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AN EQUAL OPPORTUNITY EMPLOYER

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July 7, 2009

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, 2007 to September 30, 2008. 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, 2008, 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. Pages 11 and 12 contain four current audit findings.

STATE BOARD OF ACCOUNTS

KALP NETWORK, INC.
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year Ended September 30, 2008

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

Member of
PKF North American Network
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Board of Directors
KALP Network, Inc.

We have audited the accompanying statement of assets, liabilities and net deficit – modified cash basis of KALP Network, Inc. (KALP) as of September 30, 2008, and the related statements of revenues, expenses and change in net deficit – 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, assets, liabilities and net deficit of KALP as of September 30, 2008, and its revenues, expenses and change in net deficit 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 April 30, 2009, 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 important for 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
April 30, 2009

KALP NETWORK, INC.

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

September 30, 2008

ASSETS

Cash \$ 7,503

LIABILITIES AND NET DEFICIT

Liabilities:

Related party payable 13,916

Net deficit:

Unrestricted (6,413)

Total liabilities and net deficit \$ 7,503

See Notes to Financial Statements

KALP NETWORK, INC.

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

Year Ended September 30, 2008

Unrestricted net deficit:

Revenues:	
Federal financial assistance	\$ <u>835,771</u>
Expenses:	
Program services	824,825
Management and general	<u>12,529</u>
Total expenses	<u>837,354</u>
Change in unrestricted net deficit	(1,583)
Net deficit, September 30, 2007	<u>(4,830)</u>
Net deficit, September 30, 2008	\$ <u><u>(6,413)</u></u>

See Notes to Financial Statements

KALP NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

Year Ended September 30, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional expenses:			
Compensation	\$ 84,532	\$ 5,877	\$ 90,409
Payroll taxes	3,790	264	4,054
Telephone	-	1,177	1,177
Program operations	1,356	-	1,356
Postage and delivery	-	1,103	1,103
Office supplies	-	1,888	1,888
Printing and reproduction	-	1,473	1,473
Computer software	199	-	199
Other	-	220	220
Other fees	-	527	527
Program direct cost	<u>734,948</u>	<u>-</u>	<u>734,948</u>
Total functional expenses	<u>\$ 824,825</u>	<u>\$ 12,529</u>	<u>\$ 837,354</u>

See Notes to Financial Statements

KALP NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2008

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.

Income Taxes

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

2. Related Party Transactions

KALP leased office space from its executive director. The lease terminated March 2008. There was no occupancy expense for the year ended September 30, 2008. The related party payable consists of rent accrued in past years and cash advances from management.

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.

KALP NETWORK, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2008

<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>835,771</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, 2008, and have issued our report thereon dated April 30, 2009. 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.

Riney, Hancock + Co., PSC

Owensboro, Kentucky
April 30, 2009



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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, 2008. 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 programs for the year ended September 30, 2008.

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
April 30, 2009

KALP NETWORK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2008

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

2008-01 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.

2008-02 Cash Reconcilements

Finding: Cash reconciliations are not prepared on a regular basis and cash did not balance to the general ledger at September 30, 2008.

KALP NETWORK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended September 30, 2008

B. Findings - Financial Statement Audit, Continued

2008-02 Cash Reconcilements, Continued

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

2008-03 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.

2008-04 General Ledger

Finding: The general ledger was not updated on a timely basis as transactions occurred throughout the year ended September 30, 2008.

Recommendation: At a minimum, transactions should be recorded in the ledger on a monthly basis to facilitate the accurate preparation of bank reconcilements, and to allow for providing timely financial information to the Board of Directors for their review.

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, 2008

There were no audit findings relative to federal awards reported in the schedule of findings and questioned costs for the year ended September 30, 2007.