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, 2021 and have issued our report thereon dated November 10, 2021. 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 Upcoming Pronouncements

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
Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 4, 2021, 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, 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 10, 2021 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 8, 2021.

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 changed accounting policies related to GASB Statement No. 84, Fiduciary Activities. The accounting change resulted in no change to the current and prior period presented.

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:

- 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 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 liabilities in determining that they are 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. Certain financial statement disclosures are particularly sensitive because of their significance to financial users. The most sensitive disclosure affecting the financial statements was the disclosure in Note 2 related to the impact of the COVID-19 pandemic on the College.

To assist with the economic impact of the pandemic, the College was awarded Higher Education Emergency Relief Fund (HEERF) grants of approximately $15,343,000, of which approximately $6,400,000 was required to be given to the students as emergency grants and the remaining is available for certain qualified institutional expenditures. During the year ended June 30, 2021, the College received Coronavirus Relief Funds (CRF) of $1,150,000, all of which was spent by June 30, 2021 on COVID-19 related expenditures.

**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 except for the exclusion of fiduciary statements from financial statements. Due to the adoption of GASB 84 described above, the College has fiduciary activities with approximately $190,000 of assets and $190,000 of liabilities as of June 30, 2021 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 10, 2021.

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 - Industry Updates and Upcoming Pronouncements

Auditor Reporting Standards - In May 2019, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 134, Auditor Reporting and Amendments, including Amendments Addressing Disclosures in the Audit of Financial Statements. The update requires changes in the form and content of the auditor’s report issued as a result of an audit of financial statements in order to provide financial statement users with more meaningful information about the audit process and meaning of auditor opinions.

Significant elements of the new standard include the following:

- Revised order for elements of the opinion letter, including moving the auditor’s opinion to the top of the letter
- Expansion of information to be included within a basis of opinion section, as well as notification to the user that the auditor is required to be independent of the entity and to meet other ethical responsibilities
- Explanation of how misstatements to financial statements are determined to be material
- Addition of definition of reasonable assurance and identifying that the risk of material misstatement due to fraud is greater than the risk due to error
- Enhanced reporting related to going concern, including a description of management’s responsibilities when required by the applicable reporting framework
- Description of the auditor’s responsibilities, including responsibilities relating to professional judgment and professional skepticism, internal controls, identification of risks of material misstatement to the financial statements, evaluation of accounting policies used, conclusion on the entity’s ability to continue as a going concern, and the auditor’s communications with those charged with governance
- Introduction of the concept of key audit matters and clarification of the relationship between communication of key audit matters and the use of an emphasis of matter or other matter paragraph
- Alignment of reporting requirements when the audit is conducted under both generally accepted auditing standards (GAAS) and another set of auditing standards or when the auditor’s opinion is other than an unmodified opinion

Since the issuance of SAS 134, the AICPA has issued several standards, primarily to conform existing audit standards with the requirements of the new auditor reporting model. The suite of new auditor reporting standards is effective for periods ending on or after December 15, 2021 (FY 2022).

SAS 137 Annual Reports - The AICPA issued a new statement on auditing standards that addresses auditor’s responsibilities relating to other information included in annual reports. This new standard, which is first effective for your fiscal year ending June 30, 2022, may increase the scope of audit procedures and may result in some audit work being performed outside of the normal timing. To the extent that your organization issues a document meeting the AICPA’s definition of an annual report under the standard additional audit procedures will need to be performed on that separate document before it is issued.

Leases (Lessee) - GASB Statement No. 87, Leases, will result in identifying and reporting in the financial statements all leases that exceed 12 months in duration or that transfer 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. In May 2020, the GASB issued Statement No. 95, delaying the effective date for this new standard. The delayed effective date is for reporting periods beginning after June 15, 2020 (FY 2022). The GASB also issued an extensive implementation guide in August 2019, along with lease questions and answers in the annual implementation guides for 2020 and 2021 and several helpful examples. The new lease guidance will require institutions to properly identify and analyze all lease transactions even if the agreement does not have lease in the name, which may include embedded leases within service agreements. Depending on the volume of agreements, the College may be interested in pursuing software that assists with the analysis, calculations, and reports for recording the initial and subsequent entries for leases. We are happy to discuss the impact of this new standard further with you.

**Omnibus 2020** - GASB Statement No. 92, *Omnibus 2020*, addresses eight unrelated practice issues and technical inconsistencies in authoritative literature with various effective dates. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. In May 2020, the GASB issued Statement No. 95, delaying the effective date for certain components of this new standard by one year. This delayed effective date is effective for the year ending June 30, 2022.

**Public-Private and Public-Public Partnerships and Availability Payment Arrangements** - GASB Statement No. 94 is effective for the year ending June 30, 2023 and replaces GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The standard improves accounting and financial reporting for arrangements where a governmental entity contracts with an operator to provide public services by conveying control of the right to operate or use nonfinancial assets, such as infrastructure or other capital assets, for a period of time in an exchange or exchange-like transaction. It establishes the definitions of public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs) and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. It requires governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions.

**Subscription-based Information Technology Arrangements** - GASB Statement No. 96 is effective for the year ending June 30, 2023. The standard provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (institutions). Under this standard, institutions in SBITAs are required to recognize a right-to-use subscription asset and a corresponding subscription liability.

**Revenue and Expense Recognition (Preliminary View)** - 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.

**Compensated Absences (Exposure Draft)** - In February 2021, the GASB issued an exposure draft titled *Compensated Absences*, which proposes to align accounting for all compensated absences under a unified model. Under the proposal, all compensated absences that meet three criteria will 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. Comments on the exposure draft were due by June 4, 2021.

**GASB Other Projects** - The Governmental Accounting Standards Board (GASB) is reviewing other topics that include accounting changes and error corrections, risks and uncertainties disclosures, capital assets, going concern, and more.
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 is, unfortunately, financial and legal liabilities. The cost of an average data breach has reached approximately $4 million, according to data from the Ponemon Institute, 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 an SOC for Cybersecurity.

Any institution, public or private, large or small, can benefit from obtaining or issuing an 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. Here are some examples:

- Board members of a public, private, or not-for-profit entity use an SOC for Cybersecurity attestation report to gain a better understanding of the institution’s cybersecurity risk management program and how it influences decision-making in ways that minimize risk.

- A procurement officer obtains an 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 10 billion connected devices are in use, and forecasts indicate that number will double by 2020. 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.