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November 11, 2024

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, 2024 and have issued our report thereon dated November 11, 2024. 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

Kenley Penner, 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 14, 2024, 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 11, 2024 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 June 10, 2024.

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 2024.

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.

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

- 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. The College has fiduciary activities with approximately $207,000 of assets and $207,000 of liabilities as of June 30, 2024 that are held for others. Due to the insignificance of fiduciary activities, management has concluded not to include fiduciary statements in the financial statements and instead it is included on the College's 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 11, 2024.

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

OMB Revisions to the Uniform Guidance

In April 2024, the Office of Management and Budget (OMB) released revisions for the Uniform Guidance for federal grants and agreements, which are effective for fiscal year ends beginning on October 1, 2024 and after. The guidance clarifies the applicability of requirements and terminology and includes some relaxation and clarification of certain requirements that required prior approval from federal regulators. A few key changes include the following:

- Increase the single audit threshold to $1 million from $750,000
- Require the schedule of expenditures of federal awards (SEFA) to identify recipient of federal award for audits that cover multiple recipients
- Increase the *de minimis* indirect cost rate from 10 percent to 15 percent, effective for grants received on October 1, 2024 and after
- Increase the equipment threshold from $5,000 to $10,000. This threshold applies to the value of equipment that, at the end of the grant period, may be retained, sold, or otherwise disposed of with no further responsibility to the federal agency.
- Increase the amount of subawards from $25,000 to $50,000 for application of indirect rate
- Increase the requirement for preapproval for subawards by federal agency from $250,000 to $500,000
- Remove the filing requirement of the DS-2 supporting indirect costs for institutions of higher education

The changes are included in more detail within the federal register at https://www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance, and we are happy to discuss these changes with you.

Department of Education's Student Financial Assistance Cluster Changes - The Department of Education (ED) continues to make changes to the required audit procedures within the Student Financial Assistance (SFA) Cluster. There continues to be an emphasis on special tests, including recent additions to include institutional eligibility, incentive compensation, using a servicer or financial institution to deliver Title IV credit balances to a card or other access device, and program eligibility. These expanded areas have significantly increased the audit effort when SFA is tested as a major program in the single audit. It is important for institutions to monitor what the Office of Management and Budget publishes annually based on ED's requirements. The *Compliance Supplement* is available at https://www.whitehouse.gov/omb/office-federal-financial-management/current-compliance-supplement/, where the SFA Cluster is included in Part 5 - Clusters of Programs.

Department of Education's Regulations

- *Enhanced Reporting* - In October 2023, the Department of Education released *Financial Value Transparency and Gainful Employment* regulations, which seek to enhance transparency by providing information about financial costs and benefits to students at nearly all academic programs at postsecondary institutions that are eligible to participate in Title IV funding of the Higher Education Act. Reporting was originally set to begin on July 1, 2024; ED has delayed the implementation twice, with a current start date of January 15, 2025.

- **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 managers (OPMs). If an entity meets the definition of a third-party servicer, there are several regulatory requirements triggered, including the institution notifying ED within 10 days of signing, or modifying, a contract with the servicers and contracts including 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 subsequently released Dear Colleague Letter GEN-23-08, which removed the effective date of GEN-23-03 in order to provide institutions additional time to come into compliance with the new regulations. The effective date will be revised in a future issued Dear Colleague Letter. Once the revised guidance is issued, institutions will have at least six months to comply. As of the end of September 2024, revised guidance has not been issued.

  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 an institution's aid awarding policies and related business rules and be more consistent with current and anticipated GASB revenue and expense guidance, and it 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.

  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 an 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 College begin to assess available reporting and add reporting capabilities, if necessary, to ensure compliance with this standard.

  Risks and Uncertainties - GASB Statement No. 102, *Certain Risk Disclosures*, is effective for the year ending June 30, 2025. The standard establishes requirements 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 standard requires a governmental entity 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.

  Financial Reporting Model Improvements - GASB Statement No. 103 is effective for the year ending June 30, 2026. This standard increases the effectiveness of the financial reporting model by providing information that is essential for decision-making and assessing a government's accountability. The standard establishes or modifies existing accounting and financial reporting requirements related to management's discussion and analysis; unusual or infrequent items; presentation of proprietary fund statement of revenue, expenses, and changes in net position; major component unit information; and budgetary comparison information. It is recommended that the College understand the reporting requirements under this upcoming standard and add reporting capabilities, if necessary, to ensure compliance with standard.

Disclosure of Certain Capital Assets - GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is effective for the year ending June 30, 2026. The standard provides instructions as to how some capital assets should be disaggregated in notes to financial statements, including the following:

- Lease assets, by major class of underlying asset (as already required by Statement 87)
- Public-public partnership assets, by major class of underlying asset
- Subscription assets in the aggregate (as already required by Statement 96)
- Other intangible assets, by major class of asset

Intangible right-of-use assets should not be disclosed in the same major class as owned assets.

The statement also provides guidance on how to report capital assets that a government is planning to sell. Capital assets held for sale are those a government has decided to sell and that are probable of being sold within a year. The standard requires a disclosure of the following for capital assets held for sale, by major class of asset: historical cost, depreciation or amortization, and the carrying amount of debt for which the assets are pledged as collateral.