

November 10, 2025

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, 2025 and have issued our report thereon dated November 10, 2025. 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 - Industry Updates and Other Information

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 Victoria O'Connell, 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 18, 2025, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight is 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 is 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, 2025 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 9, 2025.

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.

As described in Note 1, Kellogg Community College changed accounting policies related to GASB 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. The College also changed accounting policies related to the tuition discount due to updated guidance from the National Association of College and University Business Officers (NACUBO) and related improvements with information technology systems. Accordingly, the change has been prospectively applied to the current year.

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

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

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

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 it 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 liability and OPEB asset - Management estimates its portion of the net pension liability and net OPEB asset 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 \$181,000 of assets and \$181,000 of liabilities as of June 30, 2025 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 in 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.

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

Following is a summary of significant issues that were discussed or were the subject of correspondence with management prior to or during our audit:

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable tax credit against certain employment taxes and qualifies as a government grant. Management hired a third-party tax specialist (Think, LLP) to assist with the analysis and filing of the ERC. Think, LLP determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credit based on having operations suspended to comply with a government order related to COVID-19 and incurring eligible payroll expenses. Based on guidance provided by Think, LLP, management filed for the ERC for the quarter ended March 31, 2021. However, there was uncertainty about the College's eligibility for the credit after the filing. As a result of this uncertainty, the College did not recognize revenue associated with total ERC claims upon filing for the credit and recognized the revenue once the statute of limitations expired and the amount was deemed collectible. During the year, the College received the refund plus interest totaling \$2,339,882.82 and recognized the revenue.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2025.

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 that statement, 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 - Industry Updates and Other Information

Plante Moran Reimagined Client Service Review (RCSR)

Plante & Moran, PLLC (Plante Moran) is excited to introduce our transformative Client Service Review (CSR). This initiative aims to further strengthen our partnership with you by enhancing our focus on providing more than transactional service delivery, and including a more strategic, advisory approach. The CSR focuses on direct collaboration with you. During this complimentary session, we will bring Plante Moran subject matter experts to meet with select members of your institution to allow you to leverage the comprehensive expertise of our firm. This process works across service lines, ensuring that meetings are customized to your needs and facilitating brainstorming sessions with our subject matter experts. Client feedback has been overwhelmingly positive, appreciating the proactive engagement and strategic insights provided during closing meetings. Interested in enhancing your alignment with Plante Moran? Request a Client Service Review to get started.

One Big Beautiful Bill Act (OBBBA)

Many of the education-focused items included in the One Big Beautiful Bill Act have effective dates of July 1, 2026. The U.S. Department of Education (ED) will draft legislation to implement the provisions and programs in the OBBBA through the following two committees:

The Reimagining and Improving Student Education (RISE) committee will focus on the following:

- The phaseout of Grad PLUS loans
- New annual loan limits for graduate and professional students and parent borrowers and new lifetime borrowing caps
- Two new federal loan repayment plans
- Institutional flexibility to apply lower annual limits for students/parents for selected programs of study
- Modifications to loan rehabilitation

The Accountability in Higher Education and Access through Demand-driven Workforce Pell (AHEAD) committee will address the following:

- Accountability measures, including loss of Direct Loan eligibility programs and the Financial Value Transparency and Gainful Employment rules
- Program eligibility requirements for Workforce Pell
- Pell Grant ineligibility for students receiving grants/scholarships that cover their entire cost of attendance or whose Student Aid Index is twice the maximum Pell award.

Changes to Federal Regulations

In April 2024, the Office of Management and Budget (OMB) released revisions for the Uniform Guidance for federal grants and agreements, which are effective on October 1, 2024. The guidance clarifies terminology and the applicability of certain requirements. It also 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 (first effective beginning with September 30, 2025 fiscal year ends)
- Increase the *de minimis* indirect cost rate from 10 percent to 15 percent, effective for grants received on October 1, 2024 and after

Section II - Industry Updates and Other Information (Continued)

- 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://fsapartners.ed.gov/knowledge-center/topics/financial-value-transparency-and-gainful-employment-information>, and we are happy to discuss these changes with you.

Department of Education's Student Financial Assistance Cluster Changes - The Department of Education 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 multiple times, with a current start date of September 30, 2025 for the 2024 cycle.
- **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 U.S. Department of Education announced in an October 21, 2024 court filing that it will formally rescind the Dear Colleague Letter of February 2023, which proposed major changes to the definition of third-party servicer.
- **Perkins Liquidation Plan** - The Federal Perkins Loan Program expired as of September 30, 2017. In anticipation of the closure of the program, the Department of Education continues to update its Perkins Liquidation guidance (the most recent version is dated July 2025: Federal Perkins Loan Assignment and Liquidation Guide). This guidance and the related clarification Q&As clearly state that, upon liquidation, the institution will be assigning the loans to the Department of Education without recompense. In other words, the institution's share in its revolving loan pool (known as the Institutional Capital Contribution or ICC) will not be refunded back. This amount is anywhere from 15 to 25 percent of the loan pool. In discussions with the Perkins Liquidation team at ED, there are a few key points each institution needs to consider:

Since 2020, the following has occurred:

- ED requires a capital distribution from the institution's Perkins Fund on an annual basis for all institutions that continue participating in the Perkins Loan Program. As part of the distribution from the fund, the institution returns the federal share to the department and returns the institutional share of an institution's Perkins Fund to the institution.

Section II - Industry Updates and Other Information (Continued)

- ED also determines the amount for current and past loan cancellations and let institutions keep a share of those funds.
- ED requires institutions to assign all loans in default two years or more based on the most recent FISAP filed.
- Loans with missing or defective (e.g., incomplete, not signed) promissory notes are required to be submitted directly to the loan servicer for escalation to ED. The school must provide an explanation for the missing documentation and provide alternate documentation prior to the loan being assigned to ED.

For the above actions, ED will notify each institution of the amounts due and the assignment process.

For members, The National Association of College and University Business Officers also issued advisory guidance and a worksheet to help institutions work through the cost/benefit of maintaining the pool versus when to liquidate. Institutions also face challenges on how to replace the loans in a form that is most advantageous to the students and the institution. We recommend that the institution form a team to address these challenges representing finance, financial aid, and admissions. We are happy to assist you with addressing any of the issues and challenges.

New Auditing Standards - Effective for fiscal year 2027, auditors will be implementing AICPA's Statement on Auditing Standards (SAS) No. 149. The standard which addresses auditors' responsibilities relating to accounting estimates. SAS 149 introduces a risk-based approach to planning and performing a group audit. As a result, the group auditor will use professional judgment in determining the components at which to perform procedures that respond to assessed risks. For higher education, this will impact audit of institutions with consolidated entities (FASB) or component units (GASB). Stay tuned for additional analysis in the upcoming years to address implementation of this new auditing standard.

Upcoming Accounting Pronouncements

GASB Statement No. 103, *Financial Reporting Model* - 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 institution understand the reporting requirements under this upcoming standard and add reporting capabilities, if necessary, to ensure compliance with standard.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* - The standard provides instructions as to how some capital assets should be disaggregated in the 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.

Section II - Industry Updates and Other Information (Continued)

Revenue and Expense Recognition (Preliminary Views Redeliberations) - 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. Initial comments from stakeholders were due by February 26, 2021, and an exposure draft is currently expected in 2025. The final statement is currently expected to be issued in June 2027.

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