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October 18, 2011

Board of Directors  
Kalp Network, Inc.  
P.O. Box 1137  
Evansville, IN 47706

We have reviewed the audit report prepared by Riney, Hancock & Co., PSC, Independent Public Accountants, for the period October 1, 2008 to September 30, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Kalp Network, Inc., as of September 30, 2009, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Note 4 on page 6 makes mention of going concern considerations. Pages 12 and 13 contain five current audit findings.

STATE BOARD OF ACCOUNTS

***KALP NETWORK, INC.***  
***FINANCIAL STATEMENTS***  
***AND***  
***SUPPLEMENTARY INFORMATION***

***Year Ended September 30, 2009***

***(With Independent Auditors' Report Thereon)***

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
 KALP Network, Inc.

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of KALP Network, Inc. (KALP) (a nonprofit organization) as of September 30, 2009, and the related statements of revenues, expenses and change in net assets – modified cash basis, and functional expenses – modified cash basis for the year then ended. These financial statements are the responsibility of KALP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of KALP as of September 30, 2009, and its revenues, expenses and change in net assets for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2010, on our consideration of KALP'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 basic financial statements of KALP taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Riney, Hancock & Co., PSC*

Owensboro, Kentucky  
 May 14, 2010

**KALP NETWORK, INC.**

**STATEMENT OF ASSETS, LIABILITIES AND  
NET ASSETS - MODIFIED CASH BASIS**

September 30, 2009

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**ASSETS**

Cash \$ 3,396

**NET ASSETS**

Net assets:  
Unrestricted \$ 3,396

See Notes to Financial Statements

**KALP NETWORK, INC.**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN  
NET ASSETS - MODIFIED CASH BASIS**

Year Ended September 30, 2009

<b>Unrestricted net assets:</b>	
Operating revenues:	
Federal financial assistance	\$ <u>929,569</u>
Operating expenses:	
Program services	921,096
Management and general	<u>17,266</u>
Total expenses	<u>938,362</u>
Change in net deficit from operations	(8,793)
Other change:	
Write-off of related party payable	<u>18,602</u>
Change in unrestricted net assets	9,809
Net deficit, September 30, 2008	<u>(6,413)</u>
Net assets, September 30, 2009	\$ <u><u>3,396</u></u>

See Notes to Financial Statements

# KALP NETWORK, INC.

## STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

Year Ended September 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional expenses:			
Compensation	\$ 94,175	\$ 6,545	\$ 100,720
Payroll taxes	7,889	524	8,413
Telephone	-	504	504
Program operations	897	-	897
Postage and delivery	-	1,122	1,122
Office supplies	-	1,396	1,396
Printing and reproduction	-	1,426	1,426
Computer software	239	-	239
Professional fees	-	4,165	4,165
Other fees	-	1,157	1,157
Other	-	427	427
Program direct cost	<u>817,896</u>	<u>-</u>	<u>817,896</u>
Total functional expenses	<u>\$ 921,096</u>	<u>\$ 17,266</u>	<u>\$ 938,362</u>

See Notes to Financial Statements

# KALP NETWORK, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2009

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### 1. Organization and Summary of Significant Accounting Policies

#### Organization

KALP Network, Inc. (KALP) is a nonprofit corporation operating in southwestern Indiana as a sponsor of a federal reimbursement program for food service programs for eligible children in nonresidential day care settings.

#### Basis of Accounting

It is KALP's policy to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. That basis differs from generally accepted accounting principles in that revenues are recognized when received rather than when earned and most expenses are recognized when paid rather than when the obligation is incurred. Modifications to the cash basis of accounting include recording liabilities for payroll withholdings and a related party payable. There were no liabilities at September 30, 2009.

#### Income Taxes

KALP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

### 2. Related Party Transactions

#### Office Space Lease

KALP previously leased office space from its executive director. However, subsequent to March 2008, the executive director approved the discontinuance of the accrual and disbursement of the rental payments due to unavailable cash flow.

#### Related Party Payable

At September 30, 2008, a related party payable for cumulative prior years' accrued rent and cash advances from management totaled \$13,916. Additional cash advances were made by management in fiscal year 2009 totaling \$4,686. At September 30, 2009, management decided not to seek reimbursement, and therefore, the entire payable totaling \$18,802 was written off and is reflected as other change in net assets on the statement of revenues, expenses and change in net assets – modified cash basis.

# KALP NETWORK, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2009

### 3. Concentrations of Credit Risk

KALP's sole source of revenue is provided by funding for their sponsorship of the Child and Adult Care Food Program, a grant administered by the Indiana Department of Education for the U.S. Department of Agriculture. These funds are to be used for designated purposes only. For government agency grants, if, based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor may request a refund of monies advanced, or refuse to reimburse KALP for its expenditures. Continuation of KALP's grant program is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue the program.

### 4. Going Concern Considerations

KALP has experienced net deficits from operations for at least the last five years, resulting in an ever-increasing accumulated net deficit. These deficits were primarily caused by payments to providers in excess of reimbursements received from the grantor due to reimbursement calculation differences between the grantor and KALP. Also, administrative expenses to operate the program have often exceeded the administrative reimbursement received from the grantor. During these years, advances from management provided cash flow for operations to continue. At September 30, 2009, management decided not to seek reimbursement for advances totaling \$18,602 which were written off. Additional cash advances of \$739 were made subsequent to September 30, 2009. These factors create an uncertainty about KALP's ability to continue as a going concern. Management intends to resolve the reimbursement discrepancies and to continue cash advances, if needed. The ability of KALP to continue as a going concern is dependent upon the success of these efforts.

### 5. Subsequent Events

KALP has evaluated subsequent events through May 14, 2010, the date the financial statements were available to be issued.

**KALP NETWORK, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2009

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through Indiana Department of Education:			
Child and Adult Care Food Program (CACFP)	10.558	1820170	\$ <u>929,569</u>

Note A: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the KALP Network, Inc. and is presented on the modified cash basis of accounting. The information 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 basic financial statements.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
 REPORTING AND ON COMPLIANCE AND  
 OTHER MATTERS BASED ON AN AUDIT OF  
 FINANCIAL STATEMENTS PERFORMED  
 IN ACCORDANCE WITH  
 GOVERNMENT AUDITING STANDARDS**

Board of Directors  
 KALP Network, Inc.

We have audited the financial statements of KALP Network, Inc. (KALP) (a nonprofit organization) as of and for the year ended September 30, 2009, and have issued our report thereon dated May 14, 2010. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, KALP prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the

Internal Control Over Financial Reporting, Continued

accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KALP'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*.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, 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.

*Renee, Hancock & Co., PSC*

Owensboro, Kentucky  
May 14, 2010



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

Board of Directors  
 KALP Network, Inc.

Compliance

We have audited the compliance of KALP Network, Inc. (KALP) (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2009. KALP's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of KALP's management. Our responsibility is to express an opinion on KALP'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 KALP'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 KALP's compliance with those requirements.

In our opinion, KALP complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

The management of KALP 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 KALP's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on

Internal Control Over Compliance, Continued

compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express such an opinion on the effectiveness of KALP's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, 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.

*Riney Hancock + Co., PSC*

Owensboro, Kentucky  
May 14, 2010

# KALP NETWORK, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2009

### A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of KALP Network, Inc. (KALP).
2. Significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of KALP, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for KALP expresses an unqualified opinion on its major federal program.
6. As indicated in Part C of this schedule, there were no audit findings required to be reported in accordance with Section 510 (a) of OMB Circular A-133, relative to the major federal award program for KALP.
7. The program tested as major was:  
10.558 Child and Adult Care Food Program
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. KALP qualified as a low-risk auditee.

### B. Findings - Financial Statement Audit

#### 2009-01 Segregation of Duties

**Finding:** The limited number of employees of the organization precludes the implementation of an effective internal control system due to the lack of segregation of duties.

**Recommendation:** Because the cost / benefit of hiring additional employees to accomplish an appropriate segregation of duties does not exist, the Board of Directors should perform detailed reviews of transactions, to provide additional oversight of the activities of the organization and its employees.

#### 2009-02 Cash

**Finding:** Cash reconciliations are not prepared on a regular basis and cash did not balance to the general ledger at September 30, 2009.

**KALP NETWORK, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED**

Year Ended September 30, 2009

**B. Findings - Financial Statement Audit, Continued**

2009-02 Cash, Continued

Recommendation: Bank reconcilements should be prepared on a timely basis at each month end to insure that reported cash balances are correct.

2009-03 Revenue

Finding: Meal reimbursements received from the state were less than the amounts calculated and paid to providers based on the meal counts, resulting in lost revenue for KALP.

Recommendation: The meal counts to be reported to the grantor should be checked for accuracy prior to final submission. In addition, the reimbursement received each month should be reconciled to the amounts requested, and any differences resolved with the state.

2009-04 Reporting

Finding: Revenue reported on the Entity Annual Report prepared for submission to the state did not agree to the general ledger. In addition, line three of the Report requests total expenses; KALP reported only the federal expenses, which could lead the grantor to the incorrect conclusion that all expenses were reimbursed.

Recommendation: Revenue reported on the Entity Annual Report should agree to the general ledger and line three of the Report should report total expenses.

2009-05 Prior Year Audit Adjustments

Finding: Audit adjustments relating to the year ended September 30, 2008, had not been recorded in the general ledger prior to the current year's audit.

Recommendation: Agreed-upon audit adjustments should be recorded in the general ledger on a timely basis each year.

Management Response:

Management concurs with the findings and recommendations.

**C. Findings and Question Costs - Major Federal Award Programs**

None

**KALP NETWORK, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended September 30, 2009

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There were no audit findings relative to federal awards reported in the schedule of findings and questioned costs for the year ended September 30, 2008.