Management Report

for

Metro Deaf School
St. Paul, Minnesota
June 30, 2013

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board and Management of
Metro Deaf School
St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of Metro Deaf School's (the School) financial statements for the year ended June 30, 2013. The purpose of this report is to communicate information relevant to the financing of public education in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Basic General Education Revenue
- Financial Trends of Your School
- Legislative Summary
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the School, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 17, 2013

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the School.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of and for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Audit Opinion on the School's Financial Statements

We have issued an unmodified opinion on the School's financial statements. After performing our audit tests and procedures, we have concluded that the basic financial statements fairly present the School's financial position and changes in financial position for the year ended June 30, 2013.

Report on Internal Controls and Compliance Over Financial Reporting

We reported no deficiencies in the School's internal control over financial reporting that we considered to be material weaknesses.

Our testing did not indicate any findings related to compliance over financial reporting that were required to be reported under *Government Auditing Standards*.

Report on Compliance With Minnesota Laws and Regulations

We reported no findings based on our testing of the School's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 of the notes to basic financial statements. For the fiscal year ended June 30, 2013, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

GASB Statement No. 63 changed how governmental entities present a statement of net position, adding two new basic financial statement elements, and replacing "net assets" with "net position" as the terminology used to describe the difference between the other four elements. The two basic financial statement elements added are "deferred inflows of resources" and "deferred outflows of resources." These new elements are differentiated from assets (deferred outflows of resources) and liabilities (deferred inflows of resources), but have similar effects on net position.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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:

> Special education state aid includes an adjustment related to tuition billings to and from other schools for special education services which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for fiscal 2013 is not finalized until after the School has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the School.
>
> The School uses estimates of useful lives for the depreciation of capital assets.

We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes 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 December 17, 2013.

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 School'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 AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

With respect to the supplemental information and Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, 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 supplemental information and the UFARS Compliance Table to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

With respect to the introductory section accompanying the financial statements, our procedures were limited to reading this other information, and in doing so we did not identify any material inconsistencies with the audited financial statements.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts and charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM).

The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The amount of the formula allowance and the percentage change from year-to-year excludes non-comparable changes such as temporary funding increases, the "roll-in" of aids that were previously funded separately, and the one-time replacement of a portion general education aid with federal fiscal stabilization funds in fiscal 2010:

	Formula Allowance	
Fiscal Year Ended June 30,	Amount	Percent Increase
2004	$ 4,601	– %
2005	$ 4,601	– %
2006	$ 4,783	4.0 %
2007	$ 4,974	4.0 %
2008	$ 5,074	2.0 %
2009	$ 5,124	1.0 %
2010	$ 5,124	– %
2011	$ 5,124	– %
2012	$ 5,174	1.0 %
2013	$ 5,224	1.0 %
2014	$ 5,302	1.5 %
2015	$ 5,806	1.5 % *

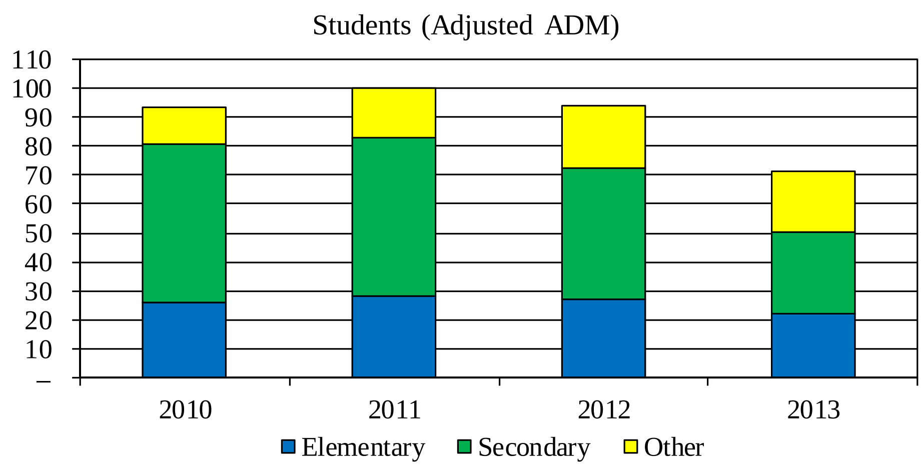
* The $504 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that reduced the increase to the equivalent of $80 or 1.5% state-wide.

In recent years, the limited increases in the formula allowance have forced many charter schools to cut expenditure budgets in order to maintain programs.

FINANCIAL TRENDS OF YOUR SCHOOL

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM served by the School for the last four years, since the merger of Metro Deaf School, Inc. and Minnesota North Star Academy:

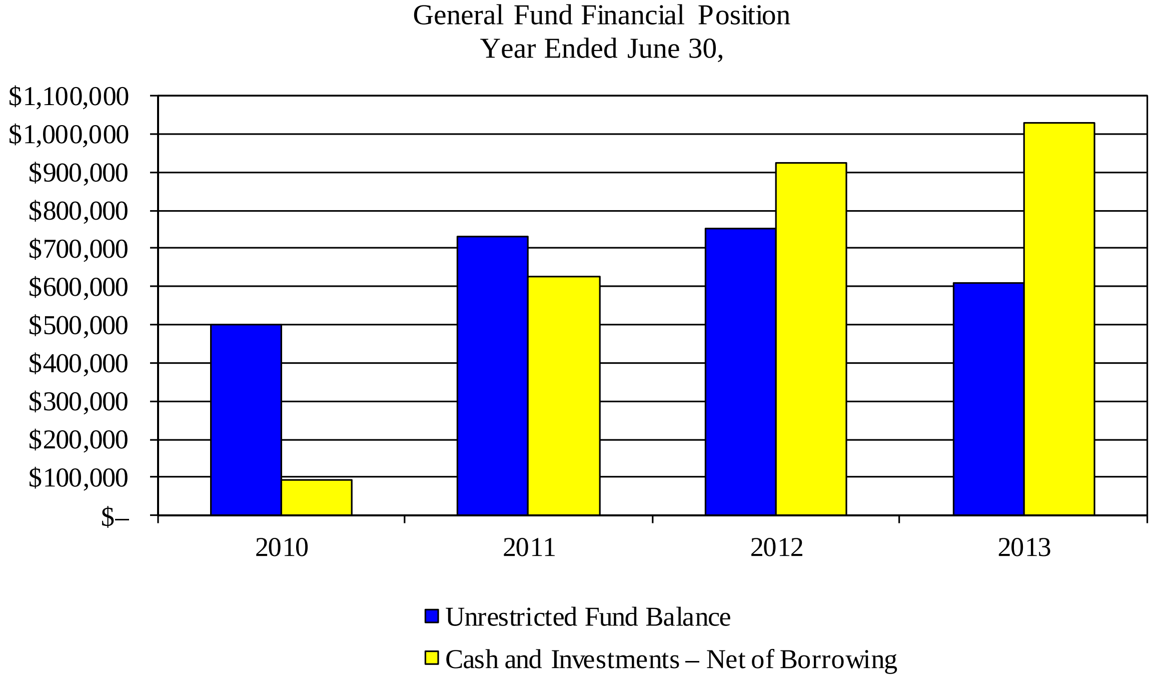


The School's ADM served for 2013 is estimated to be 71, a decrease of 23 ADM (22.7 percent) from the previous year.

ADM is a measure of students attending class, which is converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of prior year final adjustments which affect the current year's revenue.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the School's General Fund financial position for the last four years, since the merger of Metro Deaf School, Inc. and Minnesota North Star Academy:

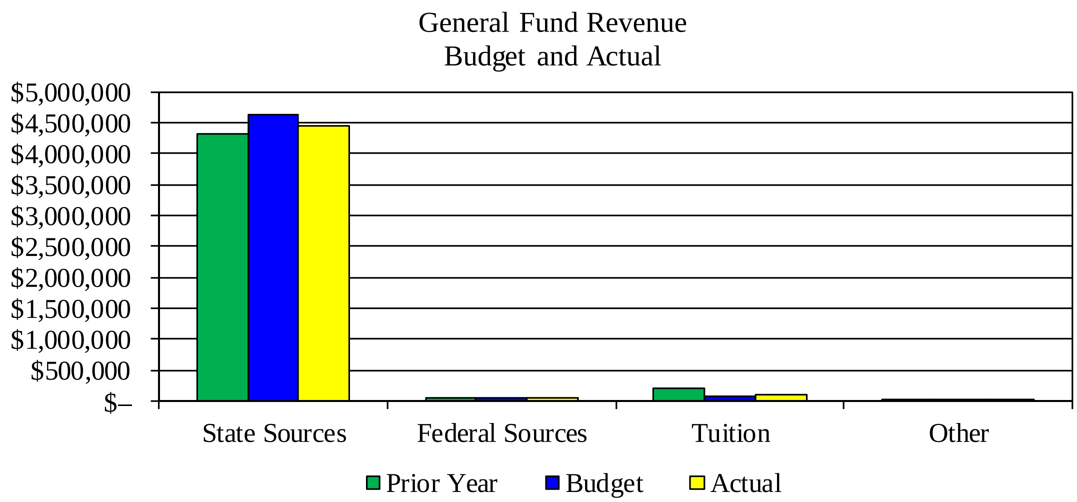


The School's General Fund ended 2013 with an unrestricted fund balance of $699,104, a decrease of $118,485 from the prior year, as compared to a break-even budget. The General Fund cash and investments balance at year-end, net of interfund borrowing, was $1,029,627, an increase of $104,526 from the prior year.

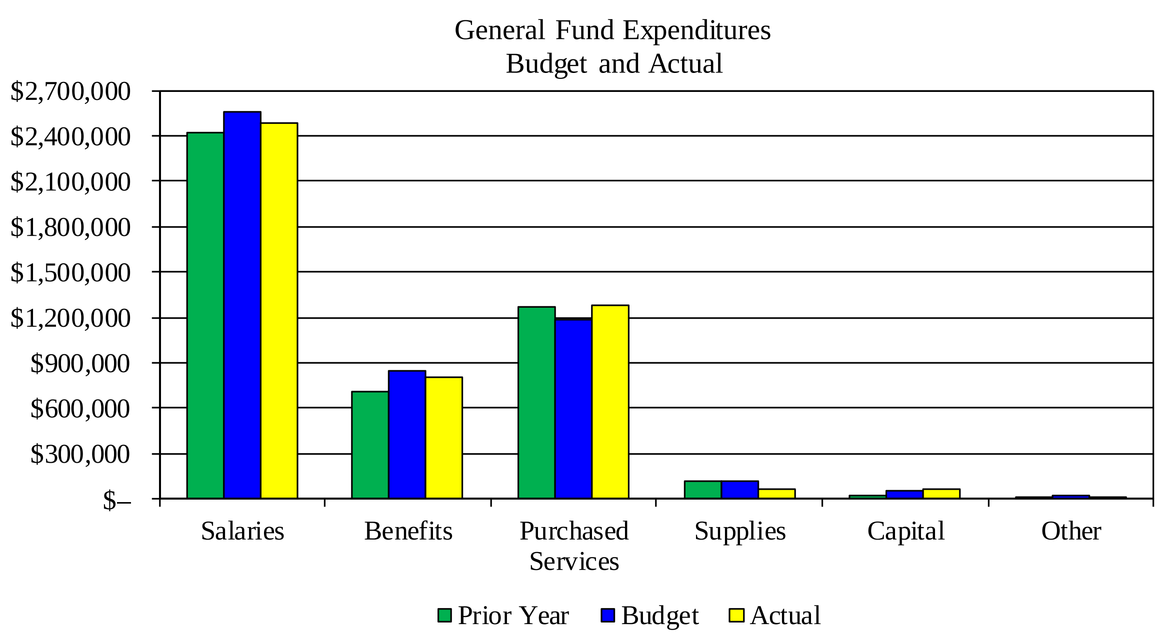
Unrestricted fund balance as a percentage of expenditures is one key measure of a school's financial health. The resources represented by this fund balance are critical to a school's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. For the School, the year-end unrestricted fund balance of $609,288 represented 12.9 percent of 2013 expenditures.

General Fund Revenue and Expenditures

The following graphs summarize the School's General Fund revenue and expenditures for 2013 and 2012:



Total General Fund revenues for 2013 were $4,615,146, an increase of $17,581 from the prior year, but $183,684 under budget. State and federal revenues were under budget by $184,027 and $18,922, respectively, as the School earned less state and federal special education funding than projected. Tuition received from other District's exceeded a conservative budget by $19,723.



Total General Fund expenditures for 2013 were $4,726,321, an increase of $172,955 from the prior year, but $60,425 under budget. The increase from the prior year was mainly in salaries and benefits due to contractual wage increases and inflationary increases to benefits. Costs were under budget in most areas due to conservative spending, including; salaries ($78,733), benefits ($41,685), and supplies (50,658). Purchased service cost exceeded budget by $100,097, mainly in contracted services for special education and transportation.

FOOD SERVICE SPECIAL REVENUE FUND

In 2013, the School's Food Service Special Revenue Fund expenditures exceeded revenues by $7,310, and the fund balance was $0 at year-end. The Food Service Special Revenue Fund was supported by the General Fund with a transfer in of $7,310. It is important that the Food Service Special Revenue Fund be as self-sustaining as possible so it does not place an additional burden on the General Fund.

BUILDING COMPANY SPECIAL REVENUE FUND

The Building Company Special Revenue Fund is used to account for 1House2Hands, Inc., which is considered to be a component unit of the School. The fund ended the year with a fund balance of $376,239.

ENTITY-WIDE FINANCIAL STATEMENTS

The School's financial statements include fund-based information that focuses on budgetary compliance and sufficiency of the School's current assets to finance its current liabilities. The GASB Statement No. 34 reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the School as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents the resources the School has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how the resources can be used. Therefore, the statement divides net position into three components: net investment in capital assets, restricted net position, and unrestricted net position. The following table presents a summarized conversion of the School's governmental fund balances (as individually discussed earlier) to net position and separate components for the last three years:

	June 30, 2013	June 30, 2012	Increase (Decrease)
Net position – governmental activities			
Total fund balances – governmental funds	$ 1,075,343	$ 1,056,016	$ 19,327
Capital assets, net of accumulated depreciation	3,837,234	3,967,028	(129,794)
Long-term liabilities	(3,783,413)	(3,955,760)	172,347
Total net position – governmental activities	$ 1,129,164	$ 1,067,284	$ 61,880
Net position			
Net investment in capital assets	$ 53,821	$ 11,268	$ 42,553
Restricted	376,239	238,427	137,812
Unrestricted	699,104	817,589	(118,485)
Total net position	$ 1,129,164	$ 1,067,284	$ 61,880

Net position increased $61,880 from the beginning of the year, due to the improvement in the financial position of the Building Company Special Revenue Fund.

LEGISLATIVE SUMMARY

The 2013 legislative session began with a projected budget deficit of $1.1 billion, later revised down to a deficit of $627 million in the February 2013 economic forecast. With the Democrats controlling the House, Senate, and Governor's office, it was anticipated that setting the state's biennial budget would be an easier task than in recent contentious legislative sessions. However, the Governor's budget proposal included a number of highly controversial recommendations, including an additional state income tax tier for the highest wage earners and an expansion of sales tax base to a number of services. As a result, the session went as long as was constitutionally allowable, with the last bill passed at midnight on the final day of the session.

The laws passed by the 2013 Legislature included a number of significant changes to Minnesota public education financing that impact charter schools. Included were substantial overhauls of the general education and special education funding formulas, funding for all-day kindergarten, and a simplification of school district pupil accounting. Minnesota charter schools will benefit from 1.5 percent increases to the basic general education formula allowance approved for each year of the biennium. Also passed was a one-time initiative to dedicate any further surplus accrued by the state through June 30, 2013 to accelerate the state aid payment schedule for school districts and charter schools, potentially reducing the lingering negative impact of legislative shifts on their cash flow.

The following is a brief summary of recent legislative changes and issues affecting the funding of Minnesota school districts and charters schools.

Basic General Education Revenue – The per pupil basic general education formula allowance for fiscal year (FY) 2013 was $5,224. The allowance will increase $78 to $5,302 for FY 2014. The allowance for FY 2015 increases $504 to $5,806; however, simultaneous changes to pupil weights and the general education formula structure reduce the state-wide general education revenue increase to the equivalent of an $80 formula increase under the old pupil weights and formula structure.

Pupil Unit Weights – Pupil unit weights for FY 2014 are unchanged from FY 2013, with the clarification that a kindergarten pupil receiving at least 850 hours of instruction during the school year is considered to be a full-time pupil for calculating extended-time general education revenue. Pupil weights for FY 2015 have been reduced and simplified. Weights for students in pre-kindergarten through Grade 6 will be 1.0 for districts with free all-day kindergarten, with the weighting set at 0.55 for kindergarten pupils receiving less than 850 hours of instruction during the school year or in an all-day kindergarten program that charges a fee. Pupil weights will be 1.2 for students in Grades 7 through 12.

Other Pupil Accounting Changes – In addition to the simplification of pupil unit weights, the following changes were made to pupil accounting:

- Beginning in FY 2014, charter schools are required to have at least 165 days of instruction for students in Grades 1 through 11, unless the school has a four-day week schedule approved by the Commissioner of Education.
- Beginning in FY 2014, charter schools will no longer generate extended time revenue for students in programs designed to accelerate their grade level advancement to enable them to graduate before their peers.
- Marginal cost pupil units are eliminated beginning in FY 2015 and a new declining enrollment revenue component of general education aid is established, equal to the decline in adjusted pupil units between the prior year and current year times 28 percent of the basic general education aid allowance.

Other Changes to the General Education Formula – In addition to the basic formula allowance increase, a number of other changes were made to the general education formula for FY 2015 to neutralize the impact of pupil weighting changes, including:

- An increase in the extended time allowance from $4,601 to $5,017.
- An increase in the gifted and talented revenue allowance from $12 to $13.
- An increase in the operating capital revenue from $73 per pupil unit + $100 times the building age index to $79 per pupil unit + $109 times the building age index.
- Increases in the equity revenue allowances, from $75 to $80 for sliding scale and from $46 to $50 for flat rate.
- The elimination of the pension adjustment reduction to general education aid, with charter schools having below average pension adjustment guaranteed to receive a minimum of the state average gain from the elimination of the pension adjustment.

Changes to the Uses of General Education Aid – The following changes and clarifications were made regarding the allowable uses of general education aid:

- Effective FY 2014, operating capital revenue may be used for hardware, software, and annual licensing fees related to the purchase or lease of computers.
- Effective FY 2014, staff development revenue may be used for teacher evaluation costs.
- Effective FY 2014, up to 5 percent of compensatory revenue may be used for programs designed to prepare children for entry into school.
- Effective FY 2015, general education revenue generated for all-day kindergarten may be used for programs to meet the needs of 3 and 4 year-olds within the district.
- Effective FY 2015, Q-Comp revenue is rolled out of the general education formula and established as a separate categorical aid.
- Effective FY 2015, the revenue set aside for learning and development is converted from an amount based on pupil unit weights to a flat amount per ADM of $299 per kindergarten student and $459 per student in Grades 1 through 6.

Schools Lunch Aid – The state reimbursement rate for each school lunch served increases from 12 cents to 12.5 cents, effective July 1, 2013.

Special Education Funding Reform –

Beginning in FY 2016, the state funding formulas for special education will change as follows:

- ***Special Education Regular Aid*** **–** Special education regular aid for FY 2016 will be limited to the lesser of:
  - 62 percent of old formula special education expenditures for the prior year,
  - 50 percent of the nonfederal special education expenditures for the prior year, or
  - 56 percent of the amount calculated using a new pupil driven formula based on prior year data.
- ***Special Education Excess Cost Aid*** – Special education excess cost aid for FY 2016 will be the greater of the following, calculated using prior year data:
  - 56 percent of the difference between the unreimbursed nonfederal special education costs and 7 percent of general education revenue, or
  - 62 percent of the difference between the unreimbursed old formula special education costs and 2.5 percent of general education revenue.

Beginning in FY 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than flowing through the resident districts. Tuition bills will be reduced by the aid paid directly to these entities.

In transitioning to the new formula, during FY 2014 and FY 2015:

- ***Special Education Regular Aid*** – The current special education regular aid formula remains in place for these two years.
- ***Special Education Cross Subsidy Reduction Aid*** – A new special education cross subsidy reduction aid will be added for these two fiscal years only. Aid for FY 2014 will equal the lesser of $20 per ADM served or 1 percent of the amount generated under the new pupil-based formula, with a state-wide limit of $13 million. Aid for FY 2015 will equal the lesser of $48 per ADM served or 2.27 percent of the amount generated under the new pupil-based formula, with a state-wide limit of $30 million.
- ***Special Education Excess Cost Aid*** – the calculation of special education excess cost aid for these two fiscal years will use prior year data and will exclude special education tuition receipts and expenditures. The calculations will take into account special education cross subsidy aid and general education aid attributable to students served outside of the regular classroom more than 60 percent of the time.

Beginning in FY 2015, special education tuition billing is changed so that the resident district is responsible for 90 percent of unfunded costs (vs. 100 percent currently) and the serving district or charter school is responsible for 10 percent of unfunded costs for open-enrolled students. This does not apply to students placed by tuition agreement, or served by a charter school with at least 70 percent special education students.

Achievement and Integration Revenue – Beginning in FY 2014, integration revenue is replaced with achievement and integration revenue. Revenue for FY 2014 consists of two components, initial revenue and incentive revenue. Initial revenue equals $350 per APU times a minority concentration factor, plus 66 percent of the difference between FY 2013 integration revenue and FY 2014 revenue computed using the new rate. Incentive revenue equals $10 per APU. Total achievement and integration revenue will be split between aid and levy.

At least 80 percent of achievement and integration revenue must be used for innovative and integrated learning environments. Up to 20 percent of this revenue may be used for professional development. Administration expenditures may not exceed 10 percent of revenue. The MDE will keep 0.3 percent of the initial revenue for oversight costs.

State Aid Payment Deferral – State aids normally paid on a 90–10 schedule have been paid on a deferred payment schedule since FY 2009 for both school districts and charter schools. Originally set to a 60–40 payment schedule for FY 2012, a series of operating surpluses have enabled the state to accelerate the aid payment schedule to 86.4–13.6 as of June 30, 2013. An exception was allowed for charter schools in which at least 90 percent of the enrollment receives special education services with a maximum enrollment of 200 students, accelerating regular special education aid payments only to a 90–10 payment schedule. The Legislature created a one-time mechanism to use any state surplus that accumulates by June 30, 2013 to further repay school district aid payment shifts.

TRA Rates – Contribution rates for employers and employees for both the TRA Basic and Coordinated Plans increase by 0.5 percent each year through FY 2015. There is no additional aid to help fund these increases.

Leases – Charter school lease agreements for space must include a clause that the charter school may exercise to break the lease if its charter is terminated or not renewed. Leases must also include a sum certain annual cost.

Affiliated Nonprofit Building Corporation – Affiliated building companies are required to comply with IRS regulations for “supporting organizations,” which allows for overlap of boardmembers between the charter school and supporting nonprofit companies.

Reporting Requirements – The following changes were made to charter school reporting requirements:

- Charter school audited financial statements must include audited financial data for any affiliated building company or other component unit.
- Charter schools must submit copies of agreements for corporate management services; including parent company or other administrative, financial, or staffing services; to the Minnesota Department of Education as supplemental information to their audited financial statements.
- Charter schools are required to publish an annual report on their official websites, including key measures of academic, operational, and financial performance.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 67 – FINANCIAL REPORTING FOR PENSION PLANS – AN AMENDMENT OF GASB STATEMENT NO. 25

The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. GASB Statement No. 67 replaces the requirements of GASB Statement Nos. 25 and 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statement Nos. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide postemployment benefits other than pensions. The statement makes a number of changes in the financial statement presentation, measurement, and required disclosures relating to the reporting of these types pension plans. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

GASB STATEMENT NO. 68 – ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS – AN AMENDMENT OF GASB STATEMENT NO. 27

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of GASB Statement Nos. 27 and 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described above for GASB Statement No. 67). The requirements of GASB Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this statement.

This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

Included in this statement are major changes in how employers that participate in cost-sharing pension plans, such as the TRA and the PERA, account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability of all employers with benefits provided through the pension plan. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all active and inactive employees that are provided with pensions through the pension plan.

GASB STATEMENT NO. 69 – GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS

This statement provides accounting and financial reporting guidance, including disclosure requirements, for government combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. Included within the scope of this statement are combinations of governmental entities or combinations of governmental entities, with nongovernmental entities (such as a nonprofit entity) as long as the new or continuing organization is a government. This statement does not apply to combinations in which a government acquires an organization that continues to exist as a separate entity, or acquires an equity interest in an organization that remains legally separate from the acquiring government. A disposal of operations occurs when a government either transfers or sells specific operations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.

CHANGES TO FEDERAL GRANT AUDIT REQUIREMENTS

The U.S. Office of Management and Budget (OMB) has issued *Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*, which proposes broad revisions to OMB Circular A-133 and other key grant reforms. The proposed guidance includes a number of significant changes to the federal Single Audit process, including: an increase in dollar threshold for requiring a Single Audit, changes to the process for determining major programs, a reduction in the percentage of expenditures required to be covered by a Single Audit, revised criteria for determining low-risk auditees, a reduction in the types of compliance requirements to be tested, and an increase in the threshold for reporting questioned costs. The proposed guidance would also consolidate OMB circulars and cost principles; and change certain federal requirements related to indirect costs, time and effort reporting, and grant administration.