October 8, 2012

To the Audit Committee
Kirtland Community College

Dear Audit Committee Members:

We have audited the financial statements of Kirtland Community College (the “College”) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 8, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114
Section II - Legislative and Informational Items

Section I 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 committee of the College.

Section II contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank Jason Broge, Ilene Scherer, and all the College’s staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are appreciated.

This report is intended solely for the use of the audit committee and management of the 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

Michael Schrage, CPA
Partner

Katie A. Thornton, CPA
Associate
Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 11, 2012, 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 Kirtland 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 have made some assessments of Kirtland Community College’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 8, 2012 regarding our consideration of Kirtland 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.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of Kirtland Community College, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, Government Auditing Standards require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

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 July 19, 2012.

We recognize the relationship between the director of accounting and director of institutional services. We have tailored our audit procedures to address this risk.
**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 2012.

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 are summarized below:

- Management’s estimate of the fair value of the College’s investments. We tested the fair values for a sample of investments by comparing recorded prices to quoted market prices and concur with management’s valuation.

- Management estimates fair value of tuition accounts receivable by establishing an allowance for estimated uncollectible amounts. We evaluated the allowance for uncollectible accounts to determine the amounts recorded are reasonable.

- Management estimates the scholarship allowances for tuition revenue using a historical relationship between financial aid awarded for books in excess of the associated tuition revenue. We evaluated this estimate and agree with management that it was reasonable in relation to the overall financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was in Note 3, which summarizes cash and investments by risk.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing 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.
The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**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.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 8, 2012.

**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.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to the College’s financial statements and other information as identified in the auditor’s report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management’s discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.
### Client: Kirtland Community College

**Y/E:** 6/30/2012

---

#### SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

<table>
<thead>
<tr>
<th>Ref. #</th>
<th>Description of Misstatement</th>
<th>Current Assets</th>
<th>Long-term Assets</th>
<th>Current Liabilities</th>
<th>Long-term Liabilities</th>
<th>Net Assets</th>
<th>Revenue</th>
<th>Expenses</th>
<th>Impact to Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KNOWN MISSTATEMENTS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>Tax tribunal 'Final Order and Judgment' (related to 2009, 2010, 2011, and 2012 property taxable values).</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 17,515</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 17,515</td>
<td>$ (17,515)</td>
</tr>
<tr>
<td>A2</td>
<td>To transfer portion of general state appropriation revenue and expenditures from restricted to unrestricted classification.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restricted net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(126,200) (126,200) -</td>
</tr>
<tr>
<td></td>
<td>Unrestricted net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>126,200 126,200 -</td>
</tr>
<tr>
<td>A3</td>
<td>To recognize disposal (sale) of equipment. Proceeds of $21,500 were recognized in April, 2012.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(55,418)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>55,418 (55,418) -</td>
</tr>
<tr>
<td><strong>ESTIMATE ADJUSTMENTS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>IMPLIED ADJUSTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>PASSED DISCLOSURES</strong></td>
<td>Endowment disclosures (FASB) related to restricted-nonexpendable net assets of Kirtland Community College Foundation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

Total: $17,515 $ (17,515) $ (55,418) $ 17,515 $ - $ - $ - $ - $ 72,933 $ (72,933)
Section II - Legislative and Informational Items

Financial Reporting Matters

Accounting for Pension and Other Post-Employment Benefits (OPEB) - In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Under GASB 68, the College, as a cost-sharing employer, will be required to recognize its proportionate share of the collective unfunded net pension liability, pension expense, and deferred pension outflows (inflows) of the Michigan Public School Employees Retirement System (MPSERS) plan within its financial statements. This will be a significant change for every community college and K-12 school district in the State of Michigan. Michigan community colleges will see a significant liability reflected on their balance sheets along with significant increases to pension expenses and a corresponding reduction to unrestricted net assets. The College has estimated its proportionate share of the collective unfunded net pension liability to be approximately $16 million. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015. Please see Appendix A for additional details regarding these changes.

It is important to note that GASB 68 does not change the accounting and reporting for the retiree health care component of the MPSERS plan (OPEB). However, the GASB does have a separate project to address OPEB which we anticipate will result in similar accounting and reporting. The GASB’s current OPEB project work plan calls for a public comment period on the exposure draft from September to November 2013 with a planned final issuance of the standard in June 2014. The College has estimated its share of the unfunded OPEB liability could reach $25 million based on the benefit structure reflected in the latest actuarial reports that are available.

Balance Sheet Presentation Change - GASB finalized and issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 63 added new categories on the balance sheet: “deferred outflow” and “deferred inflow.” GASB 65 reclassifies certain items that were previously recorded as assets and liabilities to deferred outflows and deferred inflows. Based on the College’s historical activities, we do not expect the College will need to report any deferred inflow or outflows on its balance sheet. The standards will also require the College to change the balance sheet presentation and rename “net assets” as “net position.” This statement is effective for the College’s year ended June 30, 2013. An illustration of the new balance sheet presentation is as follows:

\[
\begin{align*}
(+) & \text{Assets} \\
(+) & \text{Deferred Outflows} \\
(-) & \text{Liabilities} \\
(-) & \text{Deferred Inflows} \\
\end{align*}
\]

= Net Position

Please see Appendix B for additional details regarding examples of “deferred outflows” and “deferred inflows.”
Legislative and Other Matters

MPSERS Reforms - On September 5, 2012 Public Act #300 (or Senate Bill 1040) was signed into law by the Governor. The law outlines significant reforms to the MPSERS retirement system that will dramatically affect the expected retirement rates paid by the College as well as the benefits provided to MPSERS participants. A few highlights of Public Act #300 are as follows:

- The College’s MPSERS contribution rate will be capped at 24.46 percent. The law before this change required contributions at 27.37 percent for 2012/2013.

- Current employees are each required to choose among three options regarding their desired employee contribution level by October 26, 2012. The American Federation of Teachers-Michigan and Michigan Education Association each filed lawsuits in Ingham County Circuit Court challenging the constitutionally of Public Act #300 and the timeline provided for employees to decide among the three options. A judge granted a restraining order indicating the October deadline cannot currently be enforced. The next scheduled court date is November 28, 2012.

- Eliminates retiree health care coverage for new employees hired on or after September 4, 2012. New employees will receive $2,000 deposited in a health reimbursement account and receive up to 2 percent in matching contributions into an account that can be used toward the purchase of retiree health care.

- The 3 percent employee contribution for health care retirement costs as described below will continue, but are allocated to specific employees and will be used to prefund retiree health care. Employees also have the option to opt out of retiree health insurance in exchange for the 3 percent contribution placed in a separate 401(k) (or equivalent) plan to fund such retiree health care needs.

- Retirees will pay a greater percentage of their health insurance premiums if age 64 or younger.

ORS Contributions - As you are aware, in 2010 the retirement system began requiring an additional 3 percent employee contribution for retiree health care. Legal challenges have not allowed the employee contribution to be “counted” as part of the College’s contribution and are currently being held in trust by the retirement system pending the legal outcome of a lawsuit filed to challenge the constitutionality of the contribution. As a result, the College is both collecting and remitting the 3 percent employee contribution to the Michigan Office of Retirement Services (ORS).

On August 17, 2012, the Michigan Court of Appeals ruled that the 2010 law requiring community college employees to contribute 3 percent of their compensation toward retiree health care is unconstitutional. The Governor stated his intent to further appeal this verdict to the Michigan Supreme Court; continued withholding will be required through the time that a Supreme Court decision is rendered. We recommend the College continue to closely monitor the situation and remit the 3 percent until further guidance is received from ORS.
State Appropriation and Information and Performance Reporting - As you are aware, Public Act #62 dated June 21, 2011 requires the College to provide certain financial and statistical information on its external website and to certain state agencies by November 15th annually. Public Act #201 dated June 25, 2012 provides for an additional allocation of a “local strategic value” appropriation in the amount of $1,277,500 to be allocated to community colleges if certain requirements are met. The College is eligible to receive an allocation of these funds if the College certifies to the state budget director, through a Board of Trustees resolution on or before November 1, 2012, that the College has met four out of five best practices listed in each category described within the resolution. The categories of best practices reflect the functional activities of community colleges that have strategic value to the local communities through economic development and business partnerships, educational partnerships, and community services. Amounts distributed under local strategic value will be on a proportionate basis to each college’s fiscal year 2011-2012 operations funding.

Other

Change in Auditing Standards - The Auditing Standards Board of the American Institute of Certified Public Accountants undertook a “Clarity Project” to make existing U.S. auditing standards easier to understand and apply, and to converge, to the extent possible, U.S. generally accepted auditing standards with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. So far, 47 sections of the new auditing standards have been issued, with three more sections anticipated to be finalized in the next few months. The new standards will be effective for the College’s June 30, 2013 audit. We are analyzing the impact of these new standards on our audit procedures and we will communicate more information about possible changes to audit procedures in the future.
Appendix A

Accounting for Michigan Public Schools Employee Retirement System (MPSERS) - In June 2012, the GASB issued a standard addressing accounting for pension plans that will impact the College. The new standards will result in significant changes to how the College accounts for its participation in the Michigan Public Schools Employee Retirement System (MPSERS).

Key points are as follows:

- Under existing GASB rules, colleges participating in the MPSERS, described as cost-sharing employers, currently report no liability for the unfunded pension obligations of that plan. Employer contributions are expensed when the corresponding wages used to determine the contribution are earned by the employee (essentially “pay and expense as you go”).

- Under GASB 68, the College, as a cost-sharing employer, will recognize its proportionate share of the collective unfunded net pension liability, pension expense, and deferred pension outflows (inflows) of the MPSERS plan. These amounts will be reported in the College’s financial statements.

- The method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. However, a high-level approach to estimating the liability is based on the unfunded actuarial accrued liability reported in the MPSERS’ September 30, 2011 financial statement and allocated based on the College’s covered payroll as a percentage of the total MPSERS Plan covered payroll. Applying this methodology, the College’s estimated liability is $16 million.

- The footnote disclosure requirements will be more extensive, including 10-year schedules that will be required to be presented as required supplementary information. As a result, it likely will be time-intensive to compile.

- The provisions of this statement are effective for financial statements for the year ended June 30, 2015 and will require the liability for the College’s proportionate share to be recorded at that time. For the 2012-2014 financial statements, the College has the option to designate unrestricted undesignated net assets in anticipation of recording the liability in 2015. At June 30, 2012, the College has not designated unrestricted net assets in anticipation of recording the liability in 2015.
Appendix B

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities - GASB 65 reclassifies, as deferred outflows or deferred inflows of resources, certain items that were previously recorded as assets and liabilities. This statement is effective for the College’s year ended June 30, 2013. The summary below indicates where some of the more significant transactions the GASB addressed will now be classified under GASB 65:

<table>
<thead>
<tr>
<th>Classification under GASB 65</th>
<th>Transaction</th>
<th>Example</th>
<th>Prior classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>Prepayments</td>
<td>Prepaid expenses</td>
<td>Asset (no change)</td>
</tr>
<tr>
<td></td>
<td>The providing of resources under a government-mandated nonexchange transaction or voluntary nonexchange transaction when eligibility requirements (excluding time requirements) have not yet been met</td>
<td>Your institution provides an advance funded grant to another organization on a contingent basis and that contingency provision has not yet been satisfied</td>
<td>Asset (no change)</td>
</tr>
<tr>
<td>DEFERRED OUTFLOW</td>
<td>Government-mandated nonexchange transaction or voluntary nonexchange transaction where all eligibility requirements have been met except time requirements</td>
<td>Your institution provides an advance funded grant to another organization but all eligibility requirements under GASB 33 have been met other than time</td>
<td>Asset</td>
</tr>
<tr>
<td></td>
<td>Current and advanced refundings resulting in defeasance of debt creating a difference between the reacquisition price and net carrying amount. [Note: this could result in a deferred inflow]</td>
<td>Your institution issues new debt to repay previously issued debt, either for immediate repayment (current refunding) or proceeds are placed with an escrow agent to pay at a future time (advance refunding)</td>
<td>Contra liability offset against the newly issued debt</td>
</tr>
<tr>
<td>LIABILITY</td>
<td>Resources received in advance in an exchange transaction</td>
<td>Your institution receives tuition payments from students in April for Fall semester</td>
<td>Liability (no change)</td>
</tr>
<tr>
<td></td>
<td>Receipt of resources under a government-mandated nonexchange transaction or voluntary nonexchange transaction when eligibility requirements (excluding time requirements) have not yet been met</td>
<td>Your institution receives an advance funded grant on a contingent basis and that contingency provision has not yet been satisfied</td>
<td>Liability (no change)</td>
</tr>
<tr>
<td>DEFERRED INFLOW</td>
<td>Resources received related to imposed nonexchange transactions before the period resources may be used</td>
<td>Property taxes received before the period for which it is levied</td>
<td>Liability</td>
</tr>
<tr>
<td></td>
<td>Resources received related to government mandated or voluntary nonexchange transactions meeting all eligibility requirements except time requirements</td>
<td>Grant received in June for which granting agency has indicated eligible expenditures cannot occur until next fiscal year begins</td>
<td>Liability</td>
</tr>
<tr>
<td></td>
<td>Unavailable revenue due to the application of period of availability in governmental funds</td>
<td>Your institution provided a service in June 2012, but the related cash still has yet to be received</td>
<td>Liability</td>
</tr>
<tr>
<td>OUTFLOW (expenditure/expense)</td>
<td>Debt issuance costs</td>
<td>Debt issuance costs are expensed when incurred</td>
<td>Asset</td>
</tr>
</tbody>
</table>