

# **Gateway Unified School District**

**County of Shasta  
Redding, California**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORTS**

**June 30, 2017**



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I S O M**

# Gateway Unified School District

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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, 2017; 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 of America. 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, 2017; 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 76 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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 73 to 77 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 12, 2017, 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 Jam, LLP

December 12, 2017  
Chico, California

## **FINANCIAL SECTION**

## **Required Supplementary Information**



# Gateway Unified School District

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### INTRODUCTION

An overview of the Gateway Unified School District's (the District) financial activities for the fiscal year ended June 30, 2017, 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 \$33,423,955. Expenses exceeded revenues by \$3,054,745.

Total net position in governmental activities was negative \$7,101,574, a decrease of 75.5% from the previous year. The General Fund reported a total fund balance of \$10,036,870.

Enrollment in the District decreased by 1.3%, while average daily attendance (ADA) decreased by 1.7%.

Gateway Teachers' Association (GTA) received the equivalent of a 7.0% increase on the salary schedule. California School Employee Association (CSEA) received a 6% increase on the salary schedule, a 2.5% one-time wage payment, and a \$500 increase to the health and welfare cap, raising it to \$8,600 per year. The Non-Represented Employee Groups received a 4% increase on the salary schedule, a 2.5% one-time wage payment, \$500 towards the benefit cap, and the Master's stipend was increased \$250.

The District increased its long-term debt from \$64,416,194 in 2015-16 to \$71,025,147 in 2016-17. This represents a 10.3% increase in long-term debt overall.

The additional debt is due primarily to the change in the District's share of the net pension liability and to the sale of \$6,378,960 of General Obligation Bonds, Election of 2008, Series 2017 (2017 Bonds) and \$2,800,000 of 2017 General Obligation Refunding Bonds (Refunding Bonds). The 2017 bonds represent the final sale authorized by voters in the District at the November 4, 2008, election, which authorized a total of \$22 million of bonds. Proceeds of the 2017 Bonds will be used to acquire, build, and improve school facilities and to defease the District's outstanding 2007 certificates of participation. The proceeds of the Refunding Bonds refinanced \$2,715,000 of the District's 2008 Election GO Bonds, Series 2009 for taxpayer savings.

## **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).

**Gateway Unified School District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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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.

**Gateway Unified School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**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, 2017, was a negative \$7,101,574. Of this amount, a negative \$15,021,195 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		Percentage Change 2016-17
	2016	2017	
<b>ASSETS</b>			
Cash and investments	\$ 14,822,328	\$ 13,604,823	-8.2%
Receivables	2,804,729	2,470,617	-11.9%
Other assets	962,972	1,332,928	38.4%
Capital assets - net	44,756,865	43,177,445	-3.5%
<b>TOTAL ASSETS</b>	63,346,894	60,585,813	-4.4%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources for pensions	2,264,025	5,595,390	147.1%
Deferred loss on advance refunding	-	1,306,630	N/A
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	2,264,025	6,902,020	204.9%
<b>LIABILITIES</b>			
Accounts payable and other liabilities	2,430,288	1,631,262	-32.9%
Advances from grantors	631,626	553,730	-12.3%
Long-term debt	64,416,194 *	71,025,147	10.3%
<b>TOTAL LIABILITIES</b>	67,478,108 *	73,210,139	8.5%
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources for pensions	2,179,640	1,379,268	-36.7%
<b>NET POSITION</b>			
Net investment in capital assets	2,983,917	2,391,887	-19.8%
Restricted	5,604,017	5,527,734	-1.4%
Unrestricted	(12,634,763) *	(15,021,195)	-18.9%
<b>TOTAL NET POSITION</b>	\$ (4,046,829) *	\$ (7,101,574)	-75.5%

\* As restated for prior-period adjustment.

**Gateway Unified School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Change in Net Position**

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

Total revenues decreased 2.3% from the previous year to \$33,423,955. Property taxes and state aid funding accounted for most of the District's revenue, representing 73.7 cents of each dollar raised. Another 17.9% came from federal and state aid for specific programs, and the remaining 8.4% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services increased 7.4% to \$36,478,700. Expenses exceeded the District's revenues for the year by \$3,054,745. The District's expenses are primarily related to educating and caring for students (78.0%). Administrative activities of the District account for 6.9% of the total costs.

Years Ended June 30	Governmental Activities		Percentage Change 2016-17
	2016	2017	
<b>REVENUES</b>			
<b>Program Revenues</b>			
Charges for services	\$ 1,550,071	\$ 1,824,393	17.7%
Operating grants and contributions	5,794,750	5,973,618	3.1%
<b>General Revenues</b>			
State formula aid	12,301,129	10,509,912	-14.6%
Property taxes	13,493,903	14,135,454	4.8%
Other	1,078,061	980,578	-9.0%
<b>TOTAL REVENUES</b>	<b>34,217,914</b>	<b>33,423,955</b>	<b>-2.3%</b>
<b>EXPENSES</b>			
Instruction	19,428,600 *	21,231,003	9.3%
Instructional-related services	3,140,953 *	3,211,273	2.2%
Pupil services	3,672,925 *	4,000,599	8.9%
General administration	2,678,100 *	2,499,815	-6.7%
Plant services	2,612,074 *	2,723,674	4.3%
Ancillary services	516,527 *	471,408	-8.7%
Community services	-	93,624	N/A
Other outgo	67,916	393,479	479.4%
Interest on long-term debt	1,836,201	1,853,825	1.0%
<b>TOTAL EXPENSES</b>	<b>33,953,296 *</b>	<b>36,478,700</b>	<b>7.4%</b>
<b>Change in Net Position</b>	<b>\$ 264,618 *</b>	<b>\$ (3,054,745)</b>	<b>-1254.4%</b>

\* As restated for prior-period adjustment.

**Gateway Unified School District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Governmental Funds**

The District's governmental funds reported a combined fund balance of \$14,442,914, a decrease of \$524,414 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance		Increase (Decrease)
	2016	2017	
General	\$ 11,410,877	\$ 10,036,870	\$ (1,374,007)
Cafeteria Special Revenue	115,187	79,981	(35,206)
Building	162,227	1,858,944	1,696,717
Capital Facilities	1,023,472	179,318	(844,154)
Special Reserve Capital Projects	2,205	2,213	8
Bond Interest and Redemption	2,253,360	2,285,588	32,228
<b>Total</b>	<b>\$ 14,967,328</b>	<b>\$ 14,442,914</b>	<b>\$ (524,414)</b>

The decrease in the General Fund is due primarily to increases in salaries and benefits and outside services for students.

The decrease in the Cafeteria Special Revenue Fund is due to the increased cost of salaries and benefits.

The increase in the Building Fund is due to issuance of general obligation bonds for future facilities projects.

The decrease in the Capital Facilities Fund is due to use of accumulated fund balance to pay off a portion of the certificates of participation.

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

**Gateway Unified School District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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**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 expenditures and other financing uses to exceed revenues and other financing sources by \$1,401,318. However, actual results for the year reflected a deficit of \$1,374,007. 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 \$43,177,445 in capital assets including land, site improvements, buildings, and equipment. During the year, the District completed the Pleasant Street parking lot, a culinary arts remodel at Central Valley High School, and various other improvement projects.

June 30	Governmental Activities		Percentage
	2016	2017	Change 2016-17
Land	\$ 341,760	\$ 341,760	0.0%
Construction in progress	85,017	41,294	-51.4%
Buildings and improvements	70,059,395	70,330,110	0.4%
Equipment	4,082,132	4,082,132	0.0%
Accumulated depreciation	(29,811,439)	(31,617,851)	6.1%
<b>Total</b>	<b>\$ 44,756,865</b>	<b>\$ 43,177,445</b>	<b>-3.5%</b>



**Gateway Unified School District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Long-Term Debt**

At year end, the District had \$71,025,147 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 and the issuance of additional general obligation bonds for future facilities projects. Additionally, the District made normally scheduled payments on its general obligation bonds and capital leases. The District has no plans to incur additional long-term debt in 2017-18.

June 30	Governmental Activities		Percentage
	2016	2017	Change 2016-17
General obligation bonds	\$ 28,803,595	\$ 34,088,948	18.3%
Bond issue premiums	1,289,779	1,622,797	25.8%
Bond capitalized interest	7,119,847	8,196,954	15.1%
Capital lease	83,634	42,433	-49.3%
Certificates of participation (COP)	3,070,463	-	-100.0%
COP capitalized interest	1,567,857	-	-100.0%
Compensated absences	111,411	116,166	4.3%
Net pension liability	22,369,608 *	26,957,849	20.5%
<b>Total</b>	<b>\$ 64,416,194 *</b>	<b>\$ 71,025,147</b>	<b>10.3%</b>

*\*As restated for prior-period adjustment.*

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

There are several compelling factors that pose a significant risk to the fiscal health of the District: the uncertainty of the state economy, the increase in California's minimum wage over the next five years, increases in the percentage of employer contributions to State Teachers' Retirement System; 14.43% in 2017-18, 16.28% in 2018-19, 18.13% in 2019-20, and 19.10% in 2020-21, along with projected increases in the percent of employer contributions to the Public Employees' Retirement System; from 15.531% in 2017-18, 18.1% in 2018-19, 20.8% in 2019-20, and 23.8% in 2020-21. In addition, the District has experienced declining enrollment, which will result in a decrease in Local Control Funding. The District experienced a mid-year reduction in federal Title I funding which is expected to carry forward to future years.

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, 2017, with the California School Employees Association bargaining group and through June 30, 2017, with the Gateway Teachers' Association bargaining group. The contracts allow for renegotiation of compensation issues each year. There are no ongoing 2016-17 negotiations at this time.

## **Gateway Unified School District**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

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#### **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, 2017	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 13,604,823
Accounts receivable	1,108,358
Due from other governments	1,362,259
Inventories	29,872
Prepaid expenses	255,377
Net OPEB asset	1,047,679
Nondepreciated capital assets	383,054
Depreciated capital assets	74,412,242
Accumulated depreciation	(31,617,851)
<b>TOTAL ASSETS</b>	<b>60,585,813</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources for pensions	5,595,390
Deferred loss on advance refunding	1,306,630
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,902,020</b>
<b>LIABILITIES</b>	
Overdraft in county treasury	86,245
Accounts payable and other current liabilities	1,158,172
Due to other governments	386,845
Advances from grantors	553,730
Long-term obligations:	
Due within one year	1,638,623
Due beyond one year	69,386,524
<b>TOTAL LIABILITIES</b>	<b>73,210,139</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources for pensions	1,379,268
<b>NET POSITION</b>	
Net investment in capital assets	2,391,887
Restricted for capital projects	2,038,262
Restricted for debt service	2,285,588
Restricted for educational programs	1,154,634
Restricted for other purposes	49,250
Unrestricted	(15,021,195)
<b>TOTAL NET POSITION</b>	<b>\$ (7,101,574)</b>

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

# Gateway Unified School District

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position - Governmental Activities
<b>FUNCTIONS/PROGRAMS</b>				
<b>Primary Government</b>				
Governmental activities:				
Instruction	\$ 21,231,003	\$ 1,368,583	\$ 4,119,524	\$ (15,742,896)
Instruction-related services	3,211,273	326,174	379,857	(2,505,242)
Pupil services	4,000,599	49,788	1,176,727	(2,774,084)
Ancillary services	471,408	-	1,337	(470,071)
Community services	93,624	67,362	5,972	(20,290)
General administration	2,499,815	6,157	271,959	(2,221,699)
Plant services	2,723,674	6,329	2,136	(2,715,209)
Other outgo	393,479	-	16,106	(377,373)
Interest on long-term debt	1,853,825	-	-	(1,853,825)
<b>Total Governmental Activities</b>	<b>\$ 36,478,700</b>	<b>\$ 1,824,393</b>	<b>\$ 5,973,618</b>	<b>(28,680,689)</b>
<b>GENERAL REVENUES</b>				
Property taxes - levied for general purposes				11,853,291
Property taxes - levied for debt service				2,002,147
Property taxes - levied for other specific purposes				280,016
Federal and state aid not restricted to specific purposes				10,509,912
Unrestricted investment earnings				58,235
Interagency revenues				235,581
Miscellaneous				686,762
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				<b>25,625,944</b>
<b>Change in Net Position</b>				<b>(3,054,745)</b>
<b>Net Position - as Previously Reported</b>				<b>(2,426,387)</b>
Prior-period adjustment				(1,620,442)
<b>Net Position - as Restated</b>				<b>(4,046,829)</b>
<b>Net Position - End of Year</b>				<b>\$ (7,101,574)</b>

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

**Gateway Unified School District**  
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2017	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 9,276,694	\$ 1,858,745	\$ 2,285,588	\$ 183,796	\$ 13,604,823
Accounts receivable	1,090,297	199	-	17,862	1,108,358
Due from other governments	1,231,368	-	-	130,891	1,362,259
Inventories	-	-	-	29,872	29,872
Prepaid expenditures	255,377	-	-	-	255,377
<b>TOTAL ASSETS</b>	<b>\$ 11,853,736</b>	<b>\$ 1,858,944</b>	<b>\$ 2,285,588</b>	<b>\$ 362,421</b>	<b>\$ 16,360,689</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Overdraft in county treasury	\$ -	\$ -	\$ -	\$ 86,245	\$ 86,245
Accounts payable and other current liabilities	876,291	-	-	14,664	890,955
Due to other governments	386,845	-	-	-	386,845
Advances from grantors	553,730	-	-	-	553,730
<b>Total Liabilities</b>	<b>1,816,866</b>	<b>-</b>	<b>-</b>	<b>100,909</b>	<b>1,917,775</b>
<b>Fund Balances</b>					
Nonspendable	267,277	-	-	30,622	297,899
Restricted	1,154,634	1,858,944	2,285,588	228,568	5,527,734
Assigned	4,659,028	-	-	2,322	4,661,350
Unassigned	3,955,931	-	-	-	3,955,931
<b>Total Fund Balances</b>	<b>10,036,870</b>	<b>1,858,944</b>	<b>2,285,588</b>	<b>261,512</b>	<b>14,442,914</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,853,736</b>	<b>\$ 1,858,944</b>	<b>\$ 2,285,588</b>	<b>\$ 362,421</b>	<b>\$ 16,360,689</b>

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

## Gateway Unified School District

### RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2017

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<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 14,442,914</b>
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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	\$ 74,795,296
Accumulated depreciation	(31,617,851)

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<b>Total Capital Assets - Net</b>	<b>43,177,445</b>
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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 unmaturred interest owed at the end of the period was:

(267,217)

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	43,908,699
Net pension liability	26,957,849
Net OPEB asset	(1,047,679)
Compensated absences	116,166
Capital lease	42,433
Deferred loss on debt refunding	(1,306,630)

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<b>Total Long-Term Liabilities</b>	<b>(68,670,838)</b>
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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	5,595,390
Deferred inflows of resources relating to pensions	(1,379,268)

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<b>Total Net Position - Governmental Activities</b>	<b>\$ (7,101,574)</b>
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*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, 2017	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 11,853,291	\$ -	\$ 2,002,147	\$ -	\$ 13,855,438
Local control funding formula sources	9,581,670	-	-	-	9,581,670
Other state revenue	2,522,329	-	-	69,914	2,592,243
Federal revenue	2,785,141	-	-	995,641	3,780,782
Other local revenue	3,768,471	(1,394)	2,693	550,671	4,320,441
<b>Total Revenues</b>	<b>30,510,902</b>	<b>(1,394)</b>	<b>2,004,840</b>	<b>1,616,226</b>	<b>34,130,574</b>
<b>Expenditures</b>					
Current:					
Instruction	20,101,992	-	-	-	20,101,992
Instruction-related services	3,253,008	-	-	1,283,754	4,536,762
Pupil services	2,529,386	-	-	-	2,529,386
Ancillary services	476,526	-	-	-	476,526
Community services	91,105	-	-	-	91,105
General administration	2,369,547	-	-	65,287	2,434,834
Plant services	2,672,563	-	-	-	2,672,563
Transfers between agencies	64,574	-	-	-	64,574
Debt service:					
Principal	41,201	-	1,178,607	768,571	1,988,379
Interest and other charges	2,518	-	799,545	433,463	1,235,526
Capital outlay	226,992	-	-	-	226,992
<b>Total Expenditures</b>	<b>31,829,412</b>	<b>-</b>	<b>1,978,152</b>	<b>2,551,075</b>	<b>36,358,639</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (1,318,510)</b>	<b>\$ (1,394)</b>	<b>\$ 26,688</b>	<b>\$ (934,849)</b>	<b>\$ (2,228,065)</b>

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 (Continued)

Year Ended June 30, 2017	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in	\$ -	\$ -	\$ 5,540	\$ 55,497	\$ 61,037
Interfund transfers out	(55,497)	(5,540)	-	-	(61,037)
Proceeds from long-term debt	-	1,496,123	-	-	1,496,123
Other sources	-	536,433	-	-	536,433
Debt issuance costs and discounts	-	(328,905)	-	-	(328,905)
Other financing source - refunding bonds	-	7,682,837	-	-	7,682,837
Other financing use - payment to refunded bond escrow agent	-	(7,682,837)	-	-	(7,682,837)
<b>Total Other Financing Sources (Uses)</b>	(55,497)	1,698,111	5,540	55,497	1,703,651
<b>Net Change in Fund Balances</b>	(1,374,007)	1,696,717	32,228	(879,352)	(524,414)
<b>Fund Balances - Beginning of Year</b>	11,410,877	162,227	2,253,360	1,140,864	14,967,328
<b>Fund Balances - End of Year</b>	\$ 10,036,870	\$ 1,858,944	\$ 2,285,588	\$ 261,512	\$ 14,442,914

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, 2017

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (524,414)</b>
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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. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 226,992
Depreciation expense	(1,806,412)

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<b>Net Capital Outlay</b>	<b>(1,579,420)</b>
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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:

8,831,842

Debt proceeds: In governmental funds, proceeds from long-term debt are recognized as other financing sources. In the government-wide statements, proceeds from long-term debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from long-term debt, net of issue premium or discount, were:

(9,715,393)

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 owed at the end of the period, less matured interest paid during the period but owed from the prior period, was:

(1,288,970)

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:

(4,755)

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<b>Balance Forward</b>	<b>\$ (4,281,110)</b>
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*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, 2017

<b>Balance Brought Forward</b>	\$ (4,281,110)
<p>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:</p>	(456,504)
<p>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:</p>	172,824
<p>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:</p>	1,510,045
<b>Change in Net Position of Governmental Activities</b>	\$ (3,054,745)

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

# Gateway Unified School District

## STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2017	Foundation Private- Purpose Trust		Agency
<b>ASSETS</b>			
Cash and investments	\$	299,505	\$ 82,698
Accounts receivable		-	2,109
Inventories - supplies and materials		-	2,031
<b>TOTAL ASSETS</b>		299,505	<b>\$ 86,838</b>
<b>LIABILITIES</b>			
Accounts payable		-	\$ 18,365
Due to student groups		-	68,473
<b>TOTAL LIABILITIES</b>		-	<b>\$ 86,838</b>
<b>NET POSITION</b>			
Held in trust for scholarships	\$	299,505	

*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, 2017	Foundation Private- Purpose Trust
<b>Additions</b>	
Interest and investment earnings	\$ 2,376
Donations	14,405
<b>Total Additions</b>	16,781
<b>Deductions</b>	
Scholarships awarded	20,958
<b>Change in Net Position</b>	(4,177)
<b>Net Position - Beginning of Year</b>	303,682
<b>Net Position - End of Year</b>	\$ 299,505

*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 two 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.

**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, 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.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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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.



# Gateway Unified School District

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**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
- Building Fund
- Bond Interest and Redemption Fund

Nonmajor Governmental Funds:

- Cafeteria Special Revenue 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.

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(Continued)**

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***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.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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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, 2017, the fair value of the County pool is 99.83% 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 decrease in the fair value of investments during the year ended June 30, 2017, was \$57,179. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at June 30, 2017, was \$22,555.

**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, 2017. 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, 2017. At June 30, 2017, no allowance for doubtful accounts was deemed necessary.

**Balances Due To/From Other Funds**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Balances due to/from other funds 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 an other financing source 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 an other financing source 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.

## Gateway Unified School District

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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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.

The District also has a deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

### 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.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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*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.



**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**2. CASH AND INVESTMENTS**

The following is a summary of cash and investments:

June 30, 2017	Maturities	Fair Value
Petty cash/cash awaiting deposit	\$	2,150
Deposits (1)		68,093
<b>Subtotal</b>		<b>70,243</b>
<b>Investments That Are Not Securities (2)</b>		
County treasurer's investment pool (net of overdraft)	15.4 months average	13,830,538
<b>Total Cash and Investments</b>		<b>13,900,781</b>
Less: Trust fund cash and investments		299,505
Less: Agency fund cash and investments		82,698
<b>Total Cash and Investments Per Government-Wide Statement of Net Position (Net of Overdraft in County Treasury)</b>	\$	<b>13,518,578</b>

- (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 accounting principles generally accepted in the United States of America. 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, 2017:

- County treasurer's investment pool (net of overdraft) of \$13,830,538 is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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**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:

	<b>General Fund</b>		<b>Building Fund</b>		<b>Other Governmental Funds</b>
June 30, 2017					
Interest	\$	2,956	\$	-	\$ -
Other		1,087,341		199	17,862
<b>Total</b>	\$	1,090,297	\$	199	\$ 17,862

**4. DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments consisted of the following:

	<b>General Fund</b>		<b>Other Governmental Funds</b>	
June 30, 2017				
<b>Due From</b>				
Federal government	\$	696,905	\$	122,366
State government		406,929		8,525
Local governments		127,534		-
<b>Total</b>	\$	1,231,368	\$	130,891

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**5. INTERFUND TRANSACTIONS AND BALANCES**

**Interfund Transfers**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers are as follows:

<b>Interfund Transfer Out</b>	<b>Interfund Transfer In</b>		
General	Cafeteria Special Revenue	\$	55,497
Building	Bond Interest and Redemption		5,540
<b>Total</b>		\$	<b>61,037</b>

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The specific purposes of the interfund transfers that do not occur on a routine basis are as follows:

Building Fund interfund transfer to the Bond Interest and Redemption Fund to transfer proceeds from the Series 2017 general obligation bonds.

No transfers are inconsistent with the activities of the funds making the transfer.

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**6. CAPITAL ASSETS**

Capital assets activity is as follows:

Year Ended June 30, 2017	Beginning Balance	Additions	Deductions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Nondepreciated Capital Assets</b>				
Land	\$ 341,760	\$ -	\$ -	\$ 341,760
Construction in progress	85,017	12,922	56,645	41,294
<b>Total Nondepreciated Capital Assets</b>	<b>426,777</b>	<b>12,922</b>	<b>56,645</b>	<b>383,054</b>
<b>Depreciated Capital Assets</b>				
Buildings and improvements	70,059,395	270,715	-	70,330,110
Equipment and vehicles	4,082,132	-	-	4,082,132
<b>Total Depreciated Capital Assets</b>	<b>74,141,527</b>	<b>270,715</b>	<b>-</b>	<b>74,412,242</b>
<b>Totals at Historical Cost</b>	<b>74,568,304</b>	<b>283,637</b>	<b>56,645</b>	<b>74,795,296</b>
<b>Less: Accumulated Depreciation</b>				
Buildings and improvements	26,714,375	1,574,884	-	28,289,259
Equipment and vehicles	3,097,064	231,528	-	3,328,592
<b>Total Accumulated Depreciation</b>	<b>29,811,439</b>	<b>1,806,412</b>	<b>-</b>	<b>31,617,851</b>
<b>Total Depreciated Capital Assets - Net</b>	<b>44,330,088</b>	<b>(1,535,697)</b>	<b>-</b>	<b>42,794,391</b>
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>CAPITAL ASSETS - NET</b>	<b>\$ 44,756,865</b>	<b>\$ (1,522,775)</b>	<b>\$ 56,645</b>	<b>\$ 43,177,445</b>

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2017	
<b>Governmental Activities</b>	
Instruction	\$ 1,575,349
Pupil services	178,861
General administration	49,071
Plant services	3,131
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,806,412</b>

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**7. ACCOUNTS PAYABLE**

Accounts payable consisted of the following:

		<b>General Fund</b>	<b>Other Governmental Funds</b>
June 30, 2017			
Vendors	\$	676,681	\$ 12,138
Salaries and benefits		185,707	2,471
Other		13,903	55
<b>Total</b>	\$	<b>876,291</b>	<b>\$ 14,664</b>

**8. DUE TO OTHER GOVERNMENTS**

Amount due to other governments consisted of the following:

		<b>General Fund</b>
June 30, 2017		
<b>Due To</b>		
State government	\$	6,056
Local governments		380,789
<b>Total</b>	\$	<b>386,845</b>

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**9. BONDED DEBT**

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2016	Issued Current Year	Refunded Current Year	Redeemed Current Year	Outstanding June 30, 2017
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	5,817,353	-	2,715,000	180,060	2,922,293
2011	2.0-4.0%	2024	7,655,000	6,535,000	-	-	515,000	6,020,000
2013	1.13-6.27%	2040	6,300,281	6,246,274	-	-	173,547	6,072,727
2014	2.0-5.0%	2027	5,360,000	4,950,000	-	-	310,000	4,640,000
2017	2.0-5.25%	2042	2,800,000	-	2,800,000	-	-	2,800,000
2017	2.0-4.0%	2028	6,378,960	-	6,378,960	-	-	6,378,960
<b>Total</b>			<b>\$ 56,809,927</b>	<b>\$ 28,803,595</b>	<b>\$ 9,178,960</b>	<b>\$ 2,715,000</b>	<b>\$ 1,178,607</b>	<b>\$ 34,088,948</b>

The amount of interest cost incurred during the year ended June 30, 2017, was \$1,829,296, all of which was charged to expenses.

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,286,834	\$ 794,516	\$ 2,081,350
2019	1,335,500	839,319	2,174,819
2020	1,604,024	671,145	2,275,169
2021	1,549,996	812,973	2,362,969
2022	1,665,504	803,996	2,469,500
2023-2027	9,048,257	4,866,562	13,914,819
2028-2032	5,545,399	11,320,817	16,866,216
2033-2037	4,351,001	16,369,186	20,720,187
2038-2042	6,368,601	11,245,275	17,613,876
2043	1,333,832	2,726,168	4,060,000
<b>Total</b>	<b>\$ 34,088,948</b>	<b>\$ 50,449,957</b>	<b>\$ 84,538,905</b>

**10. LONG-TERM DEBT – ADVANCE REFUNDING**

On July 8, 2009, the District refunded 2007 Series certificates of participation (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. Outstanding defeased COP at June 30, 2017, were \$381,655.

On May 16, 2017, the District refunded 2007 Series COP totaling \$3,620,931 with the Series 2017 general obligation bonds. Additionally, the District refunded 2007 Series COP totaling \$999,709 with the 2007 Series COP unspent project funds. Resources totaling \$5,680,559 were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$7,589,985 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, 2017, were \$2,937,425.

This refunding was undertaken to pay off the 2007 Series COP. As a result of this refunding, total debt service payments over the next 25 years will increase by \$4,675,019.

On May 16, 2017, the District refunded the 2009 Series general obligation bonds totaling \$2,715,000 with the Series 2017 general obligation refunding bonds. Resources totaling \$3,001,987 were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,079,063 of general obligation bonds. As a result, the refunded general obligation bonds are considered to be defeased and the liability has been removed from long-term debt. Outstanding defeased general obligation bonds at June 30, 2017, were \$2,715,000.

This refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$278,543. As a result of this refunding, total debt service payments over the next 12 years will decrease by \$341,992.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**11. 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, 2017. Accumulated depreciation of the wireless network infrastructure at June 30, 2017, was \$27,395. 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, 2017. The amount of interest cost incurred during the year ended June 30, 2017, was \$1,286, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2018	\$ 43,719
Less: Amount representing interest	1,286
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$ 42,433</b>

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

**12. OPERATING LEASES**

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements 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 any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2018	\$ 301,439
2019	301,439
2020	301,439
2021	77,399
<b>Total</b>	<b>\$ 981,716</b>

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, 2017.



**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**13. CHANGES IN LONG-TERM DEBT**

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

Year Ended June 30, 2017	Beginning Balance	Prior-Period Adjustment	Restated Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>							
Compensated absences	\$ 111,411	\$ -	\$ 111,411	\$ 4,755	\$ -	\$ 116,166	\$ -
General obligation bonds	28,803,595	-	28,803,595	9,178,960	3,893,607	34,088,948	1,286,834
Bond issue premiums	1,289,779	-	1,289,779	536,433	203,415	1,622,797	196,191
Bond capitalized interest	7,119,847	-	7,119,847	1,153,501	76,394	8,196,954	113,165
Capital lease	83,634	-	83,634	-	41,201	42,433	42,433
Certificates of participation	3,070,463	-	3,070,463	-	3,070,463	-	-
COP capitalized interest	1,567,857	-	1,567,857	182,320	1,750,177	-	-
Net pension liability	20,749,166	1,620,442	22,369,608	4,588,241	-	26,957,849	-
<b>Total</b>	<b>\$ 62,795,752</b>	<b>\$ 1,620,442</b>	<b>\$ 64,416,194</b>	<b>\$ 15,644,210</b>	<b>\$ 9,035,257</b>	<b>\$ 71,025,147</b>	<b>\$ 1,638,623</b>

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**14. FUND BALANCES COMPONENTS**

Fund balances are composed of the following:

June 30, 2017	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds
<b>Nonspendable</b>				
Reserved for:				
Revolving cash	\$ 11,900	\$ -	\$ -	\$ 750
Inventories	-	-	-	29,872
Prepaid expenditures	255,377	-	-	-
<b>Total Nonspendable</b>	<b>\$ 267,277</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,622</b>
<b>Restricted</b>				
Restricted for:				
Capital projects	\$ -	\$ 1,858,944	\$ -	\$ 179,318
Debt service	-	-	2,285,588	-
Federal and state categoricals	1,154,634	-	-	49,250
<b>Total Restricted</b>	<b>\$ 1,154,634</b>	<b>\$ 1,858,944</b>	<b>\$ 2,285,588</b>	<b>\$ 228,568</b>
<b>Assigned</b>				
Assigned for:				
Medi-Cal administrative activities	\$ 121,731	\$ -	\$ -	\$ -
Lottery	209,345	-	-	-
Mandated costs	1,491,122	-	-	-
Future funding deficits	933,301	-	-	-
Supplemental/concentration grants	51,196	-	-	-
Forest reserve	445,199	-	-	-
Redevelopment agency	1,013,909	-	-	-
Technology updates	109,608	-	-	-
Food service	-	-	-	109
Deferred maintenance	104,289	-	-	-
OPEB obligation	139,046	-	-	-
Capital projects	-	-	-	2,213
Other designations	40,282	-	-	-
<b>Total Assigned</b>	<b>\$ 4,659,028</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,322</b>
<b>Unassigned</b>				
Designated for economic uncertainties	\$ 3,955,931	\$ -	\$ -	\$ -

**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.

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
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**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, deferred outflows or resources, deferred inflows of resources, and pension expense are reported as follows:

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
June 30, 2017				
CalSTRS State Teachers' Retirement Plan	\$ 17,793,820	\$ 2,882,709	\$ 1,067,916	\$ 1,618,051
CalPERS School Employer Pool	9,164,029	2,712,681	311,352	1,180,845
<b>Total</b>	<b>\$ 26,957,849</b>	<b>\$ 5,595,390</b>	<b>\$ 1,379,268</b>	<b>\$ 2,798,896</b>

Net pension liability, deferred outflows of resources, and deferred inflows of resources are reported in the accompanying statement of net position; pension expense is reported in the accompanying statement of activities.

**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](http://www.calstrs.com).

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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 10.25% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 9.205% of their salary. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 8.828% 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, 2017, were \$1,468,109.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** At June 30, 2017, 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, 2017

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District's proportionate share of the net pension liability	\$ 17,793,820
State's proportionate share of the net pension liability associated with the District	6,455,598
<b>Total</b>	<b>\$ 24,249,418</b>

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**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The District's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, 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 employers and the state, actuarially determined. At June 30, 2017, the District's proportion was .022%.

For the year ended June 30, 2017, the District recognized pension expense of \$198,502 and revenue of \$198,502 for support provided by the state. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows Resources</b>	<b>Deferred Inflows Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 434,170
Difference between expected and actual experience	1,414,600	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	633,746
District contributions subsequent to the measurement date	1,468,109	-
<b>Total</b>	<b>\$ 2,882,709</b>	<b>\$ 1,067,916</b>

The \$1,468,109 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, 2018. 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**

2018	\$ (153,964)
2019	(153,964)
2020	637,376
2021	345,711
2022	(184,861)
Thereafter	(143,614)
<b>Total</b>	<b>\$ 346,684</b>

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Actuarial Assumptions** The total pension liability in the June 30, 2015, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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, 2015, 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. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS' consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

<b>Asset Class</b>	<b>Assumed Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%
<b>Total</b>	<b>100%</b>	

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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 assumed that contributions from plan members and employers were made at statutory contribution rates. 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 occurred 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:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
June 30, 2017			
District's proportionate share of the net pension liability	\$ 25,609,320	\$ 17,793,820	\$ 11,302,720

**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, 2017, the District reported a payable of \$10,290 for the outstanding amount of contributions to CalSTRS required for the year ended June 30, 2017.

### **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](http://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 that met the definition of a new member under the Public Employees' Pension Reform Act are required to contribute 6.00% of their salary. Classic employees are required to contribute 7.00% of their salary. The required employer contribution rate for the 2016-17 fiscal year was 13.888%. The District's contributions to CalPERS for the fiscal year ended June 30, 2017, were \$874,283.



**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** At June 30, 2017, the District reported a net pension liability of \$9,164,029 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, 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, 2017, the District's proportion was .0464%.

For the year ended June 30, 2017, the District recognized pension expense of \$1,180,845. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows Resources</b>	<b>Deferred Inflows Resources</b>
Difference between expected and actual experience	\$ 394,141	\$ -
Net difference between projected and actual earnings on pension plan investments	1,421,963	-
Change in assumptions	-	275,324
Changes in proportion and differences between District contributions and proportionate share of contributions	22,294	36,028
District contributions subsequent to the measurement date	874,283	-
<b>Total</b>	<b>\$ 2,712,681</b>	<b>\$ 311,352</b>

The \$874,283 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30</b>		
2018	\$	236,240
2019		236,080
2020		683,604
2021		371,122
<b>Total</b>	<b>\$</b>	<b>1,527,046</b>

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(Continued)**

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**Actuarial Assumptions** The total pension liability in the June 30, 2015, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

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Valuation date	June 30, 2015
Measurement date	June 30, 2016
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	7.50%

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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, 2015, 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, CalPERS 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 (geometric) 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.

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

The tables below reflect long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Assumed Asset Allocation	Real Rate of Return	
		Years 1 - 10	Years 11+
Global equity	51%	5.25%	5.71%
Global debt securities	20%	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	1%	-0.55%	-1.05%
<b>Total</b>	<b>100%</b>		

**Discount Rate** The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the CalPERS Board were used. Projections of expected benefit payments and contributions were 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.

**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:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
June 30, 2017			
District's proportionate share of the net pension liability	\$ 13,672,782	\$ 9,164,029	\$ 5,409,604

**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, 2017, the District reported a payable of \$7,804 for the outstanding amount of contributions to CalPERS required for the year ended June 30, 2017.

## 19. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2016-17, 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 health 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, 2017, 39 retirees met these eligibility requirements and an estimated 278 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%

**Gateway Unified School District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Annual Other Postemployment Benefit (OPEB) Cost and Net Asset**

For the year ended June 30, 2017, 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, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. 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, 2017

Annual required contribution	\$	164,870
Interest on net OPEB asset		(34,994)
Adjustment to annual required contribution		34,768
<b>Annual OPEB Cost</b>		<b>164,644</b>
Contributions		337,468
<b>Change in Net OPEB Asset</b>		<b>(172,824)</b>
<b>Net OPEB Asset - Beginning of Year</b>		<b>(874,855)</b>
<b>Net OPEB Asset - End of Year</b>	\$	<b>(1,047,679)</b>

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, 2015	\$ 252,214	\$ 478,098	189.56%	\$ (620,981)
June 30, 2016	\$ 256,242	\$ 510,116	199.08%	\$ (874,855)
June 30, 2017	\$ 164,644	\$ 337,468	204.97%	\$ (1,047,679)

**Funded Status and Funding Progress**

As of July 1, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability was \$2,001,124, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability of \$2,001,124. The covered payroll (annual payroll of active employees covered by the plan) was \$15,529,430, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.89%.

**Gateway Unified School District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(Continued)**

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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, 2016, actuarial valuation, the entry age, level percent of pay method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), 3% annual salary increase, and an initial annual health care cost trend rate of 6%, reduced to 5% after a year. The District's unfunded actuarial accrued liability is amortized using an open, level percent of pay, method over 30 years. The remaining amortization period at June 30, 2017, was 29 years.

**21. SUBSEQUENT EVENT**

On October 4, 2017, the District entered into an agreement for \$397,439 to purchase an electric bus. The purchase is fully funded by a grant.

**22. PRIOR-PERIOD ADJUSTMENT**

Net position in the statement of net position as of July 1, 2016, has decreased by \$1,620,442 as a result of an understatement of the net pension liability of \$1,620,442 as of June 30, 2016. This adjustment has no effect on revenue or expenditures during the 2016-17 fiscal year, but it increased expenses in the statement of activities by \$693,740 in the 2015-16 fiscal year, and \$926,702 in the 2014-15 fiscal year.

**23. FUTURE GASB IMPLEMENTATION**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement improves 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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. It addresses timing of the measurement of pension or OPEB liabilities and expenditures recognized, recognizing on-behalf payments for pensions of OPEB, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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.

## **Required Supplementary Information**



# Gateway Unified School District

## BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2017	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 10,942,719	\$ 11,853,291	\$ 11,853,291	\$ -
Local control funding formula sources	10,702,253	9,581,671	9,581,670	(1)
Other state revenue	2,133,926	2,522,329	2,522,329	-
Federal revenue	3,099,254	2,784,284	2,785,141	857
Other local revenue	3,527,765	3,727,807	3,768,471	40,664
<b>Total Revenues</b>	30,405,917	30,469,382	30,510,902	41,520
<b>Expenditures</b>				
Certificated salaries	12,239,624	12,090,257	12,089,297	960
Classified salaries	6,593,669	6,339,363	6,336,286	3,077
Employee benefits	7,161,043	7,243,756	7,243,340	416
Books and supplies	1,820,774	1,526,536	1,500,184	26,352
Services and other operating	5,016,146	4,375,073	4,386,207	(11,134)
Capital outlay	65,000	193,112	226,992	(33,880)
Other outgo	(28,295)	3,387	3,387	-
Debt service:				
Principal	39,997	41,201	41,201	-
Interest and other charges	3,723	2,518	2,518	-
<b>Total Expenditures</b>	32,911,681	31,815,203	31,829,412	(14,209)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(2,505,764)	(1,345,821)	(1,318,510)	27,311
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(55,497)	(55,497)	-
<b>Net Change in Fund Balances</b>	(2,505,764)	(1,401,318)	(1,374,007)	27,311
<b>Fund Balances - Beginning of Year</b>	11,410,877	11,410,877	11,410,877	-
<b>Fund Balances - End of Year</b>	\$ 8,905,113	\$ 10,009,559	\$ 10,036,870	\$ 27,311

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:

		<b>General Fund</b>
June 30, 2017		
Services and other operating	\$	11,134
Capital outlay	\$	33,880

These excess expenditures were funded by greater than anticipated revenues, and offset by unexpended appropriations in other categories.

## Gateway Unified School District

### SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

July 1	2012		2014		2016
Actuarial accrued liability (AAL)	\$	2,789,512	\$	2,405,655	\$ 2,001,124
Actuarial value of plan assets		-		-	-
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$</b>	<b>2,789,512</b>	<b>\$</b>	<b>2,405,655</b>	<b>\$ 2,001,124</b>
Funded ratio (actuarial value of plan assets/AAL)		0.00%		0.00%	0.00%
Covered payroll (active members)	\$	15,423,528	\$	15,622,758	\$ 15,529,430
UAAL as a percentage of covered payroll		18.09%		15.40%	12.89%

*See the accompanying notes to the required supplementary information.*

## Gateway Unified School District

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

Years Ended June 30	2017	2016	2015
District's proportion of the net pension liability (asset)	0.022%	0.023%	0.023%
District's proportionate share of the net pension liability (asset)	\$ 17,793,820	\$ 15,484,520 *	\$ 13,440,510 *
State's proportionate share of the net pension liability (asset) associated with the District	6,455,598	5,356,560	5,060,352
<b>Total</b>	<b>\$ 24,249,418</b>	<b>\$ 20,841,080 *</b>	<b>\$ 18,500,862 *</b>
District's covered-employee payroll	\$ 10,963,886	\$ 10,551,351	\$ 10,418,339
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	162.29%	146.75% *	129.01% *
Plan fiduciary net position as a percentage of the total pension liability	70.00%	74.00%	77.00%

\* As restated for prior-period adjustment.

See the accompanying notes to the required supplementary information.

**Gateway Unified School District****SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

Years Ended June 30	2017	2016	2015
Contractually required contribution	\$ 1,468,109	\$ 1,176,425	\$ 936,960
Contributions in relation to the contractually required contribution	(1,468,109)	(1,176,425)	(936,960)
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
District's covered-employee payroll	\$ 10,963,886	\$ 10,551,351	\$ 10,418,339
Contributions as a percentage of covered-employee payroll	13.39%	11.15%	8.99%

*See the accompanying notes 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	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0464%	0.0467%	0.0464%
District's proportionate share of the net pension liability (asset)	\$ 9,164,029	\$ 6,885,088	\$ 5,195,807
District's covered-employee payroll	\$ 5,572,415	\$ 5,168,898	\$ 4,878,133
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.45%	133.20%	106.51%
Plan fiduciary net position as a percentage of the total pension liability	73.90%	79.40%	83.50%

*See the accompanying notes to the required supplementary information.*

**Gateway Unified School District****SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM**

Years Ended June 30	2017	2016	2015
Contractually required contribution	\$ 874,283	\$ 660,164	\$ 608,431
Contributions in relation to the contractually required contribution	(874,283)	(660,164)	(608,431)
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
District's covered-employee payroll	\$ 5,572,415	\$ 5,168,898	\$ 4,878,133
Contributions as a percentage of covered-employee payroll	15.69%	12.77%	12.47%

*See the accompanying notes to the required supplementary information.*

**1. SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS**

This schedule provides trend information for the other postemployment benefits plan of the District, displaying actuarial accrued liability, actuarial value of plan assets, and covered payroll for the most recent valuation study and the preceding two studies.

**2. CHANGES OF BENEFIT TERMS**

**California State Teachers' Retirement System**

There were no significant changes of benefit terms during the measurement period ended June 30, 2016.

**California Public Employees' Retirement System**

There were no significant changes of benefit terms during the measurement period ended June 30, 2016.

**3. CHANGES OF ASSUMPTIONS**

**California State Teachers' Retirement System**

There were no changes in major assumptions during the measurement period ended June 30, 2016.

**California Public Employees' Retirement System**

There were no changes in major assumptions during the measurement period ended June 30, 2016.



## **OTHER SUPPLEMENTARY INFORMATION SECTION**

## Gateway Unified School District

### LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE

June 30, 2017

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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 two charter schools.

#### GOVERNING BOARD

Name	Office	Term Expires
Deborah D. Bourne	President	2018
Phil Lewis	Vice President	2020
Karl Janulewicz	Clerk	2020
Lynn "Jo" Giovannoni	Member	2018
Dale Wallace	Member	2018

#### ADMINISTRATION

James M. Harrell  
Superintendent

Jennifer Kiff  
Director of Business Services

## **Gateway Unified School District**

### **SCHEDULE OF CHARTER SCHOOLS**

**Year Ended June 30, 2017**

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

Academy of Personalized Learning

Rocky Point Charter School

*See the accompanying note to the other supplementary information.*

**Gateway Unified School District**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
June 30, 2017

	<b>Originally Reported</b>		<b>Final</b>	
	<b>Second Period Report</b>	<b>Annual Report</b>	<b>Second Period Report</b>	<b>Annual Report</b>
<b>ELEMENTARY</b>				
<b>Regular ADA*</b>				
Transitional kindergarten/ kindergarten through grade 3	677	685	677	685
Grades 4 through 6	497	498	497	498
Grades 7 through 8	324	323	324	323
<b>Extended-Year Special Education</b>				
Transitional kindergarten/ kindergarten through grade 3	3	6	3	6
Grades 4 through 6	1	4	1	4
Grades 7 through 8	1	1	1	1
<b>Special Education - Nonpublic, Nonsectarian Schools</b>				
Transitional kindergarten/ kindergarten through grade 3	2	2	2	2
Grades 4 through 6	1	1	1	1
Grades 7 through 8	2	2	2	2
<b>Community Day School</b>				
Grades 7 through 8	4	4	4	4
<b>ELEMENTARY TOTALS</b>	<b>1,512</b>	<b>1,526</b>	<b>1,512</b>	<b>1,526</b>
<b>HIGH SCHOOL</b>				
<b>Regular ADA**</b>				
Grades 9 through 12	620	614	620	614
<b>Extended-Year Special Education</b>				
Grades 9 through 12	-	1	-	1
<b>Special Education - Nonpublic, Nonsectarian Schools</b>				
Grades 9 through 12	2	2	2	2
<b>Community Day School</b>				
Grades 9 through 12	9	8	9	8
<b>HIGH SCHOOL TOTALS</b>	<b>631</b>	<b>625</b>	<b>631</b>	<b>625</b>
<b>ADA Totals</b>	<b>2,143</b>	<b>2,151</b>	<b>2,143</b>	<b>2,151</b>

\* 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, 2017

	Minutes Requirement	2016-17 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	59,040	180	N/A	Complied
Grade 1	50,400	53,640	180	N/A	Complied
Grade 2	50,400	55,440	180	N/A	Complied
Grade 3	50,400	55,440	180	N/A	Complied
Grade 4	54,000	58,140	180	N/A	Complied
Grade 5	54,000	58,140	180	N/A	Complied
Grade 6	54,000	61,740	180	N/A	Complied
Grade 7	54,000	61,740	180	N/A	Complied
Grade 8	54,000	61,740	180	N/A	Complied
Grade 9	64,800	66,570	180	N/A	Complied
Grade 10	64,800	66,570	180	N/A	Complied
Grade 11	64,800	66,570	180	N/A	Complied
Grade 12	64,800	66,570	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) 2018	2017	2016	2015
<b>General Fund</b>				
Revenues and other financial sources	\$ 29,635,569	\$ 30,510,902	\$ 31,428,901	\$ 28,165,821
Expenditures	32,067,950	31,829,412	30,736,109	28,250,186
Other uses and transfers out	95,768	55,497	-	-
<b>Total Outgo</b>	<b>32,163,718</b>	<b>31,884,909</b>	<b>30,736,109</b>	<b>28,250,186</b>
<b>Change in Fund Balance</b>	<b>(2,528,149)</b>	<b>(1,374,007)</b>	<b>692,792</b>	<b>(84,365)</b>
<b>Ending Fund Balance</b>	<b>\$ 7,508,721</b>	<b>\$ 10,036,870</b>	<b>\$ 11,410,877</b>	<b>\$ 10,718,085</b>
Available reserves	\$ 2,914,442	\$ 3,955,931	\$ 5,471,915	\$ 4,594,488
Designated for economic uncertainties	\$ 2,914,442	\$ 3,955,931	\$ 5,471,915	\$ 4,594,488
Undesignated fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of				
total outgo	9%	12%	18%	16%
Total long-term debt	\$ 70,748,347	\$ 71,025,147	\$ 64,416,194 *	\$ 60,833,009 *
Average daily attendance at P-2	2,128	2,143	2,179	2,318

*\*As restated for prior-period adjustment.*

The General Fund balance has decreased by \$681,215 over the past two years. The fiscal year 2017-18 budget projects a decrease of \$2,528,149 (25.2%). 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 two of the past three years and anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term debt has increased by \$10,192,138 over the past two years.

Average daily attendance has decreased by 175 over the past two years. The District anticipates ADA to decline by 15 during fiscal year 2017-18.

*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, 2017

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The fund balances for all funds, as reported in the annual financial and budget report, equal the corresponding balances in the audited financial statements.

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*See the accompanying note to the other supplementary information.*

**Gateway Unified School District****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2017

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>FEDERAL PROGRAMS</b>			
<b>U.S. Department of Education</b>			
<b>Passed Through California Department of Education</b>			
<b>Special Education Cluster</b>			
Special Education - IDEA Basic Local Assistance	84.027	13379	\$ 523,663
Special Education - IDEA Preschool	84.173	13430	138,859
<b>Total Special Education Cluster</b>			662,522
Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.048	14894	36,125
NCLB - Title I, Part A, Basic Grants	84.010	14329	1,692,587
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	220,057
<b>Direct Programs</b>			
Indian Education - Grants to Local Educational Agencies	84.060		39,701
<b>Total U.S. Department of Education</b>			2,650,992
<b>U.S. Department of Agriculture</b>			
<b>Passed Through California Department of Education</b>			
<b>Child Nutrition Cluster</b>			
School Breakfast	10.553	13390	225,795
National School Lunch	10.555	13391	694,473
<b>Total Child Nutrition Cluster</b>			920,268
<b>Passed Through Shasta County Office of Education</b>			
Schools and Roads - Grants to Counties	10.666	10044	30,300
<b>Total U.S. Department of Agriculture</b>			950,568
<b>Nonmonetary Assistance</b>			
Food Donation	10.555		75,373
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,676,933</b>

*See the accompanying note to the other supplementary information.*



# Gateway Unified School District

## NOTE TO THE OTHER SUPPLEMENTARY INFORMATION

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### **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, 2017. 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, 2017; 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 12, 2017.

***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 Jam, LLP*

December 12, 2017  
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, 2017. 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 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, 2017.

**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 12, 2017

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 *2016-17 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, 2017. 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 *2016-17 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 *2016-17 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, 2017	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
Mental health expenditures	No
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 2016-17 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 mental health expenditures because the District did not have any expenditures during 2016-17 from budget item 6100-161-0001, Provision 14 (SACS resource code 6512).

## **INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

(Continued)

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. Testing was not performed for California Clean Energy Jobs Act because the District did not have any expenditures during 2016-17 from California Clean Energy Jobs Act funds.

Since the District did not participate in the following programs during 2016-17, all steps related to them were not performed:

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

Since the 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

### ***Opinion on State Compliance***

In our opinion, the District complied, in all material respects, with the state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2017.

*KCoe Jam, LLP*

December 12, 2017  
Chico, California

## **FINDINGS AND QUESTIONED COSTS SECTION**

**Gateway Unified School District**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2017

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**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. 84.010 Title I Grants to Local Educational Agencies	
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?	None reported
Type of auditors' report issued on compliance for state programs:	Unmodified

**Gateway Unified School District**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2017

(Continued)

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**SECTION II FINDINGS**

**FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS**

**FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS**

**STATE AWARDS AUDIT**

None.

# **Gateway Unified School District**

## **CORRECTIVE ACTION PLAN**

June 30, 2017

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

## Gateway Unified School District

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

#### 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
<b>District-Wide Schedule of Unduplicated Pupil Counts</b>				
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)
<b>Adjusted Total Unduplicated Pupil Counts</b>	<b>1,478</b>	<b>18</b>	<b>48</b>	<b>1,558</b>
Certified enrollment count				2,326
County Office of Education adjustment				19
<b>Total Enrollment Count</b>				<b>2,345</b>

## Gateway Unified School District

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

(Continued)

**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

<b>Effect of Unduplicated Pupil Count Adjustments on State Aid</b>	
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)
<b>Adjusted Target Supplemental Grant Funding</b>	<b>\$ 2,669,296</b>
Target concentration grant funding as originally reported	\$ 1,735,466
Audit adjustment	(139,391)
<b>Adjusted Target Concentration Grant Funding</b>	<b>\$ 1,596,075</b>
Total audit adjustments	\$ 195,148
2015-16 statewide gap funding rate	0.52557616
<b>Overstatement of 2015-16 Second Principal Apportionment</b>	<b>\$ 102,565</b>

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.

**Current Status** Fully implemented.



## Gateway Unified School District

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

(Continued)

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#### 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.

**Current Status** Fully implemented.