November 12, 2018

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, 2018 and have issued our report thereon dated November 12, 2018. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - 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

Section II - Required Communications with Those Charged with Governance

Section III - Industry Update and Upcoming Pronouncements

Section I includes information government auditing standards require us to formally communicate annually in regards to matters we note about the College’s accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the audit and finance committee of the College on behalf of the board of trustees.

Section III 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 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 any of these or other questions that you might have at your convenience.

Very truly yours,
Plante & Moran, PLLC

Vicki L. VanDenBerg, CPA
Partner
Section I - 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

We have audited, 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, the financial statements of Kellogg Community College (the "College") and its discretely presented component unit as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 12, 2018. The financial statements of the Kellogg Community College Foundation were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kellogg 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.

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 College's financial statements will not be prevented, or detected and corrected, on a timely basis. 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. No material weaknesses were identified as a result of audit procedures.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kellogg 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.

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.
Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 4, 2018, 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 Kellogg Community 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 Kellogg Community 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, 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 12, 2018 regarding our consideration of Kellogg Community 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 13, 2018.

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 Kellogg Community College are described in Note 1 to the financial statements. As described in Note 1, the College implemented accounting policies related to Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The accounting change has not been retrospectively applied because information is not available to calculate the OPEB obligation and impact as of June 30, 2017.

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.
Section II - 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 them may differ significantly from those expected. 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 absence 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 liability - 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 liability in determining that it is reasonable in relation to the overall financial statements.

For each estimate, we evaluated the key factors and assumptions used in determining that it is reasonable in relation to the financial statements taken as a whole.

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

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management 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.

**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 12, 2018.
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 III - Industry Updates and Upcoming Pronouncements

Safeguards Rule of the Gramm-Leach Bliley Act - Higher education institutions have been required to comply with the provisions of the Safeguards Rule of the Gramm-Leach Bliley Act (GLBA) for more than a decade. The DoE recently made it clear to institutions that it expects the proper controls and processes in place and will begin monitoring compliance in the near future through the annual single audits performed on Title IV student financial aid funds received. This means that the College’s external auditors will be required to conduct expanded audit testing and report significant noncompliance findings if the required security is not in place. The Safeguards Rule is not currently tested as part of the federal compliance audit (or single audit) of Title IV funds, but communications from the DoE consistently indicate it will become part of this testing in the near future. Currently, testing steps are expected to be included in the 2019 release of the Office of Management and Budget Compliance Supplement for external auditors to follow when testing the Student Financial Assistance cluster.

Asset Retirement Obligations - In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, Certain Asset Retirement Obligations. This statement standardizes financial reporting when laws govern how certain assets are retired from use and there is a related cost. Accounting is required when a liability has been incurred and can be reasonably estimated. A liability is incurred when both an external obligating event and an internal obligating event have occurred. An external obligating event is the legal requirement. An internal obligating event is an action taken by a public institution related to the retirement or sale of the asset. The amount recorded is the current value, which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period. Examples of AROs include decommissioning nuclear reactors, removing and disposing wind turbines in wind farms, dismantling and removing sewage treatment plants, and removing and disposing of X-ray machines. The statement is effective for periods beginning after June 15, 2018 (FY 2019). The provisions of this statement are to be applied retroactively as a restatement of beginning net position for the earliest financial statement period presented.

Certain Debt Disclosures - In March 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement. This statement’s objective is to improve information disclosed in the debt footnote (excludes leases and accounts payable). The notes will now disclose amount of unused lines of credits, assets pledged as collateral for debt, terms specified in the debt agreement related to significant events of default with finance-related consequences, termination events with finance-related consequences, and subjective acceleration clauses. These additional disclosures will be separated between direct borrowings/placements of debt and other debt. The statement is effective for periods beginning after June 15, 2018 (FY 2019).

Fiduciary Activities - In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments (including institutions of higher education). The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.
This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The College should review the criteria and consider the impact of the standard to student activity funds (clubs), funds held for other organizations, and other agency-type activity. The statement is effective beginning with December 31, 2019 year ends (FY 2020).

**Leases (Lessee)** - In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. Public institutions will report the following in the financial statements for all leases that exceed 12 months in duration or if it transfers ownership of the underlying asset:

- Lease liability should be measured at the present value of payments expected to be made during the lease term.
- Lease asset should be measured at the amount of the initial measurement of the lease liability.
- Amortization expense related to the lease asset (recognizing the asset amount as an expense over the term of the lease)
- Interest expense related to the lease liability

If the lease transfers ownership of the underlying asset, the institution will record the transaction as a financed purchase (asset and long-term debt). The notes to the financial statements would include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made. The effective date is for reporting periods beginning after December 15, 2019 (FY 2021).

**Interest Costs** - In June 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The statement is effective for periods beginning after December 15, 2019 (FY 2021).

**Majority Equity Interest (Exposure Draft)** - In November 2017, the GASB issued an exposure draft titled *Accounting and Financial Reporting for Majority Equity Interests - An Amendment of GASB Statement No. 14*. The proposed standard would require a majority equity interest in a legally separate organization to be reported as an investment if a government’s holding of the equity interest meets the definition of an investment (as defined in GASB Statement No. 72: a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash) and measured using the equity method. For all other holdings of a majority equity interest in a legally separate organization, a government would report the organization as a component unit. The statement is proposed to be effective for reporting periods beginning after December 15, 2018 (FY 2020).
Revenue and Expense Recognition (Invitation to Comment) - In January 2018, the GASB issued an invitation to comment titled Revenue and Expense Recognition. The project is to develop a comprehensive revenue and expense model because:

- Existing guidance for exchange revenue and expense transactions is limited, resulting in inconsistent reporting of information by governments.
- Existing guidance for nonexchange revenue and expense transactions, though generally effective, could be clarified and improved.
- Other accounting standards setters are considering or implementing a “performance obligation” approach for revenue recognition.
- A comprehensive model is expected to result in more robust, principles-based guidance for addressing a wide range of transactions that will improve comparability and provide more useful information.

The project is in initial stages but introduces two options: one model similar to current practices and the other model similar to the FASB’s revenue recognition model with performance obligations. Stay tuned!

GASB Other Projects - The Governmental Accounting Standards Board (GASB) is reviewing other topics that include financial reporting model; public-private partnerships, including reexamination of GASB Statement No. 60; conduit debt-reexamination of interpretation 2; an implementation guide for GASB Statement No. 84 on fiduciary activities; an implementation guide for GASB Statement No. 87 on leases; and information technology arrangements, including cloud computing.

IRS Box 1 and 2 1098-T Reporting Requirements and Relief - The Internal Revenue Service (IRS) announced that it will not penalize institutions for reporting the aggregate amount billed for qualified tuition and related expenses (Box 2) on 2017 Form 1098-T instead of the aggregate amount of payments received (Box 1), as required by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act). The IRS’ Announcement 2016-2017 provides flexibility to most institutions that currently report amounts billed (Box 2) but do not yet have the software solutions in place needed to implement Box 1 reporting beginning in January 2017, as mandated by the PATH Act. Institutions are required to issue Form 1098-T each year to their students and, until now, institutions had the option of reporting either the aggregate amount billed or payments received for qualified tuition and related expenses. Most institutions have historically opted to report amounts billed. Institutions are expected, without further guidance from the IRS, to report amounts paid for qualified tuition and related expenses in Box 1 of the 2018 Form 1098-T. Box 2 reporting will not be an option on the 2018 Form 1098-T.

IRS Issues Tax Identification Number Notifications - The IRS began penalizing colleges and universities for filing Forms 1098-T with incorrect or missing tax identification numbers (TIN) in August 2013 (for tax year 2011). On June 29, 2015, Congress enacted the Trade Preferences Extension Act of 2015. The act includes a safe harbor provision for eligible educational institutions for tax years beginning in 2015. Under the act, penalties will not be imposed on educational institutions that fail to report a student tax identification number on Form 1098-T provided the institution certifies, at the time of filing, that it has complied with regulations governing the solicitation of the taxpayer identification numbers.
Beginning with the 2017 tax year, institutions will need to certify that they have complied with the regulations governing the solicitation of the taxpayer identification number. In order to certify the institution has complied with the regulations, the institution must request the taxpayer identification number, in writing, on or before December 31 of each year, and must inform the individual that the law requires the individual to furnish a tax identification number.