Independent Auditor's Report

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

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Schedule of Findings and Questioned Costs
Independent Auditor's Report

To the Board of Trustees
Kirtland Community College

We have audited the basic financial statements of Kirtland Community College as of and for the year ended June 30, 2011 and have issued our report thereon dated September 23, 2011. Those basic financial statements are the responsibility of the management of Kirtland Community College. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Kirtland Community College taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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.

September 23, 2011
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

To the Board of Trustees
Kirtland Community College

We have audited the financial statements of Kirtland Community College as of and for the year ended June 30, 2011 and have issued our report thereon dated September 23, 2011. 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 Kirtland Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Findings 2011-1 and 2011-2, that we consider to be significant deficiencies in internal control over financial reporting. 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.
To the Board of Trustees  
Kirtland Community College

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kirtland Community College’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we have reported to management of Kirtland Community College in a separate letter dated September 23, 2011.

Kirtland Community College’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kirtland Community College’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, 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.

September 23, 2011
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Kirtland Community College

Compliance

We have audited the compliance of Kirtland Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of Kirtland Community College are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kirtland Community College's management. Our responsibility is to express an opinion on Kirtland Community College'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 Kirtland Community College'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 Kirtland Community College's compliance with those requirements.

In our opinion, Kirtland Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.
To the Board of Trustees
Kirtland Community College

Internal Control Over Compliance

The management of Kirtland Community College 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 Kirtland Community College’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 compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity’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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2011-3. 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.

Kirtland Community College’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kirtland Community College’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 trustees, others within the entity, 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.

September 23, 2011
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

<table>
<thead>
<tr>
<th>Federal Agency/Pass-through Agency/Program Title</th>
<th>CFDA Number</th>
<th>Grant Number</th>
<th>Award Amount</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student Financial Aid Cluster:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Department of Education - Direct program:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal PELL Grant Program - 0910 FY</td>
<td>84.063P</td>
<td>P063P092898</td>
<td>$4,786,541</td>
<td>$59,242</td>
</tr>
<tr>
<td>Federal PELL Grant Program - 1011 FY</td>
<td>84.063P</td>
<td>P063P102898</td>
<td>4,992,049</td>
<td>4,960,309</td>
</tr>
<tr>
<td>Federal Work Study Program</td>
<td>84.033A</td>
<td>P033A102026</td>
<td>65,000</td>
<td>63,550</td>
</tr>
<tr>
<td>Federal Supplemental Employment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education Opportunity Grant - 0910 FY</td>
<td>84.007A</td>
<td>P007A092026</td>
<td>54,152</td>
<td>175</td>
</tr>
<tr>
<td>Education Opportunity Grant - 1011 FY</td>
<td>84.007A</td>
<td>P007A102026</td>
<td>57,040</td>
<td>56,670</td>
</tr>
<tr>
<td>Academic Competitiveness Grant - 1011 FY</td>
<td>84.375</td>
<td>P375A102898</td>
<td>36,421</td>
<td>36,139</td>
</tr>
<tr>
<td><strong>Federal Direct Student Loans:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stafford Subsidized</td>
<td>84.268</td>
<td>N/A</td>
<td>1,767,201</td>
<td>1,767,201</td>
</tr>
<tr>
<td>Stafford Unsubsidized</td>
<td>84.268</td>
<td>N/A</td>
<td>1,086,877</td>
<td>1,086,877</td>
</tr>
<tr>
<td>PLUS loans</td>
<td>84.268</td>
<td>N/A</td>
<td>4,680</td>
<td>4,680</td>
</tr>
<tr>
<td><strong>Total Federal Direct Student Loans</strong></td>
<td></td>
<td></td>
<td>2,858,758</td>
<td></td>
</tr>
<tr>
<td><strong>Total Student Financial Aid Cluster</strong></td>
<td></td>
<td></td>
<td>8,034,843</td>
<td></td>
</tr>
<tr>
<td><strong>Other federal awards:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Department of Education - Direct Program -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title III - Part A - Strengthening Institutions Program</td>
<td>84.031A</td>
<td>P031A100141</td>
<td>2,000,000</td>
<td>153,448</td>
</tr>
<tr>
<td>U.S. Department of Education - Passed through the Education - Basic Grants to States:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Administration</td>
<td>84.048A</td>
<td>V048A113250</td>
<td>240,532</td>
<td>240,532</td>
</tr>
<tr>
<td>Local Administration</td>
<td>84.048A</td>
<td>V048A113510</td>
<td>18,000</td>
<td>18,000</td>
</tr>
<tr>
<td>CAP Grant</td>
<td>84.048A</td>
<td>939670</td>
<td>13,130</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total Vocational Education - Basic Grants to States</strong></td>
<td></td>
<td></td>
<td>258,672</td>
<td></td>
</tr>
<tr>
<td><strong>Total federal awards</strong></td>
<td></td>
<td></td>
<td>$8,446,963</td>
<td></td>
</tr>
</tbody>
</table>
Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Kirtland Community College (the "College") under programs of the federal government for the year ended June 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, Cost Principles for Educational Institutions, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Kirtland Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of Kirtland Community College. Pass-through entity identifying numbers are presented where available.

Note 2 - Grant Auditor Report

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.
Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes 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 that are not considered to be material weaknesses? X Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Numbers</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.063P, 84.033A, 84.007A, 84.375, 84.268</td>
<td>Student Financial Aid Cluster</td>
</tr>
</tbody>
</table>

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

Auditee qualified as low-risk auditee? Yes X No
Kirtland Community College

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-1</td>
<td>Finding Type - Significant deficiency</td>
</tr>
</tbody>
</table>

**Criteria** - The College updated the purchasing policy during the year. As part of the process, the College began using a purchase requisition form. Their purchasing procedures describe purchases as originating from these requisitions and are to be expensed when goods and services are received.

**Condition** - The College did not fully follow the procedure in place for purchasing during the year which could produce an error that would not be caught timely.

**Context** - For one invoice, the purchase requisition was completed the day the invoice was received. For a different invoice, the expense was recognized when the goods were received; however, it was noted that the invoice stated terms transferring ownership at ship point which occurred before year end.

**Cause** - A control was not in place to follow the purchasing policy or to record the expense in the proper period based on terms of transferring ownership.

**Effect** - Goods were ordered without following the purchasing procedure in place. Goods were not expensed in the proper period based on shipping terms set by the vendor.

**Recommendation** - We recommend the College follow their procedures in place or modify the procedures to address practices in place when handling the purchase requisition and to communicate the terms in which the College accepts goods with its vendors.

**Views of Responsible Officials and Planned Corrective Actions** - We agree and we are in the process of updating the purchasing procedures to determine the best use of the purchase requisition during the purchasing policy. We also have updated the standard printed language on purchase orders to state the terms the College will accept goods is FOB destination.
## Section II - Financial Statement Audit Findings (Continued)

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2</td>
<td><strong>Finding Type</strong> - Significant deficiency</td>
</tr>
</tbody>
</table>

**Criteria** - Under generally accepted accounting principles, revenue is to be recognized when earned.

**Condition** - Certain revenue was not recorded in the proper period.

**Context** - During the audit, two adjustments were identified to record revenue and receivables for $73,987 as of June 30, 2011.

**Cause** - There was not a control in place to review cash received or revenue that was earned before June 30, 2011 for certain revenue activity.

**Effect** - Revenue and receivable were understated at June 30, 2011.

**Recommendation** - We recommend the business office conduct a review of balance sheet items to look for potential items that were missed when comparing to the prior year. Further, a review of cash received after year end should be reviewed for recording in the proper period.

**Views of Responsible Officials and Planned Corrective Actions** - We agree with the recommendation and plan to implement a control to review balance sheet activity and cash received after year end as part of the closing process.
### Section III - Federal Program Audit Findings

<table>
<thead>
<tr>
<th>Reference</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-3</td>
<td></td>
</tr>
</tbody>
</table>

**Program Name** - Student Financial Aid Cluster - #84.063P, 84.268, 84.007A, 84.375, 84.268 received directly from the U.S. Department of Education.

**Pass-through Entity** - N/A

**Finding Type** - Significant deficiency

**Criteria** - The College must identify students who withdrew or stopped attending classes (unofficial withdraw) each semester to determine if 60 percent of the semester was complete at the time of official or unofficial withdrawal. The percentage completion calculation must use all days in the semester, less any breaks of five days or more, as the denominator, and the number of actual days passed as of the withdrawal date, less any breaks of five days or more, as the numerator. If a student did not complete at least 60 percent of a semester, the College must prepare a Title IV Return of Funds calculation, based on the percentage complete calculation, to determine the funds that must be returned by the College and by the student (34 CFR 668.4(b)(3)).

**Condition** - The review process for the Title IV Return of Funds calculations did not catch an error in the amount identified to be returned.

**Questioned Costs** - $1,256

**Context** - Of the 25 students selected for Title IV Return of Funds testing, one had a refund based on the percentage incomplete, rather than the percentage complete.

**Cause and Effect** - The College has a control that is inadequate to ensure proper refunds, being that there is no review of these Return of Title IV calculations.

**Recommendation** - The College should implement procedures to ensure the proper amount of Title IV Funds is refunded.

**Views of Responsible Officials and Planned Corrective Actions** - We will institute a formal tandem approach to Return of Title IV calculations whereby one staff member performs the initial calculation and another staff member confirms the accuracy. The Return of Title IV Calculation Data Sheet has been updated to record sign-off on calculations.