GILROY UNIFIED SCHOOL DISTRICT

COUNTY OF SANTA CLARA
GILROY, CALIFORNIA

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2018

GILROY UNIFIED SCHOOL DISTRICT

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Gilroy Unified School District
Gilroy, 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 the Gilroy 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

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.

Auditor's Responsibility

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

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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 and, where applicable, cash flows 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 the management's discussion and analysis, the Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual - General Fund, Schedule of Proportionate Share of Net Pension Liability and Schedule of Pension Contributions, respectively, 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 as listed in the table of contents, including 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 of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as listed in the table of contents 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 supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 19, 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 District's internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Gilroy Unified School District's (the "District") 2017-18 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

DISTRICT PROFILE

Gilroy Unified School District is located in Gilroy, California, nestled in the southern portion of Santa Clara County, midway between San Francisco and Monterey Bay. Gilroy is best known as the "Garlic Capital of the World," and home of the annual Garlic Festival in July. According to the 2017 U.S. Census Bureau, Gilroy's population estimate is 57,664, representing an 18% increase in population since 2010. The City of Gilroy has approved several single-family subdivisions, and multi-family developments, which are projected to add 300 to 500 residents over the next several years.

Despite the steady rise in residential construction, the District had its first significant year of declining enrollment in 2017-18. The District's enrollment dropped by 193 students in a single year. The decline correlated to a loss of 249 average daily attendance (ADA) for the same year, which reduces funding for the 2018-19 fiscal year. The key attributing factors for the decline are;

- Low birth rates both in Santa Clara County and in Gilroy,
- High cost of living
- Lower student generation rates (SGR) on new residential construction

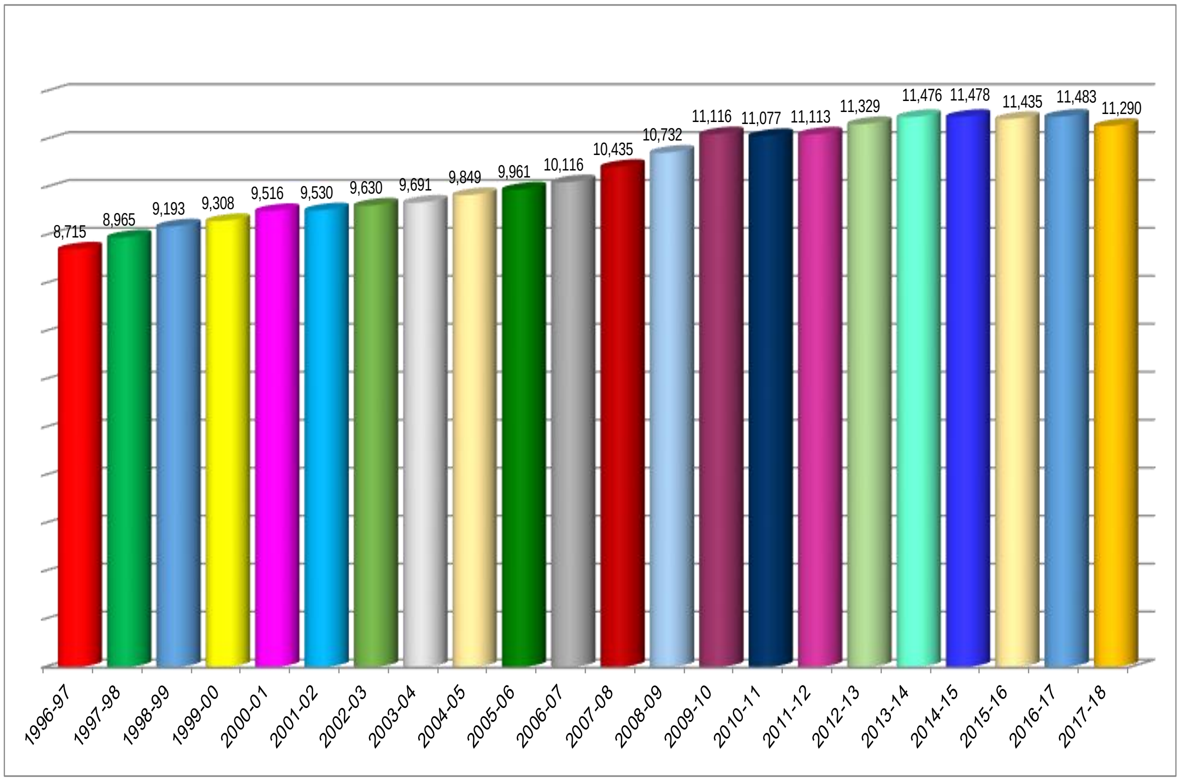
The Governing Board has authorized to form a Superintendent's Advisory Committee to study the potential closure of an elementary school for the 2020-21 school year. With kinder enrollment at historic lows, the lower cohort will affect total enrollment for years to come.

The District is comprised of eight elementary schools, three middle schools, two comprehensive high schools, one early college academy, one continuation school, and one charter school that serve approximately 11,000 students. The District currently employs approximately 1,070 staff members.

MISSION

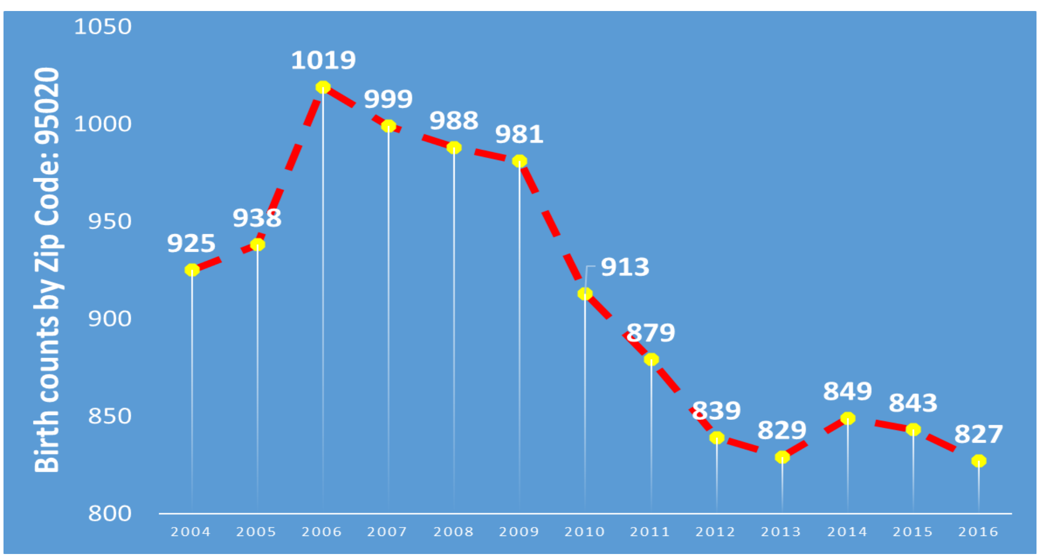
Gilroy Unified School District will provide opportunities for all students to reach their highest academic and intellectual competencies and personal attributes to be life-long learners, responsible citizens, and productive members of society. This will be accomplished by having a clear focus on student needs; staff, parents and community members demonstrating high expectations for themselves and for every child served; and by continually improving the quality of teaching and learning.

ENROLLMENT 1996-2018



The preceding table shows a history of strong growth for the District, until 2017-18, when GUSD experienced its first triple digit enrollment decline in recent history.

GILROY'S HISTORICAL BIRTH DATA (by zip code)



FINANCIAL HIGHLIGHTS

Despite the recent decline in enrollment, the District's reserves have remained strong; above the Governing Board's minimum reserve policy of seven percent (7%). For GUSD, declining enrollment means less funding. The District is committed to fiscal stability. To this end, the Governing Board has reduced the operating budget slashing $720,000 with the adoption of the 2018-19 budget in June 2018.

Additionally, the Board approved a Budget Development Calendar to establishing a timeline for budget reductions of $4 million over the subsequent two years (2019-20 & 2020-21).

This decrease in enrollment comes despite the increase in new housing developments. The decrease in enrollment is attributed to the high cost of living in Santa Clara County, lower birth rates, and lower student generation rates from new residential developments. The District annually updates its 10-year enrollment forecast and monitors both the short-term and long-term enrollment projections.

- General fund ending balance as of June 30, 2018 was $22,477,335, which was $6.3 million higher than estimated actuals. This variance is largely attributed to $5.7 million of one time carryover funds.
- The General Fund available reserves as a percentage of total outgo (expenditures, other uses, and transfers out) was 11.98%, after accounting for committed balances.
- GASB 68 was implemented four years ago, which required the net pension liability to be recognized. An increase in the net pension liability of $12,485,754 was recognized as of June 30, 2018. Deferred outflows related to pensions increased by $14,925,953 while deferred inflows related to pensions increased by $13,932,343.
- On the Statement of Activities, total current year expenditures exceeded total current year revenues by $17,511,014, as the District completes capital bond projects, and spends down one-time funds.
- Net Position decreased 22.5% to $60,192,069 as of June 30, 2018.
- The District's Multi-Year Projection will require up to four (4) million worth of budget cuts over the two subsequent years. The Governing Board is committed to maintaining its minimum reserve policy to maintain fiscal stability.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities and Change in Net Position

The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the District's enrollment, property tax base, and the condition of the District's facilities.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be two important factors.

Fund Financial Statements

The fund financial statements are designed to report information about the District's most significant funds. 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 State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues. Fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

- Governmental funds statements tell how basic services such as instruction and pupil services were financed in the short term as well as what remains for future spending. Most of the District's basic services are included in governmental funds. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information in the reconciliation statements that explains the relationship (or differences) between them.
- Proprietary funds statements offer financial information about the activities the district operates on a cost reimbursement basis, such as the self-insurance fund. Proprietary funds are reported in the same way as the district-wide statements. The District currently has one internal service fund – the self-insurance fund for dental and vision benefits.
- Fiduciary funds statements 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 such as associated student body accounts. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in district-wide and fund financial statements. The notes to the financial 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 general fund budget, both the adopted and final version, with year-end actuals.

NET POSITION

The District's combined net position, as of June 30, 2018, was $60,192,069 reflecting a decrease of 22.5%.

	Governmental Activities			
	June 30, 2017	June 30, 2018	Change	Percent Change
Assets				
Current	$ 115,590,798	$ 101,169,309	$ (14,421,489)	-12.5%
Capital Assets, net	345,673,938	351,524,798	5,850,860	1.7%
Total Assets	461,264,736	452,694,107	(8,570,629)	-1.9%
Deferred Outflows of Resources				
Deferred loss on refunding bonds	8,710,115	8,112,611	(597,504)	-6.9%
Pensions	25,484,548	40,410,501	14,925,953	58.6%
Total Deferred Outflows	34,194,663	48,523,112	14,328,449	41.9%
Liabilities				
Current	9,805,707	15,163,728	5,358,021	54.6%
Long-Term	385,078,680	389,882,861	4,804,181	1.2%
Total Liabilities	394,884,387	405,046,589	10,162,202	2.6%
Deferred Inflows of Resources				
Deferred bond premium revenue	19,228,883	18,403,172	(825,711)	-4.3%
Pensions	3,643,046	17,575,389	13,932,343	382.4%
Total Deferred Inflows	22,871,929	35,978,561	13,106,632	57.3%
Net Position				
Net investment in capital assets	127,301,521	133,501,345	6,199,824	4.9%
Restricted	83,553,811	67,132,898	(16,420,913)	-19.7%
Unrestricted	(133,152,249)	(140,442,174)	(7,289,925)	-5.5%
Total Net Position	$ 77,703,083	$ 60,192,069	(17,511,014)	-22.5%

CHANGE IN NET POSITION

The District's total revenues decreased 5.3% to $152,247,867. The total cost of all programs and services increased 10.3% to $169,758,881. The District's expenses are predominantly related to educating and caring for students.

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2018	Change	Percent Change
Program Revenues				
Charges for Services	$ 1,478,671	$ 1,804,122	$ 325,451	22.0%
Operating Grants & Contributions	21,839,215	21,332,297	(506,918)	-2.3%
Capital Grants & Contributions	-	746,443	746,443	N/A
General Revenues				
Taxes Levied	80,945,788	81,373,494	427,706	0.5%
Federal & State Aid	42,113,200	43,348,888	1,235,688	2.9%
Interest & Investment Earnings	385,216	552,512	167,296	43.4%
Miscellaneous	2,708,853	3,090,111	381,258	14.1%
Special and Extraordinary Items	11,271,305	-	(11,271,305)	-100.0%
Total Revenues	160,742,248	152,247,867	(8,494,381)	-5.3%
Expenses				
Instruction	79,001,718	91,774,747	12,773,029	16.2%
Instruction-Related Services	15,229,608	16,863,346	1,633,738	10.7%
Pupil Services	14,591,491	16,448,169	1,856,678	12.7%
General Administration	7,224,038	7,339,054	115,016	1.6%
Plant Services	18,648,559	13,717,619	(4,930,940)	-26.4%
Ancillary Services	1,144,494	1,144,114	(380)	0.0%
Community Services	56,177	88,422	32,245	57.4%
Enterprise Activities	178,842	515,359	336,517	188.2%
Interest on Long-Term Debt	5,050,690	8,217,574	3,166,884	62.7%
Other Outgo	3,180,569	3,620,125	439,556	13.8%
Depreciation	9,641,600	10,030,352	388,752	4.0%
Total Expenses	153,947,786	169,758,881	15,811,095	10.3%
Change in Net Position	$ 6,794,462	$ (17,511,014)	$ (24,305,476)	-357.7%

LONG TERM LIABILITIES

Total long-term liabilities increased by $4.6 million (1.2%).

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2018	Change	Percent Change
Bonds	$ 248,517,823	$ 241,844,786	$ (6,673,037)	-2.7%
Certificates of Participation	26,765,000	25,955,000	(810,000)	-3.0%
Accumulated Vacation - net	107,913	133,248	25,335	23.5%
Net Pension Liability	109,240,202	121,725,956	12,485,754	11.4%
Early Retirement Incentive	447,742	223,871	(223,871)	-50.0%
Subtotal	385,078,680	389,882,861	4,804,181	1.2%
Unamortized General Obligation Bond Premium	17,055,460	16,337,969	(717,491)	-4.2%
Unamortized Certificates of Participation Premium	2,173,423	2,065,203	(108,220)	-5.0%
Unamortized Loss on Refunding	(8,710,115)	(8,112,611)	597,504	-6.9%
Total Long Term Obligations	$ 395,597,448	$ 400,173,422	$ 4,575,974	1.2%

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

CAPITAL ASSETS

Capital assets, net of depreciation, increased from the prior year to $351,524,798, representing a 0.17% increase as current year depreciation and disposals grew at the slower rate than acquisitions and improvements.

GENERAL FUND

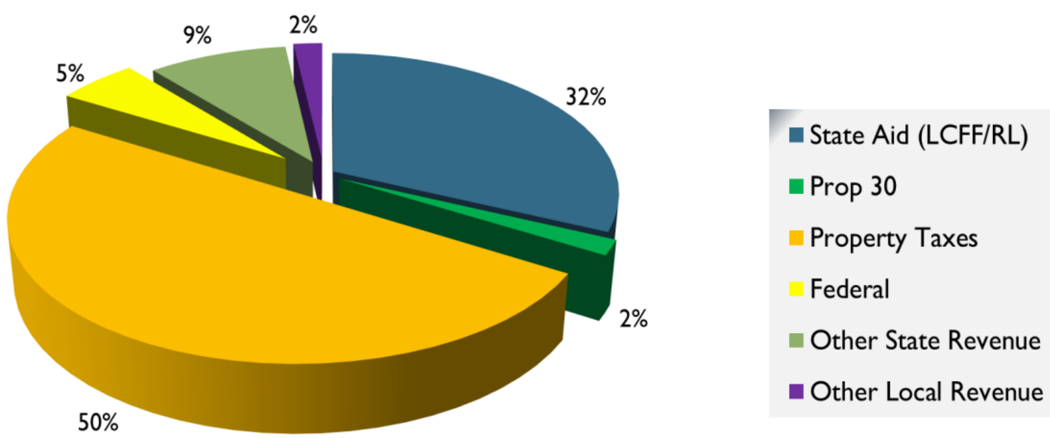
General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May revised figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim and any other time there are significant changes.

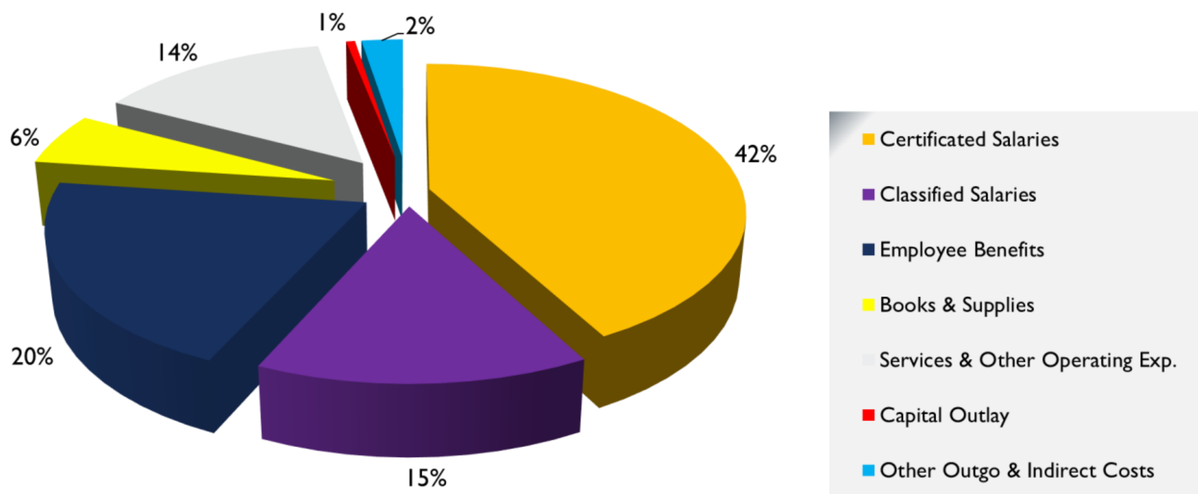
Other than the aforementioned instance, the District did not incur unanticipated expenditures in excess of appropriations in expenditure classifications for which the budget was not revised.

GOVERNMENTAL ACTIVITIES

The following chart provides a breakdown of the $125 million of General Fund revenues by category:



The following chart provides a breakdown of the $127 million of General Fund expenditures by function:



ECONOMIC FACTORS AND THE FY 2018-19 BUDGET

The implementation of the Local Control Funding Formula (LCFF) revamped the school finance system for the first time in forty years. With a goal of increasing local control, the new system encourages stakeholders to provide input in the development of the Local Control Accountability Plan (LCAP). The District's LCAP and the budget are aligned to the eight state priorities: Basic Services, Implementation of State Standards, Course Access, Pupil Achievement, Other Pupil Outcomes, Parent Involvement, Pupil Engagement, and Student Climate.

With the implementation of the State's Enacted 2018-19 Budget, the funding targets set forth by LCFF have been reached two years ahead of schedule. The District recognizes that the annual increases in LCFF revenues are now going to be limited to the statutory cost of living adjustment (COLA). In a declining enrollment District, the funds provided by the COLA may be completely offset by the loss of revenue due to the decline. Furthermore, the purchasing power promised under LCFF did not account for the rise in pension obligations (CalSTRS & CalPERS), and the continued underfunding (statewide) of Special Education and Transportation.

The Governing Board is committed to fiscal stability and fiscal solvency. As demonstrated during the Great Recession - the GUSD Board has demonstrated the ability to make necessary budget cuts when necessary, cutting over $20 million from its operating budget from 2007-08 through 2012-13. Over the course of this year, there will be public meetings discussing budget cuts, budget priorities for 2019-20 and beyond, including the potential of a future school closure, to address the target reduction of $4 million in cuts over the subsequent years.

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. If you have questions regarding this report or need additional financial information, contact the District Office, Gilroy Unified School District, 7810 Arroyo Circle, Gilroy, California 95020.

FINANCIAL SECTION

GILROY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

		Governmental Activities
ASSETS		
Cash (note 2)	$	96,784,992
Receivables		4,223,365
Other assets		157,617
Prepaid expenses		3,335
Capital Assets - net of accumulated depreciation (note 4)		351,524,798
Total Assets		452,694,107
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of bonds (note 5)		8,112,611
Deferred outflows on pensions (note 6)		40,410,501
Total Deferred Outflows		48,523,112
LIABILITIES		
Accounts payable and other current liabilities		13,847,855
Unearned revenue		1,315,873
Long-term liabilities - (note 5)		
Due within one year		7,253,871
Due after one year		382,628,990
Total Liabilities		405,046,589
DEFERRED INFLOWS OF RESOURCES		
Deferred bond premium (note 5)		18,403,172
Deferred inflows on pensions (note 6)		17,575,389
Total Deferred Inflows		35,978,561
NET POSITION		
Net investment in capital assets		133,501,345
Restricted		67,132,898
Unrestricted		(140,442,174)
Total Net position	$	60,192,069

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

GILROY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities					
Instruction	$ 91,774,747	$ 84,650	$ 10,859,687	$ 746,443	$ (80,083,967)
Instruction - related services:					
Supervision of instruction	6,350,430	202,564	1,916,474	-	(4,231,392)
Instructional library and technology	521,256	-	143,771	-	(377,485)
School site administration	9,991,660	19,359	1,141,642	-	(8,830,659)
Pupil Services:					
Home-to-school transportation	2,143,589	-	108,601	-	(2,034,988)
Food services	5,379,267	1,288,640	3,863,292	-	(227,335)
All other pupil services	8,925,313	2,427	921,917	-	(8,000,969)
General administration:					
Data processing	1,600,122	-	-	-	(1,600,122)
All other general administration	5,738,932	67,945	462,390	-	(5,208,597)
Plant services	13,717,619	94,919	307,800	-	(13,314,900)
Ancillary services	1,144,114	-	42,384	-	(1,101,730)
Community services	88,422	14,327	1,055	-	(73,040)
Enterprise activities	515,359	-	21,450	-	(493,909)
Interest on long-term debt	8,217,574	-	-	-	(8,217,574)
Other outgo	3,620,125	29,291	1,541,834	-	(2,049,000)
Depreciation (unallocated)	10,030,352	-	-	-	(10,030,352)
Total governmental activities	$ 169,758,881	$ 1,804,122	$ 21,332,297	$ 746,443	(145,876,019)

General Revenues	
Taxes and subventions:	
Taxes levied for general purposes	65,084,060
Taxes levied for debt service	16,289,434
Federal and state aid not restricted to specific purposes	43,348,888
Interest and investment earnings	552,512
Miscellaneous	3,090,111
Total general revenues	128,365,005
Change in net position	(17,511,014)
Net position - beginning, July 1, 2017	77,703,083
Net position - ending, June 30, 2018	$ 60,192,069

GILROY UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
ASSETS					
Cash and cash equivalents	$ 25,316,070	$ 49,776,333	$ 11,847,728	$ 8,009,464	$ 94,949,595
Accounts receivable	2,987,449	212,608	23,001	994,583	4,217,641
Stores	73,817	-	-	83,800	157,617
Prepaid expenses	3,335	-	-	-	3,335
Due from other funds	616,703	-	323,295	-	939,998
Total assets	$ 28,997,374	$ 49,988,941	$ 12,194,024	$ 9,087,847	$ 100,268,186
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 5,204,166	$ 1,549,527	$ -	$ 941,036	$ 7,694,729
Due to other funds	-	323,295	-	616,703	939,998
Unearned revenue	1,315,873	-	-	-	1,315,873
Total liabilities	6,520,039	1,872,822	-	1,557,739	9,950,600
Fund balances					
Nonspendable	127,152	-	-	83,800	210,952
Restricted	3,135,458	46,741,277	12,194,024	5,062,139	67,132,898
Committed	-	1,374,842	-	2,906,797	4,281,639
Assigned	5,679,206	-	-	-	5,679,206
Unassigned	13,535,519	-	-	(522,628)	13,012,891
Total fund balances	22,477,335	48,116,119	12,194,024	7,530,108	90,317,586
Total liabilities and fund balances	$ 28,997,374	$ 49,988,941	$ 12,194,024	$ 9,087,847	$ 100,268,186

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

GILROY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Total fund balances - governmental funds		$ 90,317,586
Amounts reported for assets and liabilities 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:	$ 465,881,516	
Accumulated depreciation:	(114,356,718)	
Net:		351,524,798
Unamortized costs: In governmental funds, debt issuance premiums, gain or loss on refunding, and defeasance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, these amounts are amortized over the life of the debt. Unamortized premiums, losses, and defeasance costs at year end consist of:		
Unamortized portion of COP premiums		(2,065,203)
Unamortized portion of bond premiums		(16,337,969)
Unamortized portion of loss on refunding		8,112,611
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(6,148,832)
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 payable	$ 241,844,786	
Net Pension Liability	121,725,956	
Certificates of participation payable	25,955,000	
Supplemental Employee Retirement Program	223,871	
Compensated absences payable	133,248	
		(389,882,861)
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 pension are reported.		
Deferred outflows of resources relating to pensions		40,410,501
Deferred inflows of resources relating to pensions		(17,575,389)
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery bases. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds are:		1,836,827
Total net position, governmental activities		$ 60,192,069

GILROY UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
REVENUES					
LCFF sources	$ 104,363,166	$ -	$ -	$ -	$ 104,363,166
Federal revenue	6,670,896	-	-	3,986,873	10,657,769
Other state revenues	11,532,820	-	87,718	2,034,736	13,655,274
Other local revenues	2,378,504	756,974	16,260,778	4,175,402	23,571,658
Total revenues	124,945,386	756,974	16,348,496	10,197,011	152,247,867
EXPENDITURES					
Certificated salaries	53,579,966	-	-	485,502	54,065,468
Classified salaries	18,464,661	385,766	-	2,137,077	20,987,504
Employee benefits	26,039,433	117,299	-	989,135	27,145,867
Books and supplies	7,239,594	131,725	-	98,522	7,469,841
Services and other operating expenditures	17,893,854	388,908	-	3,013,325	21,296,087
Capital outlay	697,119	7,732,917	-	7,956,912	16,386,948
Other outgo	3,145,435	-	-	242,508	3,387,943
Debt service expenditures	55,806	-	17,663,853	1,751,150	19,470,809
Total expenditures	127,115,868	8,756,615	17,663,853	16,674,131	170,210,467
Excess of revenues over expenditures	(2,170,482)	(7,999,641)	(1,315,357)	(6,477,120)	(17,962,600)
OTHER FINANCING SOURCES (USES)					
All Other Financing Sources	-	-	17,123	45,714	62,837
Total other financing sources (uses)	-	-	17,123	45,714	62,837
Net change in fund balances	(2,170,482)	(7,999,641)	(1,298,234)	(6,431,406)	(17,899,763)
Beginning Balance, July 1, 2017	24,647,817	56,115,760	13,492,258	13,961,514	108,217,349
Fund balances, June 30, 2018	$ 22,477,335	$ 48,116,119	$ 12,194,024	$ 7,530,108	$ 90,317,586

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Total net change in fund balances - governmental funds		$ (17,899,763)
Amounts reported for revenues and expenses 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:	$ 16,386,948	
Depreciation expense:	(10,030,352)	6,356,596
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		8,468,871
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		(2,040,422)
Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, however, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current year was:		(761,963)
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:		(11,492,144)
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:		(228,207)
Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:		111,353
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measure by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(25,335)
Total change in net position - governmental activities		$ (17,511,014)

GILROY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND – STATEMENT OF NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 1,835,397
Receivables	5,724
Total Current Assets	1,841,121
LIABILITIES	
Current Liabilities	
Claim liability	4,294
Total Current Liabilities	4,294
NET POSITION	
Restricted	1,836,827
Net Position	$ 1,836,827

GILROY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Internal Service Fund
OPERATING REVENUES	
Interdistrict premiums	$ 1,537,742
OPERATING EXPENDITURES	
Claims paid	1,444,400
Operating Income	93,342
NONOPERATING REVENUES	
Interest income	18,011
Change in Net Position	111,353
Net Position - Beginning, July 1, 2017	1,725,474
Net Position - Ending, June 30, 2018	$ 1,836,827

GILROY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND – STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from premiums	$ 1,681,752
Cash payments for insurance claims	(1,531,568)
Net Cash Provided by Operating Activities	150,184
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	18,011
Net Increase in Cash and Cash Equivalents	168,195
Cash and Cash Equivalents - Beginning	1,667,202
Cash and Cash Equivalents - Ending	$ 1,835,397
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 93,342
Adjustments to reconcile net income to net cash	
Provided by operations:	
(Increase)/Decrease in:	
Receivables	144,010
Increase/(Decrease) in:	
Accrued liabilities	(87,168)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 150,184

GILROY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND – STATEMENT OF NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private-Purpose Trust	Agency Funds	
	Scholarship Funds	**Student Body Funds**	**Total Fiduciary Funds**
ASSETS			
Cash and cash equivalents	$ 784,619	$ 776,735	$ 1,561,354
Accounts receivable	702	-	702
Total assets	785,321	776,735	1,562,056
LIABILITIES			
Due to student groups	-	776,735	776,735
Total liabilities	-	776,735	776,735
NET POSITION			
Reserved for scholarships	785,321	-	785,321
Total net position	$ 785,321	$ -	$ 785,321

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

GILROY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND – CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private-Purpose Trust Scholarship Funds
ADDITIONS	
Investment Income	$ 54,657
DEDUCTIONS	
Operating Expense	16,600
Change in Net Position	38,057
NET POSITION	
Net Position - July 1, 2017	747,264
Net Position - June 30, 2018	$ 785,321

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. HISTORY OF DISTRICT

Gilroy Unified School District is located in the southernmost region of Santa Clara County. It is one of a few districts in the county that continues to grow. Over the last 19 years, the student population has grown from 8,448 in 1993-1994 to more than 11,000 K - 12 students today.

The surrounding Gilroy community has experienced growth in housing and industry. Known for its garlic fields, the agricultural areas that surround Gilroy provide a diverse array of agribusiness opportunities for its occupants. The town has also become home to commuters in Silicon Valley and San Jose. Even with the current economic downturn, many of the agribusinesses and other operations are thriving.

The Gilroy Unified School District was established in July 1, 1966, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District operates eight elementary schools, three middle schools, three high schools, one community day school, one independent study school, one continuation school, and an adult school.

B. REPORTING ENTITY

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Gilroy Unified School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Building Corporation's financial activity is presented in the financial statements as a sub fund of the Building fund, Capital Facilities fund and Tax Override fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Building Corporation.

C. ACCOUNTING POLICIES

The Gilroy Unified School District (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 accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. For state entitlement programs, the District has elected to match the revenues in the period that program expenditures are made to be consistent with the accounting for grants and other revenues.

D. BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net position presents information on all of the District's assets and liabilities, with the difference between the two presented as net position. Net position is reported as one of three categories: invested in capital assets, net of related debt; restricted; or unrestricted. Restricted net position are further classified as either net position restricted by enabling legislation or net assets that are otherwise restricted.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense function. Interest on long-term liabilities is considered an indirect expense and is reported separately in the Statement of Activities.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statements

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 to be used, or the fiscal 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. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

F. FUND ACCOUNTING

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

F. FUND ACCOUNTING (CONTINUED)

The District funds are as follows:

Major Governmental Funds:

The **General Fund** is the general operating fund of the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

The **Building Fund** exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

The **Bond Interest and Redemption Fund** is used for the repayment of bonds issued for a district (Education Code Sections 15125-15262).

Non-Major Governmental Funds:

The **Special Revenue funds** are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

The **Adult Education Fund** is used to account separately for federal, state, and local revenues that are restricted or committed for adult education programs.

The **Child Development Fund** is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

The **Cafeteria Fund** is used to account separately for Federal, State, and local resources to operate the food service program (Education Code Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (Education Code Sections 38091 and 38100).

The **Deferred Maintenance Fund** is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

The **Debt Service Funds** are used to account for the accumulation of restricted, committed, or assigned resources for the payment of principal and interest on general long-term obligations.

The **Tax Override Fund** is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

F. FUND ACCOUNTING (CONTINUED)

The **Capital Project Funds** are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

The **Capital Facilities Fund** is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (Education Code sections 17620-17626). Expenditures are restricted to the purposes specified in Government Code sections 65970-65981 or to the items specified in agreements with the developer (Government Code Section 66006).

The **County School Facilities Fund** is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

Proprietary Fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has only one following proprietary fund:

Internal Service Funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operates a Self-Insurance fund that is accounted for in an internal service fund.

Fiduciary Funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the district's own programs. The fiduciary fund category includes Trust and agency funds.

The **Private – Purpose Trust Fund** is used to account for assets held by the District as a trustee. The District maintains a private-purpose trust fund, the Scholarship fund, to provide scholarships to students of the District.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds include Associate Student Body that accounts for student body activities (ASB) and Foundation Fund. The District uses agency funds for student body funds to account for the raising and expending of money to promote the general welfare, morale and educational experience of the student body. These funds' activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are custodial in nature and do not involve measurement of results of operations. Accordingly, the District presents only a statement of fiduciary net assets and does not present a statement of changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

G. 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.

During the year, budget revisions by the District's governing board and district superintendent give consideration to unanticipated revenue and expenditures. The final revised budgets are presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by major object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. The budgets are revised during the year by the District’s Board of Education and District Superintendent to provide for unanticipated revenues and expenditures.

H. ENCUMBRANCES

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

I. REVENUES – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

J. UNEARNED REVENUE

Unearned Revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

K. EXPENSES/EXPENDITURES

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

L. CASH AND CASH EQUIVALENTS

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 equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

M. INVESTMENTS

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

N. STORES INVENTORIES

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

O. CAPITAL ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Asset Class	Estimated Useful Life in Years
Buildings and improvements	7-50 (case by case)
Furniture and equipment	3-10 (case by case)

P. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net position.

Q. COMPENSATED ABSENCES

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave except paraprofessional employees who are members of the California School Employees' Association (CSEA) and Gilroy Federation of Teachers and Paraprofessionals (GFT). The CSEA and GFT paraprofessional employees are paid for 25 percent of accumulated unused sick leave balance at termination of employment. Therefore, the value of accumulated sick leave is recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

R. LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

S. DEFERRED INFLOWS AND OUTFLOWS 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), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report 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 as such, will not be recognized as an inflow of resources (revenue) until that time.

T. LOCAL CONTROL FUNDING FORMULA/PROPERTY TAX

The District's local control funding formula is received from a combination of local property taxes, state apportionments, and other local sources.

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local control funding formula (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 General Fund, and is known as the state apportionment.

U. FUND BALANCE

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that are not expected to be converted to cash, such as resources that are not in a spendable form (e.g. inventories and prepaids) or that are legally or contractually required to be maintained intact. The District has classified it revolving cash account as being Nonspendable as it is required to be maintained intact.

- Restricted: This classification includes amounts constrained to specific purposes by their providers or by law. The District has classified federal and state categorical programs as being restricted because their use is restricted by Statute. Debt service resources are to be used for future servicing of the general obligation bonds and are restricted through debt covenants.

- Committed: This classification includes amounts constrained to specific sources by the Board. For this purpose, all commitments of funds shall be approved by a majority vote of the Board. The constraints shall be imposed no later than the end of the reporting period of June 30, although the actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

- Assigned: This classification includes amounts which the Board or its designee intends to use for a specific purpose but are neither restricted nor committed. The Board delegates authority to assign funds to the assigned fund balance to the Superintendent or designee and authorizes the assignment of such funds to be made any time prior to the issuance of the financial statements. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Agency has assigned funds for Other Capital Projects that are to be used for the repair and replacement of equipment.

- Unassigned: This classification includes the residual fund balance for the General Fund and includes the amount designated for economic uncertainties. To protect the District against unforeseen circumstances such as revenue shortfalls and unanticipated expenditures, the Board maintains a minimum unassigned fund balance which includes a reserve for economic uncertainties equal to at least one month of average general fund expenditures or 7% of general fund expenditures and other financing uses. If the unassigned fund balance falls below this level due to an emergency situation, unexpected expenditures, or revenue shortfalls, the Board shall develop a plan to recover the fund balance which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources.

When multiple types of funds are available for an expenditure, the District shall first utilize funds from the restricted fund balance as appropriate, then from committed fund balance, then from the assigned fund balance, and lastly from the unassigned fund balance.

V. NET POSITION

Net position represents the difference between assets and liabilities. Net position investment in capital assets is net of related debt, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

W. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

X. INTERFUND ACTIVITY

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Y. ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Z. PENSIONS

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

2. CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 consisted of the following:

	Governmental Activities	Proprietary Activities	Fiduciary Activities	Total
Cash on hand and in banks	$ 1,754	$ -	$ 953,064	$ 954,818
Cash in revolving fund	50,000	-	-	50,000
Cash with fiscal agent	76,081	288,732	-	364,813
Cash in county treasury	94,821,760	1,546,665	608,290	96,976,715
Total Cash and Cash Equivalents	$ 94,949,595	$ 1,835,397	$ 1,561,354	$ 98,346,346

A. POLICIES AND PRACTICES

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

B. CASH IN BANKS AND REVOLVING FUNDS

Cash balances held in banks and revolving funds are insured up to $250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

C. CASH WITH FISCAL AGENT

Cash with Fiscal Agent represents funds held by third parties restricted for the repayment of General Obligation Bonds and Certificates of Participation.

D. CASH IN COUNTY TREASURY

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The weighted average maturity of the pool is 654 days. The pool is rated AAA by Standard and Poor's. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The market value is 0.9919847 of the book value or $777,302 less. A market value adjustment has not been made.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2018 are as shown below:

Description	Level 1	Level 2	Level 3	N/A	Total
US Agency, Treasury & Municipal Notes (USATM):					
US Agency Notes:					
Notes/Discount Notes FFCB	$ 11,431,771	$ -	$ -	$ -	$ 11,431,771
Notes/Discount Notes FHLB	19,410,878	-	-	-	19,410,878
Notes/Discount Notes FNMA	7,464,181	-	-	-	7,464,181
Notes/Discount Notes FHLMC	12,621,906	-	-	-	12,621,906
US Treasury Notes:	3,139,410	-	-	-	3,139,410
Municipal Notes:	402,635	-	-	-	402,635
Supranationals	3,905,180	-	-	-	3,905,180
Corporate Bonds	6,041,385	-	-	-	6,041,385
Asset Backed Securities	-	6,272,695	-	-	6,272,695
Commercial Paper	-	4,398,190	-	-	4,398,190
Certificates of Deposit	-	17,526,419	-	-	17,526,419
LAIF	-	-	-	526,620	526,620
Money Market Accounts	-	3,835,446	-	-	3,835,446
Total	$ 64,417,345	$ 32,032,750	$ -	$ 526,620	$ 96,976,715

E. INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

F. CREDIT RISK

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

G. CUSTODIAL CREDIT RISK - DEPOSITS

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. The District believes it has no significant custodial credit risk.

H. CUSTODIAL CREDIT RISK - INVESTMENTS

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the total investment held at the Bank of New York, the District has a custodial credit risk exposure of $114,813 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

3. INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund Receivables/Payables

As of June 30, 2018, the interfund receivable and payable balances were as follows:

	Interfund Receivables	Interfund Payables
Major Funds		
General Fund	$ 616,703	$ -
Building Fund	-	323,295
Bond Interest and Redemption Fund	323,295	-
Nonmajor Funds		
Cafeteria Special Revenue Fund	-	591,703
Child Development Fund	-	25,000
Total	$ 939,998	$ 939,998

Interfund Transfers

There were no interfund transfers in 2018.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017	Additions and Transfers In	Deletions and Transfers Out	Balance June 30, 2018
Non-depreciable assets:				
Land	$ 58,067,162	$ -	$ -	$ 58,067,162
Construction in progress	12,509,502	15,829,225	505,736	27,832,991
	70,576,664	15,829,225	505,736	85,900,153
Depreciable assets:				
Buildings and Improvements	367,138,676	365,049	-	367,503,725
Furniture and equipment	12,284,964	192,674	-	12,477,638
	379,423,640	557,723	-	379,981,363
Totals, at cost	450,000,304	16,386,948	505,736	465,881,516
Accumulated depreciation:				
Building and Improvements	96,326,363	8,880,837	-	105,207,200
Furniture and Equipment	8,000,003	1,149,515	-	9,149,518
	104,326,366	10,030,352	-	114,356,718
Depreciable assets, net	275,097,274	(9,472,629)	-	265,624,645
Capital assets, net	$ 345,673,938	$ 6,356,596	$ 505,736	$ 351,524,798

The entire amount of depreciation expense was unallocated in the Statement of Activities.

5. LONG-TERM LIABILITIES

Schedule of Changes in Long-Term Liabilities

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
General Obligation Bond	$ 248,517,823	$ 761,963	$ 7,435,000	$ 241,844,786	$ 6,185,000
Certificates of Participation	26,765,000	-	810,000	25,955,000	845,000
Accumulated vacation	107,913	25,335	-	133,248	-
Net Pension Liability	109,240,202	12,485,754	-	121,725,956	-
Supplemental Employee Retiree Plan	447,742	-	223,871	223,871	223,871
Subtotal	385,078,680	13,273,052	8,468,871	389,882,861	7,253,871
Unamortized general obligation bond premium	17,055,460	-	717,491	16,337,969	-
Unamortized certificates of participation premium	2,173,423	-	108,220	2,065,203	-
Unamortized Loss on Refunding	(8,710,115)	-	(597,504)	(8,112,611)	-
Total long term obligation	$ 395,597,448	$ 13,273,052	$ 8,697,078	$ 400,173,422	$ 7,253,871

Payment of capital leases are made out of the General Fund. Payment of the general obligation bonds are made out of the Bond Interest and Redemption Fund. The Bond Interest and Redemption Fund receives property tax revenues which are used solely to repay the principal and interest due on these obligations. The Bond Anticipation Note was paid off using proceeds from the issuance of the General Obligation Bonds, Election of 2008, Series 2015 issued in the 2014-15 fiscal year. The 2016 certificates of participation refunded the 2008 certificates of participation in 2016-17 fiscal year and payments on the 2016 certificates of participation are made by the Capital Facilities Fund. The accrued vacation and early retirement incentive will be paid by the fund for which the employee worked.

General Obligation Bonds

In February 2015, the District issued General Obligation Bonds, Election of 2008, Series 2015 (the "Series 2015 New Money Bonds") and General Obligation Refunding Bonds, Series 2015 (the "Series 2015 Refunding Bonds"), totaling $30,385,000 and $35,300,000, respectively. The Series 2015 New Money Bonds were issued to provide the funds necessary to pay the outstanding 2011 General Obligation Bond Anticipation Notes and finance specific construction, repair and improvement projects approved by the voters of the District. The Series 2015 Refunding Bonds were issued to refund a portion of the outstanding 2009 General Obligation Bonds (Election of 2008, Series A). The Series 2015 New Money and Refunding Bonds bear interest rates from 3% to 5% and are scheduled to mature through 2045. In January 2017, the District issued General Obligation Bonds, Election of 2016, Series 2017 (the "Series 2017 Bonds") totaling $60,000,000 to finance specific construction, repair and improvement projects approved by the voters of the District. Repayment of the Bonds is made from ad valorem property taxes levied and collected by Santa Clara County.

5. LONG-TERM LIABILITIES (CONTINUED)

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2017	Issued/ Accretion	Redeemed	Balance June 30, 2018
3/12/2009	08/01/32	3% - 6.81%	$ 49,986,615	$ 12,962,823	$ 761,963	$ 2,180,000	$ 11,544,786
2/27/2013	08/01/47	3.125% - 5%	110,670,000	110,370,000	-	25,000	110,345,000
2/3/2015	08/01/44	3% - 5%	30,385,000	30,385,000	-	-	30,385,000
2/3/2015	08/01/44	3% - 5%	35,300,000	34,800,000	-	-	34,800,000
1/5/2017	08/01/37	2% - 5%	60,000,000	60,000,000	-	5,230,000	54,770,000
			$ 229,656,615	$ 248,517,823	$ 761,963	$ 7,435,000	$ 241,844,786
						Premium GO Bond	$ 16,337,969
							$ 258,182,755

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Year Ending June 30	Principal	Interest to Maturity	Total
2019	$ 6,185,000	$ 11,911,331	$ 18,096,331
2020	3,030,000	11,677,122	14,707,122
2021	3,575,000	9,671,725	13,246,725
2022	4,185,000	9,551,925	13,736,925
2023	4,355,000	9,385,925	13,740,925
2024-2028	25,520,000	44,211,931	69,731,931
2029-2033	8,491,615	96,624,629	105,116,244
2034-2038	35,255,000	36,313,056	71,568,056
2039-2043	62,525,000	26,697,988	89,222,988
2044-2048	84,135,000	9,648,500	93,783,500
Total	$ 237,256,615	$ 265,694,133	$ 502,950,748
Total Accretion	4,588,171		
Total GO Bonds	$ 241,844,786		

Certificates of Participation

In July 2016, the District issued certificates of participation in the amount of $27,870,000 through the Cede & Company with interest rates ranging from 2.00 to 4.00 percent. The certificates mature through 2039. The aggregate principal outstanding for all issues is as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 845,000	$ 924,950	$ 1,769,950
2020	865,000	899,600	1,764,600
2021	880,000	873,650	1,753,650
2022	925,000	838,450	1,763,450
2023	945,000	801,450	1,746,450
2024-2028	5,385,000	3,404,450	8,789,450
2029-2033	6,495,000	2,241,850	8,736,850
2034-2038	7,890,000	982,500	8,872,500
2039-2040	1,725,000	51,750	1,776,750
Total	$ 25,955,000	$ 11,018,650	$ 36,973,650

5. LONG-TERM LIABILITIES (CONTINUED)

Supplemental Employee Retiree Plans

In the 2009-2010 fiscal year, the District offered a Supplemental Employee Retiree Plan to eligible certificated employees. Fourteen employees took the incentives. Retirement benefits totaling $814,585 will be paid out in installments of $162,917 each year for the next five years starting on August 1, 2009. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of the 2008-2009 fiscal year.

In the 2010-2011 fiscal year, the District offered a Supplemental Employee Retiree Plan to eligible certificated employees. Seventeen employees took the incentives. Retirement benefits totaling $890,935 will be paid out in installments of $178,187 each year for the next five years starting on August 1, 2010. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of the 2009-2010 fiscal year.

In the 2011-2012 fiscal year, the District offered a Supplemental Employee Retiree Plan to eligible certificated employees. Twelve employees took the incentives. Retirement benefits totaling $633,520 will be paid out in installments of $126,704 each year for the next five years starting on August 1, 2011. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of the 2010-2011 fiscal year.

In the 2013-2014 fiscal year, the District offered a Supplemental Employee Retiree Plan to eligible certificated employees. Twenty-two employees took the incentives. Retirement benefits totaling $1,063,075 will be paid out in installments of $212,603 each year for the next five years starting on July 1, and August 1, 2014. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of the 2013-2014 fiscal year.

In the 2014-2015 fiscal year, the District did not offer a Supplemental Employee Retiree Plan.

In the 2015-2016 fiscal year, the District did not offer a Supplemental Employee Retiree Plan.

In the 2016-2017 fiscal year, the District did not offer a Supplemental Employee Retiree Plan.

In the 2017-2018 fiscal year, the District did not offer a Supplemental Employee Retiree Plan.

6. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description

California Public Employees' Retirement System (CalPERS)

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Headquarters, 400 Q Street, Sacramento, California 95811.

State Teachers' Retirement System (STRS)

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Headquarters, 100 Waterfront Place, West Sacramento, California 95605.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalPERS		**CalSTRS**	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	62	60	62
Monthly benefits, as a % of eligible compensation	2.0%	2.0%	2.0%	2.0%
Required employee contribution rates	7%	6%	10.25%	9.205%
Required employer contribution rates	15.531%	15.531%	14.43%	14.43%

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Contributions

CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Gilroy Unified School District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

STRS

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan were:

	CalPERS	STRS	Total
Contributions - employer	$ 2,979,973	$ 7,479,391	$ 10,459,364
On behalf contributions - state	-	4,193,095	4,193,095
Total	$ 2,979,973	$ 11,672,486	$ 14,652,459

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, Gilroy Unified School District reported net pension liabilities for its proportionate share of the net pension liability of the Plans' of:

	Proportionate Share of Net Pension Liability
CalPERS	$ 34,574,468
STRS	87,151,488
Total Net Pension Liability	$ 121,725,956

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Gilroy Unified School District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan 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. Gilroy Unified School 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, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	CalPERS	STRS
Proportion - June 30, 2016	0.14407%	0.09988%
Proportion - June 30, 2017	0.14483%	0.09424%
Change - Increase (Decrease)	0.00076%	-0.00564%

For the year ended June 30, 2018, the District recognized pension expense of $4,684,024 and $6,808,119 for CalPERS and STRS, respectively. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS		STRS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,979,973	$ -	$ 11,672,486	$ -	$ 14,652,459	$ -
Difference between proportionate share of aggregate employer contributions and actual contributions for 2016-17.	-	611,402	-	2,742,286	-	3,353,689
Changes of Assumptions	3,755,236	1,012,400	13,839,284	-	17,594,520	1,012,400
Differences between Expected and Actual Experience	1,790,015	-	276,253	3,377,841	2,066,268	3,377,841
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	605,228	3,825,738	6,098,276	3,825,738	6,703,504
Net differences between projected and actual investment earnings on pension plan investments	2,271,517	-	-	3,127,956	2,271,517	3,127,956
Total	$ 10,796,741	$ 2,229,030	$ 29,613,760	$ 15,346,359	$ 40,410,501	$ 17,575,389

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	CalPERS	STRS	Total Deferred Outflows/ (Inflows) of Resources
2019	$ 829,836	$ (3,452,791)	$ (2,622,955)
2020	2,168,033	(606,929)	1,561,104
2021	2,350,662	532,412	2,883,074
2022	239,208	1,365,568	1,604,776
2023	-	2,154,484	2,154,484
Thereafter	-	2,602,171	2,602,171
Total	$ 5,587,739	$ 2,594,915	$ 8,182,654

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	CalPERS	STRS
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll Growth Rate	3.00%	3.50%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.10%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

CalPERS

The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

The table below reflects 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.

	CalPERS		
Asset Class	**New Strategic Allocation**	**Real Return Years 1-10 (a)**	**Real Return Years 11+ (b)**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

STRS

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1 percent) and assuming that contributions and benefit payments occur midyear. Based on those assumptions, the Plan'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.

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

	STRS	
Asset Class	**Assumed Asset Allocation**	**Long-Term Expected Real Rate of Return**
Global Equity	47.0%	6.30%
Private Equity	13.0%	9.30%
Real Estate	13.0%	5.20%
Fixed Income	12.0%	0.30%
Absolute Return/Risk Mitigating Strategies	9.0%	2.90%
Inflation Sensitive	4.0%	3.80%
Cash/Liquidity	2.0%	-1.00%
Total	100%	

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Sensitivity of the 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 for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalPERS		
	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability	$ 50,870,122	$ 34,574,468	$ 21,055,858

	STRS		
	Discount Rate - 1% (6.10%)	Current Discount Rate (7.10%)	Discount Rate + 1% (8.10%)
Plan's Net Pension Liability	$ 127,966,053	$ 87,151,488	$ 54,027,703

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS and STRS financial reports.

Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

7. FUND BALANCE

The District reports fund balances in accordance with Governmental Accounting Standards Board Statement No. 54. All fund balance categories are reported in the aggregate on the face of the balance sheet. All components of those fund balances and specific purposes are identified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash	$ 50,000	$ -	$ -	$ -	$ 50,000
Prepaid expenditures	3,335	-	-	-	3,335
Stores	73,817	-	-	83,800	157,617
Total Nonspendable	127,152	-	-	83,800	210,952
Restricted for:					
Adult Education Block Grant Program	-	-	-	84,238	84,238
Medi-Cal Billing Option	458,449	-	-	-	458,449
California Clean Energy Jobs Act	1,312,133	-	-	-	1,312,133
Lottery: Instructional Materials	844,644	-	-	-	844,644
Ongoing & Major Maintenance Account	85,000	-	-	-	85,000
Child Development: Center-Based Reserve A	-	-	-	160,693	160,693
Special Ed: Mental Health Services	211,443	-	-	-	211,443
College Readiness Block Grant	223,789	-	-	-	223,789
State School Facilities Projects	-	-	-	753,472	753,472
Child Nutrition: School Programs	-	-	-	75,237	75,237
Other Restricted Local	-	46,741,277	12,194,024	3,988,499	62,923,800
Total Restricted	3,135,458	46,741,277	12,194,024	5,062,139	67,132,898
Committed:					
Other Commitments	-	1,374,842	-	2,906,797	4,281,639
Total Committed	-	1,374,842	-	2,906,797	4,281,639
Assigned to:					
Home to School Transportation	222,106	-	-	-	222,106
Deferred Maintenance Needs	922,236	-	-	-	922,236
Textbook Adoptions	2,597,646	-	-	-	2,597,646
Project Lead The Way	56,611	-	-	-	56,611
One Time Disc. Spent in 2018-19	713,500	-	-	-	713,500
LCAP	530,790	-	-	-	530,790
Targeted Support/EL Targeted Support	386,317	-	-	-	386,317
New Teacher Induction Program	250,000	-	-	-	250,000
Total Assigned	5,679,206	-	-	-	5,679,206
Unassigned:					
Economic uncertainties	8,898,110	-	-	-	8,898,110
Unassigned/Unappropriated	4,637,409	-	-	(522,628)	4,114,781
Total Unassigned	13,535,519	-	-	(522,628)	13,012,891
Total Fund Balances	$ 22,477,335	$ 48,116,119	$ 12,194,024	$ 7,530,108	$ 90,317,586

8. COMMITMENTS AND CONTINGENCIES

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursement subsequently determined will not have a material effect on the District's financial position.

9. JOINT VENTURES

The District is a member of one joint powers authority (JPA): Santa Clara County Schools Insurance Group (SCCSIG) for property and liability insurance. The relationship between the District, the pools, and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

SCCSIG has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in SCCSIG's financial statements; however, fund transactions between SCCSIG and the District are included in their statements. Audited financial statements are available SCCSIG. Condensed audited financial statements are as follows:

	2017*
	SCCSIG (Audited)
Total Assets	$ 21,561,192
Total Deferred Outflow of Resources	168,209
Total Liabilities	6,318,069
Total Deferred Inflow of Resources	23,349
Net Position	$ 15,387,983
Total Revenues	36,088,227
Total Expenditures	34,053,133
Increase (Decrease) in Net Position	$ 2,035,094

** Most recent report availible*

The District has appointed one board member to the Governing Board of SCCSIG. During the year ended June 30, 2018, the District made payments of $682,225 to SCCSIG.

10. TAX AND REVENUE ANTICIPATION NOTES

The District issued $6,795,000 of tax and revenue anticipation notes (TRANs) dated July 6, 2017. The issuance cost, underwriter's discount and the premium were $23,500, $6,795 and $135,288 respectively. The final cost for the TRANs was $6,994,886. The note matured in 2 installments at 3% interest. The first payment of $3,397,500 was made on January 31, 2017 and second payment of $3,597,386 was made on April 30, 2017.

The District issued $4,955,000 of tax and revenue anticipation notes (TRANs) dated July 12, 2018. The issuance cost, underwriter's discount and the premium were $17,500, $4,955 and $65,654 respectively. The final cost for the TRANs was $5,097,869. The note matures in 2 installments at 3% interest. The first payment of $2,477,500 is scheduled to be made on January 31, 2019 and second payment of $2,620,369 is scheduled to be made on April 30, 2019. The notes were sold to supplement cash flow.

11. SUBSEQUENT EVENTS

The District's management evaluated its June 30, 2018 financial statements for subsequent events through November 19, 2018, the date the financial statements were available to be issued. Management is not aware of any other subsequent events other than the above that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budget			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
REVENUES				
LCFF revenue	$ 104,137,111	$ 104,496,213	$ 104,363,166	$ (133,047)
Federal revenue	6,295,927	7,895,785	6,670,896	(1,224,889)
Other state revenues	8,249,260	11,667,631	11,532,820	(134,811)
Other local revenues	1,369,588	2,601,634	2,378,504	(223,130)
Total revenues	120,051,886	126,661,263	124,945,386	(1,715,877)
EXPENDITURES				
Certificated salaries	54,013,454	53,648,962	53,579,966	68,996
Classified salaries	17,992,476	19,265,548	18,464,661	800,887
Employee benefits	27,487,875	26,467,989	26,039,433	428,556
Books and supplies	5,857,407	14,299,092	7,239,594	7,059,498
Services and other operating expenditures	13,455,497	19,731,021	17,893,854	1,837,167
Capital outlay	258,126	1,380,256	697,119	683,137
Other outgo	3,141,633	3,422,655	3,201,241	221,414
Total expenditures	122,206,468	138,215,523	127,115,868	11,099,655
Excess (deficiency) of revenues over expenditures	(2,154,582)	(11,554,260)	(2,170,482)	9,383,778
OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	-	-	-
Net change in fund balances	(2,154,582)	(11,554,260)	(2,170,482)	9,383,778
Fund balances, July 1, 2017	24,647,817	24,647,817	24,647,817	-
Fund balances, June 30, 2018	$ 22,493,235	$ 13,093,557	$ 22,477,335	$ 9,383,778

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CalPERS	June 30, 2014 [1]	June 30, 2015 [1]	June 30, 2016 [1]	June 30, 2017 [1]
Proportion of the net pension liability	0.13474%	0.14030%	0.14407%	0.14483%
Proportionate share of the net pension liability	$ 15,296,437	$ 20,679,872	$ 28,454,449	$ 34,574,468
Covered-employee payroll [2]	$ 13,749,155	$ 15,432,540	$ 14,744,304	$ 16,514,777
Proportionate Share of the net pension liability as percentage of covered-employee payroll	111.25%	134.00%	192.99%	209.35%
Plans fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.90%	71.87%
Proportionate share of aggregate employer contributions [3]	$ 1,618,413	$ 1,828,293	$ 2,047,689	$ 2,564,910

STRS	June 30, 2014 [1]	June 30, 2015 [1]	June 30, 2016 [1]	June 30, 2017 [1]
Proportion of the net pension liability	0.09888%	0.10380%	0.09988%	0.09424%
Proportionate share of the net pension liability	$ 57,784,450	$ 69,884,251	$ 80,785,753	$ 87,151,488
Covered-employee payroll [2]	$ 40,918,243	$ 39,872,917	$ 42,458,124	$ 43,542,349
Proportionate Share of the net pension liability as percentage of covered-employee payroll	141.22%	175.27%	190.27%	200.15%
Plans fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%
Proportionate share of aggregate employer contributions [3]	$ 3,633,540	$ 4,278,364	$ 5,341,232	$ 6,283,161

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

[3] The Plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The Plan's proportionate share of aggregate contributions is based on the Plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CalPERS	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]	Fiscal Year 2015-16 [1]	Fiscal Year 2016-17 [1]
Actuarially Determined Contribution [2]	$ 1,618,413	$ 1,828,293	$ 2,047,689	$ 2,564,910
Contributions in relation to the actuarially determined contributions [2]	(1,776,920)	(2,047,315)	(2,565,408)	(2,979,973)
Contribution deficiency (excess)	$ (158,507)	$ (219,022)	$ (517,719)	$ (415,063)
Covered-employee payroll [3]	$ 13,749,155	$ 15,432,540	$ 14,744,304	$ 16,514,777
Contributions as a percentage of covered-employee payroll [3]	11.771%	11.847%	13.888%	15.531%

STRS	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]	Fiscal Year 2015-16 [1]	Fiscal Year 2016-17 [1]
Actuarially Determined Contribution [2]	$ 3,633,540	$ 4,278,364	$ 5,341,232	$ 6,283,161
Contributions in relation to the actuarially determined contributions [2]	(4,227,720)	(5,383,474)	(6,504,361)	(7,479,391)
Contribution deficiency (excess)	$ (594,180)	$ (1,105,110)	$ (1,163,129)	$ (1,196,230)
Covered-employee payroll [3]	$ 40,918,243	$ 39,872,917	$ 42,458,124	$ 43,542,349
Contributions as a percentage of covered-employee payroll [3]	8.880%	10.730%	12.580%	14.430%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

1. PURPOSE OF SCHEDULES

A. Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual – General Fund

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B. Schedule of Proportionate Share of Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the Plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Assumptions
The CalPERS plan discount rate was changed from 7.65 percent to 7.15 percent since the previous valuation. The CalSTRS plan discount rate was changed from 7.60 percent to 7.10 percent since the previous valuation.

Changes in Benefit Terms
There were no changes in benefit terms since the previous valuations for both CalPERS and CalSTRS.

1. PURPOSE OF SCHEDULES (CONTINUED)

C. Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

	CalPERS	**STRS**
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll Growth Rate	3.00%	3.50%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.10%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

SUPPLEMENTARY INFORMATION

GILROY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

JUNE 30, 2018

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Child Development Fund	County School Facilities Fund	Tax Override Fund	Total
ASSETS							
Cash and cash equivalents	$ 78,805	$ 29,620	$ 3,293,465	$ 1,955	$ 3,965,859	$ 639,760	$ 8,009,464
Accounts receivable	22,445	752,592	14,092	187,444	18,010	-	994,583
Stores	-	83,800	-	-	-	-	83,800
Total assets	$ 101,250	$ 866,012	$ 3,307,557	$ 189,399	$ 3,983,869	$ 639,760	$ 9,087,847
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	$ 17,012	$ 115,272	$ 400,760	$ 3,706	$ 404,286	$ -	$ 941,036
Due to other funds	-	591,703	-	25,000	-	-	616,703
Total liabilities	17,012	706,975	400,760	28,706	404,286	-	850,764
Fund balances							
Nonspendable	-	83,800	-	-	-	-	83,800
Restricted	84,238	75,237	-	160,693	3,953,088	788,883	5,062,139
Committed	-	-	2,906,797	-	-	-	2,906,797
Unassigned	-	-	-	-	(373,505)	(149,123)	(522,628)
Total fund balances	84,238	159,037	2,906,797	160,693	3,579,583	639,760	7,530,108
Total liabilities and fund balances	$ 101,250	$ 866,012	$ 3,307,557	$ 189,399	$ 3,983,869	$ 639,760	$ 9,087,847

GILROY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

ALL NON-MAJOR FUNDS

JUNE 30, 2018

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Child Development Fund	County School Facilities Fund	Tax Override Fund	Total
REVENUES							
Federal revenue	$ -	$ 3,986,873	$ -	$ -	$ -	$ -	$ 3,986,873
Other state revenues	11,460	255,902	-	1,020,931	746,443	-	2,034,736
Other local revenues	227,900	1,415,911	2,422,734	1,826	107,368	(337)	4,175,402
Total revenues	239,360	5,658,686	2,422,734	1,022,757	853,811	(337)	10,197,011
EXPENDITURES							
Certificated salaries	156,029	-	-	329,473	-	-	485,502
Classified salaries	53,435	1,845,809	-	237,833	-	-	2,137,077
Employee benefits	52,867	670,357	-	265,911	-	-	989,135
Books and supplies	70,696	(51,355)	70,512	8,669	-	-	98,522
Services and other operating expenditures	12,561	2,947,660	28,395	19,956	4,753	-	3,013,325
Capital outlay	-	(5,821)	977,089	-	6,985,644	-	7,956,912
Other outgo	9,009	233,277	-	222	-	-	242,508
Debt service expenditures	-	-	1,751,150	-	-	-	1,751,150
Total expenditures	354,597	5,639,927	2,827,146	862,064	6,990,397	-	16,674,131
Excess of revenues over expenditures	(115,237)	18,759	(404,412)	160,693	(6,136,586)	(337)	(6,477,120)
OTHER FINANCING SOURCES (USES)							
Other sources	-	-	45,714	-	-	-	45,714
Total other financing sources (uses)	-	-	45,714	-	-	-	45,714
Net change in fund balances	(115,237)	18,759	(358,698)	160,693	(6,136,586)	(337)	(6,431,406)
Beginning Balance, July 1, 2016	199,475	140,278	3,265,495	-	9,716,169	640,097	13,961,514
Fund balances, June 30, 2018	$ 84,238	$ 159,037	$ 2,906,797	$ 160,693	$ 3,579,583	$ 639,760	$ 7,530,108

GILROY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Assets:				
Cash on hand and in banks				
Brownwell Middle School	$ 19,657	$ 82,328	$ 74,658	$ 27,327
Christopher High School	362,720	75,210	146,653	291,277
South Valley Middle School	53,019	98,427	95,059	56,387
MT. Madonna High School	1,619	281	251	1,649
Ascencion Solorsano MS	56,695	92,989	88,870	60,814
Gilroy High School	326,443	711,570	698,732	339,281
Total Assets	$ 820,153	$ 1,060,805	$ 1,104,223	$ 776,735
Liabilities:				
Due to Student Groups	$ 820,153	$ 1,060,805	$ 1,104,223	$ 776,735

GILROY UNIFIED SCHOOL DISTRICT

ORGANIZATION

JUNE 30, 2018

The Gilroy Unified School District was established in July 1, 1966, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District operates eight elementary schools, three middle schools, two high schools, one early college high school, one independent study school, and one continuation school.

GOVERNING BOARD

Name	Office	Term Expires December
Patricia Midtgaard	President	2018
Linda Piceno	Vice President	2018
Heather Bass	Member	2018
BC Doyle	Member	2020
Mark Good	Member	2020
James Pace	Member	2020
Jaime Rosso	Member	2018

ADMINISTRATION

Dr. Deborah Flores
Superintendent

Alvaro Meza
Assistant Superintendent, Business Services

Kimberly Mason
Director of Fiscal Services

Paul Winslow
Assistant Superintendent, Human Resources

Anna Pulido
Director of Student Services

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
Elementary		
TK through Third	3,031.54	3,034.04
Fourth through Sixth	2,499.93	2,497.70
Seventh through Eighth	1,534.70	1,538.24
Special Education	5.15	5.22
Extended Year	11.63	12.56
Subtotal	7,082.95	7,087.76
Secondary		
Regular Classes	3,412.79	3,378.33
Special Education	7.14	6.41
Extended Year	3.66	5.06
Continuation Education	132.87	132.82
Subtotal	3,556.46	3,522.62
Total	10,639.41	10,610.38

See the accompanying notes to supplementary information.

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Grade Level	Standard Minutes Requirement	2017-18 Actual Minutes	Instructional Days	Status
Kindergarten	36,000	50,004	180	In compliance
Grade 1	50,400	50,688	180	In compliance
Grade 2	50,400	50,688	180	In compliance
Grade 3	50,400	50,688	180	In compliance
Grade 4	54,000	54,528	180	In compliance
Grade 5	54,000	54,528	180	In compliance
Grade 6	54,000	56,853	180	In compliance
Grade 7	54,000	56,853	180	In compliance
Grade 8	54,000	56,853	180	In compliance
Grade 9	64,800	64,916	180	In compliance
Grade 10	64,800	64,916	180	In compliance
Grade 11	64,800	64,916	180	In compliance
Grade 12	64,800	64,916	180	In compliance

Schedule of instructional time for Rucker Elementary per CDE waiver #23-6-2016-W-10

Grade Level	Standard Minutes Requirement	2017-18 Actual Minutes	Instructional Days	Status
Grade 4	54,695	54,758	180	In compliance
Grade 5	54,695	54,758	180	In compliance

See the accompanying notes to supplementary information.

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Charter School ID Number	Charter Schools Chartered by the District	Included in the District Financial Statements, or Separate Report
1278	Gilroy Prep Academy/Navigator School	Separately Reported

See the accompanying notes to supplementary information.

GILROY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements for the fiscal year ended June 30, 2018.

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Self Insurance Fund
FUND BALANCE					
Balance, June 30, 2018, Unaudited Actuals	$ 22,477,335	$ 48,098,996	$ 12,176,901	$ 7,530,108	$ 1,836,827
Increase in:					
Proceeds from other sources	-	-	17,123	-	-
Decrease in:					
Services & Other Operating Expenditures	-	17,123	-	-	-
Balance, June 30, 2018, Audited Financial Statement	$ 22,477,335	$ 48,116,119	$ 12,194,024	$ 7,530,108	$ 1,836,827

See the accompanying notes to supplementary information.

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal CFDA Number	Grantor and Program Title	Pass-Through Entity Identifying Number		Federal Expenditures
	U.S. Department of Education			
	Passed through California Department of Education			
	Special Education Cluster:			
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611 (Formerly PL 94-142)	13379	*	$ 1,787,906
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115		
84.027A	Special Education: Mental Health Allocation Plan, Part B, Section 611	14468	*	140,220
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	13682	*	104,376
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	*	65,999
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	*	595
	Subtotal Special Education Cluster			2,099,096
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	14329	*	1,761,327
84.048	Carl D. Perkins Career and Technical Ed	14894		60,704
84.011	NCLB: Title I, Part C, Migrant Ed (Regular and Summer Program)	14326		187,558
84.011	NCLB: Title I, Migrant Ed Summer Program	10005		59,239
84.011	NCLB: Title I, Part C, Even Start Migrant Education (MEES)	14768		32,120
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341		286,606
84.365	NCLB (ESEA) : Title III, Limited English Proficient (LEP) Student Program	14346		176,768
84.287	NCLB: Title IV, Part B, 21st Century Community Learning Centers Program	14349		1,364,425
84.126	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006		166,467
	Total U.S. Department of Education			6,194,310
	U.S. Department of Agriculture			
	Passed through California Department of Education			
10.555	Child Nutrition: School Programs	13391		3,986,873
10.555	School Lunch Program - Nonmonetary Assistance	13391		342,998
	Total U.S. Department of Agriculture			4,329,871
	U.S. Department of Health and Human Services			
	Passed through California Department of Education			
93.778	Dept of Health Care Services (DHCS): Medi-Cal Administrative Activities	10013		250,482
93.778	Dept of Health Care Services (DHCS): Medi-Cal Billing Option	10013		226,104
	Total U.S. Department of Health and Human Services			476,586
Total Federal Programs				$ 11,000,767

* Tested as a major program.

See the accompanying notes to supplementary information.

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Adopted Budget 2018/2019	Actuals 2017/2018	Actuals 2016/2017	Actuals 2015/2016
General Fund				
Revenues and Other Financial Sources	$ 130,777,140	124,945,386	$ 124,329,452	$ 120,241,782
Expenditures	136,747,035	127,115,868	120,857,238	109,317,698
Other Uses and Transfers Out	-	-	203,429	131,042
Total Outgo	136,747,035	127,115,868	121,060,667	109,448,740
Change in Fund Balance	(5,969,895)	(2,170,482)	3,268,785	10,793,042
Ending Fund Balance	$ 16,507,440	$ 22,477,335	$ 24,647,817	$ 21,379,032
Available Reserves *	$ 16,377,445	$ 13,535,519	$ 14,745,937	$ 13,239,788
Designated for Economic Uncertainties	$ 9,572,292	$ 8,898,110	$ 8,474,248	$ 7,661,412
Undesignated Fund Balance	$ 6,805,153	$ 4,637,409	$ 6,271,689	$ 5,578,376
Available Reserves as a Percentage of Total Outgo	12.0%	10.6%	12.2%	12.1%
All Funds				
Total Long-Term Debt	$ 382,628,990	$ 389,882,861	$ 385,078,680	$ 311,411,051
Actual Daily Attendance at P-2 (Exclusive of Adult ADA)	10,639	10,639	10,889	10,861

*Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund

The general fund balance has increased by $11,891,345 in two of the past three years. For a district this size, the State of California recommends available reserves of at least 3 percent of total general fund expenditures, transfers out, and other uses (total outgo). The District has met this requirement.

Total long-term liabilities have increased by $78,471,810 over the past two years due to the addition of the net pension liability and issuances of bonds.

Average Daily Attendance (ADA) has decreased by 222 over the past two years and attendance is budgeted to remain consistent for the fiscal year 2018-2019.

1. 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.

2. SCHEDULE OF INSTRUCTIONAL TIME

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206. Districts must maintain their instructional minutes in accordance with the State's standard requirement as required by Education Code Section 46201(b).

The District has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding.

3. SCHEDULE OF CHARTER SCHOOLS

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

4. RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

This schedule provides information necessary to reconcile the Unaudited Actual Fund Financial Reports to the audited financial statements.

5. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes federal grant activity of the District and is presented under the modified accrual basis of accounting. Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements. Therefore, some amounts presented in this schedule may differ from amounts used in the preparation of the general purpose financial statements. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The schedule on the following page provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of the fair value of federal food commodities received from the California Department of Education as a pass-through grant from the U.S. Department of Agriculture that are not reflected in the financial statements.

5. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

	Federal Catalog Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balance		$ 10,657,769
Reconciling items		
Food Distribution - Commodities	10.555	342,998
Total Schedule of Expenditures of Federal Awards		$ 11,000,767

6. 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.

OTHER INDEPENDENT AUDITOR'S REPORTS

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education
Gilroy Unified School District
Gilroy, California

Report on Compliance for Each State Program

We have audited the compliance of Gilroy Unified School District (the "District") with the types of compliance requirements described in the State of California's 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2018.

Management's Responsibility

Compliance with the requirements of state laws and regulations is the responsibility of District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance 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 State of California's 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time for School Districts	Yes
Instructional Materials	
General Requirements	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive Program	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below

School Districts, County Offices of Education and Charter Schools	
Description	**Procedures Performed**
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before Schools Education and Safety Program	
General requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Fund	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below

Charter Schools	
Description	**Procedures Performed**
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes - Classroom Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform any procedures for Independent Study because ADA for this program is below the materiality threshold.

We did not perform any procedures related to Juvenile Court Schools, Early Retirement Incentive Program, Apprenticeship: Related and Supplemental Instruction and Independent Study-Course Based because the District did not offer these programs.

We did not perform procedures related to Before School requirements for the After/Before Schools Education and Safety Program because the District's before school program was not funded with After/Before School Education and Safety funding.

We did not perform any procedures related to Attendance Reporting for Charter Schools, Mode of Instruction for Charter Schools, Nonclassroom-Based Instruction/Independent Study for Charter Schools, Determination of Funding for Nonclassroom-Based Instruction for Charter Schools, Annual Instructional Minutes-Classroom Based for Charter Schools, and Charter School Facility Grant Program because the District did not have any charter schools.

Opinion

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding **2018-2** in the accompanying Schedule of Audit Findings and Questioned Costs, Gilroy Unified School District did not comply with requirements regarding School Accountability Report Card. Compliance with such requirements is necessary, in our opinion, for Gilroy Unified School District to comply with state laws and regulations applicable to these programs.

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Gilroy Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other State Programs

In our opinion, Gilroy Unified School District complied, in all material respects, with the other applicable state compliance requirements referred to above for the year ended June 30, 2018.

Other Matters

Gilroy Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 19, 2018

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

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*

INDEPENDENT AUDITOR'S REPORT

Board of Education
Gilroy Unified School District
Gilroy, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gilroy 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 November 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 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 entity'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs to be significant deficiencies: **2018-1**.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding **2018-2**.

Gilroy Unified School District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 19, 2018

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

INDEPENDENT AUDITOR'S REPORT

Board of Education
Gilroy Unified School District
Gilroy, California

Report on Compliance for Each Major Federal Program

We have audited the Gilroy Unified School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

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.

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 to determine the 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 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.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 19, 2018

FINDINGS AND RECOMMENDATIONS

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:
Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	X	Yes	____	None reported

Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?	____	Yes	X	None reported

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516(a)?	____	Yes	X	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027	Special Education Cluster
84.010	Title I, Part A

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?	____	Yes	X	No

GILROY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

State Awards

Type of auditor's report issued on compliance for state programs**:**	Qualified			
Internal control over state programs:				
Material weakness(es) identified?	_______	Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?	X	Yes	_______	None reported

Section II – Financial Statement Findings

2018-1: Internal Control 30000 - Associate Student Body

Criteria:
Education Code Section 48930 (and the California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

- All deposits should be made to the bank in a timely manner.

Condition:
At Christopher High School we noted receipts for the Senior Dinner Dance were kept for more than a week before they were deposited.

Cause:
The policies and procedures for account and cash handling procedures, as outlined by the California Department of Education, were not properly implemented by the school site personnel.

Effect:
Untimely deposits lead to increased risk of receipts being misplaced or misappropriated.

Recommendations:
All revenues received by the ASB should be deposited in a timely manner.

Corrective Action Plan:
Management will request monthly reconciliation be sent to the district office on a monthly basis. During this time, management will require that deposits are made in a timely manner. They will be required to make deposits every weed.

Section III – Federal Award Findings and Questioned Costs

No matters were noted.

Section IV – State Award Findings and Questioned Costs

2018-2 School Accountability Report Card (SARC) (72000)

Criteria:
The information on safety, cleanliness and adequacy of school facilities contained in the School Accountability Report Card (SARC) should be consistent with the information indicated in the "Facility Inspection Tool (FIT), School Facility Conditions Evaluation" developed by the Office of Public School Construction and approved by the State Allocation Board, as per Education Code Sections 33126(b)(8).

Condition:
For one school site tested, the reports on school site conditions in the SARC were not consistent with the FIT. Interior surfaces were listed as in "good" condition on the SARC and "Fair" condition on the FIT form. Determined that repairs were made, but not until after the SARC was submitted.

Cause:
There was insufficient review process to identify inconsistencies in the School Accountability Report Cards to ensure completeness and accuracy.

Effect:
Repairs and maintenance may not occur at the school sites as needed.

Recommendations:
It is recommended that management ensures oversight and a process of review of the School Accountability Report Cards to ensure they are complete and accurate.

Corrective Action Plan
The District will implement appropriate review and oversight of the School Accountability Report Cards for all sites to ensure they are consistent with the Facility Inspection Tool.

2017-1 Fiduciary Assets – Foundation Fund (30000) – Material Weakness

Condition:
We were unable to confirm the balance of assets in the foundation fund as of June 30, 2017. In addition, the nonprofit foundation that holds the funds could not provide an independent audit report that displays a schedule of funds held in trust as of June 30, 2017.

Effect:
We were unable to independently verify amounts held in trust.

Recommendation:
To properly safeguard assets and provide accountability we suggest that cash and investments be held in the County Treasury, a bank or an independent custodian. We recommend the Superintendent of Business Services review and consider these options.

Status:
Implemented.

2017-2 Deficiency – Continuation Education (40000)

Condition:
The District reported 17.568 of P2 independent study ADA generated within the continuation education program (excluding pregnant pupils and pupils with children), .406 in excess of the allowable cap of 17.162 P2 ADA.

Effect:
The District was not in compliance with Education Code section 51745(b).

Recommendation:
The District should implement a process of review to ensure independent study ADA generated within the continuation education program is below the allowable cap.

Status:
Implemented.

2017-3 School Accountability Report Card (SARC) (72000)

Condition:
The 2015-16 School Accountability Report Cards (SARCs) for all sites within the District were not published and submitted California Department of Education prior to the February 1, 2017 deadline.

Effect:
SARCs are intended to provide the public with important information about each public school and communicate a school's progress in achieving its goals. As the SARCs were not published or submitted in a timely manner, the public may not be informed of the performance of schools within the District.

Recommendation:
It is recommended that management ensures oversight and a process of review of the SARCs to ensure submission prior to the February 1 deadline.

Status:
Partially implemented, see finding **2018-2**.