Rehmann Robson

107 S . Cass St.
Traverse City, MI 49684
Ph: 231.946.3230
Fx: 231.946.3955
rehmann.com

Independent Auditors' Communication with Those Charged with Governance

October 22, 2020

Board of Trustees
North Central Michigan College
Petoskey, Michigan

We have audited the financial statements of ***North Central Michigan College*** (the "College") as of and for the year ended June 30, 2020, and have issued our report thereon dated October 22, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 20, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the College solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding other matters noted during our audit in *Attachment A* to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our professional services plan dated May 20, 2020.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the College's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the College is included in Note 1 to the financial statements.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole. In addition, the financial statements include net pension and other postemployment benefit liabilities and other related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the College's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in *Attachment C* to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the College, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the College's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, *Attachment B* to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of ***North Central Michigan College*** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



NORTH CENTRAL MICHIGAN COLLEGE

Attachment A - Comments and Recommendations

For the June 30, 2020 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the College's internal control over financial reporting is described in our report, dated October 22, 2020, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated October 22, 2020, on the financial statements of *North Central Michigan College .*

Other Matters

Formal IT Risk Policy (repeat comment)

We noticed during our walkthrough of the IT environment for the College that there is no formal IT Risk Policy in place at the College. Although an informal policy exists, we recommend that a formal policy is implemented as it is used to identify IT risks throughout various levels in College, and how each of those risks can be best mitigated.

Cyber Security (repeat comment)

Phishing attacks by hackers are continuing to occur at an alarming rate. Hackers will often use information available to the public on websites to aid in their attacks. As the College places employees' e-mail addresses on it's website, it allows the hackers to use these legitimate e-mail addresses to launch spear-phishing attacks. The College should limit employees' information, including email addresses, published on their website as much as possible, so that it cannot be as easily obtained and used by hackers to carry out an attack.

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NORTH CENTRAL MICHIGAN COLLEGE

Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2020 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the College in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the College. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 84 ■ Fiduciary Activities
Effective 12/15/2020 (your FY 2021)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods.

GASB 87 ■ Leases
Effective 6/15/2022 (your FY 2022)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period
Effective 12/15/2021 (your FY 2022)

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the College.

GASB 90 ■ Majority Equity Interests
Effective 12/15/2020 (your FY 2021)

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the College.

GASB 91 ■ Conduit Debt Obligations
Effective 12/15/2022 (your FY 2023)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is *more likely than not* that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the College.

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GASB 92 ■ Omnibus 2020
Effective 06/15/2022 (your FY 2022)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the College.

GASB 93 ■ Replacement of Interbank Offered Rates
Effective 06/15/2022 (your FY 2022)

This standard provides guidance to governments with agreements with variable payments tied to LIBOR, and how to transition them to a new reference rate. We do not expect this standard to have any significant effect on the College.

GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements
Effective 06/15/2023 (your FY 2023)

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the College.

GASB 96 ■ Subscription-Based Information Technology Arrangements
Effective 06/15/2023 (your FY 2023)

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

GASB 97 ■ Certain Component Unit Criteria and IRC Section 457 Deferred Compensation Plans
Effective 06/15/2022 (your FY 2022)

This standard amends the requirements for when to report defined contribution pension plans (such as 401k and 403b plans) as fiduciary component units, and how to account for Section 457 deferred compensation plans.

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The following pronouncements of the Financial Accounting Standards Board (FASB) have been released recently and may be applicable to the Foundation in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Foundation. For the complete text of these and other FASB standards, visit www.fasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

ASU 2016-02, *Leases (Topic 842): Establish the Principles That Lessees and Lessors Shall Apply to Report Useful Information to Users of Financial Statements about the Amount, Timing, and Uncertainty of Cash Flows Arising from a Lease*
Effective 12/31/2021 (your FY 2022)

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

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Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2020 Audit

ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*
Effective 12/31/20 (your FY 2021)

ASU No. 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820, *Fair value Measurement* , as follows:

The following disclosure requirements were removed from Topic 820:

- The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy;
- The policy for timing of transfers between levels;
- The valuation processes for Level 3 fair value measurements; and
- For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The following disclosure requirements were modified in Topic 820:

- In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities;

- For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and

- The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The following disclosure requirements were added to Topic 820; however, the disclosures are not required for nonpublic entities:

- The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and

- The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

In addition, the amendments eliminate at a minimum from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

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The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU No. 2018-13 and delay adoption of the additional disclosures until their effective date.

ASU No. 2019-03, ***Not-for-Profit Entities (Topic 958): Updating the Definition of Collections***
Effective 12/31/20 (your FY 2021)

These amendments modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (i.e., removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care.

The amendments apply to all entities, including business entities, that maintain collections. However, accounting for collections is primarily an issue for certain not-for-profit (NFP) entities because collections often are held by museums; botanical gardens; libraries; aquariums; arboretums; historic sites; planetariums; zoos; art galleries; nature, science, and technology centers; and similar educational, research, and public service organizations that have those divisions.

The amendments should be applied on a prospective basis.

ASU No. 2018-01, ***Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842***

Effective 12/31/21 (your FY 2022)

ASU No. 2018-01 clarifies the application of the new leases guidance to land easements and eases adoption efforts for some land easements.

ASU 2018-01 is expected to reduce the cost of adopting the new leases standard for certain land easements. It is also an attempt to help ensure that companies can make a successful transition to the standard without compromising the quality of information provided to investors about these transactions.

Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity's land for a specified purpose. Land easements are used by utility and telecommunications companies, for example, when they need to take a small strip of land, or easement, to bury wires. Not all companies have historically accounted for them as leases.

Stakeholders pointed out that the requirement to evaluate all old and existing land easements, sometimes numbering in the tens of thousands, to determine if they meet the definition of a lease under the new standard could be very costly. They also noted there would be limited benefit to applying this requirement, as many of their land easements would not meet the definition of a lease, or even if they met that definition, many of their easements are prepaid and, therefore, already are recognized on the balance sheet.

The land easements ASU addresses this by:

· Providing an optional transition practical expedient that, if elected, would not require an organization to reconsider their accounting for existing land easements that are not currently accounted for under the old leases standard; and

· Clarifying that new or modified land easements should be evaluated under the new leases standard, once an entity has adopted the new standard.

ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*
Effective 12/31/21 (your FY 2022)

ASU No. 2018-10, among other things, amends Topic 842 as follows:

· **Issue 1: Residual Value Guarantees** Paragraph 460-10-60-32 in Topic 460, *Guarantees*, incorrectly refers readers to the guidance in Topic 842 about sale-leaseback-sublease transactions, when, in fact, it should refer readers to the guidance about guarantees by a seller-lessee of the underlying asset's residual value in a sale and leaseback transaction. The amendment corrects the cross-reference in paragraph 460-10-60-32.

· **Issue 2: Rate Implicit in the Lease** The amendment clarifies that a rate implicit in the lease of zero should be used when applying the definition of the term "rate implicit" in the lease results in a rate that is less than zero.

· **Issue 3: Lessee Reassessment of Lease Classification** The amendment consolidates the requirements about lease classification reassessments into one paragraph and better articulates that an entity should perform the lease classification reassessment on the basis of the facts and circumstances, and the modified terms and conditions, if applicable, as of the date the reassessment is required.

· **Issue 4: Lessor Reassessment of Lease Term and Purchase Option** The amendment clarifies that a lessor should account for the exercise by a lessee of an option to extend or terminate the lease or to purchase the underlying asset as a lease modification unless the exercise of that option by the lessee is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or the most recent effective date of a modification that is not accounted for as a separate contract).

· **Issue 5: Variable Lease Payments That Depend on an Index or a Rate** The amendment clarifies that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency subject to the guidance in paragraph 842-10-35-4(b). Variable lease payments that depend on an index or a rate should be remeasured, using the index or rate at the remeasurement date, only when the lease payments are remeasured for another reason (that is, when one or more of the events described in paragraph 842-10-35- 4(a) or (c) occur or when a contingency unrelated to a change in a reference index or rate under paragraph 842-10-35-4(b) is resolved).

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· **Issue 6: Investment Tax Credits** There is an inconsistency in terminology used about the effect that investment tax credits have on the fair value of the underlying asset between the definition of the term rate implicit in the lease and the lease classification guidance in paragraph 842-10-55-8. The amendment removes that inconsistency by clarifying that the period covered by a lessor-only option to terminate the lease is included in the lease term.

· **Issue 7: Lease Term and Purchase Option** The description in paragraph 842-10-55- 24 about lessor-only termination options is inconsistent with the description in paragraph 842-10-55- 23 about the noncancellable period of a lease. The amendment removes that inconsistency by clarifying that the period covered by a lessor-only option to terminate the lease is included in the lease term.

· **Issue 8: Transition Guidance for Amounts Previously Recognized in Business Combinations** The transition guidance for lessors in paragraph 842-10-65-1(h)(3) is unclear because it relates to leases classified as direct financing leases or sales-type leases under Topic 840, while the lead-in sentence to paragraph 842-10-65-1(h) provides transition guidance for leases classified as operating leases under Topic 840. The amendment clarifies that paragraph 842-10-65-1(h)(3) applies to lessors for leases classified as direct financing leases or sales-type leases under Topic 842, not Topic 840. In other words, paragraph 842- 10-65-1(h)(3) applies when an entity does not elect the package of practical expedients in paragraph 842-10-65-1(f), and, for a lessor, an operating lease acquired as part of a previous business combination is classified as a direct financing lease or a sales-type lease when applying the lease classification guidance in Topic 842. The amendment also cross-references to other transition guidance applicable to those changes in lease classification for lessors.

· **Issue 9: Certain Transition Adjustments** The amendments clarify whether to recognize a transition adjustment to earnings rather than through equity when an entity initially applies Topic 842 retrospectively to each prior reporting period.

· **Issue 10: Transition Guidance for Leases Previously Classified as Capital Leases under Topic 840**Paragraph 842-10-65-1(r) provides guidance to lessees for leases previously classified as capital leases under Topic 840 and classified as finance leases under Topic 842. Paragraph 842-10-65-1(r)(4) provides subsequent measurement guidance before the effective date when an entity initially applies Topic 842 retrospectively to each prior reporting period, but it refers readers to the subsequent measurement guidance in Topic 840 about operating leases. It should refer them to the subsequent measurement guidance applicable to capital leases. The amendment corrects that reference.

· **Issue 11: Transition Guidance for Modifications to Leases Previously Classified as Direct Financing or Sales-Type Leases under Topic 840** Paragraph 842-10-65-1(x) provides transition guidance applicable to lessors for leases previously classified as direct financing leases or sales-type leases under Topic 840 and classified as direct financing leases or sales-type leases under Topic 842. For modifications to those leases beginning after the effective date, paragraph 842-10-65-1(x)(4) refers readers to other applicable guidance in Topic 842 to account for the modification, specifically paragraphs 842-10-25-16 through 25- 17, depending on how the lease is classified after the modification. Stakeholders noted that it should refer to how the lease is classified before the modification to be consistent with the guidance provided in paragraphs 842-10-25-16 through 25-17. The amendment corrects that inconsistency.

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· **Issue 12: Transition Guidance for Sale and Leaseback Transactions** The amendments clarify that the transition guidance on sale and leaseback transactions in paragraph 842-10-65-1(aa) through (ee) applies to all sale and leaseback transactions that occur before the effective date and corrects the referencing issues noted.

· **Issue 13: Impairment of Net Investment in the Lease** Paragraph 842-30-35-3 provides guidance to lessors for determining the loss allowance of the net investment in the lease and describes the cash flows that should be considered when the lessor determines that loss allowance. Stakeholders questioned whether the guidance, as written, would accelerate and improperly measure the loss allowance because the cash flows associated with the unguaranteed residual asset appear to be excluded from the evaluation. The amendment clarifies the application of the guidance for determining the loss allowance of the net investment in the lease, including the cash flows to consider in that assessment.

· **Issue 14: Unguaranteed Residual Asset** The amendment clarifies that a lessor should not continue to accrete the unguaranteed residual asset to its estimated value over the remaining lease term to the extent that the lessor sells substantially all of the lease receivable associated with a direct financing lease or a sales-type lease, consistent with Topic 840.

· **Issue 15: Effect of Initial Direct Costs on Rate Implicit in the Lease** The ordering of the illustration in Case C of Example 1 in paragraphs 842-30-55- 31 through 55-39 raised questions about how initial direct costs factor into determining the rate implicit in the lease for lease classification purposes for lessors only. The amendment more clearly aligns the illustration to the guidance in paragraph 842-10-25-4.

· **Issue 16: Failed Sale and Leaseback Transaction** The amendment clarifies that a seller lessee in a failed sale and leaseback transaction should adjust the interest rate on its financial liability as necessary to ensure that the interest on the financial liability does not exceed the total payments (rather than the principal payments) on the financial liability. This clarification is also reflected in the relevant illustration on failed sale and leaseback transactions that is contained in Subtopic 842-40.

The amendments in ASU No. 2018-10 affect the amendments in ASU No. 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of ASU No. 2018-10, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842.

ASU No. 2018-11, ***Leases (Topic 842): Targeted Improvements***
Effective 12/31/21 (your FY 2022)

ASU No. 2018-11 is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract.

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The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP in Topic 840, *Leases* .

An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments do not change the existing disclosure requirements in Topic 840 (for example, they do not create interim disclosure requirements that entities previously were not required to provide).

The amendments in ASU 2018-11 provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and both of the following are met:

- The timing and pattern of transfer of the nonlease component(s) and associated lease component are the same.

- The lease component, if accounted for separately, would be classified as an operating lease.

An entity electing this practical expedient (including an entity that accounts for the combined component entirely in Topic 606) is required to disclose certain information, by class of underlying asset, as specified in the ASU.

The amendments in ASU 2018-11 related to separating components of a contract affect the amendments in ASU No. 2016-02, which are not yet effective but can be early adopted.

For entities that have not adopted Topic 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02.

For entities that have adopted Topic 842 before the issuance of ASU 2018-11, the transition and effective date of the amendments related to separating components of a contract in this ASU are as follows:

- The practical expedient may be elected either in the first reporting period following the issuance of this ASU or at the original effective date of Topic 842 for that entity.

- The practical expedient may be applied either retrospectively or prospectively.

All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

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ASU No. 2018-20, ***Leases (Topic 842): Narrow-Scope Improvements for Lessors***
Effective 12/31/21 (your FY 2022)

ASU No. 2018-20 is expected to reduce a lessor's implementation and ongoing costs associated with applying the new leases standard. The ASU also clarifies a specific lessor accounting requirement. Specifically, ASU No. 2018-20 addresses the following issues facing lessors when applying the leases standard:

· **Sales taxes and other similar taxes collected from lessees.** The amendments in the ASU permit lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs and exclude the costs from being reported as lease revenue with an associated expense.

· **Certain lessor costs paid directly by lessees.** The amendments in the ASU related to certain lessor costs require lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor will record those reimbursed costs as revenue.

· **Recognition of variable payments for contracts with lease and nonlease components.** The amendments in the ASU related to recognizing variable payments for contracts with lease and nonlease components require lessors to allocate (rather than recognize as currently required in the new leases standard) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur. After the allocation, the amount of variable payments allocated to the lease components will be recognized as income in profit or loss in accordance with the new leasing guidance, while the amount of variable payments allocated to nonlease components will be recognized in accordance with other accounting guidance, such as revenue from contracts with customers.

The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. The effective date and transition requirements for the amendments in this Update for entities that have not adopted Topic 842 before the issuance of this Update are the same as the effective date and transition requirements in Update 2016-02. For entities that have adopted Topic 842 before the issuance of this Update, the transition and effective date of the amendments in this Update are as follows:

1 An entity should apply the amendments at the original effective date of Topic 842 for the entity.

2 An entity may apply the amendments either retrospectively or prospectively.

NORTH CENTRAL MICHIGAN COLLEGE

Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2020 Audit

ASU No. 2019-01, *Leases (Topic 842) – Codification Improvements*
Effective 12/31/21 (your FY 2022)

The FASB has issued an ASU that addresses two lessor implementation issues and clarifies that lessees and lessors are exempt from a certain interim disclosure requirement associated with adopting the new leases standard, Topic 842, Leases.

ASU 2019-01 aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value (in Topic 820, Fair Value Measurement) should be applied.

The ASU also requires lessors within the scope of Topic 942, Financial Services—Depository and Lending, to present all "principal payments received under leases" within investing activities.

Finally, the ASU exempts both lessees and lessors from having to provide certain interim disclosures in the fiscal year in which a company adopts the new leases standard.

ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic*
Effective 12/31/21 (your FY 2022)

ASU No. 2018-18 clarifies the interaction between the guidance for certain collaborative arrangements and the Revenue Recognition financial accounting and reporting standard.

A collaborative arrangement is a contractual arrangement under which two or more parties actively participate in a joint operating activity and are exposed to significant risks and rewards that depend on the activity's commercial success. The ASU provides guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within the revenue recognition standard.

The ASU also provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants. It accomplishes this by allowing organizations to only present units of account in collaborative arrangements that are within the scope of the revenue recognition standard together with revenue accounted for under the revenue recognition standard. The parts of the collaborative arrangement that are not in the scope of the revenue recognition standard should be presented separately from revenue accounted for under the revenue recognition standard.

Early adoption is permitted.

NORTH CENTRAL MICHIGAN COLLEGE

Attachment B - Upcoming Changes in Accounting Standards

For the June 30, 2020 Audit

ASU No. 2020-07 ***Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets***
Effective 06/15/2022 (your FY 2022)

ASU No. 2020-07 is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations.

Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services.

The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose:

- Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and

- For each category of contributed nonfinancial assets recognized (as identified in (a)):

  · Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.

  · The not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.

  · A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.

  · The valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.

  · The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022.

Early adoption is permitted.

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North Central
MICHIGAN COLLEGE

October 22, 2020

Rehmann Robson
107 S. Cass Street, Suite A
Traverse City, MI 49684

This representation letter is provided in connection with your audit of the financial statements of ***North Central Michigan College*** (the "College"), as of and for the years ended June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 22, 2020:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 20, 2020, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. With respect to any assistance you provided in drafting the financial statements and related notes, we have performed the following:
    a. Made all management decisions and performed all management functions;
    b. Assigned a competent individual to oversee the services;
    c. Evaluated the adequacy of the services performed;
    d. Evaluated and accepted responsibility for the result of the service performed; and
    e. Established and maintained internal controls, including monitoring ongoing activities."
5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
6. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All components of net position and fund balance classifications have been properly reported.
13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. Special items and extraordinary items have been properly classified and reported.
17. Deposit and investment risks have been properly and fully disclosed.
18. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
19. All required supplementary information is measured and presented within the prescribed guidelines.
20. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
21. We are responsible for the fair presentation of the College's proportionate share of the net pension liability and the net other postemployment benefit liability of the Michigan Public School Employees Retirement System (MPSERS) and related amounts. We provided MPSERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPSERS for inclusion in the College's financial statements.
22. In response to the novel coronavirus outbreak (COVID-19), the Governor issued various temporary Executive Orders that, among other stipulations, effectively prohibited in-person work activities for most businesses and industries including non-essential government services, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the College's normal activities. The extent of the ultimate impact of the pandemic on the College's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the College as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact

the College's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

Information Provided

23. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have disclosed to you all information that we are aware of regarding fraud or suspected fraud that affects the entity and involves:
    d. Management;
    e. Employees who have significant roles in internal control; or
    f. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge *of any* instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
28. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
29. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
30. We have a process to track the status of audit findings and recommendations.
31. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
32. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
33. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
34. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
35. The College has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
36. We have disclosed to you all guarantees, whether written or oral, under which the College is contingently liable."

37. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
38. There are no:
    g. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    h. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
    i. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.
39. The College has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
40. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
41. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Required Supplementary Information

42. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Tom Zeidel, Interim Vice President of Finance and Facilities

Troy Slater, Director of Business Services