
	$ 434,676

(Continued)

NOTE 7 - NOTES PAYABLE

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

	2011	2010
Five year note payable with Security Federal Savings Bank in the amount of $550,000 with an interest rate of 7.53% per annum. Monthly interest-only payments were required until December 20, 2008, when monthly principal and interest payments of $5,108 began. A balloon payment of approximately $430,000 is due on January 2024. The note is secured by properties at Kokomo, Wabash and Logansport, Indiana as well as all other Area Five assets.	$ 483,587	$ 506,821
Fifteen year mortgage with First National Bank of Monterey in the amount of $766,581 with an interest rate of 7.00% per annum. 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.	440,257	483,775
Twenty five year mortgage refinanced in September 2010 with Security Federal Savings Bank in the amount of $908,000 with a variable interest rate of 6.50% per annum. The refinancing included the outstanding balance, payoff of a line of credit with a balance of $246,110 and additional borrowings of $307,155. Monthly principal and interest payments are $6,137, and the maturity of the loan is October 2035. The mortgage is secured by a facility located at 105 Olive Street in Wabash, Indiana.	888,951	906,876
Fifteen year mortgage with Key Bank National Association in the amount of $84,077 with a variable interest rate of 3.81% as of December 31, 2010. Monthly principal and interest payments vary according to the interest rate, and the maturity of the loan is July 2011. The mortgage is secured by the Headstart building located in Rochester, Indiana.	-	5,260
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.	53,709	55,885
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.	41,494	43,799

(Continued)

NOTE 7 - NOTES PAYABLE (Continued)

	2011	2010
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.	$ 46,835	$ 50,127
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.	131,267	151,267
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.	61,774	63,035
Construction loan with Security Federal Savings Bank for up to $100,000 with an interest rate of 4.75% per annum. The note was converted to a term loan in February 2010. Monthly principal and interest payments were $450, with a final balloon payment of all unpaid principal and interest due in February 2011. The loan was refinanced during 2011 through March 2031 with an interest rate floor of 6.50%. Scheduled rate changes will occur every 60 months based on the 5-year T-Bill rate plus 450 basis points. The note is secured by the property at 1106 West Mulberry Street in Kokomo, Indiana.	64,356	64,879
Construction loan that was converted in 2009 to a fifteen year mortgage with First National Bank of Monterey in the amount of $120,000 with an interest rate of 7.25% per annum. 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.	97,040	101,985
Line of credit agreement with Security Federal Savings Bank with a $500,000 credit limit. The interest rate is variable and was 5.25% at December 31, 2011 and accrues monthly. The line matures in September 2012 and is secured by the assets of Area Five.	317,508	-
	2,626,778	2,433,709
Less: Current portion	(451,073)	(129,877)
	$ 2,175,705	$ 2,303,832

(Continued)

NOTE 7 - NOTES PAYABLE (Continued)

The total interest expense paid on all notes payable for the years 2011 and 2010 was $177,773 and $138,875, respectively. The future maturities of notes payable are as follows:

2012	$ 451,073
2013	143,702
2014	154,015
2015	165,071
2016	176,681
Thereafter	1,536,236
	$ 2,626,778

NOTE 8 - OPERATING LEASES

Area Five is the lessee in operating lease agreements for office space in North Manchester, Akron, Lafayette, Wabash, and Rochester, Indiana. The leases expire at various dates in 2012. Area Five also leases various office equipment. These leases expire from 2012 to 2016. As of December 31, 2011, future minimum rental payments required under the operating leases are as follows:

2012	$ 19,512
2013	3,241
2014	3,241
2015	3,241
2016	270
	$ 29,505

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, 2011 and 2010 is $3,676,179, with related accumulated depreciation of $1,922,177 and $1,784,176. The future minimum rental receipts required under the leases are as follows:

2012	$ 156,893
2013	47,611
	$ 204,504

(Continued)

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:

	2011	2010
Net loans receivable under the Home Investment Partnerships and Affordable Housing Programs, and development fee receivable from Logansport Housing Associates	$ 1,921,233	$ 2,127,874
Future improvements to the Logansport, Peru and Wabash facilities	150,000	150,000
	$ 2,071,233	$ 2,277,874

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. Area Five contributes 4% of the employees' gross earnings. For the year ended December 31, 2011 and 2010, Area Five contributed $152,711 and $121,214 to the plan.

NOTE 11 - SELF-INSURANCE PROGRAM

Area Five had a partially self-funded insurance plan for employee group medical insurance through March 31, 2011. This policy limited Area Five's maximum plan cost to a monthly set-aside amount per employee. Area Five's portion of the predetermined funding provision was charged to expense each month. A reinsurance policy was in place to limit the maximum claim liability to $60,000 per covered individual, except for in special circumstances in which an individual may have been lasered in at a higher exposure amount. Unpaid claims incurred prior to December 31, but not yet filed as of year-end were estimated and accrued as a liability at December 31, 2010. On April 1, 2011, Area Five closed the self-funded insurance plan and opened a fully funded insurance policy with Anthem.

NOTE 12 - RELATED PARTY TRANSACTIONS

All related party transactions between Area Five, CMA and DDS have been eliminated in consolidation. Related party transactions include CMA and DDS liabilities payable to Area Five.

In addition, Area Five has gross development fees receivable and loans receivable from the following related parties at December 31, 2011 and 2010:

	2011	2010
Logansport Housing Associates LP	$ 1,581,925	$ 1,546,676
Chase Crossing LP	1,588,518	1,534,278
Hilltop Farms LP (Phase 1)	-	389,357
Hilltop Farms LP (Phase 2)	1,334,441	1,300,141
	$ 4,504,884	$ 4,770,452

(Continued)

NOTE 12 - RELATED PARTY TRANSACTIONS (Continued)

Interest earned on these related party receivables totaled approximately $132,000 annually for the years ended December 31, 2011 and 2010. However, management has estimated that these receivables are not fully collectible, and allowances have been recorded as disclosed in Note 3.

NOTE 13 - GUARANTEES

Area Five was the operating deficit guarantor in two housing partnership agreements for the year ended December 31, 2010 and one housing partnership agreement for the year ended December 31, 2011. 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 $52,000 and $183,000 at December 31, 2011 and 2010, respectively.

NOTE 14 - CONTINGENCIES

Area Five has been notified by the Indiana Housing and Community Development Authority that Area Five has potentially not met the requirements set forth in their grant agreement, and that Area Five is responsible for repaying $270,000. While results of this claim and any possible future litigation cannot be predicted with certainty, management and their attorney believe that resolution of this matter will not have a material adverse effect on the financial statements of Area Five.

SUPPLEMENTARY INFORMATION

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2011

Federal Grantor/ Program Title	Federal CFDA Number	Expenditures	Amounts awarded to subrecipients
U.S. Department of Agriculture			
Rural Business Enterprise Grants	10.769	$ 80	$ -
Pass-through program: Indiana State Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	302,982	-
Pass-through program: Indiana Department of Education			
Child and Adult Care Food Program	10.558	94,980	-
Total U.S. Department of Agriculture		398,042	-
U.S. Department of Labor			
Pass-through program: Indiana Family and Social Services Administration			
Senior Community Service Employment Program - ARRA	17.235	12,757	-
Total U.S. Department of Labor		12,757	-
U.S. Department of Energy			
Pass-through program: Indiana Housing and Community Development Authority			
Weatherization Assistance for Low-Income Persons	81.042	192,529	-
Total U.S. Department of Energy		192,529	-
U.S. Department of Health and Human Services			
Head Start	93.600	1,432,660	-
Pass-through program: Indiana Family and Social Services Administration			
Aging Cluster:			
Title III-A Administration	93.044	85,454	-
Title III-B Supportive Services	93.044	222,552	145,857
Title III-C Nutrition Services	93.045	619,220	-
Nutrition Services Incentive Program	93.053	42,723	-
Total Aging Cluster		969,949	145,857
Title VII Ombudsman	93.042	3,537	-
Title III-D Preventative Health	93.043	19,104	-
Title III-E National Family Caregiver Support	93.052	136,970	-
Temporary Assistance for Needy Families	93.558	847,616	-
Child Care Development Fund	93.596	211,840	-
Social Services Block Grant	93.667	264,883	-
Medical Assistance Program	93.778	206,935	-
Pass-through program: Indiana Housing and Community Development Authority			
Energy Assistance Program:			
Low-Income Home Energy Assistance	93.568	345,650	-
Energy Assistance	93.568	519,826	-
Community Service Block Grant	93.569	377,558	-
Assets for Independence Demonstration Program (IDA)	93.602	52,793	-
Total U.S. Department of Health and Human Services		5,389,321	145,857
Grand Total		$ 5,992,649	$ 145,857

See accompanying notes to the schedule of expenditures of federal awards.

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, 2011, and is presented on the accrual basis of accounting and 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.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS 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, 2011, and have issued our report thereon dated September 25, 2012. 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: Management of Area Five is responsible for establishing and maintaining effective 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 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 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 the 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.

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*.

We noted certain other matters that we reported to management of Area Five in a separate letter dated September 25, 2012.

This report is intended for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 25, 2012

INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Area Five Agency on Aging and Community Services, Inc.'s (Area Five) 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 Area Five's major federal program for the year ended December 31, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance: 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 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 Area Five'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.

We noted certain other matters that we reported to management of Area Five in a separate letter dated September 25, 2012.

This report is intended for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 25, 2012

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	X No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	X None Reported
Noncompliance material to financial statements noted?	_____ Yes	X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	_____ Yes	X No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	X None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	_____ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.600	Head Start
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS.

None

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(a).

None

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

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