Gateway Unified School District

County of Shasta
Redding, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Gateway Unified School District
Redding, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gateway Unified School District (the District) as of and for the year ended June 30, 2016; and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016; and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedule, the Schedule of Funding Progress for Other Postemployment Benefits, and the required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 71 to 74 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT
(Continued)

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 71 to 75 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Local Educational Agency Organization Structure and the Schedule of Charter Schools have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KCoe Isom, LLP

December 13, 2016
Chico, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

An overview of the Gateway Unified School District's (the District) financial activities for the fiscal year ended June 30, 2016, is provided in this discussion and analysis of the District's financial performance. This management's discussion and analysis (MD&A) should be read in conjunction with the District's financial statements (including notes and supplementary information).

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL HIGHLIGHTS

Overall revenues were $34,217,914. Revenues exceeded expenses by $958,358.

Total net position in governmental funds was negative $2,426,387, an increase of 28.3% from the previous year. The General Fund reported a total fund balance of $11,410,877.

Enrollment in the District decreased by 7.0%, while average daily attendance (ADA) decreased by 6.2%.

Gateway Teachers' Association (GTA) received a 5.0% increase on the salary schedule and $500 on the benefit cap. California School Employee Association (CSEA) received a 3% increase on the salary schedule, and Non-Represented Employee Groups received a 5% increase on the salary schedule and $500 towards the benefit cap.

The District increased its long-term debt from $59,906,307 in 2014-15 to $62,795,752 in 2015-16. This represents a 4.8% increase in long-term debt overall.

USING THIS ANNUAL REPORT

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Combined, these three parts provide a comprehensive overview of the District. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The District maintains governmental funds and fiduciary funds as follows:

  - *Governmental Funds*: Statements that provide information on how basic services like regular and special education were financed in the short term as well as what remains for future spending.

  - *Fiduciary Funds*: Statements that provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of net position and the statement of activities divide the District into two kinds of activities:

Governmental Activities: Represent the basic services provided by the District, such as regular and special education, administration, and transportation.

Business-Type Activities: Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

Fund Financial Statements

More detailed information about the District's most significant funds – not the District as a whole – is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by bond covenants and by state law.
- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types of funds:

Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on:

- How cash and other financial assets can readily be converted to cash flow (in and out).
- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided following the governmental fund statements that explains the differences (or relationships) between them.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As shown in the following table, the District's net position as of June 30, 2016, was a negative $2,426,387. Of this amount, a negative $11,014,321 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Board of Trustees' ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

June 30	Governmental Activities 2015	Governmental Activities 2016	Percentage Change 2015-16
ASSETS			
Cash and investments	$ 13,461,541	$ 14,822,328	10.1%
Receivables	2,477,669	2,804,729	13.2%
Other assets	824,856	962,972	16.7%
Capital assets - net	45,758,150	44,756,865	-2.2%
TOTAL ASSETS	62,522,216	63,346,894	1.3%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pensions	1,558,749	2,264,025	45.2%
LIABILITIES			
Accounts payable and other liabilities	1,863,402	2,430,288	30.4%
Advances from grantors	576,319	631,626	9.6%
Long-term debt	59,906,307	62,795,752	4.8%
TOTAL LIABILITIES	62,346,028	65,857,666	5.6%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pensions	5,119,682	2,179,640	-57.4%
NET POSITION			
Net investment in capital assets	3,887,369	2,983,917	-23.2%
Restricted	4,922,887	5,604,017	13.8%
Unrestricted	(12,195,001)	(11,014,321)	9.7%
TOTAL NET POSITION	$ (3,384,745)	$ (2,426,387)	28.3%

Change in Net Position

The following table summarizes the changes in net position for the District.

Total revenues increased 8.5% from the previous year to $34,217,914. Property taxes and state aid funding accounted for most of the District's revenue, representing 75.4 cents of each dollar raised. Another 16.9% came from federal and state aid for specific programs, and the remaining 7.7% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services increased 4.6% to $33,259,556. Revenues exceeded the District's expenses for the year by $958,358. The District's expenses are primarily related to educating and caring for students (76.9%). Administrative activities of the District account for 8.0% of the total costs.

	Governmental Activities		Percentage Change
June 30	2015	2016	2015-16
REVENUES			
Program Revenues			
Charges for services	$ 1,621,352	$ 1,550,071	-4.4%
Operating grants and contributions	5,627,224	5,794,750	3.0%
General Revenues			
State formula aid	10,334,405	12,301,129	19.0%
Property taxes	12,653,412	13,493,903	6.6%
Other	1,304,354	1,078,061	-17.3%
TOTAL REVENUES	31,540,747	34,217,914	8.5%
EXPENSES			
Instruction	17,770,435	18,879,866	6.2%
Instructional-related services	3,105,506	3,064,486	-1.3%
Pupil services	3,323,093	3,625,662	9.1%
General administration	2,024,949	2,661,539	31.4%
Plant services	2,465,724	2,612,074	5.9%
Ancillary services	425,471	511,812	20.3%
Other outgo	534,599	67,916	-87.3%
Interest on long-term debt	2,139,051	1,836,201	-14.2%
TOTAL EXPENSES	31,788,828	33,259,556	4.6%
Change in Net Position	$ (248,081)	$ 958,358	486.3%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of $14,967,328, an increase of $941,598 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance 2015	Fund Balance 2016	Increase (Decrease)
General	$ 10,718,085	$ 11,410,877	$ 692,792
Cafeteria Special Revenue	195,768	115,187	(80,581)
Building	157,602	162,227	4,625
Capital Facilities	829,028	1,023,472	194,444
Special Reserve Capital Projects	2,188	2,205	17
Bond Interest and Redemption	2,123,059	2,253,360	130,301
Total	$ 14,025,730	$ 14,967,328	$ 941,598

The increase in the General Fund is due primarily to one-time mandated cost claim revenue and a decrease in expenditures, which can mainly be attributed to unspent Title I and Title II resources.

The decrease in the Cafeteria Special Revenue Fund is due to the increased cost of food, lower percentage of unduplicated students, increased cost of labor, and the purchase and installation of equipment.

The increase in the Capital Facilities Fund is due to collection of developer fees in excess of expenditures.

The increase in the Bond Interest and Redemption Fund is due to property tax collections in excess of normally scheduled general obligation bond payments.

General Fund Budgetary Highlights

During the course of the year, the District revises its budget as information is available that results in changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in the budgetary comparison schedule for the General Fund.

The District budgeted revenues and other financing sources to exceed expenditures and other financing uses by $184,789. However, actual results for the year reflected a surplus of $692,792. The significant budget amendments fell into the following categories:

- Budget revisions to reflect funding levels approved in the state budget.
- Budget revisions to reflect unexpended balances carried forward from the prior year.
- Budget revisions to update revenues and expenditures for fluctuations in enrollment and average daily attendance (ADA) data.
- Budget revisions to reflect new grants and entitlements.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The District has invested $44,756,865 in capital assets including land, site improvements, buildings, and equipment. During the year, the District completed the remodel of the Central Valley High School gym, installed a district-wide video surveillance system, built a portable restroom, and completed various other improvement projects. In addition, the District purchased two passenger busses.

	Governmental Activities		Percentage Change
June 30	**2015**	**2016**	**2015-16**
Land	$ 341,760	$ 341,760	0.0%
Construction in progress	497,650	85,017	-82.9%
Buildings and improvements	69,231,099	70,059,395	1.2%
Equipment	3,702,069	4,082,132	10.3%
Accumulated depreciation	(28,014,428)	(29,811,439)	6.4%
Total	$ 45,758,150	$ 44,756,865	-2.2%

Long-Term Debt

At year end, the District had $62,795,752 in outstanding long-term debt. The change in long-term debt is due principally to the change in the District's share of the net pension liability. Additionally, the District made normally scheduled payments on its general obligation bonds, capital leases, and early retirement incentives. The District has no plans to incur additional long-term debt in 2016-17.

June 30	Governmental Activities 2015	Governmental Activities 2016	Percentage Change 2015-16
General obligation bonds	$ 29,887,368	$ 28,803,595	-3.6%
Bond issue premiums	1,469,703	1,289,779	-12.2%
Bond capitalized interest	6,100,429	7,119,847	16.7%
Capital lease	134,690	83,634	-37.9%
Certificates of participation (COP)	3,070,463	3,070,463	0.0%
COP capitalized interest	1,365,730	1,567,857	14.8%
Early retirement incentives	75,000	-	-100.0%
Compensated absences	93,309	111,411	19.4%
Net pension liability	17,709,615	20,749,166	17.2%
Total	$ 59,906,307	$ 62,795,752	4.8%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The uncertainty of the state economy, with the increase in California's minimum wage over the next six years, increases in employer contributions to State Teachers' Retirement System of 17.24% in 2016-17, 14.7% in 2017-18, and 12.82% in 2018-19, along with projected increases in employer contributions to the Public Employees' Retirement System of 17.23% in 2016-17, 11.61% in 2017-18, and 10.32% in 2018-19, poses a significant risk to the fiscal health of the District. In addition, the District has experienced declining enrollment and unduplicated pupil percentages which will result in a decline in district revenue. The Board of Trustees has consistently demonstrated in the past that it is prepared to take the steps necessary to ensure the District's solvency. The District will practice conscientious stewardship when managing its limited resources.

The District has contracts through June 30, 2016, with the California School Employees Association bargaining group and through June 30, 2016, with the Gateway Teachers' Association bargaining group. The contracts allow for renegotiation of compensation issues each year. There are no ongoing 2015-16 negotiations at this time.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions regarding this report or for additional financial information, please contact:

Jennifer Kiff, Director of Business Services
Gateway Unified School District
4411 Mountain Lakes Boulevard
Redding, CA 96001
(530) 245-7915

Basic Financial Statements

Gateway Unified School District

STATEMENT OF NET POSITION

June 30, 2016		Governmental Activities
ASSETS		
Cash and investments	$	14,822,328
Accounts receivable		801,932
Due from other governments		2,002,797
Inventories		42,706
Prepaid expenses		45,411
Net OPEB asset		874,855
Nondepreciated capital assets		426,777
Depreciated capital assets		74,141,527
Accumulated depreciation		(29,811,439)
TOTAL ASSETS		63,346,894
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources for pensions		2,264,025
LIABILITIES		
Accounts payable and other current liabilities		1,503,069
Due to other governments		927,219
Advances from grantors		631,626
Long-term obligations:		
Due within one year		1,662,340
Due beyond one year		61,133,412
TOTAL LIABILITIES		65,857,666
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources for pensions		2,179,640
NET POSITION		
Net investment in capital assets		2,983,917
Restricted for capital projects		1,185,699
Restricted for debt service		2,253,360
Restricted for educational programs		2,093,227
Restricted for other purposes		71,731
Unrestricted		(11,014,321)
TOTAL NET POSITION	$	(2,426,387)

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District
STATEMENT OF ACTIVITIES

Year Ended June 30, 2016	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
Instruction	$ 18,879,866	$ 1,056,564	$ 3,801,308	$ (14,021,994)
Instruction-related services	3,064,486	303,918	704,860	(2,055,708)
Pupil services	3,625,662	38,941	1,064,792	(2,521,929)
Ancillary services	511,812	68	609	(511,135)
General administration	2,661,539	2,525	196,992	(2,462,022)
Plant services	2,612,074	148,012	18,924	(2,445,138)
Other outgo	67,916	43	7,265	(60,608)
Interest on long-term debt	1,836,201	-	-	(1,836,201)
Total Governmental Activities	$ 33,259,556	$ 1,550,071	$ 5,794,750	(25,914,735)
GENERAL REVENUES				
Property taxes - levied for general purposes				11,234,400
Property taxes - levied for debt service				1,997,403
Property taxes - levied for other specific purposes				262,100
Federal and state aid not restricted to specific purposes				12,301,129
Unrestricted investment earnings				108,869
Interagency revenues				219,221
Miscellaneous				749,971
TOTAL GENERAL REVENUES AND TRANSFERS				26,873,093
Change in Net Position				958,358
Net Position - Beginning of Year				(3,384,745)
Net Position - End of Year				$ (2,426,387)

The accompanying notes are an integral part of these financial statements.

June 30, 2016	General Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 11,361,081	$ 2,253,360	$ 1,207,887	$ 14,822,328
Accounts receivable	798,594	-	3,338	801,932
Due from other governments	1,883,802	-	118,995	2,002,797
Inventories	-	-	42,706	42,706
Prepaid expenditures	45,411	-	-	45,411
TOTAL ASSETS	$ 14,088,888	$ 2,253,360	$ 1,372,926	$ 17,715,174
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and other current liabilities	$ 1,119,166	$ -	$ 69,835	$ 1,189,001
Due to other governments	927,219	-	-	927,219
Advances from grantors	631,626	-	-	631,626
Total Liabilities	2,678,011	-	69,835	2,747,846
Fund Balances				
Nonspendable	57,311	-	43,456	100,767
Restricted	2,093,227	2,253,360	1,257,430	5,604,017
Assigned	3,788,424	-	2,205	3,790,629
Unassigned	5,471,915	-	-	5,471,915
Total Fund Balances	11,410,877	2,253,360	1,303,091	14,967,328
TOTAL LIABILITIES AND FUND BALANCES	$ 14,088,888	$ 2,253,360	$ 1,372,926	$ 17,715,174

The accompanying notes are an integral part of these financial statements.

June 30, 2016

Total Fund Balances - Governmental Funds		$	14,967,328
Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:			
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.			
Capital assets at historical cost	$ 74,568,304		
Accumulated depreciation	(29,811,439)		
Total Capital Assets - Net			44,756,865
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(314,068)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
General obligation bonds	37,213,221		
Net pension liability	20,749,166		
Net OPEB asset	(874,855)		
Compensated absences	111,411		
Certificates of participation	4,638,320		
Capital lease	83,634		
Total Long-Term Liabilities			(61,920,897)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:			
Deferred outflows of resources relating to pensions			2,264,025
Deferred inflows of resources relating to pensions			(2,179,640)
Total Net Position - Governmental Activities		$	(2,426,387)

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2016	General Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	$ 11,234,400	$ 1,997,403	$ -	$ 13,231,803
Local control funding formula sources	10,411,717	-	-	10,411,717
Other state revenue	3,186,384	-	69,562	3,255,946
Federal revenue	2,933,468	-	962,400	3,895,868
Other local revenue	3,662,932	12,911	400,742	4,076,585
Total Revenues	31,428,901	2,010,314	1,432,704	34,871,919
Expenditures				
Current:				
Instruction	18,525,441	-	-	18,525,441
Instruction-related services	3,228,829	-	1,235,771	4,464,600
Pupil services	2,305,990	-	-	2,305,990
Ancillary services	523,634	-	-	523,634
General administration	2,576,385	-	65,792	2,642,177
Plant services	2,599,852	-	10,277	2,610,129
Transfers between agencies	67,916	-	-	67,916
Debt service:				
Principal	51,056	1,083,773	-	1,134,829
Interest and other charges	4,314	796,240	2,325	802,879
Capital outlay	852,692	-	34	852,726
Total Expenditures	30,736,109	1,880,013	1,314,199	33,930,321
Net Change in Fund Balances	692,792	130,301	118,505	941,598
Fund Balances - Beginning of Year	10,718,085	2,123,059	1,184,586	14,025,730
Fund Balances - End of Year	$ 11,410,877	$ 2,253,360	$ 1,303,091	$ 14,967,328

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION

Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds		$ 941,598
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. he difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	$ 852,726	
Depreciation expense	(1,854,011)	
Net Capital Outlay		(1,001,285)
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		1,134,829
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:		(1,213,247)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(18,102)
Balance Forward		$ (156,207)

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION (Continued)

Year Ended June 30, 2016		
Balance Brought Forward	$	(156,207)
Other expenditures relating to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. Typical examples, in addition to compensated absences and interest on long-term debt, are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods for early retirement incentives were:		75,000
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:		605,767
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		253,874
Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding, for the period is:		179,924
Change in Net Position of Governmental Activities	$	958,358

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2016	Foundation Private-Purpose Trust	Agency
ASSETS		
Cash and investments	$ 303,682	$ 96,116
Accounts receivable	-	3,584
Inventories - supplies and materials	-	7,427
TOTAL ASSETS	303,682	$ 107,127
LIABILITIES		
Accounts payable	-	$ 24,365
Due to student groups	-	82,762
TOTAL LIABILITIES	-	$ 107,127
NET POSITION		
Held in trust for scholarships	$ 303,682	

The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUND

Year Ended June 30, 2016		Foundation Private-Purpose Trust
Additions		
Interest and investment earnings	$	1,390
Donations		38,383
Total Additions		39,773
Deductions		
Scholarships awarded		22,990
Change in Net Position		16,783
Net Position - Beginning of Year		286,899
Net Position - End of Year	$	303,682

The accompanying notes are an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Gateway Unified School District (the District) is governed by an elected five-member board. The District operates three elementary schools, one high school, one continuation school, and one community day school in Redding, California. The District is the sponsoring local education agency for four charter schools.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

Implementation of New Accounting Standards

Governmental Accounting Standards Board Statement No. 72 The District adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, for the fiscal year ended June 30, 2016. This statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. As a result, assets subject to fair value measurement have been reported in accordance with the guidance of this statement.

Financial Reporting Entity

The District's financial reporting entity comprises the following:

Primary government:
Gateway Unified School District

Blended component units:
Gateway Unified School District Financing Corporation

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District is financially accountable and other organizations that the nature and significance of their relationship with the District is such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Blended Component Units Separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's governing board or the component unit that provides services entirely to the District. These component units' funds are blended into those of the District by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units Separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending. Currently, the District has no discretely presented component units.

Blended Component Units

The component unit that is blended into the reporting activity of the District's report is as follows:

> Gateway Unified School District Financing Corporation (the Corporation) is reported as a capital projects fund. The Corporation was formed for the sole purpose of financially assisting the District. The District has assumed a "moral obligation" and a potential legal obligation for any debt incurred by the Corporation.

Basis of Presentation

Government-Wide Financial Statements The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and unrestricted grants and contributions, are presented as general revenues.

Fund Financial Statements Fund financial statements of the reporting entity are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/ expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

> Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
>
> Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38091 and 38100).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code,* Section 15146).

2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code,* Sections 17620-17626).

3. Special Reserve Fund is used to account for resources designated for capital outlay projects (*California Education Code*, Section 42840).

Debt Service Funds Funds that are established to account for the accumulation of resources for the payment of the principal and interest on long-term debt.

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code,* Sections 15125-15262).

Fiduciary Funds

Private-Purpose Trust Funds Funds that are used to account for assets held by the District as trustee pursuant to formal agreements with donors and under which neither principal nor income may be used for purposes that support the District's own programs. The Foundation Private-Purpose Trust Fund is used to account separately for gifts or bequests that provide scholarships to students of the District.

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.

2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code,* Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:
- General Fund
- Bond Interest and Redemption Fund

Nonmajor Governmental Funds:
- Cafeteria Special Revenue Fund
- Building Fund
- Capital Facilities Fund
- Special Reserve Capital Projects Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within one year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures legally cannot exceed appropriations by major object account.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code,* Section 41001, the District maintains substantially all of its cash in the Shasta County Treasury (the County) as part of the common investment pool. The County is restricted by *California Government Code,* Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2016, the fair value of the County pool is 100.23% of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code,* Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments during the year ended June 30, 2016, was $38,203. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2016, was $34,624.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed, but not received, as of June 30, 2016. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated, but has not received, as of June 30, 2016. At June 30, 2016, no allowance for doubtful accounts was deemed necessary.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Inventories and Prepaid Expenses

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories are valued on the average cost method for purchased supplies and materials. Donated commodities inventory is valued at its fair value at the time of donation. Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

Certificates of Participation Premiums

On the government-wide financial statements, certificates of participation (COP) premiums are deferred and amortized over the term of the debt using the effective interest method. COP premiums are presented as an increase of the face amount of the debt. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of $25,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if the actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2001.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

School buildings	50
Portable classrooms	25
Site improvements	7-30
Equipment	5-15
Vehicles	8

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Advances From Grantors

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Advances from grantors are recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) which will only be recognized as an outflow of resources (expense/expenditures) in the future. District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time.

Changes in proportion and differences between District contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District's expected and actual experience are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Equity Classifications

Government-Wide Statements Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts of at least $1,250,000. In the event that the balance drops below the established minimum level, the District's Board of Trustees will develop a plan to replenish the fund balance to the established minimum.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

Local Control Funding Formula Grant and Property Tax

The District's Local Control Funding Formula (LCFF) grant is received from a combination of local property taxes and state apportionments.

Shasta County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectively.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

Property taxes are recorded as LCFF sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state's General Fund and is referred to as the state apportionment. The District's LCFF provides a base grant per average daily attendance (ADA), which varies by grade span, plus supplemental and concentration grants that reflect student demographic factors and categorical programs.

Revenue – Nonexchange Transactions

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

- Governmental funds – by character
  - Current (further classified by function)
  - Debt service
  - Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Pensions

Deferred outflows of resources/deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and California Public Employees' Retirement System (CalPERS), and additions to/deductions from STRP's and CalPERS's fiduciary net position have been determined on the same basis as they are reported by California State Teachers' Retirement System (CalSTRS) and CalPERS for purposes of measuring the net pension liability. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable with the benefit terms. Investments are reported at fair value.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments:

June 30, 2016	Maturities	Fair Value
Petty cash/cash awaiting deposit		$ 2,150
Deposits (1)		78,023
Subtotal		80,173
Investments That Are Not Securities (2)		
County treasurer's investment pool	16.1 months average	15,141,953
Total Cash and Investments		15,222,126
Less: Trust fund cash and investments		303,682
Less: Agency fund cash and investments		96,116
Total Cash and Investments Per Government-Wide Statement of Net Position		$ 14,822,328

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) ***Investments That Are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2016:

- County treasurer's investment pool of $15,141,953 is valued using quoted prices for similar instruments in active market and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

> No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District's investments:

> No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2016	General Fund	Other Governmental Funds
Other	$ 798,594	$ 3,338

4. DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following:

June 30, 2016	General Fund	Other Governmental Funds
Due From		
Federal government	$ 1,477,000	$ 110,272
State government	305,273	8,723
Local governments	101,529	-
Total	$ 1,883,802	$ 118,995

5. CAPITAL ASSETS

Capital assets activity is as follows:

Year Ended June 30, 2016	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	$ 341,760	$ -	$ -	$ 341,760
Construction in progress	497,650	68,855	481,488	85,017
Total Nondepreciated Capital Assets	839,410	68,855	481,488	426,777
Depreciated Capital Assets				
Buildings and improvements	69,231,099	828,296	-	70,059,395
Equipment and vehicles	3,702,069	437,063	57,000	4,082,132
Total Depreciated Capital Assets	72,933,168	1,265,359	57,000	74,141,527
Totals at Historical Cost	73,772,578	1,334,214	538,488	74,568,304
Less: Accumulated Depreciation				
Buildings and improvements	25,091,892	1,622,483	-	26,714,375
Equipment and vehicles	2,922,536	231,528	57,000	3,097,064
Total Accumulated Depreciation	28,014,428	1,854,011	57,000	29,811,439
Total Depreciated Capital Assets - Net	44,918,740	(588,652)	-	44,330,088
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	$ 45,758,150	$ (519,797)	$ 481,488	$ 44,756,865

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2016	
Governmental Activities	
Instruction	$ 1,625,780
Pupil services	178,861
General administration	46,238
Plant services	3,132
Total Depreciation Expense - Governmental Activities	$ 1,854,011

6. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2016	General Fund	Other Governmental Funds
Vendors	$ 959,249	$ 69,148
Salaries and benefits	155,784	583
Other	4,133	104
Total	$ 1,119,166	$ 69,835

7. DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following:

June 30, 2016	General Fund
Due To	
State government	$ 446,465
Local governments	480,754
Total	$ 927,219

8. BONDED DEBT

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2015	Redeemed Current Year	Outstanding June 30, 2016
2002	3.0-7.5%	2027	$ 9,998,161	$ 468,161	$ -	$ 468,161
2004	5.43-12.0%	2038	11,996,807	4,786,807	-	4,786,807
2009	2.5-12.0%	2034	6,320,718	5,967,119	149,766	5,817,353
2011	2.0-4.0%	2024	7,655,000	7,005,000	470,000	6,535,000
2013	1.13-6.27%	2040	6,300,281	6,300,281	54,007	6,246,274
2014	2.0-5.0%	2027	5,360,000	5,360,000	410,000	4,950,000
Total			$ 47,630,967	$ 29,887,368	$ 1,083,773	$ 28,803,595

The amount of interest cost incurred during the year ended June 30, 2016, was $1,807,258, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 1,178,607	$ 797,806	$ 1,976,413
2018	1,236,834	803,379	2,040,213
2019	1,320,500	792,313	2,112,813
2020	1,554,024	624,789	2,178,813
2021	1,494,996	767,667	2,262,663
2022-2026	8,569,870	2,959,494	11,529,364
2027-2031	5,990,434	10,758,135	16,748,569
2032-2036	3,878,164	15,186,832	19,064,996
2037-2040	3,580,166	9,565,083	13,145,249
Total	$ 28,803,595	$ 42,255,498	$ 71,059,093

9. LONG-TERM DEBT – ADVANCE REFUNDING

On July 8, 2009, the District refunded 2007 Series COP totaling $1,046,611 with the Series 2009 general obligation bonds. Additionally, the District refunded 2006 Series COP totaling $1,000,000 with the 2007 Series COP unspent project funds. Resources totaling $2,149,381 were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $2,827,223 of COP. As a result, the refunded COP are considered to be defeased and the liability has been removed from long-term debt. Outstanding defeased COP at June 30, 2016, were $401,611.

10. CAPITAL LEASE

The District leases wireless network infrastructure under an agreement which provides for title to pass upon expiration of the lease period. The cost of the wireless network infrastructure is included in buildings and improvements on the statement of net position as depreciated capital assets and was $205,466 at June 30, 2016. Accumulated depreciation of the wireless network infrastructure at June 30, 2016, was $20,547. Depreciation of the wireless network infrastructure under capital lease was included in depreciation expense and amounted to $6,849 for the year ended June 30, 2016. The amount of interest cost incurred during the year ended June 30, 2016, was $2,518, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2017	$ 43,719
2018	43,719
Total	87,438
Less: Amount representing interest	3,804
Present Value of Net Minimum Lease Payments	$ 83,634

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment.

11. OPERATING LEASES

The District has entered into an operating lease for equipment with lease terms in excess of one year. The agreement does not contain a purchase option. The agreement does contain a termination clause providing for cancellation after a specified number of days' written notice to lessor, but it is unlikely that the District will cancel the agreement prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30		**Lease Payments**
2017	$	132,684
2018		132,684
2019		132,684
2020		77,399
Total	$	475,451

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were $418,963 for the year ended June 30, 2016.

12. CERTIFICATES OF PARTICIPATION

In March 2007, the Gateway Unified School District Financing Corporation issued COP in the amount of $4,122,074, with interest rates ranging from 4.15% to 4.61%. As of June 30, 2016, the principal balance outstanding was $3,070,463. The amount of interest cost incurred during the year ended June 30, 2016, was $202,127, all of which was charged to expenses.

The certificates mature through 2037 as follows:

Year Ending June 30		**Principal**		**Interest**		**Total**
2017	$	133,038	$	66,962	$	200,000
2018		149,230		85,770		235,000
2019		156,543		103,457		260,000
2020		154,810		115,190		270,000
2021		152,737		127,263		280,000
2022-2026		747,826		847,174		1,595,000
2027-2031		722,374		1,236,867		1,959,241
2032-2036		710,735		1,720,009		2,430,744
2037		143,170		416,830		560,000
Total	$	3,070,463	$	4,719,522	$	7,789,985

13. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

Year Ended June 30, 2016	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Compensated absences	$ 93,309	$ 18,102	$ -	$ 111,411	$ -
General obligation bonds	29,887,368	-	1,083,773	28,803,595	1,178,607
Bond issue premiums	1,469,703	-	179,924	1,289,779	166,139
Bond capitalized interest	6,100,429	1,065,645	46,227	7,119,847	76,393
Capital lease	134,690	-	51,056	83,634	41,201
Certificates of participation	3,070,463	-	-	3,070,463	133,038
COP capitalized interest	1,365,730	202,127	-	1,567,857	66,962
Early retirement incentives	75,000	-	75,000	-	-
Net pension liability	17,709,615	3,039,551	-	20,749,166	-
Total	$ 59,906,307	$ 4,325,425	$ 1,435,980	$ 62,795,752	$ 1,662,340

14. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2016	General Fund	Bond Interest and Redemption Fund	Other Governmental Funds
Nonspendable			
Reserved for:			
Revolving cash	$ 11,900	$ -	$ 750
Inventories	-	-	42,706
Prepaid expenditures	45,411	-	-
Total Nonspendable	$ 57,311	$ -	$ 43,456
Restricted			
Restricted for:			
Capital projects	$ -	$ -	$ 1,185,699
Debt service	-	2,253,360	-
Federal and state categoricals	2,093,227	-	71,731
Total Restricted	$ 2,093,227	$ 2,253,360	$ 1,257,430
Assigned			
Assigned for:			
Medi-Cal administrative activities	$ 126,612	$ -	$ -
Lottery	49,517	-	-
Mandated costs	1,302,866	-	-
Future funding deficits	933,301	-	-
Education protection account	822,963	-	-
Deferred maintenance	144,675	-	-
OPEB obligation	224,430	-	-
Capital projects	-	-	2,205
Other designations	184,060	-	-
Total Assigned	$ 3,788,424	$ -	$ 2,205
Unassigned			
Designated for economic uncertainties	$ 5,471,915	$ -	$ -

15. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): California's Valued Trust (CVT), Northern California Schools Insurance Group (NCSIG), Schools Excess Liability Fund (SELF), Shasta-Trinity Schools Insurance Group (STSIG), and Northern California Regional Excess Liability Fund (ReLiEF). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

16. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The District received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

17. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

18. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of CalSTRS, and classified employees are members of CalPERS.

Summary

Net Pension Liability Net pension liability is reported in the accompanying statement of net position as follows:

June 30, 2016	
CalSTRS State Teachers' Retirement Plan	$ 13,864,078
CalPERS School Employer Pool	6,885,088
Total Net Pension Liability	$ 20,749,166

Deferred Outflows of Resources Deferred outflows of resources are reported in the accompanying statement of net position as follows:

June 30, 2016	CalSTRS	CalPERS	Total
Difference between expected and actual experience	$ -	$ 393,409	$ 393,409
Changes in proportion and differences between District contributions and proportionate share of contributions	-	34,027	34,027
Employer contributions	1,176,425	660,164	1,836,589
Total Deferred Outflows of Resources	$ 1,176,425	$ 1,087,600	$ 2,264,025

Deferred Inflows of Resources Deferred inflows of resources are reported in the accompanying statement of net position as follows:

June 30, 2016	CalSTRS	CalPERS	Total
Net difference between projected and actual earnings on pension plan investments	$ (1,262,240)	$ (235,701)	$ (1,497,941)
Changes in assumptions	(258,750)	(422,949)	(681,699)
Total Deferred Inflows of Resources	$ (1,520,990)	$ (658,650)	$ (2,179,640)

Pension Expense Pension expense is included in the accompanying statement of revenues, expenses, and changes in net position as follows:

Year Ended June 30, 2016		
CalSTRS State Teachers' Retirement Plan	$	510,830
CalPERS School Employer Pool		719,992
Total Pension Expense	$	1,230,822

California State Teachers' Retirement System

Plan Description Certificated employees of the District participate in STRP, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Benefits Provided STRP provides retirement, disability, and survivor benefits to beneficiaries. The defined benefit program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The program has two benefit formulas:

- **CalSTRS 2% at 60** CalSTRS 2% at 60 members are eligible for normal retirement at age 60 with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirement after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

- **CalSTRS 2% at 62** CalSTRS 2% at 62 members are eligible for normal retirement at age 62 with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

Contributions Required member, employer, and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Active plan members of the CalSTRS 2% at 60 formula are required to contribute 9.20% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 8.56% of their salary. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 7.391% of the members' creditable earnings from the fiscal year ending in the prior calendar year. The District's contributions to CalSTRS for the fiscal year ended June 30, 2016, were $1,176,425.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability that reflected a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District, were as follows:

June 30, 2016		
District's proportionate share of the net pension liability	$	13,864,078
State's proportionate share of the net pension liability associated with the District		5,356,560
Total	$	19,220,638

The District's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2016, the District's proportion was .023%.

For the year ended June 30, 2016, the District recognized pension expense of $88,395 and revenue of $88,395 for support provided by the state. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows Resources		**Deferred Inflows Resources**
Net difference between projected and actual earnings on pension plan investments	$	-	$	(1,262,240)
Change in assumptions		-		(258,750)
District contributions subsequent to the measurement date		1,176,425		-
Total	$	1,176,425	$	(1,520,990)

The $1,176,425 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2017	$	(217,284)
2018		(217,284)
2019		(217,284)
2020		(217,284)
2021		(217,284)
Thereafter		(434,570)
Total	$	(1,520,990)

Actuarial Assumptions The total pension liability in the June 30, 2014, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.60%
Interest on accounts	4.50%
Wage growth	3.75%
Consumer price inflation	3.00%
Post-retirement benefit increases	2.00% simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS' experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2006, through June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS' consulting actuary's (Milliman) investment practice, a best-estimate range was determined by assuming the portfolio is rebalanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return, and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return, are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/Liquidity	1%	0.00%
Total	100%	

Discount Rate The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assumes that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

June 30, 2016	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$ 20,933,679	$ 13,864,078	$ 7,988,669

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalSTRS' separately issued Comprehensive Annual Financial Report (CAFR).

Payables to the Pension Plan At June 30, 2016, the District reported a payable of $8,298 for the outstanding amount of contributions to CalSTRS required for the year ended June 30, 2016.

California Public Employees' Retirement System

Plan Description Classified employees of the District participate in the School Employer Pool (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members are required to contribute 7.00% of their salary. The required employer contribution rate for the 2015-16 fiscal year was 11.847%. The District's contributions to CalPERS for the fiscal year ended June 30, 2016, was $660,164.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2016, the District reported a net pension liability of $6,885,088 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was .0467%.

For the year ended June 30, 2016, the District recognized pension expense of $719,992. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows Resources		Deferred Inflows Resources
Difference between expected and actual experience	$	393,409	$	-
Net difference between projected and actual earnings on pension plan investments		-		(235,701)
Change in assumptions		-		(422,949)
Changes in proportion and differences between District contributions and proportionate share of contributions		34,027		-
District contributions subsequent to the measurement date		660,164		-
Total	$	1,087,600	$	(658,650)

The $660,164 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2017	$	(57,803)
2018		(57,803)
2019		(57,803)
2020		(57,805)
Total	$	(231,214)

Actuarial Assumptions The total pension liability in the June 30, 2014, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries, Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 1997, through June 30, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

	Target	**Rate of Return**	
	Allocation	**Years 1 - 10**	**Years 11+**
Asset Class			
Global equity	51%	5.25%	5.71%
Global debt securities	19%	0.99%	2.43%
Inflation assets	6%	0.45%	3.36%
Private equity	10%	6.83%	6.95%
Real estate	10%	4.50%	5.13%
Infrastructure and forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

Discount Rate The discount rates used to measure the total pension liability was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on the CalPERS website.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

June 30, 2016	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 11,206,054	$ 6,885,088	$ 3,291,916

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued CAFR.

Payables to the Pension Plan At June 30, 2016, the District reported a payable of $5,202 for the outstanding amount of contributions to CalPERS required for the year ended June 30, 2016.

19. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2015-16, pursuant to *California Education Code,* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

20. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides postemployment heath care benefits to qualifying employees through a single-employer defined benefit health care plan administered by the District. The District provides postemployment health care benefits to all certificated and classified employees who retire from the District with at least ten years of service. The retiree may allocate the District's contribution to any or all of the District group insurance coverage. On June 30, 2016, 43 retirees met these eligibility requirements and an estimated 274 participants will be eligible in future years.

Funding Policy

The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees through the collective bargaining process. The members receiving benefits contributions vary depending on the level of coverage selected.

The retiree may elect to continue the District's group insurance programs for a period not to exceed ten years of coverage. At the time of retirement, the retiree elects to allocate over a specified period of time the amount of the District's contribution to which they are entitled. The District's premium contribution is limited to a total of $35,000 for full-time employees. The District's contribution for part-time employees is prorated. The District's contribution toward coverage is made on the following schedule:

10 years of service	50%
15 years of service	75%
20 or more years of service	100%

Annual Other Postemployment Benefit (OPEB) Cost and Net Asset

For the year ended June 30, 2016, the District's annual OPEB cost is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB asset:

June 30, 2016		
Annual required contribution	$	245,170
Interest on net OPEB asset		(24,839)
Adjustment to annual required contribution		35,911
Annual OPEB Cost		256,242
Contributions		510,116
Change in Net OPEB Asset		(253,874)
Net OPEB Asset - Beginning of Year		(620,981)
Net OPEB Asset - End of Year	$	(874,855)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset were as follows:

Year Ended		**Annual OPEB Cost**		**Actual Employer Contributions**	**Percentage Contributed**		**Net Ending OPEB Asset**
June 30, 2014	$	283,204	$	461,015	162.79%	$	(395,097)
June 30, 2015	$	252,214	$	478,098	189.56%	$	(620,981)
June 30, 2016	$	256,242	$	510,116	199.08%	$	(874,855)

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability was $2,405,655, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $2,405,655. The covered payroll (annual payroll of active employees covered by the plan) was $15,622,758, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.40%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the District and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5.0% after three years. The District's unfunded actuarial accrued liability is amortized using an open, level dollar, method over 30 years. The remaining amortization period at June 30, 2016, was 28 years.

21. FUTURE GASB IMPLEMENTATION

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing for those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2016, will have on the District's financial statements, if any.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2017, will have on the District's financial statements, if any.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2016, will have on the District's financial statements, if any.

In March 2016, GASB issued Statement No. 82*, Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, *and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, it addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2016, will have on the District's financial statements, if any.

Required Supplementary Information

Gateway Unified School District

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2016	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
Revenues				
Property taxes	$ 9,596,968	$ 10,882,252	$ 11,234,400	$ 352,148
Local control funding formula sources	12,175,005	10,774,325	10,411,717	(362,608)
Other state revenue	890,934	2,926,670	3,186,384	259,714
Federal revenue	3,207,902	2,984,780	2,933,468	(51,312)
Other local revenue	2,864,116	3,365,680	3,662,932	297,252
Total Revenues	28,734,925	30,933,707	31,428,901	495,194
Expenditures				
Certificated salaries	11,275,407	11,269,915	11,316,184	(46,269)
Classified salaries	5,784,327	5,654,138	5,663,833	(9,695)
Employee benefits	5,657,780	6,242,645	6,451,127	(208,482)
Books and supplies	2,067,226	1,736,804	1,570,422	166,382
Services and other operating	4,688,972	4,919,138	4,825,888	93,250
Capital outlay	311,230	805,022	848,511	(43,489)
Other outgo	85,335	65,885	4,774	61,111
Debt service:				
Principal	49,152	51,056	51,056	-
Interest and other charges	5,484	4,315	4,314	1
Total Expenditures	29,924,913	30,748,918	30,736,109	12,809
Net Change in Fund Balances	(1,189,988)	184,789	692,792	508,003
Fund Balances - Beginning of Year	10,718,085	10,718,085	10,718,085	-
Fund Balances - End of Year	$ 9,528,097	$ 10,902,874	$ 11,410,877	$ 508,003

See the accompanying notes to this budgetary comparison schedule.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts a budget for the General Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations by the following amounts:

June 30, 2016		**General Fund**
Certificated salaries	$	46,269
Classified salaries	$	9,695
Employee benefits	$	208,482
Capital outlay	$	43,489

These excess expenditures were offset by unexpended appropriations in other categories.

Gateway Unified School District

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

July 1	2010	2012	2014
Actuarial accrued liability (AAL)	$ 2,336,645	$ 2,789,512	$ 2,405,655
Actuarial value of plan assets	-	-	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 2,336,645	$ 2,789,512	$ 2,405,655
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active members)	$ 15,753,152	$ 15,423,528	$ 15,622,758
UAAL as a percentage of covered payroll	14.83%	18.09%	15.40%

Gateway Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2016	2015
District's proportion of the net pension liability (asset)	0.023%	0.023%
District's proportionate share of the net pension liability (asset)	$ 13,864,078	$ 12,513,808
State's proportionate share of the net pension liability (asset) associated with the District	5,356,560	5,060,352
Total	$ 19,220,638	$ 17,574,160
District's covered-employee payroll	$ 10,551,351	$ 10,418,339
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	131.40%	120.11%
Plan fiduciary net position as a percentage of the total pension liability	74.00%	77.00%

See the accompanying note to the required supplementary information.

Gateway Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2016	2015
Contractually required contribution	$ 1,176,425	$ 936,960
Contributions in relation to the contractually required contribution	(1,176,425)	(936,960)
Contribution Deficiency (Excess)	$ -	$ -
District's covered-employee payroll	$ 10,551,351	$ 10,418,339
Contributions as a percentage of covered-employee payroll	11.15%	8.99%

See the accompanying note to the required supplementary information.

Gateway Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2016	2015
District's proportion of the net pension liability (asset)	0.0467%	0.0464%
District's proportionate share of the net pension liability (asset)	$ 6,885,088	$ 5,195,807
District's covered-employee payroll	$ 5,168,898	$ 4,878,133
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	133.20%	106.51%
Plan fiduciary net position as a percentage of the total pension liability	79.40%	83.50%

See the accompanying note to the required supplementary information.

Gateway Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2016	2015
Contractually required contribution	$ 660,164	$ 608,431
Contributions in relation to the contractually required contribution	(660,164)	(608,431)
Contribution Deficiency (Excess)	$ -	$ -
District's covered-employee payroll	$ 5,168,898	$ 4,878,133
Contributions as a percentage of covered-employee payroll	12.77%	12.47%

See the accompanying note to the required supplementary information.

CHANGES OF BENEFIT TERMS

California State Teachers' Retirement System

There were no significant changes of benefit terms from the June 30, 2013, actuarial valuation.

California Public Employees' Retirement System

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions used for a specific plan can be found in the plan's annual valuation report.

CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

There were no changes in major assumptions from the June 30, 2013, actuarial valuation.

California Public Employees' Retirement System

No changes have occurred to the actuarial assumptions since the CalPERS Board adopted new actuarial assumptions in February 2014. The most significant change to the actuarial assumptions that the Board adopted was the inclusion of future mortality improvement. The actuarial assumptions adopted by the Board are designed to ensure greater sustainability and soundness of the defined benefit pension plans, and they will be better at predicting future experiences resulting in more secure retirement benefits in the decades to come. The current experience study was based on demographic CalPERS data for years 1997 to 2011. The study focused on recent patterns of termination, death, disability, retirement and salary increases. These new assumptions were reflected in the total pension liabilities as of June 30, 2013.

GASB Statement No. 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for the pension plan administrative expense. The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015, measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

OTHER SUPPLEMENTARY INFORMATION SECTION

The Gateway Unified School District (the District) is located in Shasta County and was established on July 1, 1992. There were no changes in the boundaries of the District during the current year. The District is currently operating three elementary schools, one high school, one continuation school, and one community day school. The District is the sponsoring local educational agency for four charter schools.

GOVERNING BOARD

Name	Office	Term Expires
Deborah D. Bourne	President	2018
Karl Janulewicz	Vice President	2016
Phil Lewis	Clerk	2016
Lynn "Jo" Giovannoni	Member	2018
Danielle Smith	Member	2016

ADMINISTRATION

James M. Harrell
Superintendent

Michelle Glover
Director of Business Services

Charter schools sponsored by the District that are excluded from the audit of the District:

Academy of Personalized Learning
North Woods Discovery School
Rocky Point Charter School
Redding School of the Arts II

See the accompanying note to the other supplementary information.

Gateway Unified School District
SCHEDULE OF AVERAGE DAILY ATTENDANCE
June 30, 2016

	Originally Reported		Final	
	Second Period Report	**Annual Report**	**Second Period Report**	**Annual Report**
ELEMENTARY				
Regular ADA*				
Transitional kindergarten/ kindergarten through grade 3	672	673	672	673
Grades 4 through 6	506	506	506	506
Grades 7 through 8	324	325	324	325
Extended-Year Special Education				
Transitional kindergarten/ kindergarten through grade 3	2	2	2	2
Grades 4 through 6	2	2	2	2
Grades 7 through 8	1	1	1	1
Special Education - Nonpublic, Nonsectarian Schools				
Grades 4 through 6	2	2	2	2
Grades 7 through 8	-	1	-	1
Community Day School				
Grades 7 through 8	5	5	5	5
ELEMENTARY TOTALS	1,514	1,517	1,514	1,517
HIGH SCHOOL				
Regular ADA**				
Grades 9 through 12	659	648	659	648
Special Education - Nonpublic, Nonsectarian Schools				
Grades 9 through 12	3	3	3	3
Community Day School				
Grades 9 through 12	3	3	3	3
HIGH SCHOOL TOTALS	665	654	665	654
ADA Totals	2,179	2,171	2,179	2,171

** Includes opportunity classes, home and hospital, and special day classes.*

*** Includes opportunity classes, home and hospital, special day classes, and continuation education.*

See the accompanying note to the other supplementary information.

Gateway Unified School District

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2016

	1986-87 Minutes Requirement	2015-16 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	58,980	180	N/A	Complied
Grade 1	50,400	53,580	180	N/A	Complied
Grade 2	50,400	55,380	180	N/A	Complied
Grade 3	50,400	55,380	180	N/A	Complied
Grade 4	54,000	58,080	180	N/A	Complied
Grade 5	54,000	58,080	180	N/A	Complied
Grade 6	54,000	61,680	180	N/A	Complied
Grade 7	54,000	61,680	180	N/A	Complied
Grade 8	54,000	61,680	180	N/A	Complied
Grade 9	64,800	67,035	180	N/A	Complied
Grade 10	64,800	67,035	180	N/A	Complied
Grade 11	64,800	67,035	180	N/A	Complied
Grade 12	64,800	67,035	180	N/A	Complied

See the accompanying note to the other supplementary information.

Gateway Unified School District
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

Years Ended June 30	(Budget) 2017	2016	2015	2014
General Fund				
Revenues and other financial sources	$ 30,405,917	$ 31,428,901	$ 28,165,821	$ 26,514,994
Expenditures	32,890,655	30,736,109	28,250,186	25,950,451
Other uses and transfers out	-	-	-	-
Total Outgo	32,890,655	30,736,109	28,250,186	25,950,451
Change in Fund Balance	(2,484,738)	692,792	(84,365)	564,543
Ending Fund Balance	$ 8,926,139	$ 11,410,877	$ 10,718,085	$ 10,802,450
Available reserves	$ 5,841,763	$ 5,471,915	$ 4,594,488	$ 4,653,604
Designated for economic uncertainties	$ 5,841,763	$ 5,471,915	$ 4,594,488	$ 4,458,106
Undesignated fund balance	$ -	$ -	$ -	$ 195,498
Available reserves as a percentage of total outgo	18%	18%	16%	18%
Total long-term debt	$ 62,461,818	$ 62,795,752	$ 59,906,307	$ 65,304,127
Average daily attendance at P-2	2,128	2,179	2,318	2,362

The General Fund balance has increased by $608,427 over the past two years. The fiscal year 2016-17 budget projects a decrease of $2,484,738 (21.8%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long-term debt has decreased by $2,508,375 over the past two years.

Average daily attendance has decreased by 183 over the past two years. The District anticipates ADA to decline by 51 during fiscal year 2016-17.

See the accompanying note to the other supplementary information.

Gateway Unified School District

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2016

	General Fund
Annual Financial and Budget Report Fund Balance	$ 11,164,100
Adjustments Increasing (Decreasing) the Fund Balance	
Understatement of due to other governments	(99,616)
Overstatement of due to other governments	346,393
Net Adjustments	246,777
Audited Financial Statements Fund Balance	$ 11,410,877

See the accompanying note to the other supplementary information.

Gateway Unified School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	$ 580,339
Special Education - IDEA Preschool	84.173	13430	133,547
Total Special Education Cluster			713,886
Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.048	14894	48,151
NCLB - Title I, Part A, Basic Grants	84.010	14329	1,587,238
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	233,864
Direct Programs			
Indian Education - Grants to Local Educational Agencies	84.060		44,655
Total U.S. Department of Education			2,627,794
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	214,026
National School Lunch	10.555	13391	668,811
Total Child Nutrition Cluster			882,837
Passed Through Shasta County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	126,363
Total U.S. Department of Agriculture			1,009,200
Nonmonetary Assistance			
Food Donation	10.555		79,563
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,716,557

See the accompanying note to the other supplementary information.

PURPOSE OF SCHEDULES

Schedule of Charter Schools

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District did not meet or exceed its local control funding formula target. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *California Education Code*, Sections 46201 through 46208.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current-year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

Expenditures reported on this schedule are reported on the modified basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER REPORTS SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Gateway Unified School District
Redding, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gateway Unified School District (the District) as of and for the year ended June 30, 2016; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KCoe Isom, LLP

December 13, 2016
Chico, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Gateway Unified School District
Redding, California

Report on Compliance for Each Major Federal Program

We have audited Gateway Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect, and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing, based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KCoe Isom, LLP

December 13, 2016
Chico, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Gateway Unified School District
Redding, California

Compliance

We have audited the Gateway Unified School District's (the District) compliance with the types of state compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, for the year ended June 30, 2016. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

June 30, 2016	Procedures Performed
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	No
Independent study	Yes
Continuation education	No
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	No
Gann limit calculation	Yes
School accountability report card	Yes
Juvenile court schools	Not applicable
Middle or early college high schools	Not applicable
K-3 grade span adjustment	Yes
Transportation maintenance of effort	Yes
Educator effectiveness	Yes
California Clean Energy Jobs Act	No
After school education and safety program:	
After school	Yes
Before school	No
General requirements	Yes
Proper expenditure of education protection account funds	Yes
Unduplicated local control funding formula pupil counts	Yes
Local control and accountability plan	Yes
Independent study-course based	No
Immunizations	No
Charter schools:	
Attendance	No
Mode of instruction	No
Nonclassroom-based instruction/independent study for charter schools	No
Determination of funding for nonclassroom-based instruction	No
Annual instructional minutes - classroom based	No
Charter school facility grant program	No

Kindergarten continuance steps 2a and 2b were not performed because the District did not retain any pupils in kindergarten during 2015-16 who had already completed one school year in kindergarten or transitional kindergarten. Continuation education steps 6a and 6b were not performed because students do not receive apportionment attendance for work experience. Continuation Education step 6c was not performed because students do not engage in independent study. Testing was not performed for immunizations because the District did not include any schools that did not submit immunization assessment reports to the California Department of Public Health or that reported a high number of conditionally enrolled students.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

Testing was not performed for California Clean Energy Jobs Act because the District did not have any expenditures during 2015-16 from California Clean Energy Jobs Act funds.

Since the District did not participate in the following programs during 2015-16, all steps related to them were not performed:

Early retirement incentive
After school education and safety program - before school
Independent study-course based

Since charter schools sponsored by the District are excluded from the audit of the District, all steps related to the following were not performed:

Attendance
Mode of instruction
Nonclassroom-based instruction/independent study for charter schools
Determination of funding for nonclassroom-based instruction
Annual instructional minutes - classroom based
Charter school facility grant program

Basis for Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts and Classroom Teacher Salaries

As described in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding unduplicated local control funding formula pupil counts and classroom teacher salaries as described in items 2016-001 and 2016-002. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to unduplicated local control funding formula pupil counts and classroom teacher salaries.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts and Classroom Teacher Salaries

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the District complied, in all material respects, with the state compliance requirements applicable to unduplicated local control funding formula pupil counts and classroom teacher salaries.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

Unmodified Opinion on Each of the Other State Programs

In our opinion, the District complied, in all material respects, with the other state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2016.

KCoe Isom, LLP

December 13, 2016
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

CFDA No.	10.553	School Breakfast
CFDA No.	10.555	National School Lunch

Threshold for distinguishing types A and B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Compliance over state programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for state programs:	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT

None.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

STATE COMPLIANCE (Unduplicated Local Control Funding Formula Pupil Counts)
40000 (2016-001)

Significant Deficiency

Condition During our testing over compliance of the unduplicated Local Control Funding Formula (LCFF) pupil counts, using a random sample to achieve a high level of assurance for each population, we identified the following:

> Six of 40 free and reduced price meal (FRPM) students selected for testing did not have a National School Lunch Program (NSLP) eligibility application, or other documentation, to support the students' eligibility for the designation on file.
>
> The above students did not qualify for the unduplicated LCFF pupil count as of the October 7, 2015, census date; however, they were included in the California Longitudinal Pupil Achievement Data System (CalPADS) 1.18 – FRPM/English Learner/Foster Youth – Student List.

Results of testing and extrapolation of the identified errors to each population are as follows:

June 30, 2016	**FRPM**	**EL**	**FRPM and EL**	**Totals**
District-Wide Schedule of Unduplicated Pupil Counts				
Certified total unduplicated pupil count	1,590	18	48	1,656
County Office of Education adjustment - district funded county program students				14
Audit adjustment:				
Known error	(6)	-	-	(6)
Extrapolation	(106)	-	-	(106)
Adjusted Total Unduplicated Pupil Counts	1,478	18	48	1,558
Certified enrollment count				2,326
County Office of Education adjustment				19
Total Enrollment Count				2,345

Criteria Pursuant to *California Education Code*, Section 42238.02(b)(2), the District shall annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English Learner pupil-level records for enrolled pupils using CalPADS. All support for these designations must be kept on file.

Cause The misstatements were caused by guidance from Aeries, the attendance software, which stated that entering the status date was recommended but not necessary when making changes to a student's free or reduced status, as Aeries would automatically populate the date field. It was later discovered that if the date of the status change was not entered in Aeries, the record did not extract correctly from Aeries to CalPADS.

Effect The unduplicated LCFF pupil count reported in the CalPADS 1.18 – FRPM/English Learner/Foster Youth – Student List was overstated by 112 students. As a result, the District's 2015-16 second principal apportionment was overstated by $102,565 calculated as follows:

June 30, 2016		
Effect of Unduplicated Pupil Count Adjustments on State Aid		
Certified unduplicated pupil percentage		0.7380
Adjusted unduplicated pupil percentage		0.7229
Target supplemental grant funding as originally reported	$	2,725,052
Audit adjustment		(55,756)
Adjusted Target Supplemental Grant Funding	$	2,669,296
Target concentration grant funding as originally reported	$	1,735,466
Audit adjustment		(139,391)
Adjusted Target Concentration Grant Funding	$	1,596,075
Total audit adjustments	$	195,148
2015-16 statewide gap funding rate		0.52557616
Overstatement of 2015-16 Second Principal Apportionment	$	102,565

The District is required to return funding totaling $102,565 from the second principal apportionment to the California Department of Education.

Recommendation We recommend that funding totaling $102,565 be returned to the California Department of Education. We also recommend that the District review the annual CalPADS 1.18 – FRPM/English Learner/Foster Youth – Student List as of the census date to determine that the unduplicated pupil count is accurate and properly supported by underlying documentation prior to submitting this data to CalPADS.

Response The District's administration will adopt procedures during the 2016-17 fiscal year to comply with the recommendation, and will return funding totaling $102,565 to the California Department of Education.

STATE COMPLIANCE (Classroom Teacher Salaries)

61000 (2016-002)

Significant Deficiency

Condition The District is not in compliance with the required minimum percentage for payment of classroom teachers' compensation under *California Education Code*, Section 41372(b). The District's percentage of current expense of education for classroom teachers' compensation was 54.12% for the fiscal year ended June 30, 2016.

Criteria *California Education Code*, Section 41732(b), requires the District to expend 55% or greater of the District's current expense of education for payment of classroom teachers' compensation.

Cause The cause of the noncompliance is an increasing amount of expenditures from unrestricted funds under the local control funding formula, which makes meeting the required minimum percentage for payment of classroom teachers' compensation more difficult.

Effect The current expense of education for the District was $23,955,077, and classroom teachers' compensation was $12,965,394, resulting in a deficiency of $210,805.

Recommendation The District should implement procedures to ensure that a minimum of 55% of the current expense of education is for classroom teachers' compensation. The District should deposit the deficiency of $210,805 with the County Superintendent of Schools. If no application for exemption is made, the District should add the deficiency of $210,805 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Response The District's administration will either add the deficiency of $210,805 to the amounts to be expended for compensation of classroom teachers or request a waiver during fiscal year 2016-17.

Not applicable: there are no current-year findings related to federal awards.

INTERNAL CONTROL (Student Body – Central Valley High School)
30000 (2015-001)

Significant Deficiency

Condition One of 15 cash disbursements tested was for an unallowable expense. Existing club funds were donated to a nonprofit organization.

Criteria Internal controls should be implemented to ensure that student body funds are only expended for allowable purposes. Donations from existing student body funds are considered a gift of public funds.

Effect Without strengthening internal controls over cash disbursements, student body assets may not be properly safeguarded and expended for valid student body activities.

Recommendation Procedures should be implemented to strengthen internal controls over student body disbursements and ensure that student body funds are only expended for allowable purposes.

Current Status Fully implemented.