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November 6, 2023

To the Board of Trustees and Management
Kellogg Community College

We have audited the financial statements of Kellogg Community College (the “College”) as of and for the year ended June 30, 2023 and have issued our report thereon dated November 6, 2023. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Upcoming Pronouncements and Industry Items

Section I includes information that we are required to communicate to those individuals charged with governance of the College. It communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Section II presents items impacting the higher education industry and the College. These comments are offered in the interest of helping the College be aware of current and upcoming industry regulatory and reporting changes and other items of interest.

We would like to take this opportunity to thank the College’s staff, specifically Rick Scott, Tracy Beatty, and Brian Murphy, for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees and management of Kellogg Community College and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Vicki L. VanDenBerg, CPA
Partner

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 23, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the College. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the College's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the College, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated November 6, 2023 regarding our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 7, 2023.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the College are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2023, except for the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes an intangible right-to-use subscription asset and a corresponding subscription liability.

We noted no transactions entered into by the College during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Section I - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimates affecting the financial statements were the following:

- Accounts receivable allowance for uncollectible accounts - Management's estimate of the allowance for uncollectible accounts is based on past collection history.

- Compensated absences accrual - Management's estimate of the accrual for compensated absences is based on the probability of payment and has reduced the liability to the expected present value.

- Michigan Public School Employees' Retirement System (MPSERS) net pension and OPEB liabilities - Management estimates its portion of the net pension liability and net OPEB liability based on the audited financial statement received from MPSERS.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the overall financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures except for the exclusion of fiduciary statements from the financial statements. Due to the adoption of GASB 84, effective for the year ended June 30, 2021, the College has fiduciary activities with approximately $183,000 of assets and $183,000 of liabilities as of June 30, 2023 that are held for others. Due to the insignificance of fiduciary activities, management has concluded not to include fiduciary statements in the financial statements.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the College, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the College's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 6, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the College's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Upcoming Pronouncements and Industry Items

Auditor Guidance

New Auditing Standards - Effective for fiscal year 2024, auditors are implementing AICPA's Statement on Auditing Standards (SAS) Nos. 143 and 145. SAS 143 addresses auditors' responsibilities relating to accounting estimates. SAS 145 revises guidance on significant risks, evaluation of internal control design (including IT controls), and audit documentation. Both standards will require expanded documentation specific to significant estimates and controls in place. For higher education, the focus will be on estimates involving receivables collectibility, certain investment valuations, and pension/OPEB liabilities. In addition, updated control environment documentation related to areas such as tuition and other significant revenue streams, employee compensation, and investments will be needed. Overall, additional implementation time will be required as part of the fiscal year 2024 audit.

Department of Education and Industry Changes

Department of Education - Continued Changes to Student Financial Assistance Cluster Testing - Each year, the Department of Education (ED) continues to modify and expand the compliance requirements to be audited as part of the single audit subject to the Uniform Guidance. These additional tests range from expanded enrollment reporting on NSLDS and GLBA policy requirements in prior years to most recently testing incentive compensation and certain banking arrangements with financial institutions. We continue to monitor ED's activities and expect to see additional testing requirements in the future. We will work together with you to keep you informed of upcoming changes, which will require additional testing as part of the fiscal year 2024 audit and future audits.

Department of Education's Third-party Servicer Guidance - In 2023, the Department of Education released Dear Colleague Letter GEN-23-03, broadening the requirements for what constitutes a third-party servicer. The revisions focus on the functions of student recruiting and retention, the provision of software products and services involving Title IV administration activities, and the provision of educational content and instruction. Companies providing such services are often called online program mangers (OPMs). If an entity meets the definition of a third-party servicer, there are several regulatory requirements triggered, including the institution having to notify ED within 10 days of signing, or modifying, a contract with the servicers and contracts being required to include certain provisions. In addition, the third-party servicer must provide certain information to ED and is required to receive an annual compliance audit. Both parties, the institution and the third-party servicer, are jointly and severally liable for any violations of Title IV requirements. In response to more than 1,000 comments, ED is considering any revisions to the guidance and for institutions to come into compliance with the new regulations. Once the revised guidance is issued, institutions will have at least six months to comply.

Scholarship Allowance (Tuition Discount) - The National Association of College and University Business Officers (NACUBO) has issued Advisory Report 2023-1 related to the calculation of the tuition discount due to improvements with information technology (IT) systems and access to better data. The new methodology will reflect the institution's aid awarding policies and related business rules and be more consistent with current and anticipated GASB revenue and expense guidance and will be based on more readily available student detail, if possible. Institutions are expected to implement the new methodology no later than fiscal year 2025. For more information, visit https://www.nacubo.org/Publications/Advisories/ar-2023-01-td-for-publics.

Governmental Accounting Standards Board Pronouncements and Changes

Accounting Changes and Error Corrections - GASB Statement No. 100 is effective for the year ending June 30, 2024 and amends GASB Statement No. 62. The standard requires changes in accounting principles and corrections of errors to be reported retroactively by restating prior periods. Changes to or within the financial reporting entity require adjustment of the beginning balances of the current period, and changes in accounting estimates are reported prospectively by recognizing the change in the current period. The standard also requires a disclosure in the notes to the financial statements for any accounting change or error correction. The standard is designed to improve the clarity and consistency of the reporting requirements across the industry.

Section II - Upcoming Pronouncements and Industry Items (Continued)

Compensated Absences - GASB statement No. 101 is effective for the year ending June 30, 2025. The standard allows for all compensated absences to be reported under a unified model. Under the standard, all compensated absences that meet three criteria are to be recorded based on the employee's pay rate at the reporting date. The three criteria are: when the absence accumulates, the absence is attributed to services already performed, and the absence is more likely than not to be either paid or settled through other means. The most significant change from prior guidance is related to treatment of nonvesting leave, in which the institution will now have to record an obligation for the portion of nonvesting leave that is more likely than not to be used for time off in the future or will eventually be paid out once the employee meets the vesting criteria. More likely than not means a likelihood of more than 50 percent. It is recommended that the institution begin to gather information about existing policies to identify potential areas for additional analysis. Overall, the liability will likely increase, and potentially by a significant amount.

Disclosure and Classification of Certain Capital Assets (Exposure Draft) - In September 2023, the GASB issued an exposure draft titled *Disclosure and Classification of Certain Capital Assets*, which proposes requiring capital assets held for sale, intangible assets, lease assets, and SBITA assets to be disclosed separately by major class. The proposed standard defines when capital assets should be classified as held for sale when (1) the government has decided to sell the capital assets and (2) it is probable the sale will be finalized within one year of the financial statement date. The standard would be effective beginning with fiscal years ending June 30, 2026.

Risks and Uncertainties (Exposure Draft) - In June 2022, the GASB issued an exposure draft titled *Certain Risk Disclosures*, which proposes to provide users of the financial statements with information about risks related to a governmental entity's current vulnerabilities due to certain concentrations and constraints. The proposed standard would require governmental entities to disclose information in the notes of the financial statements if it determines an event associated with a concentration or constraint is more likely than not to begin within 12 months of the financial statements or if the event is at least reasonably possible to cause a substantial effect within three years on the entity's ability to provide services at the level provided in the current period or meet its obligations as they become due. The final statement is expected to be approved in December 2023.

Revenue and Expense Recognition (Preliminary Views Re-deliberations) - In June 2020, the GASB issued a preliminary view titled *Revenue and Expense Recognition*, which introduces a new methodology for categorizing transactions for recognition based on the assessment of specific characteristics, which includes identifying transactions with performance obligations. If performance obligations are identified, then revenue and expense will essentially be recognized as those obligations are satisfied. Additional guidance is being proposed for those transactions without performance obligations, such as state appropriations and property taxes. Comments from stakeholders were due by February 26, 2021, and an exposure draft is currently expected in 2025, with an ultimate implementation in 2027.

GASB Other Projects - The Governmental Accounting Standards Board is reviewing other topics that include capital assets, going concern, subsequent events, nonfinancial assets, and more.

Current Industry Concerns Regarding IT Systems

SOC (Systems and Organization Controls) for Cybersecurity - Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. At stake for all types of organizations is a loss of brand reputation, the ability to operate efficiently, competitive advantage, and proprietary information or assets. What organizations gain, unfortunately, are financial and legal liabilities. The cost of an average data breach has reached approximately $4.35 million, according to data from the Ponemon Institute sponsored by IBM Security, and it can quickly escalate from there based on the type of breach and volume of data imperiled. In response to this risk is the next evolution of SOC reporting (Systems and Organization Controls), which is a SOC for Cybersecurity.

Any institution, public or private, large or small, can benefit from obtaining a SOC for Cybersecurity report; it is an important tool to help you gain assurance about the strength of your cybersecurity risk management program and effectively communicate these controls to key stakeholders. As an example:

- A procurement officer obtains a SOC for Cybersecurity attestation report as part of a prudent vendor management program to gather information about prospective vendors that will handle sensitive data.

We envision SOC for Cybersecurity reports becoming an important tool for institutions to gain assurance about the strength of their cybersecurity risk management program. Cybersecurity risk as a significant business risk will only continue to grow. More than 12.2 billion connected devices are in use per IOT Analytics, and that number will continue to grow. It is also anticipated that 99 percent of everything we manufacture will connect to the internet, but the internet was not designed around security.

Your best bet is to maximize your own diligence and prepare for the next generation of compliance and reporting to ensure you not only meet your business objectives but also satisfy stakeholder (board members, students, parents, and the community) expectations and allay their all-too-valid cybersecurity concerns.

Cybersecurity Risk and Network Security Assessment - Institutions are not exempt from cyberattacks in which systems and critical data are compromised. Institution systems store personal information of staff, students, and students' parents in addition to other confidential data. It is important that institutions protect themselves from both external and internal threats, whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including institutions of higher education. It may be the hacks of large, multimillion dollar companies that we see exposed on the evening news, but institutions can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within an institution's IT environment, continued assessment of cybersecurity issues is an essential part of the College's overall data security assessment.

PCI Compliance - Any institution that interacts with payment cards issued by one of the five major payment card companies (VISA, MasterCard, American Express, JCB, and Discover) is required to be in compliance with the PCI DSS. Understanding and appropriately applying the unique compliance requirements of the PCI DSS requires a unique expertise that most organizations do not possess in house. The PCI DSS and supporting documents represent a common set of industry tools to help ensure the safe handling of cardholder data. The standard itself provides an actionable framework for developing a robust security process, including preventing, detecting, and responding to security incidents. We encourage all institutions to ensure their PCI DSS is current and up to date and reviewed on an annual basis.