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September 6, 2018

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

We have reviewed the report prepared by Area Five Agency on Aging and Community Services, Inc. and opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Area Five Agency on Aging and Community Services, Inc. as of December 31, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Crowe LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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


Paul D. Joyce, CPA
State Examiner

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Area Five Agency on Aging and Community Services, Inc. and subsidiaries (Area Five), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Area Five Agency on Aging and Community Services, Inc. and subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *Schedule of Expenditures of State and Local Awards* are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2018 on our consideration of Area Five's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Area Five's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
July 25, 2018

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 444,251 | \$ 441,708 |
| Grants receivable | 777,535 | 772,511 |
| Accounts receivable | <u>37,376</u> | <u>38,165</u> |
| Total current assets | <u>1,259,162</u> | <u>1,252,384</u> |
| Non-current assets | | |
| Investments (Note 4) | 750 | 750 |
| Loans receivable, net (Note 3) | 1,785,021 | 1,785,561 |
| Property and equipment, net (Note 5) | <u>3,361,398</u> | <u>3,381,774</u> |
| Total non-current assets | <u>5,147,169</u> | <u>5,168,085</u> |
| Total assets | <u>\$ 6,406,331</u> | <u>\$ 6,420,469</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | 277,562 | \$ 263,765 |
| Accrued payroll, vacation and withholdings | 424,154 | 388,940 |
| Deferred revenue | 57,667 | 43,222 |
| Other liabilities | 53,670 | 54,020 |
| Due to funding sources – current portion (Note 2) | 20,256 | 20,256 |
| Bonds payable – current portion (Note 6) | 33,658 | 77,386 |
| Notes payable and lines of credit – current portion (Note 7) | <u>123,219</u> | <u>117,338</u> |
| Total current liabilities | <u>990,186</u> | <u>964,927</u> |
| Non-current liabilities | | |
| Due to funding sources (Note 2) | 167,057 | 187,307 |
| Bonds payable (Note 6) | - | 27,398 |
| Notes payable (Note 7) | <u>2,774,500</u> | <u>2,898,171</u> |
| Total non-current liabilities | <u>2,941,557</u> | <u>3,112,876</u> |
| Total liabilities | 3,931,743 | 4,077,803 |
| Net assets | | |
| Unrestricted net assets | <u>2,474,588</u> | <u>2,342,666</u> |
| Total liabilities and net assets | <u>\$ 6,406,331</u> | <u>\$ 6,420,469</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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| REVENUE | | |
| Grant assistance | \$ 6,371,915 | \$ 6,407,626 |
| Program income | 52,830 | 52,079 |
| Local grant assistance and program support | 206,391 | 306,124 |
| Service fee income | 2,025 | 1,200 |
| Investment income | 88,618 | 88,739 |
| Rental income | 414,292 | 407,118 |
| Other income | <u>41,899</u> | <u>44,452</u> |
| Total revenue | <u>7,177,970</u> | <u>7,307,338</u> |
| EXPENSES | | |
| Program services: | | |
| In-home services | 2,744,289 | 2,877,747 |
| Community services | 1,665,443 | 1,731,948 |
| Energy assistance | 238,576 | 301,846 |
| Head Start | 1,627,561 | 1,569,754 |
| Weatherization | 50 | 72,378 |
| Housing | <u>247,465</u> | <u>301,513</u> |
| Total program service expenses | 6,523,384 | 6,855,186 |
| Management and general | <u>434,124</u> | <u>461,211</u> |
| Total expenses | <u>6,957,508</u> | <u>7,316,397</u> |
| Change in net assets before loss on impairment | 220,462 | (9,059) |
| Loss on impairment of loans and development fees receivable (Note 3) | <u>(88,540)</u> | <u>(88,540)</u> |
| Change in net assets | 131,922 | (97,599) |
| Net assets at beginning of year | <u>2,342,666</u> | <u>2,440,265</u> |
| Net assets at end of year | <u>\$ 2,474,588</u> | <u>\$ 2,342,666</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, 2017

| | Program Services | | | | | | | | |
|-----------------------|---------------------|-----------------------|----------------------|---------------------|---------------------|-------------------|------------------------------|-------------------------|---------------------|
| | In-Home Services | Community Services | Energy Assistance | Head Start | Weatheri- zation | Housing | Total Program Services | Management & General | Total Expenses |
| Salaries and benefits | \$ 1,273,767 | \$ 1,431,270 | \$ 193,344 | \$ 1,261,351 | \$ - | \$ 42,756 | \$ 4,202,488 | \$ 64,443 | \$ 4,266,931 |
| Occupancy | 39,541 | 39,185 | 10,915 | 31,883 | - | 44,396 | 165,920 | 34,328 | 200,248 |
| Depreciation | 21,207 | 12,427 | 2,636 | 28,831 | - | 39,426 | 104,527 | 127,463 | 231,990 |
| Interest expense | 5,355 | 3,116 | 263 | 4,779 | - | 34,748 | 48,261 | 116,790 | 165,051 |
| Telephone/postage | 12,576 | 18,734 | 5,981 | 6,842 | - | 3,105 | 47,238 | 5,706 | 52,944 |
| Contracted services | 1,254,809 | 41,695 | 3,162 | 13,914 | - | 11,328 | 1,324,908 | 9,585 | 1,334,493 |
| Food costs | 22,320 | - | - | 82,337 | - | - | 104,657 | 16,641 | 121,298 |
| Materials/supplies | 42,994 | 55,316 | 5,216 | 50,212 | 8 | 20,841 | 174,587 | 18,305 | 192,892 |
| Equipment | - | - | - | 2,181 | - | - | 2,181 | - | 2,181 |
| Travel | 23,677 | 30,137 | 2,727 | 38,956 | 42 | 822 | 96,361 | 347 | 96,708 |
| Miscellaneous | 34,004 | 23,752 | 8,859 | 68,834 | - | 9,186 | 144,635 | 17,831 | 162,466 |
| Legal | 228 | - | - | - | - | - | 228 | 395 | 623 |
| Maintenance | 5,755 | 3,074 | 1,144 | 26,084 | - | 31,660 | 67,717 | 9,670 | 77,387 |
| Insurance | 8,056 | 6,737 | 1,579 | 11,357 | - | 9,197 | 36,926 | 12,620 | 49,546 |
| Specific assistance | - | - | 2,750 | - | - | - | 2,750 | - | 2,750 |
| | <u>\$ 2,744,289</u> | <u>\$ 1,665,443</u> | <u>\$ 238,576</u> | <u>\$ 1,627,561</u> | <u>\$ 50</u> | <u>\$ 247,465</u> | <u>\$ 6,523,384</u> | <u>\$ 434,124</u> | <u>\$ 6,957,508</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, 2016

-----Program Services-----

| | In-Home Services | Community Services | Energy Assistance | Head Start | Weatheri- zation | Housing | Total Program Services | Management & General | Total Expenses |
|-----------------------|---------------------|-----------------------|----------------------|---------------------|---------------------|-------------------|------------------------------|-------------------------|---------------------|
| Salaries and benefits | \$ 1,316,721 | \$ 1,369,420 | \$ 234,930 | \$ 1,201,967 | \$ 31,632 | \$ 88,741 | \$ 4,243,411 | \$ 111,460 | \$ 4,354,871 |
| Occupancy | 35,681 | 37,331 | 11,321 | 32,733 | 207 | 45,101 | 162,374 | 21,784 | 184,158 |
| Depreciation | 21,434 | 13,528 | 2,767 | 28,203 | 317 | 41,860 | 108,109 | 89,274 | 197,383 |
| Interest expense | 8,756 | 5,006 | 504 | 9,705 | 15 | 36,059 | 60,045 | 113,898 | 173,943 |
| Telephone/postage | 11,794 | 16,551 | 6,380 | 7,205 | 668 | 559 | 43,157 | 3,279 | 46,436 |
| Contracted services | 1,209,051 | 94,960 | 3,468 | 9,535 | 28,715 | 10,707 | 1,356,436 | 9,417 | 1,365,853 |
| Food costs | 129,443 | - | - | 96,405 | - | - | 225,848 | 25,371 | 251,219 |
| Materials/supplies | 46,148 | 83,551 | 18,087 | 56,503 | 3,572 | 19,637 | 227,498 | 16,604 | 244,102 |
| Equipment | - | 78 | - | - | - | - | 78 | - | 78 |
| Travel | 35,792 | 41,719 | 1,573 | 28,743 | 1,895 | 946 | 110,668 | - | 110,668 |
| Miscellaneous | 43,457 | 60,975 | 16,336 | 64,298 | 1,356 | 9,088 | 195,510 | 31,732 | 227,242 |
| Legal | 69 | 43 | 13 | 12 | - | 420 | 557 | 2,614 | 3,171 |
| Maintenance | 8,445 | 5,517 | 1,971 | 22,145 | 67 | 44,088 | 82,233 | 24,836 | 107,069 |
| Insurance | 10,956 | 3,269 | 1,817 | 12,300 | 3,934 | 4,307 | 36,583 | 10,942 | 47,525 |
| Specific assistance | - | - | 2,679 | - | - | - | 2,679 | - | 2,679 |
| | <u>\$ 2,877,747</u> | <u>\$ 1,731,948</u> | <u>\$ 301,846</u> | <u>\$ 1,569,754</u> | <u>\$ 72,378</u> | <u>\$ 301,513</u> | <u>\$ 6,855,186</u> | <u>\$ 461,211</u> | <u>\$ 7,316,397</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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 131,922 | \$ (97,599) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 231,990 | 197,383 |
| Loss on impairment of loans receivable | 88,540 | 88,540 |
| Changes in assets and liabilities: | | |
| Grants receivable | (5,024) | 451,170 |
| Accounts receivable | 789 | (19,220) |
| Accrued interest receivable | (88,540) | (88,540) |
| Accounts payable | 13,797 | (177,901) |
| Accrued payroll, vacation and withholdings | 35,214 | 69,498 |
| Deferred revenue | 14,445 | (52,126) |
| Due to funding sources | (20,250) | (32,250) |
| Other liabilities | (350) | (1,920) |
| Net cash from operating activities | <u>402,533</u> | <u>337,035</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (211,614) | (29,926) |
| Principal payments received on loans receivable | 540 | 10,977 |
| Net cash from investing activities | <u>(211,074)</u> | <u>(18,949)</u> |
| Cash flows from financing activities | | |
| Principal payments on notes payable and line of credit | (117,790) | (111,020) |
| Principal payments on bonds payable | (71,126) | (73,178) |
| Net cash from financing activities | <u>(188,916)</u> | <u>(184,198)</u> |
| Net change in cash | 2,543 | 133,888 |
| Cash, beginning of year | <u>441,708</u> | <u>307,820</u> |
| Cash, end of year | <u>\$ 444,251</u> | <u>\$ 441,708</u> |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$ 165,051 | \$ 173,943 |

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016, 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 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, 2017 and 2016.

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.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

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.

Management estimated the allowance as \$339,360 in relation to the development fees receivable at December 31, 2017 and 2016.

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, 2017 and 2016.

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.

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.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

The following classes of net assets are maintained:

Unrestricted Net Assets - The unrestricted net asset class includes general 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 at December 31, 2017 and 2016.

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 at December 31, 2017 and 2016.

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, 2017 and 2016.

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 \$791,354 and \$808,630 for the years ended December 31, 2017 and 2016, respectively.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2017. Management has performed their analysis through July 25, 2018, the date the financial statements were available to be issued.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 (IHCDA) 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 2017 and 2016, 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. There were no amounts payable to state agencies at December 31, 2017 and 2016.

In 2014, Area Five was notified by the IHCDA that Area Five did not meet the requirements set forth in their grant agreement, and that Area Five is responsible for repaying \$270,000. Area Five entered into a repayment agreement with the IHCDA which included a down payment of \$27,000 and the remaining balance to be paid as a monthly payment of \$1,688 from April 1, 2015 to March 1, 2027. The amount owed as of December 31, 2017 and 2016 is \$187,313 and \$207,563, respectively.

The future payments due to funding sources are as follows:

| | |
|------------|-------------------|
| 2018 | \$ 20,256 |
| 2019 | 20,256 |
| 2020 | 20,256 |
| 2021 | 20,256 |
| 2022 | 20,256 |
| Thereafter | <u>86,033</u> |
| | <u>\$ 187,313</u> |

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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)

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, 2017 and 2016, are due from the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|---------------------|---------------------|
| Chase Crossing LP | \$ 1,913,959 | \$ 1,859,718 |
| Hilltop Farms LP (Phase 2) | 1,200,880 | 1,166,580 |
| Various SBI and other loans | <u>-</u> | <u>540</u> |
| | 3,114,839 | 3,026,839 |
| Allowance for impaired loans | <u>(1,329,818)</u> | <u>(1,241,278)</u> |
| | <u>\$ 1,785,021</u> | <u>\$ 1,785,561</u> |

The loans earn interest at annual rates that range between 4.0% and 6.8% and all loans are accruing interest for the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, two of these loans receivables 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 various maturity dates through 2032. 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, 2017 and 2016, Area Five had net development fee receivables of \$0. The allowance for the estimated uncollectible portion of these receivables was \$339,360 as of December 31, 2017 and 2016. Development fees do not earn interest.

Information on impaired loans and development fees is summarized below:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Impaired loans and development fees with an allowance | <u>\$ 3,454,199</u> | <u>\$ 3,365,659</u> |
| Allowance for impaired loans and development fees | <u>\$ 1,669,178</u> | <u>\$ 1,580,638</u> |
| Average impaired loans | \$ 1,727,100 | \$ 1,682,830 |
| Interest income on impaired loans, fully reserved as part of allowance for impaired loans | 88,540 | 88,540 |

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| Area Five owns 75 \$10 par value shares (75%) of Community Investments, Inc., which is a 1% general partner in Chase Crossing Limited Partnership. | \$ <u>750</u> | \$ <u>750</u> |

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment of Area Five consists of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Land | \$ 291,929 | \$ 291,929 |
| Building | 5,345,596 | 5,345,596 |
| Building improvements | 635,683 | 626,595 |
| Rental buildings | 324,272 | 324,272 |
| Modular classroom | 44,647 | 44,647 |
| Equipment | <u>388,194</u> | <u>185,668</u> |
| | 7,030,321 | 6,818,707 |
| Accumulated depreciation | <u>(3,668,923)</u> | <u>(3,436,933)</u> |
| | <u>\$ 3,361,398</u> | <u>\$ 3,381,774</u> |

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, 2017 and 2016 include:

| | 2017 | | 2016 | |
|-------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | <u>Cost</u> | <u>Grant-funded Portion</u> | <u>Cost</u> | <u>Grant-funded Portion</u> |
| Headstart School (indefinite) | \$ 184,077 | \$ 100,000 | \$ 184,077 | \$ 100,000 |
| Vehicles (indefinite) | 514,182 | 514,182 | 311,656 | 311,656 |
| Equipment | <u>66,841</u> | <u>66,841</u> | <u>66,841</u> | <u>66,841</u> |
| Total | <u>\$ 765,100</u> | <u>\$ 681,023</u> | <u>\$ 562,574</u> | <u>\$ 478,497</u> |

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 2017 and 2016, the interest expense paid on Series 1993 A Bonds was \$2,850 and \$4,841, respectively.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 - BONDS PAYABLE (Continued)

The balance of the Series 1993 A bonds payable as of December 31, 2017 and 2016 is as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|------------------|------------------|
| Original bonds issued | \$ 850,000 | \$ 850,000 |
| Principal payments | <u>(816,342)</u> | <u>(745,216)</u> |
| | 33,658 | 104,784 |
| Less: Current portion | <u>(33,658)</u> | <u>(77,386)</u> |
| | <u>\$ -</u> | <u>\$ 27,398</u> |

The future maturities of bonds payable are as follows:

| | |
|------|------------------|
| 2018 | \$ <u>33,658</u> |
| | \$ <u>33,658</u> |

NOTE 7 - NOTES PAYABLE AND LINES OF CREDIT

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

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Fifteen-year note with First National Bank of Monterey in the amount of \$520,000. The note is due March 2029 with an interest rate floor of 4.0%. Scheduled rate changes will occur every 60 months based on the weekly average yield of U.S. treasury securities adjusted to a constant maturity of one year. The interest rate is 5.5% until the first scheduled rate change in March 2019. Monthly principal and interest payments are \$4,251. The note is secured by property in Peru, Indiana. | \$ 427,033 | \$ 453,825 |
| A series of ten, 20-year notes with Security Federal Savings Bank with varying principal amounts ranging from \$34,000 to \$850,000. The notes are due April 2034, with an interest rate floor of 5.5%. Scheduled rate changes will occur every 84 months based on the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of 7 years. The interest rate is 5.5% until the first scheduled rate change in April 2021. Monthly principal and interest payments range from \$234 to \$5,850. The notes are secured by various property in Wabash, Kokomo and Logansport. | <u>2,470,686</u> | <u>2,561,684</u> |
| | 2,897,719 | 3,015,509 |
| Less: Current portion | <u>(123,219)</u> | <u>(117,338)</u> |
| | <u>\$ 2,774,500</u> | <u>\$ 2,898,171</u> |

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 - NOTES PAYABLE AND LINES OF CREDIT (Continued)

The total interest expense paid on all notes payable for the years 2017 and 2016 was \$165,052 and \$173,943, respectively. The future maturities of notes payable as of December 31, 2017 are as follows:

| | |
|------------|---------------------|
| 2018 | \$ 123,219 |
| 2019 | 130,952 |
| 2020 | 137,927 |
| 2021 | 146,274 |
| 2022 | 153,962 |
| Thereafter | <u>2,205,385</u> |
| | <u>\$ 2,897,719</u> |

NOTE 8 - OPERATING LEASES

Area Five is the lessee in operating lease agreements for office space in North Manchester, Akron, Wabash, and Rochester, Indiana. The leases expire at various dates through December 2020. Area Five also leases various office equipment. These leases expire at various dates through 2021. Lease expense for the years ended December 31, 2017 and 2016 was \$52,152 and \$55,397, respectively. As of December 31, 2017, future minimum rental payments required under the operating leases are as follows:

| | |
|------|------------------|
| 2018 | \$ 39,878 |
| 2019 | 35,978 |
| 2020 | <u>14,718</u> |
| | <u>\$ 90,574</u> |

Area Five is the lessor in operating lease agreements for office space located in Kokomo, Logansport, Rochester, Akron, and Peru and of housing duplexes located in Logansport. The carrying value of these properties at December 31, 2017 and 2016 was \$3,559,995 and \$3,550,907, respectively, with related accumulated depreciation of \$2,420,894 and \$2,320,679, respectively. The leases expire at various dates through 2023. The future minimum rental receipts required under the leases are as follows:

| | |
|------------|-------------------|
| 2018 | \$ 189,900 |
| 2019 | 188,100 |
| 2020 | 48,000 |
| 2021 | 48,000 |
| 2022 | 48,000 |
| Thereafter | <u>6,000</u> |
| | <u>\$ 528,000</u> |

NOTE 9 - RETIREMENT PLAN

Area Five has a defined contribution plan where all employees are eligible once they have at least one year of service. The plan includes a 2% employer match of employee contributions and allows for a discretionary contribution of 4% to all eligible participants. For the year ended December 31, 2017 and 2016, Area Five contributed \$129,854 and \$156,783 to the plan, respectively.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 10 - 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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|---------------------|---------------------|
| Chase Crossing LP | \$ 1,913,959 | \$ 1,859,719 |
| Hilltop Farms LP (Phase 2) | <u>1,200,880</u> | <u>1,166,580</u> |
| | <u>\$ 3,144,839</u> | <u>\$ 3,026,299</u> |

Interest earned on these related party receivables totaled \$88,540 for the years ended December 31, 2017 and 2016. However, management has estimated that these receivables are not fully collectible, and allowances have been recorded as disclosed in Note 3.

NOTE 11 - GUARANTEES

Area Five was the operating deficit guarantor in one housing partnership agreement for the years ended December 31, 2017 and 2016. To provide assurance to the limited partners in this housing partnership, Area Five agreed to guarantee the operating obligations of the housing entity up to a certain threshold specified in the partnership agreement. In total, the guarantee amounts to \$52,000 at December 31, 2017 and 2016.

SUPPLEMENTARY INFORMATION

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2017

| <u>Federal Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|------------------------------------|---------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Pass-through program: Indiana State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | 10.557 | None | \$ 371,585 |
| Pass-through program: Indiana Department of Education Child and Adult Care Food Program | 10.558 | None | <u>107,660</u> |
| Total U.S. Department of Agriculture | | | 479,245 |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Head Start | 93.600 | None | 1,625,752 |
| Pass-through program: Indiana Family and Social Services Administration Aging Cluster: | | | |
| Title III-A Administration | 93.044 | 09-16-0V-1551 | 92,758 |
| Title III-B Supportive Services | 93.044 | 09-16-0V-1551 | 275,177 |
| Title III-C Nutrition Services | 93.045 | 09-16-0V-1551 | 324,306 |
| Nutrition Services Incentive Program | 93.053 | 09-16-0V-1551 | <u>206,757</u> |
| Total Aging Cluster | | | 898,998 |
| Title VII Ombudsman | 93.042 | 09-16-0V-1551 | 4,739 |
| Title III-D Preventative Health | 93.043 | 09-16-0V-1551 | 19,596 |
| Title III-E National Family Caregiver Support | 93.052 | 09-16-0V-1551 | 96,796 |
| Social Services Block Grant | 93.667 | 09-16-0V-1551 | 385,975 |
| Options Counselling | 93.778 | None | 104,658 |
| Money Follows the Person | 93.791 | None | 5,759 |
| Pass-through program: Indiana Department of Child Services Temporary Assistance for Needy Families (Healthy Families) | 93.558 | 13-HF-M0-1052 | 730,952 |
| Pass-through program: Indiana Housing and Community Development Authority Energy Assistance Program: | | | |
| Energy Assistance | 93.568 | None | 236,435 |
| Community Service Block Grant | 93.569 | None | 437,868 |
| Assets for Independence Demonstration Program (IDA) | 93.602 | None | <u>16,555</u> |
| Total U.S. Department of Health and Human Services | | | <u>4,564,083</u> |
| Grand Total | | | <u>\$ 5,043,328</u> |

Subrecipient expenditures for the year ending December 31, 2017 are as follows:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amount</u> |
|---------------------------------|------------------------|-------------------|
| Title III-B Supportive Services | 93.044 | <u>\$ 105,327</u> |

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

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Area Five Agency on Aging and Community Services, Inc., under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Area Five Agency and Community Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Area Five.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Area Five Agency on Aging and Community Services, Inc. has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following, as applicable the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



INDEPENDENT AUDITOR'S 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, 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, the financial statements of Area Five Agency on Aging and Community Services, Inc. and subsidiaries (Area Five), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Area Five's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Area Five's internal control. Accordingly, we do not express an opinion on the effectiveness of Area Five's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
July 25, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

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 Compliance Supplement* that could have a direct and material effect on Area Five's major federal program for the year ended December 31, 2017. Area Five's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Area Five's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of Area Five's compliance.

Opinion on Each Major Federal Program

In our opinion, Area Five complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended December 31, 2017.

(Continued)

Report on Internal Control Over Compliance

Management of Area Five is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Area Five's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
July 25, 2018

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2017

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the audit issued on whether the
Financial statements audited were prepared
In accordance with GAAP:

Unmodified

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 deficiency(ies) identified

_____ Yes X None Reported

Type of auditor's report issued on compliance for
major programs:

Unmodified

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

CFDA Number(s)
93.600

Name of Federal Program or Cluster
Head Start

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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 UNIFORM GUIDANCE SECTION 510(a).

None

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2017

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

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
Year ended December 31, 2017

| <u>Grantor/ Program Title</u> | <u>Amount</u> |
|--|---------------------|
| Pass-Through the Indiana Family and Social Services Administration: CHOICE | \$ 901,669 |
| SSBG Administrative | 26,258 |
| Older Hoosier | 61,252 |
| Ombudsman Services | 7,737 |
| Pass-Through the Indiana Department of Child Services: Healthy Families | 35,897 |
| EDS-Medicaid Case Management | 300,139 |
| Pass-Through the Indiana Department of Insurance: Senior Health Insurance Program | 18,300 |
| Pass-Through the Indiana Housing and Community Development Authority: Energy Assistance Program | <u>2,386</u> |
| Total state and local expenditures | <u>\$ 1,353,638</u> |

**See schedule of expenditures of federal awards on page 17 for federal grant activity.