Independent Auditor’s Reports:

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Independent Auditor's Report

To the Board of Trustees
Kirtland Community College

We have audited the financial statements of Kirtland Community College (the "College") and its discretely presented component unit, Kirtland Community College Foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated October 31, 2014, which contained unmodified opinions on the financial statements of Kirtland Community College and Kirtland Community College Foundation. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 31, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

October 31, 2014
Independent Auditor's Report

To Management and the Board of Trustees
Kirtland Community College

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 Kirtland Community College (the "College") and its discretely presented component unit, Kirtland Community College Foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kirtland Community College'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001 and 2014-002 to be material weaknesses.
To Management and 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 from 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.

Kirtland Community College's Responses to Findings

Kirtland Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Kirtland Community College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 31, 2014
Independent Auditor's Report

To the Board of Trustees
Kirtland Community College

Report on Compliance for the Major Federal Program

We have audited Kirtland Community College's (the "College") compliance 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 its major federal program for the year ended June 30, 2014. Kirtland Community College'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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Kirtland Community College'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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of Kirtland Community College's compliance.
To the Board of Trustees  
Kirtland Community College

**Opinion on Each Major Federal Program**

In our opinion, Kirtland Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of Kirtland Community College 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 Kirtland Community College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 College'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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

October 31, 2014
## Schedule of Expenditures of Federal Awards

**Year Ended June 30, 2014**

<table>
<thead>
<tr>
<th>Student Financial Aid Cluster:</th>
<th>CFDA Number</th>
<th>Pass-through Entity Project/Grant Number</th>
<th>Award Amount</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<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-1213 FY</td>
<td>84.063P</td>
<td>P063P122898</td>
<td>$4,081,915</td>
<td>$3,516</td>
</tr>
<tr>
<td>Federal PELL Grant Program-1314 FY</td>
<td>84.063P</td>
<td>P063P132898</td>
<td>4,173,247</td>
<td>4,145,675</td>
</tr>
<tr>
<td>Federal PELL Grant Program-1415 FY</td>
<td>84.063P</td>
<td>P063P142898</td>
<td>59,459</td>
<td>43,119</td>
</tr>
<tr>
<td>Federal Work Study Program</td>
<td>84.033A</td>
<td>P033A132026</td>
<td>58,285</td>
<td>57,542</td>
</tr>
<tr>
<td>Federal Supplemental Employment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplemental Ed Opportunity Grant-1314 FY</td>
<td>84.007A</td>
<td>P007A132026</td>
<td>59,669</td>
<td>59,159</td>
</tr>
<tr>
<td>Supplemental Ed Opportunity Grant-1415 FY</td>
<td>84.007A</td>
<td>P007A142026</td>
<td>51,345</td>
<td>650</td>
</tr>
<tr>
<td><strong>Total Federal Direct Loans</strong></td>
<td></td>
<td></td>
<td>3,241,113</td>
<td></td>
</tr>
<tr>
<td><strong>Total Student Financial Aid Cluster</strong></td>
<td></td>
<td></td>
<td>7,550,774</td>
<td></td>
</tr>
<tr>
<td>Federal Direct Loan Program:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stafford Subsidized</td>
<td>84.268</td>
<td>N/A</td>
<td>1,697,515</td>
<td>1,697,515</td>
</tr>
<tr>
<td>Stafford Unsubsidized</td>
<td>84.268</td>
<td>N/A</td>
<td>1,540,724</td>
<td>1,540,724</td>
</tr>
<tr>
<td>PLUS loans</td>
<td>84.268</td>
<td>N/A</td>
<td>2,874</td>
<td>2,874</td>
</tr>
<tr>
<td><strong>Total Federal Direct Loans</strong></td>
<td></td>
<td></td>
<td>3,241,113</td>
<td></td>
</tr>
<tr>
<td><strong>Total other federal awards</strong></td>
<td></td>
<td></td>
<td>492,999</td>
<td></td>
</tr>
<tr>
<td><strong>Total federal awards</strong></td>
<td></td>
<td></td>
<td>$8,043,773</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 under programs of the federal government for the year ended June 30, 2014. 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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.
Section I - Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are 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 that are not considered to be material weaknesses? 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 Section 510(a) of Circular A-133? Yes X No

Identification of major program:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.063P, 84.033A, 84.007A, 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
Section II - Financial Statement Audit Findings

Reference Number Finding

2014-001 Finding Type - Material weakness

Criteria - Two key elements of an effective financial reporting system are proper application of generally accepted accounting principles and effective internal controls.

Condition - The College’s control structure did not provide for proper segregation of duties or timely review of activity related to one College investment account.

Context - An individual with access to journal entry functions, cash receipt functions, and cash disbursement functions was designated as a signer on a new College investment account opened in fiscal year 2014. The account had approximately $4 million in investment transactions as of June 30, 2014. The investment account monthly reconciliations were not reviewed timely throughout the fiscal year.

Cause - Proper segregation of duties was not established for this investment account.

Effect - During a portion of the fiscal year for this investment account activity, an error could have occurred that would not have been identified timely.

Recommendation - We recommended and noted that the individual’s signer ability was removed in July 2014 from this investment account. The College should monitor segregation of responsibilities when there is access to cash and investments, for example, when new accounts are opened or other changes are implemented. All cash and investment activity should be reviewed timely to mitigate the risk of error (i.e., monthly).

Views of Responsible Officials and Planned Corrective Actions - The College has removed individual signer ability as of July 2014 from the investment account that caused the segregation of duties issue. The College has also modified its practices and process that relates to reconciliations of investments and is taking strides to implement new general best practices in this area.
Section II - Financial Statement Audit Findings (Continued)

Reference Number Finding
2014-002 Finding Type - Material weakness

Criteria - Two key elements of an effective financial reporting system are proper application of generally accepted accounting principles and effective internal controls.

Condition - Kirtland Community College Foundation, a discretely presented component unit of the College, did not display a full implementation of the accrual basis of accounting or a system of adequate internal controls.

Context - Several year-end balances were affected in a material audit adjustment. Additionally, one Foundation employee was responsible for processing cash receipts/disbursements and reporting throughout the year. Detective controls are not in place to mitigate this risk of inadequate segregation of duties.

Cause - Monitoring controls were not in place to ensure the financial reporting system of the Foundation was supported by proper application of generally accepted accounting principles and effective internal controls.

Effect - Year-end financial reporting was materially misstated. Additionally, without proper internal controls, the Foundation is at a heightened risk for misappropriation of assets.

Recommendation - We recommend the implementation of more robust internal controls that achieve adequate segregation of duties and proper accounting and financial reporting in accordance with generally accepted accounting principles.

Views of Responsible Officials and Planned Corrective Actions - The Kirtland Community College Foundation has moved its accounting practices and functions to the College's financial services division as of August 2014 to address the monitoring and segregation of duties control issues.

Section III - Federal Program Audit Findings

None