

SYSTEM REVIEW REPORT

July 16, 2010

To the Owner of
Caudill & Associates
and the Peer Review Committee of the Kentucky Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Caudill & Associates (the firm) in effect for the year ended January 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under Government Auditing Standards.

We noted the following deficiency during our review:

Deficiency – The firm's quality control policies and procedures require that financial statement reporting and disclosure checklists appropriate to the industry of the engagement being performed be completed. Our review noted that these checklists while being used were not always completed correctly. As a result, on certain audit engagements, the financial statements were missing disclosures as required by generally accepted accounting principles including disclosures for income tax, subsequent events, advertising, allowance for doubtful accounts, and restricted cash. The issuances of the subsequent year's reports are eminent and will include the appropriate disclosures.

Recommendation – The firm should conduct a training session to instruct all personnel in the proper completion of financial statement reporting and disclosure checklists. The engagement owner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy.

In our opinion, except for the deficiency described above, the system of quality control for the accounting and auditing practice of Caudill & Associates in effect for the year ended January 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency, or fail. Caudill & Associates has received a peer review rating of pass with deficiency.

VonLehman & Company Inc.