

Gateway Unified School District

**County of Shasta
Redding, California**

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

June 30, 2018



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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, 2018; 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, 2018; 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 73 to 78 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 75 to 79 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 11, 2018, 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 11, 2018
Chico, California

FINANCIAL SECTION

Required Supplementary Information

Gateway Unified School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

An overview of the Gateway Unified School District's (the District) financial activities for the fiscal year ended June 30, 2018, 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).

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, as amended by GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. The summarized comparative information presented in this management's discussion and analysis for the year ended June 30, 2017, has not been restated to reflect OPEB expense accounting as required by GASB Statement No. 75, as amended by GASB Statement No. 85. Information was not available for such restatement. Therefore, certain accounts fluctuate significantly between fiscal years 2016-17 and 2017-18 due to information for the two years not being comparable.

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

FINANCIAL HIGHLIGHTS

Overall revenues were \$34,578,087. Expenses exceeded revenues by \$3,166,502.

Total net position in governmental activities was negative \$13,163,916, a decrease of 31.7% from the previous year. The General Fund reported a total fund balance of \$8,571,058.

Enrollment in the District increased by 0.8%, while average daily attendance (ADA) decreased by 0.1%.

Gateway Teachers' Association (GTA) received the equivalent of a 2% increase on the salary schedule, and a one-time increase for a total payment of \$10,000 as a retiree benefit or cash payment for eight retirees, for a total cost of approximately \$97,800. California School Employee Association (CSEA) received a 1% increase on the salary schedule for steps 8-16 and 2% for steps 17-32, an additional holiday, and a \$250 increase to the health and welfare cap, raising it to \$8,850 per year. The Non-Represented Employee Groups received a 1% increase on the salary schedule, and a 1% one-time wage payment.

The District increased its long-term debt from \$72,873,308 in 2016-17 to \$77,692,551 in 2017-18. This represents a 6.6% 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.

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

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.

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

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

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

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

Fund Financial Statements

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

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

The District has two types of funds:

Governmental Funds

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

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

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

Fiduciary Funds

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

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, 2018, was a negative \$13,163,916. Of this amount, a negative \$20,393,975 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 2017-18
	2017	2018	
ASSETS			
Cash and investments	\$ 13,604,823	\$ 11,859,006	-12.8%
Receivables	2,470,617	2,847,760	15.3%
Other assets	285,249 *	356,584	25.0%
Capital assets - net	43,177,445	42,269,286	-2.1%
TOTAL ASSETS	59,538,134 *	57,332,636	-3.7%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pensions	5,595,390	9,515,252	70.1%
Deferred loss on advance refunding	1,306,630	1,230,212	-5.8%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,902,020	10,745,464	55.7%
LIABILITIES			
Accounts payable and other liabilities	1,631,262	1,439,463	-11.8%
Advances from grantors	553,730	522,497	-5.6%
Long-term debt	72,873,308 *	77,692,551	6.6%
TOTAL LIABILITIES	75,058,300 *	79,654,511	6.1%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pensions	1,379,268	1,587,505	15.1%
NET POSITION			
Net investment in capital assets	2,391,887	1,534,334	-35.9%
Restricted	5,527,734	5,695,725	3.0%
Unrestricted	(17,917,035) *	(20,393,975)	-13.8%
TOTAL NET POSITION	\$ (9,997,414) *	\$ (13,163,916)	-31.7%

* As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.

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 increased 3.5% from the previous year to \$34,578,087. Property taxes and state aid funding accounted for most of the District's revenue, representing 72.3 cents of each dollar raised. Another 19.1% came from federal and state aid for specific programs, and the remaining 8.6% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services increased 3.5% to \$37,744,589. Expenses exceeded the District's revenues for the year by \$3,166,502. The District's expenses are primarily related to educating and caring for students (77.8%). Administrative activities of the District account for 6.4% of the total costs.

Years Ended June 30	Governmental Activities		Percentage Change 2017-18
	2017	2018	
REVENUES			
Program Revenues			
Charges for services	\$ 1,824,393	\$ 1,777,237	-2.6%
Operating grants and contributions	5,973,618	6,594,853	10.4%
General Revenues			
State formula aid	10,509,912	9,791,776	-6.8%
Property taxes	14,135,454	15,221,967	7.7%
Other	980,578	1,192,254	21.6%
TOTAL REVENUES	33,423,955	34,578,087	3.5%
EXPENSES			
Instruction	21,231,003	21,927,442	3.3%
Instructional-related services	3,211,273	3,244,770	1.0%
Pupil services	4,000,599	4,210,147	5.2%
General administration	2,499,815	2,425,548	-3.0%
Plant services	2,723,674	3,247,686	19.2%
Ancillary services	471,408	498,459	5.7%
Community services	93,624	137,735	47.1%
Other outgo	393,479	88,278	-77.6%
Interest on long-term debt	1,853,825	1,964,524	6.0%
TOTAL EXPENSES	36,478,700	37,744,589	3.5%
Change in Net Position	\$ (3,054,745)	\$ (3,166,502)	-3.7%

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of \$13,412,820, a decrease of \$1,030,094 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance		Increase (Decrease)
	2017	2018	
General	\$ 10,036,870	\$ 8,571,058	\$ (1,465,812)
Cafeteria Special Revenue	79,981	97,506	17,525
Building	1,858,944	1,709,168	(149,776)
Capital Facilities	179,318	556,189	376,871
Special Reserve Capital Projects	2,213	2,229	16
Bond Interest and Redemption	2,285,588	2,476,670	191,082
Totals	\$ 14,442,914	\$ 13,412,820	\$ (1,030,094)

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

The increase in the Cafeteria Special Revenue Fund is due to an effort to maintain a positive ending balance; this alleviates the negative interest accrual that occurs when there is a delay in reimbursement for meals served and expenditures in this fund exceed revenues.

The decrease in the Building Fund is due to improvements made to the libraries at Central Valley High School, Shasta Lake School, Buckeye School of the Arts, and Grand Oaks School.

The increase in the Capital Facilities Fund is due to accumulated fund balance from developer fees collected in excess of current-year expenditures.

The increase in the Bond Interest and Redemption Fund is due to property tax collections in excess of the 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)

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 \$2,148,976. However, actual results for the year reflected a deficit of \$1,465,812. 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 \$42,269,286 in capital assets including land, site improvements, buildings, and equipment. During the year, the District completed district-wide lighting and HVAC improvements, a greenhouse remodel, and various other improvement projects.

June 30	Governmental Activities		Percentage
	2017	2018	Change 2017-18
Land	\$ 341,760	\$ 341,760	0.0%
Construction in progress	41,294	58,181	40.9%
Buildings and improvements	70,330,110	71,233,006	1.3%
Equipment	4,082,132	4,082,132	0.0%
Accumulated depreciation	(31,617,851)	(33,445,793)	5.8%
Totals	\$ 43,177,445	\$ 42,269,286	-2.1%

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

Long-Term Debt

At year end, the District had \$77,692,551 in outstanding long-term debt. The change in long-term debt is due principally to the change in the District's share of the net pension liability. Additionally, the District made normally scheduled payments on its general obligation bonds and capital lease. The District has no plans to incur additional long-term debt in 2018-19.

June 30	Governmental Activities		Percentage Change 2017-18
	2017	2018	
General obligation bonds	\$ 34,088,948	\$ 32,802,114	-3.8%
Bond issue premiums	1,622,797	1,426,606	-12.1%
Bond capitalized interest	8,196,954	9,445,612	15.2%
Capital lease	42,433	-	-100.0%
Compensated absences	116,166	152,519	31.3%
Total OPEB liability	1,848,161 *	1,719,854	-6.9%
Net pension liability	26,957,849	32,145,846	19.2%
Totals	\$ 72,873,308 *	\$ 77,692,551	6.6%

* As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.

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 increasing risk of an economic downturn as the expansion cycle exceeds most previous cycles, the impact to health care costs resulting from the elimination of the individual mandate under the Affordable Care Act, the ongoing increases in California's minimum wage, 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: 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 Formula (LCFF).

LCFF is anticipated to be fully funded for the 2018-19 fiscal year, and the increase has given the District the opportunity to catch up on contributions to the Special Reserve Fund for Postemployment Benefits, where we save for current and future retiree liabilities. Estimates of future year increases to LCFF are limited to COLA alone, less than 3% per year. It is unlikely that the annual COLA of the LCFF will be sufficient to fund the annual cost increases associated with step and column and the escalating employer retirement system costs. Any additional ongoing increases to the salary schedule are highly problematic when attempting to balance a budget.

The District has contracts through June 30, 2018, with the California School Employees Association bargaining group and through June 30, 2018, with the Gateway Teachers' Association bargaining group. The contracts allow for renegotiation of compensation issues each year. 2018-19 negotiations are not settled for any of the employee groups at this time.

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

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.

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, 2018	Governmental Activities
ASSETS	
Cash and investments	\$ 11,859,006
Accounts receivable	1,115,047
Due from other governments	1,732,713
Inventories	42,176
Prepaid expenses	314,408
Nondepreciated capital assets	399,941
Depreciated capital assets	75,315,138
Accumulated depreciation	(33,445,793)
TOTAL ASSETS	57,332,636
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pensions	9,515,252
Deferred loss on advance refunding	1,230,212
TOTAL DEFERRED OUTFLOWS OF RESOURCES	10,745,464
LIABILITIES	
Overdraft in county treasury	97,996
Accounts payable and other current liabilities	1,029,405
Due to other governments	312,062
Advances from grantors	522,497
Long-term obligations:	
Due within one year	1,651,829
Due beyond one year	76,040,722
TOTAL LIABILITIES	79,654,511
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pensions	1,587,505
NET POSITION	
Net investment in capital assets	1,534,334
Restricted for capital projects	2,264,957
Restricted for debt service	2,476,670
Restricted for educational programs	899,332
Restricted for other purposes	54,766
Unrestricted	(20,393,975)
TOTAL NET POSITION	\$ (13,163,916)

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

Gateway Unified School District
STATEMENT OF ACTIVITIES

Year Ended June 30, 2018	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
Instruction	\$ 21,927,442	\$ 1,340,033	\$ 4,137,816	\$ (16,449,593)
Instruction-related services	3,244,770	295,211	304,581	(2,644,978)
Pupil services	4,210,147	41,928	1,147,978	(3,020,241)
Ancillary services	498,459	61	879	(497,519)
Community services	137,735	87,145	10,767	(39,823)
General administration	2,425,548	6,949	253,930	(2,164,669)
Plant services	3,247,686	5,910	716,457	(2,525,319)
Other outgo	88,278	-	22,445	(65,833)
Interest on long-term debt	1,964,524	-	-	(1,964,524)
Total Governmental Activities	\$ 37,744,589	\$ 1,777,237	\$ 6,594,853	(29,372,499)
GENERAL REVENUES				
Property taxes - levied for general purposes				12,608,673
Property taxes - levied for debt service				2,259,800
Property taxes - levied for other specific purposes				353,494
Federal and state aid not restricted to specific purposes				9,791,776
Unrestricted investment earnings				99,771
Interagency revenues				191,120
Miscellaneous				901,363
TOTAL GENERAL REVENUES AND TRANSFERS				26,205,997
Change in Net Position				(3,166,502)
Net Position - as Previously Reported				(7,101,574)
Cumulative effect of change in accounting principles				(2,895,840)
Net Position - as Restated				(9,997,414)
Net Position - End of Year				\$ (13,163,916)

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

Gateway Unified School District
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 7,105,817	\$ 1,709,167	\$ 2,476,670	\$ 567,352	\$ 11,859,006
Accounts receivable	1,110,068	-	-	4,979	1,115,047
Due from other governments	1,591,347	-	-	141,366	1,732,713
Inventories	-	-	-	42,176	42,176
Prepaid expenditures	314,008	-	-	400	314,408
TOTAL ASSETS	\$ 10,121,240	\$ 1,709,167	\$ 2,476,670	\$ 756,273	\$ 15,063,350
LIABILITIES AND FUND BALANCES					
Liabilities					
Overdraft in county treasury	\$ -	\$ -	\$ -	\$ 97,996	\$ 97,996
Accounts payable and other current liabilities	715,623	(1)	-	2,353	717,975
Due to other governments	312,062	-	-	-	312,062
Advances from grantors	522,497	-	-	-	522,497
Total Liabilities	1,550,182	(1)	-	100,349	1,650,530
Fund Balances					
Nonspendable	325,908	-	-	43,140	369,048
Restricted	899,332	1,709,168	2,476,670	610,555	5,695,725
Assigned	2,644,019	-	-	2,229	2,646,248
Unassigned	4,701,799	-	-	-	4,701,799
Total Fund Balances	8,571,058	1,709,168	2,476,670	655,924	13,412,820
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,121,240	\$ 1,709,167	\$ 2,476,670	\$ 756,273	\$ 15,063,350

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, 2018

Total Fund Balances - Governmental Funds	\$ 13,412,820
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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	\$ 75,715,079
Accumulated depreciation	<u>(33,445,793)</u>

Total Capital Assets - Net	42,269,286
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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 unmatrued interest owed at the end of the period was:

(311,430)

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	43,674,332
Net pension liability	32,145,846
Total OPEB liability	1,719,854
Compensated absences	152,519
Deferred loss on debt refunding	<u>(1,230,212)</u>

Total Long-Term Liabilities	(76,462,339)
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Balance Forward	\$ (21,091,663)
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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
(Continued)**

June 30, 2018

Balance Brought Forward \$ (21,091,663)

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	9,515,252
Deferred inflows of resources relating to pensions	(1,587,505)

Total Net Position - Governmental Activities \$ (13,163,916)

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, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 12,608,673	\$ -	\$ 2,259,800	\$ -	\$ 14,868,473
Local control funding formula sources	8,937,199	-	-	-	8,937,199
Other state revenue	2,713,725	-	-	72,249	2,785,974
Federal revenue	2,577,844	-	-	1,013,721	3,591,565
Other local revenue	4,378,067	13,008	6,656	575,986	4,973,717
Total Revenues	31,215,508	13,008	2,266,456	1,661,956	35,156,928
Expenditures					
Current:					
Instruction	20,224,187	-	-	-	20,224,187
Instruction-related services	3,154,709	-	-	1,244,409	4,399,118
Pupil services	2,601,440	-	-	-	2,601,440
Ancillary services	502,933	-	-	-	502,933
Community services	126,522	-	-	-	126,522
General administration	2,087,404	-	-	69,656	2,157,060
Plant services	2,818,164	162,784	-	29,573	3,010,521
Transfers between agencies	88,278	-	-	-	88,278
Debt service:					
Principal	42,433	-	1,286,834	-	1,329,267
Interest and other charges	1,286	-	788,540	-	789,826
Issuance costs and discounts	-	-	-	1,600	1,600
Capital outlay	956,270	-	-	-	956,270
Total Expenditures	32,603,626	162,784	2,075,374	1,345,238	36,187,022
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,388,118)	\$ (149,776)	\$ 191,082	\$ 316,718	\$ (1,030,094)

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, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Interfund transfers in	\$ -	\$ -	\$ -	\$ 77,694	\$ 77,694
Interfund transfers out	(77,694)	-	-	-	(77,694)
Total Other Financing Sources (Uses)	(77,694)	-	-	77,694	-
Net Change in Fund Balances	(1,465,812)	(149,776)	191,082	394,412	(1,030,094)
Fund Balances - Beginning of Year	10,036,870	1,858,944	2,285,588	261,512	14,442,914
Fund Balances - End of Year	\$ 8,571,058	\$ 1,709,168	\$ 2,476,670	\$ 655,924	\$ 13,412,820

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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ (1,030,094)
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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	\$ 956,270
Depreciation expense	(1,827,942)

Net Capital Outlay	(871,672)
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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:

1,442,432

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:

(1,406,036)

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:

(36,353)

Balance Forward	\$ (1,901,723)
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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, 2018

Balance Brought Forward	\$ (1,901,723)
<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>	(1,476,372)
<p>Other postemployment benefits (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:</p>	128,307
<p>Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as construction in progress must be written off to expense. Costs written off for canceled projects were:</p>	(36,487)
<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>	119,773
Change in Net Position of Governmental Activities	\$ (3,166,502)

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

Gateway Unified School District
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2018	Foundation Private- Purpose Trust	Agency
ASSETS		
Cash and investments	\$ 297,574	\$ 48,148
Accounts receivable	-	4,509
Inventories - supplies and materials	-	2,203
Prepaid expenditures	-	255,450
TOTAL ASSETS	297,574	\$ 310,310
LIABILITIES		
Overdraft in county treasury	-	\$ 76,796
Accounts payable	-	183,286
Due to student groups	-	50,228
TOTAL LIABILITIES	-	\$ 310,310
NET POSITION		
Held in trust for scholarships	\$ 297,574	

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

Gateway Unified School District**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUND**

	Foundation Private- Purpose Trust
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Year Ended June 30, 2018	
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Additions	
Interest and investment earnings	\$ 3,314
Donations	11,855
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Total Additions	15,169
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Deductions	
Scholarships awarded	17,100
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Change in Net Position	(1,931)
Net Position - Beginning of Year	299,505
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Net Position - End of Year	\$ 297,574
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The accompanying notes are an integral part of these financial statements.

Gateway Unified School District

NOTES TO THE 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, one community day school, and one long-term independent study program in Redding, California. The District is the sponsoring local education agency for one charter school.

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

Implementation of New Accounting Standards

Governmental Accounting Standards Board, Statement No. 75 The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, for the fiscal year ended June 30, 2018. 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 Than 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.

Governmental Accounting Standards Board, Statement No. 85 The District adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. 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 the timing of the measurement of pension or OPEB liabilities and expenditures recognized, recognizing on-behalf payments for pensions or 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.

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

As a result of the adoption of GASB Statement No. 75 and 85, net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75 and 85:

Net Position - as Previously Reported	\$ (7,101,574)
Cumulative Effect of Change in Accounting Principles	
Total OPEB liability	(2,895,840)
Net Position - as Restated	\$ (9,997,414)

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)

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)

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)

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)

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)

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 less than one year. As of June 30, 2018, the fair value of the County pool was 99.44% 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, 2018, was \$43,039. 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, 2018, was \$65,594.

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, 2018. 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, 2018. At June 30, 2018, 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.

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

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.

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.

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

Long-Term Debt

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

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

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

Compensated Absences

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

Deferred Outflows/Inflows of Resources

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

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

Changes in proportion and differences between the District's 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.

Differences between projected and actual earnings on OPEB 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 closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan.

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

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.

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.

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

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.

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

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, 2018	Maturities	Fair Value
Petty cash/cash awaiting deposit		\$ 2,150
Deposits (1)		56,772
Subtotal		58,922
Investments That Are Not Securities (2)		
County treasurer's investment pool (net of overdraft)	11.6 months average	11,971,014
Total Cash and Investments		12,029,936
Less: Trust fund cash and investments		297,574
Add: Agency fund cash and investments (net of overdraft)		28,648
Total Cash and Investments Per Government-Wide Statement of Net Position (Net of Overdraft in County Treasury)		\$ 11,761,010

- (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, 2018:

- County treasurer's investment pool (net of overdraft) of \$11,971,014 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)

Concentration of Credit Risk – Investments

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

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

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

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

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2018	General Fund	Other Governmental Funds
Interest	\$ 2,885	\$ -
Other	1,107,183	4,979
Total	\$ 1,110,068	\$ 4,979

4. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following:

June 30, 2018	General Fund	Other Governmental Funds
Due From		
Federal government	\$ 982,462	\$ 131,343
State government	489,582	10,023
Local governments	119,303	-
Total	\$ 1,591,347	\$ 141,366

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

5. 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:

Interfund Transfer Out	Interfund Transfer In		
General	Cafeteria Special Revenue	\$	77,694

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.

There were no transfers that were not routine or 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, 2018	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	\$ 341,760	\$ -	\$ -	\$ 341,760
Construction in progress	41,294	53,374	36,487	58,181
Total Nondepreciated Capital Assets	383,054	53,374	36,487	399,941
Depreciated Capital Assets				
Buildings and improvements	70,330,110	902,896	-	71,233,006
Equipment and vehicles	4,082,132	-	-	4,082,132
Total Depreciated Capital Assets	74,412,242	902,896	-	75,315,138
Totals at Historical Cost	74,795,296	956,270	36,487	75,715,079
Less: Accumulated Depreciation				
Buildings and improvements	28,289,259	1,601,605	-	29,890,864
Equipment and vehicles	3,328,592	226,337	-	3,554,929
Total Accumulated Depreciation	31,617,851	1,827,942	-	33,445,793
Total Depreciated Capital Assets - Net	42,794,391	(925,046)	-	41,869,345
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS - NET	\$ 43,177,445	\$ (871,672)	\$ 36,487	\$ 42,269,286

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2018	
Governmental Activities	
Instruction	\$ 1,564,636
Pupil services	170,892
General administration	49,071
Plant services	43,343
Total Depreciation Expense - Governmental Activities	\$ 1,827,942

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

7. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2018	General Fund	Building Fund	Other Governmental Funds
Vendors	\$ 542,970	\$ (1)	\$ 1,134
Salaries and benefits	152,524	-	1,185
Other	20,129	-	34
Total	\$ 715,623	\$ (1)	\$ 2,353

8. DUE TO OTHER GOVERNMENTS

Amount due to other governments consisted of the following:

June 30, 2018	General Fund
Due To	
Local governments	\$ 312,062

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, 2017	Redeemed Current Year	Outstanding June 30, 2018
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	2,922,293	210,691	2,711,602
2011	2.0-4.0%	2024	7,655,000	6,020,000	560,000	5,460,000
2013	1.13-6.27%	2040	6,300,281	6,072,727	136,143	5,936,584
2014	2.0-5.0%	2027	5,360,000	4,640,000	330,000	4,310,000
2017	2.0-5.25%	2042	2,800,000	2,800,000	50,000	2,750,000
2017	2.0-4.0%	2028	6,378,960	6,378,960	-	6,378,960
Total			\$ 56,809,927	\$ 34,088,948	\$ 1,286,834	\$ 32,802,114

The amount of interest cost incurred during the year ended June 30, 2018, was \$2,081,446, 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
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	1,766,519	790,087	2,556,606
2024-2028	8,755,476	5,740,830	14,496,306
2029-2033	4,810,151	12,755,934	17,566,085
2034-2038	4,215,359	17,109,766	21,325,125
2039-2043	7,099,585	10,167,491	17,267,076
Total	\$ 32,802,114	\$ 49,691,541	\$ 82,493,655

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 \$362,604.

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, 2018, were \$2,788,195.

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, 2018, were \$2,715,000.

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

11. CAPITAL LEASE

The District leased 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, 2018. Accumulated depreciation of the wireless network infrastructure at June 30, 2018, was \$34,244. 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, 2018. The amount of interest cost incurred during the year ended June 30, 2018, was \$1,286, all of which was charged to expenses. The lease was paid off during 2017-18.

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:

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2019	\$ 301,439
2020	301,439
2021	77,399
Total	\$ 680,277

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were \$313,688 for the year ended June 30, 2018.

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, 2018	Beginning Balance - as Previously Reported	Cumulative Effect of Change in Accounting Principles	Beginning Balance - as Restated	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities							
Compensated absences	\$ 116,166	\$ -	\$ 116,166	\$ 36,353	\$ -	\$ 152,519	\$ -
General obligation bonds	34,088,948	-	34,088,948	-	1,286,834	32,802,114	1,335,500
Bond issue premiums	1,622,797	-	1,622,797	-	196,191	1,426,606	176,829
Capitalized interest	8,196,954	-	8,196,954	1,361,823	113,165	9,445,612	139,500
Capital lease	42,433	-	42,433	-	42,433	-	-
Total OPEB liability	(1,047,679)	2,895,840	1,848,161	-	128,307	1,719,854	-
Net pension liability	26,957,849	-	26,957,849	5,187,997	-	32,145,846	-
Total	\$ 69,977,468	\$ 2,895,840	\$ 72,873,308	\$ 6,586,173	\$ 1,766,930	\$ 77,692,551	\$ 1,651,829

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

14. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds
Nonspendable				
Reserved for:				
Revolving cash	\$ 11,900	\$ -	\$ -	\$ 564
Inventories	-	-	-	42,176
Prepaid expenditures	314,008	-	-	400
Total Nonspendable	\$ 325,908	\$ -	\$ -	\$ 43,140
Restricted				
Restricted for:				
Capital projects	\$ -	\$ 1,709,168	\$ -	\$ 555,789
Debt service	-	-	2,476,670	-
Federal and state categoricals	899,332	-	-	54,766
Total Restricted	\$ 899,332	\$ 1,709,168	\$ 2,476,670	\$ 610,555
Assigned				
Assigned for:				
Medi-Cal administrative activities	\$ 110,976	\$ -	\$ -	\$ -
Lottery	295,403	-	-	-
Forest reserve	478,915	-	-	-
Redevelopment agency	1,126,522	-	-	-
Technology updates	109,607	-	-	-
Deferred maintenance	104,289	-	-	-
OPEB obligation	338,030	-	-	-
Capital projects	-	-	-	2,229
Other designations	80,277	-	-	-
Total Assigned	\$ 2,644,019	\$ -	\$ -	\$ 2,229
Unassigned				
Designated for economic uncertainties	\$ 4,701,799	\$ -	\$ -	\$ -

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

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.

Construction Project Commitments

Construction project commitments are as follows:

June 30, 2018	Remaining Construction Commitment
Wrought iron fencing	\$ 334,137
Mass communication system	651,269
Long range facility master plan	15,500
Total	\$ 1,000,906

Subsequent to June 30, 2018, the District approved an additional amount related to the long range facility master plan of \$15,000.

Purchase Commitment

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.

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

17. RISK MANAGEMENT

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

18. EMPLOYEE RETIREMENT SYSTEMS

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

Summary

Net pension liability, deferred outflows or resources, deferred inflows of resources, and pension expense are reported as follows:

June 30, 2018	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS State Teachers' Retirement Plan	\$ 20,345,600	\$ 5,518,976	\$ 1,424,967	\$ 1,947,134
CalPERS School Employer Pool	11,800,246	3,996,276	162,538	2,192,417
Total	\$ 32,145,846	\$ 9,515,252	\$ 1,587,505	\$ 4,139,551

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.

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

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 2017-18 was 14.43% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 9.328% 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, 2018, were \$1,674,570.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, 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, 2018

District's proportionate share of the net pension liability	\$ 20,345,600
State's proportionate share of the net pension liability associated with the District	7,562,460
Total	\$ 27,908,060

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

The District's net pension liability was measured as of June 30, 2017, 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, 2017, 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, 2018, the District's proportion was 0.022%.

For the year ended June 30, 2018, the District recognized pension expense of \$217,355 and revenue of \$217,355 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 75,240	\$ 354,933
Net difference between projected and actual earnings on pension plan investments	-	541,912
Change in assumptions	3,769,166	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	528,122
District contributions subsequent to the measurement date	1,674,570	-
Total	\$ 5,518,976	\$ 1,424,967

The \$1,674,570 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, 2019. 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	
2019	\$ 5,366
2020	796,706
2021	505,041
2022	(25,530)
2023	497,122
Thereafter	640,734
Total	\$ 2,419,439

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, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.10%
Interest on accounts	4.50%
Wage growth	3.50%
Consumer price inflation	2.75%
Post-retirement benefit increases	2.00% simple

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, through June 30, 2015.

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

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 February 2017 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 geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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%
Total	100%	

Discount Rate The discount rate used to measure the total pension liability was 7.10%. 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 (7.10%) 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 7.10%, 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 (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
June 30, 2018			
District's proportionate share of the net pension liability	\$ 29,873,800	\$ 20,345,600	\$ 12,612,820

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

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, 2018, the District reported a payable of \$9,700 for the outstanding amount of contributions to CalSTRS required for the year ended June 30, 2018.

California Public Employees' Retirement System

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

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

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members that met the definition of a new member under the Public Employees' Pension Reform Act are required to contribute 6.50% of their salary. Classic employees are required to contribute 7.00% of their salary. The required employer contribution rate for the 2017-18 fiscal year was 15.531%. The District's contributions to CalPERS for the fiscal year ended June 30, 2018, were \$988,609.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension liability of \$11,800,246 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, 2016, rolled forward to June 30, 2017, 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, 2018, the District's proportion was 0.04943%.

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

For the year ended June 30, 2018, the District recognized pension expense of \$2,192,417. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 422,754	\$ -
Net difference between projected and actual earnings on pension plan investments	388,436	-
Change in assumptions	1,723,611	138,933
Changes in proportion and differences between District contributions and proportionate share of contributions	472,866	23,605
District contributions subsequent to the measurement date	988,609	-
Total	\$ 3,996,276	\$ 162,538

The \$988,609 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, 2019. 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

2019	\$ 817,505
2020	1,294,862
2021	961,240
2022	(228,478)
Total	\$ 2,845,129

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:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%

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.

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

The actuarial assumptions used in the June 30, 2016, 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 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+ 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 adjusted to account for assumed administrative expenses.

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.

Asset Class	Assumed Asset Allocation	Real Rate of Return	
		Years 1 - 10	Years 11+
Global equity	47%	4.90%	5.38%
Fixed income	19%	0.80%	2.27%
Inflation assets	6%	0.60%	1.39%
Private equity	12%	6.60%	6.63%
Real estate	11%	2.80%	5.21%
Infrastructure and forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

Discount Rate The discount rate used to measure the total pension liability was 7.15%. 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 in 2013 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.

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

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 7.15%, 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 (6.15%) or one percentage point higher (8.15%) than the current rate:

June 30, 2018	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 17,361,943	\$ 11,800,246	\$ 7,186,352

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, 2018, the District reported a payable of \$6,432 for the outstanding amount of contributions to CalPERS required for the year ended June 30, 2018.

19. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2017-18, 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 and Benefits Provided

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.

Employees Covered

Employees covered by the benefit terms of the plan consisted of:

June 30, 2018	
Inactive plan members or beneficiaries currently receiving benefit payments	41
Active plan members	278
Total	319

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

Contributions

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 vary depending on the level of coverage selected. Currently, the District's policy is to contribute to the plan on a pay-as-you-go basis. 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 specific 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 towards coverage is made on the following schedule:

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

For the fiscal year ended June 30, 2018, the District contributed \$282,168 representing premium payments on behalf of retired employees.

Net OPEB Liability

The District's net OPEB liability for the plan is measured as the total OPEB liability, less the plan's fiduciary net position. The total OPEB liability of the plan is measured as of June 30, 2018, using an annual actuarial valuation as of July 1, 2016, rolled forward to June 30, 2018, using standard update procedures. The June 30, 2018, total OPEB liability was based on the actuarial methods and assumptions as shown below.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2016
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Salary increases	3.00%
Discount rate	3.62%
Healthcare cost trend rate - pre-65	6.00% ⁽¹⁾

(1) For fiscal year 2018, decreasing to 5.00% for 2019 and later years.

Mortality is based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection.

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.62%. The discount rate is based on a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Year Ended June 30, 2018

Total OPEB Liability	
Service cost	\$ 92,019
Interest	61,842
Benefit payments - including refunds of employee contributions	(282,168)
Net Change in Total OPEB Liability	(128,307)
Total OPEB Liability - Beginning of Year	1,848,161
Total OPEB Liability - End of Year	\$ 1,719,854
Covered-employee payroll	\$ 18,315,799
District's total OPEB liability as a percentage of covered-employee payroll	9.39%

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the District's total OPEB liability calculated using the discount rate of 3.62%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current rate:

June 30, 2018	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Total OPEB liability	\$ 1,783,815	\$ 1,719,854	\$ 1,655,531

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

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the District's total OPEB liability calculated using the healthcare cost trend rate of 6.00%, as well as the District's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate:

June 30, 2018	1% Decrease (5.00%)	Health Cost Trend Rates (6.00%)	1% Increase (7.00%)
Total OPEB liability	\$ 1,686,576	\$ 1,719,854	\$ 1,757,953

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$153,861.

21. SUBSEQUENT EVENT

Subsequent to June 30, 2018, the Canyon School site was damaged by fire, resulting in an estimated loss of \$138,934, which is expected to be reimbursed by insurance.

22. FUTURE GASB IMPLEMENTATION

In June 2017, GASB issued Statement No. 87, *Leases*. This statement improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2020, will have on the District's financial statements, if any.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings, and Direct Placements*. This statement improves the information disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2018, 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, 2018	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 12,051,499	\$ 12,860,158	\$ 12,608,673	\$ (251,485)
Local control funding formula sources	9,466,937	8,677,890	8,937,199	259,309
Other state revenue	2,058,097	2,871,504	2,713,725	(157,779)
Federal revenue	2,442,630	2,570,972	2,577,844	6,872
Other local revenue	3,616,406	4,211,719	4,378,067	166,348
Total Revenues	29,635,569	31,192,243	31,215,508	23,265
Expenditures				
Certificated salaries	11,744,153	12,176,520	12,065,949	110,571
Classified salaries	6,337,777	6,233,819	6,233,818	1
Employee benefits	7,162,299	7,561,381	7,345,482	215,899
Books and supplies	1,455,271	1,447,361	1,281,304	166,057
Services and other operating	5,212,686	4,866,081	4,699,062	167,019
Capital outlay	66,850	911,271	911,270	1
Other outgo	45,195	23,373	23,022	351
Debt service:				
Principal	41,201	42,441	42,441	-
Interest and other charges	2,518	1,278	1,278	-
Total Expenditures	32,067,950	33,263,525	32,603,626	659,899
Excess (Deficiency) of Revenues Over Expenditures	(2,432,381)	(2,071,282)	(1,388,118)	683,164
Other Financing Sources (Uses)				
Transfers out	(95,768)	(77,694)	(77,694)	-
Net Change in Fund Balances	(2,528,149)	(2,148,976)	(1,465,812)	683,164
Fund Balances - Beginning of Year	10,036,870	10,036,870	10,036,870	-
Fund Balances - End of Year	\$ 7,508,721	\$ 7,887,894	\$ 8,571,058	\$ 683,164

See the accompanying notes to this budgetary comparison schedule.

Gateway Unified School District
NOTES TO THE 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

There were no excesses of budgetary expenditures for the year ended June 30, 2018.

Gateway Unified School District

SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Year Ended June 30, 2018

Total OPEB Liability	
Service cost	\$ 92,019
Interest	61,842
Benefit payments - including refunds of employee contributions	(282,168)
Net Change In Total OPEB Liability	(128,307)
Total OPEB Liability - Beginning of Year	1,848,161
Total OPEB Liability - End of Year	\$ 1,719,854
Covered-employee payroll	\$ 18,315,799
District's total OPEB liability as a percentage of covered-employee payroll	9.39%

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	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.022%	0.022%	0.023%	0.023%
District's proportionate share of the net pension liability (asset)	\$ 20,345,600	\$ 17,793,820	\$ 15,484,520	\$ 13,440,510
State's proportionate share of the net pension liability (asset) associated with the District	7,562,460	6,455,598	5,356,560	5,060,352
Total	\$ 27,908,060	\$ 24,249,418	\$ 20,841,080	\$ 18,500,862
District's covered-employee payroll	\$ 11,670,183	\$ 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	174.34%	162.29%	146.75%	129.01%
Plan fiduciary net position as a percentage of the total pension liability	69.00%	70.00%	74.00%	77.00%

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	2018	2017	2016	2015
Contractually required contribution	\$ 1,674,570	\$ 1,468,109	\$ 1,176,425	\$ 936,960
Contributions in relation to the contractually required contribution	(1,674,570)	(1,468,109)	(1,176,425)	(936,960)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 11,670,183	\$ 10,963,886	\$ 10,551,351	\$ 10,418,339
Contributions as a percentage of covered-employee payroll	14.35%	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	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.04943%	0.04640%	0.04670%	0.04640%
District's proportionate share of the net pension liability (asset)	\$ 11,800,246	\$ 9,164,029	\$ 6,885,088	\$ 5,195,807
District's covered-employee payroll	\$ 6,295,240	\$ 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	187.45%	164.45%	133.20%	106.51%
Plan fiduciary net position as a percentage of the total pension liability	71.90%	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	2018		2017		2016		2015	
Contractually required contribution	\$	988,609	\$	874,283	\$	660,164	\$	608,431
Contributions in relation to the contractually required contribution		(988,609)		(874,283)		(660,164)		(608,431)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$	-
District's covered-employee payroll	\$	6,295,240	\$	5,572,415	\$	5,168,898	\$	4,878,133
Contributions as a percentage of covered-employee payroll		15.70%		15.69%		12.77%		12.47%

See the accompanying notes to the required supplementary information.

Gateway Unified School District

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Changes in Benefit Terms

There were no significant changes in benefit terms during the measurement period ended June 30, 2018.

Changes in Assumptions

There were no changes in major assumptions during the measurement period ended June 30, 2018.

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, 2017.

California Public Employees' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

3. CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

During fiscal year 2016-17, California State Teachers' Retirement System (CalSTRS) completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability (NPL) of the State Teachers' Retirement Plan changed, including the price inflation, wage growth, discount rate, and the mortality tables used in the actuarial valuation of the NPL. The change in assumptions were as follows:

June 30	2017	2016
Assumption		
Consumer price index	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

Gateway Unified School District

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

CalSTRS changed its mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

California Public Employees' Retirement System

During fiscal year 2016-17, the financial reporting discount rate for the Schools Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (PERF B) was lowered from 7.65% to 7.15%.

OTHER SUPPLEMENTARY INFORMATION SECTION

Gateway Unified School District

LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE

June 30, 2018

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, one community day school, and one long-term independent study program. The District is the sponsoring local educational agency for one charter school.

GOVERNING BOARD

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

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

	Charter Number
Rocky Point Charter School	#0849

See the accompanying note to the other supplementary information.

Gateway Unified School District
SCHEDULE OF AVERAGE DAILY ATTENDANCE
 June 30, 2018

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Regular ADA*				
Transitional kindergarten/ kindergarten through grade 3	670	672	670	672
Grades 4 through 6	494	491	494	491
Grades 7 through 8	329	329	329	329
Extended-Year Special Education				
Transitional kindergarten/ kindergarten through grade 3	-	4	-	4
Grades 4 through 6	-	1	-	1
Grades 7 through 8	-	1	-	1
Special Education - Nonpublic, Nonsectarian Schools				
Transitional kindergarten/ kindergarten through grade 3	1	1	1	1
Grades 4 through 6	3	3	3	3
Grades 7 through 8	2	2	2	2
Community Day School				
Grades 7 through 8	4	5	4	5
ELEMENTARY TOTALS	1,503	1,509	1,503	1,509
HIGH SCHOOL				
Regular ADA**				
Grades 9 through 12	629	621	629	621
Special Education - Nonpublic, Nonsectarian Schools				
Grades 9 through 12	3	4	3	4
Community Day School				
Grades 9 through 12	6	6	6	6
HIGH SCHOOL TOTALS	638	631	638	631
ADA Totals	2,141	2,140	2,141	2,140

* 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, 2018

	Minutes Requirement	2017-18 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	61,380	180	N/A	Complied
Grade 7	54,000	61,380	180	N/A	Complied
Grade 8	54,000	61,380	180	N/A	Complied
Grade 9	64,800	66,615	180	N/A	Complied
Grade 10	64,800	66,615	180	N/A	Complied
Grade 11	64,800	66,615	180	N/A	Complied
Grade 12	64,800	66,615	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) 2019	2018	2017	2016
General Fund				
Revenues and other financial sources	\$ 32,400,773	\$ 31,215,508	\$ 30,510,902	\$ 31,428,901
Expenditures	33,743,280	32,603,626	31,829,412	30,736,109
Other uses and transfers out	131,775	77,694	55,497	-
Total Outgo	33,875,055	32,681,320	31,884,909	30,736,109
Change in Fund Balance	(1,474,282)	(1,465,812)	(1,374,007)	692,792
Ending Fund Balance	\$ 7,096,776	\$ 8,571,058	\$ 10,036,870	\$ 11,410,877
Available reserves	\$ 3,747,449	\$ 4,701,799	\$ 3,955,931	\$ 5,471,915
Designated for economic uncertainties	\$ 3,747,449	\$ 4,701,799	\$ 3,955,931	\$ 5,471,915
Undesignated fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	11%	14%	12%	18%
Total long-term debt	\$ 77,476,365	\$ 77,692,551	\$ 72,873,308 *	\$ 64,416,194
Average daily attendance at P-2	2,108	2,141	2,143	2,179

**As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

The General Fund balance has decreased by \$2,839,819 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$1,474,282 (17.2%). 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 2018-19 fiscal year. Total long-term debt has increased by \$13,276,357 over the past two years.

Average daily attendance has decreased by 38 over the past two years. The District anticipates average daily attendance to decline by 33 during fiscal year 2018-19.

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, 2018

	Cafeteria Special Revenue Fund
Annual Financial and Budget Report Fund Balance	\$ 86,766
Adjustments Increasing the Fund Balance	
Understatement of cash and investments	10,740
Audited Financial Statements Fund Balance	\$ 97,506

See the accompanying note to the other supplementary information.

Gateway Unified School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	\$ 528,060
Special Education - IDEA Preschool	84.173	13430	139,900
Total Special Education Cluster			667,960
Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.048	14894	40,261
NCLB - Title I, Part A, Basic Grants	84.010	14329	1,424,812
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	193,014
Direct Programs			
Indian Education - Grants to Local Educational Agencies	84.060		40,697
Total U.S. Department of Education			2,366,744
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	232,013
National School Lunch	10.555	13391	701,972
Nonmonetary Assistance			
Food Donation	10.555		79,736
Total Child Nutrition Cluster			1,013,721
Passed Through Shasta County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	118,126
Total U.S. Department of Agriculture			1,131,847
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,498,591

See the accompanying note to the other supplementary information.

Gateway Unified School District

NOTE TO THE OTHER SUPPLEMENTARY INFORMATION

PURPOSE OF SCHEDULES

Schedule of Charter Schools

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

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. 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 of America, 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, 2018; 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 11, 2018.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 11, 2018
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, 2018. 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 of America; 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, 2018.

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.

KCae Jam, LLP

December 11, 2018
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 *2017-18 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, 2018. 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 *2017-18 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 *2017-18 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, 2018	Procedures Performed
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	Yes
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
Apprenticeship: Related and supplemental instruction	No
Educator effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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

Continuation education steps 6a and 6b were not performed because students do not receive apportionment attendance for work experience.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

Since the District did not participate in the following programs during 2017-18, all steps related to them were not performed:

- Early retirement incentive
- Apprenticeship: Related and supplemental instruction
- After/Before 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, 2018.

KCee Team, LLP

December 11, 2018
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

Gateway Unified School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

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 Nos. 10.553 and 10.555 Child Nutrition Cluster	
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, 2018
(Continued)

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, 2018

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

Gateway Unified School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018

None.