



Annual Financial Report
June 30, 2019



Newport-Mesa
Unified School District

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Newport-Mesa Unified School District
Costa Mesa, 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 Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2019, 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; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Newport-Mesa Unified School District, as of June 30, 2019, 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 on pages 5 through 16, budgetary comparison schedule on page 78, schedule of changes in the District's total OPEB liability and related ratios on page 79, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 80, schedule of the District's proportionate share of the net pension liability on page 81, and the schedule of District contributions on page 82, 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 Newport-Mesa Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information 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 December 2, 2019, on our consideration of the Newport-Mesa Unified School 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 solely 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 the effectiveness of Newport-Mesa Unified School District's 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 Newport-Mesa Unified School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 2, 2019



This section of Newport-Mesa Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ending June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Governmental-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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 deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's 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 an important component in this evaluation.

All of the District's services are reported in governmental activities. This includes the education of kindergarten through grade twelve students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education and the California Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in the *Statement of Net Position*. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

Major financial highlights for the 2018-2019 year include Governmental Accounting Standards Board (GASB) changes and robust growth in revenues and expenditures. Over the past couple of years, GASB has issued a number of Statements that impact the District. Most recently, GASB issued Statements 83 and 88. Statement 83 concerns asset retirement and Statement 88 addresses debt disclosure. Both Statements implemented as of June 30, 2019. In addition, the District continues to address GASB Statements associated with Other Post-Employment Benefits.

The District's financial audit reports are formatted according to standards that are set by GASB. These standards essentially govern what is counted, how it is counted, and how it is displayed. GASB recently issued Statements 68 and 71 outlining new standards for pension reporting. Specifically, these statements required the District to reflect pension liabilities that heretofore were counted on the State's financial balance sheet, to now be counted on the District's financial Net Position Statement. Subsequently GASB also issued Statement 75 requiring Other Post-Employment Benefits (OPEB) to be treated in the same manner as pensions. OPEB includes obligations associated with health and welfare cost for eligible employees who retire before the age of 65.

The Statement of Net Position represents the District's financial net worth. The District's financial net worth consists of everything the District owns (land, buildings, cash etc..) less District obligations. A positive balance is good; a negative balance reflects that the District owes more than available resources, effective on the date of the report. Before GASB issued Statements 68, 71 and 75, the District had a substantial positive Net Position Statement. After the inclusion of pension and OPEB liabilities, the District's Net Position turned negative.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

The District has very little control over the pension liability. The factors driving the pension liability are determined by the State. Consequently, the only control the District has to reduce the pension liability is to either eliminate staff or fund the liability. Wall Street analysts recognize the District has no control over pension liabilities. Consequently, both Standard & Poor's and Moody's in 2017 bestowed their highest credit ratings to the District. A high credit rating is valuable to the community and allows the Board to fulfill its objective of enriching the community; in the last general obligation bond debt offering the Board saved N-MUSD taxpayers over \$140M due to its high credit rating.

In contrast to the pension liability, the Board of Education has some flexibility to impact OPEB liability with cost management through health & welfare plan design and/or liability advance funding. Cost management through plan design may include increased cost shifting to employees and retirees, separately underwriting retirees from current employees to eliminate the implicit subsidy, increasing the length of time employees must work to be eligible, capping the District's total cost exposure, imposing higher levels of managed care, and/or shifting in whole or in part to a defined contribution instead of a defined benefit plan. The other option available to manage cost is by pre-funding the liability with irrevocable contributions. Irrevocable contributions are allocated on a full-time equivalent basis, across all restricted and unrestricted programs.

In anticipation of the need to fund OPEB liability, the Board of Education passed resolution #33-03-05 on March 8, 2005 creating a Special Reserve/Retiree Benefit fund for the purpose of accumulating monies for OPEB liability. This fund is used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of OPEB but has not contributed irrevocably to a separate trust for OPEB. The balance of this fund as of June 30, 2019 is \$19,052,522. These funds are only earmarked for OPEB purposes and therefore, revocable. Consequently, this balance is not credited towards funding OPEB liability and therefore does not reduce the District's liability as presented on its Net Position Statement.

The District's choice to earmark funding rather than irrevocably dedicating funds to OPEB liabilities has provided flexibility for the Board of Education to pursue substantial long-term high priority projects including air conditioning and curriculum updates. However, GASB Statement 75 cost assumptions have increased the District's OPEB liability, from \$116,491,136 in 2017-2018 to \$123,356,569 in 2018-2019. Given this dramatic increase, it is incumbent upon the District to consider a proactive, measured approach to resolving this unfunded liability. Recommendations will be brought to the Board for consideration with an expectation of implementing in 2019-2020.

The District continues to experience robust growth in both revenues and expenditures. Year over year increases from 2017-2018 for revenue and expense are 6.35 percent and 5.56 percent, respectively. The revenue growth reveals a stout property value environment and the expenditure increases reflect the District's substantial progress on a number of projects including multiple curriculum adoptions, site air conditioning, and site physical security upgrades. For the time being, the District is in a fortunate financial position that will allow for the continuation of these projects. However, the real estate market has a tremendous impact on District revenues; subsequently, the local real estate market is actively monitored and all indications point to a slowing of real estate value gains. The District's multi-year forecasts prudently factor in sluggish market growth on a going forward basis.

In spite of expected slower revenue growth, the District expects to maintain its level of significant programs and services. This is a direct result of the Board of Education's fiscal prudence and foresight.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(156,565,682) for the fiscal year ended June 30, 2019. Of this amount, \$(317,086,722) was unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the School Board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1 - Net Position) and change in net position (Table 2 - Changes in Net Position) of the District's governmental activities.

Table 1 – Net Position

	Governmental Activities	
	2019	2018
ASSETS		
Current and other assets	\$ 244,573,998	\$ 233,624,088
Capital assets	338,458,549	337,695,891
Total Assets	583,032,547	571,319,979
Deferred Outflows of Resources	109,751,357	105,980,602
LIABILITIES		
Current liabilities	21,517,490	18,200,696
Long-term obligations	489,028,085	480,653,708
Aggregate net pension liability	316,413,788	297,983,683
Total Liabilities	826,959,363	796,838,087
Deferred Inflows of Resources	22,390,223	25,091,903
NET POSITION		
Net investment in capital assets	113,586,448	103,284,949
Restricted	46,934,592	42,851,286
Unrestricted (Deficit)	(317,086,722)	(290,765,644)
Total Net Position	\$ (156,565,682)	\$ (144,629,409)

The \$(317,086,722) in unrestricted (deficit) of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements- decreased by 9.05 percent from \$(290,765,644) in 2018.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 18. Table 2 takes the information from the statement and rearranges them slightly so you can see our total revenues for the year.

Table 2 – Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 1,749,548	\$ 1,828,248
Operating grants and contributions	62,150,528	45,259,338
Capital grants and contributions	1,344,619	21,108,924
General revenues:		
Federal and State aid not restricted	20,663,200	19,769,336
Property taxes	280,348,747	263,583,734
Other general revenues	26,880,893	19,176,954
Total Revenues	393,137,535	370,726,534
Expenses		
Instruction-related	265,137,789	235,512,897
Pupil services	36,791,159	32,871,297
Administration	20,581,542	19,453,354
Plant services	32,316,000	32,770,275
Other	50,247,318	47,351,517
Total Expenses	405,073,808	367,959,340
Change in Net Position	\$ (11,936,273)	\$ 2,767,194

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was \$405,073,808.

This represents the total cost less:

- 1) The costs paid by those who benefited from the programs (\$1,749,548).
- 2) By other governments and organizations who subsidized certain programs with grants and contributions (\$84,158,347).
- 3) Property tax collections from local taxpayers (\$280,348,747); and
- 4) Other locally generated revenues (\$26,880,893).

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction including, special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3 – Governmental Activities

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction-related	\$ 265,137,789	\$ 218,027,823	\$ 235,512,897	\$ 186,036,355
Pupil services	36,791,159	24,924,872	32,871,297	21,931,689
Administration	20,581,542	19,114,783	19,453,354	17,647,335
Plant services	32,316,000	32,280,807	32,770,275	32,741,903
All other services	50,247,318	45,480,828	47,351,517	41,405,548
Total	\$ 405,073,808	\$ 339,829,113	\$ 367,959,340	\$ 299,762,830

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$210,177,035, which is an increase of \$6,696,660 from last year (Table 4 - Governmental District Funds).

Table 4 – District's Funds

	Balances and Activity			June 30, 2019
	July 1, 2018	Revenues	Expenditures	
General Fund	\$ 65,276,821	\$ 351,506,600	\$ 344,738,529	\$ 72,044,892
Measure F Building Fund	28,325,222	581,614	202,035	28,704,801
Special Reserve Fund for Capital Outlay Projects	70,328,034	21,185,333	24,106,015	67,407,352
Adult Education Fund	7	19	26	-
Child Development Fund	545,576	2,750,403	2,710,644	585,335
Cafeteria Fund	135,023	9,775,643	9,642,824	267,842
Capital Facilities Fund	6,052,622	1,325,114	92,522	7,285,214
County School Facilities Fund	21,108,924	1,344,619	-	22,453,543
Bond Interest and Redemption Fund	11,708,146	12,797,768	13,077,858	11,428,056
Total	\$ 203,480,375	\$ 401,267,113	\$ 394,570,453	\$ 210,177,035

The increase in the combined fund balance can be attributed to an increase of \$6,768,071 within the General Fund, \$1,232,592 in the Capital Facilities Fund and \$1,344,619 in the County School Facilities Fund. These increases were partially offset by a decrease of \$2,920,682 million in the Special Reserve Fund for Capital Outlay Projects.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 25, 2019. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 78.) The District experienced a total fund balance increase of \$6,768,071 million between its final and actual budgets. This increase can be attributed to LCFF and state revenues that were much more than expected. Drivers of the variances include the following:

- The District enjoys strong community financial support which accumulates over the course of the year resulting in large revenue budget variances between original and final budgets.
- Budgeted expenditures reflect a spend-every-dollar assumption which does not occur on an actual basis resulting in favorable expenditure budget variances.
- Substantial property tax revenue was realized throughout the year which was undeterminable at the time the budget was published.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$338,458,549 in a broad range of capital assets, including land, buildings, and furniture and equipment based on historical value. This amount represents a net increase (including additions, deductions, and depreciation) of \$762,658, or 0.23 percent, from last year.

Several major changes in 2018-2019 relate to projects for Measure F. These include increases of \$2.7 million for equipment, land and construction in progress. These increases were offset by a \$1.9 million decrease in land improvements, buildings and improvements, and portable classrooms and structures.

Table 5 – Capital Assets

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 29,267,596	\$ 27,352,379
Land improvements	62,644,325	63,070,482
Buildings and improvements	229,871,565	230,780,202
Portable classrooms and structures	5,079,824	5,678,620
Equipment	11,595,239	10,814,208
Total	\$ 338,458,549	\$ 337,695,891

This year's additions (shown below as the net of deletions, transfers from work in progress, and accumulated depreciation adjustments) include:

	2019	2018
Land and construction in process	\$ 1,915,217	\$ (19,757,575)
Land improvements	(426,157)	13,863,802
Buildings and improvements	(908,637)	(7,425,928)
Portable classrooms and structures	(598,796)	(601,842)
Furniture and equipment	(479,455)	912,270
Vehicles	1,260,486	229,993
Total	\$ 762,658	\$ (12,779,280)

Several capital projects are planned for the 2019-2020 year. Additional detail regarding capital assets is provided in Note 5 to the financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Long-Term Obligations

At the end of this year, the District had \$489,028,084 in outstanding debt versus \$480,653,708 last year, an increase of 1.74 percent. The increase can be attributed to increases in Net other postemployment benefits and general obligation bonds. The District's outstanding long-term obligations at year-end consisted of:

Table 6 - Outstanding Long-Term Obligations at Year-End

	Governmental Activities	
	2019	2018
General obligation bonds (net of premiums)	\$ 344,996,161	\$ 342,336,787
Capitalized lease obligations	86,014	107,264
Net other postemployment benefits (OPEB) liability	124,955,633	118,200,288
Other	18,990,276	20,009,369
Total	\$ 489,028,084	\$ 480,653,708

The Moody Corporation studied the District's finances in December of 2017 and assigned its highest rating, "Aaa" to the District. The Aaa rating reflects the District's exceptionally strong tax base, its prudent fiscal policy, and reserve levels. The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$344,996,161 million is significantly below this statutorily-imposed limit.

Other obligations include compensated absences payable and estimated insurance claims. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District has a net pension liability of \$316,413,788 versus \$297,983,683 last year, an increase of 18,430,105, or 6.18 percent as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2018-2019 ARE NOTED BELOW:

Following the guidelines provided in the District's strategic plan, District staff has made significant achievements in 2018-2019. Just a few of those achievements are listed below:

- The U.S. News and World Report's 2019 Best High recognized Corona Del Mar, Early College and Newport Harbor in the top 500 in California Rankings. This poll took into consideration six factors: (1) college readiness, (2) reading and math proficiency, (3) reading and math performance, (4) underserved student performance, (5) college curriculum breadth and (6) graduation rates.
- Early College High was recognized as California Distinguished School in 2019.

Due to the financial prudence and foresight of the District's Board of Education, the District has been able to maintain its level of significant programs and services and still remain on a sound financial footing.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2019-2020 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are the following:

- Community Funded District: The District's assessed valuation has grown on average over the past five years at a rate of 6.00 percent per year which is higher than the rate of growth for the combined elements of student growth and cost of living adjustments through State funding. Because assessed valuation is the basis of the computation of tax revenue, the reported growth in assessed valuation will be somewhat indicative of the growth in property tax revenue. Consistent with the District's expectations for growth in assessed valuation, the District's tax projection growth for 2019-2020 is 4.40 percent. The final tax revenues for 2019-2020 will not be available until November 2020.
- Under Property Tax - LCFF, Community Funded Districts will receive minimum State funding of no less than the amount received in 2012-2013. The hold harmless amount is calculated based on the categorical allocation net of 8.92 percent fair share reduction. The 2019-2020 minimum guarantee for Newport-Mesa Unified School District is \$7,643,294.
- Education Protection Account Funding
- Lottery Funding
- Other Local Funding inclusive of the following:
 - Various Donations
 - Community Redevelopment
 - Interest
 - Leases
 - Fees

Expenditures are based on the following forecasts:

- Salaries and benefits inclusive of higher Health & Welfare pension benefit rates consistent with stated District or 3rd party requirements.
- School Site Resource funding consistent with established per student rates.
- Projected operations expenditures inclusive of the following:
 - Utilities
 - Supplies and Contract Services
 - Debt Service

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades Kindergarten through third	29.0:1	5,889
Grades four through six	29.0:1	4,574
Grades seven through twelve	30.5:1	10,122

As with each year's Budget, this Budget has been prepared based on the best information and anticipation the District staff can provide.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 about this report or need any additional financial information, contact the Executive Director and Chief Financial Officer at 2985 Bear Street, Building A, Costa Mesa, California 92626-4300.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 233,018,085
Receivables	11,210,715
Prepaid expenses	53,828
Stores inventories	291,370
Capital Assets	
Land and work in progress	29,267,596
Other capital assets	587,276,762
Less: accumulated depreciation	(278,085,809)
Total Capital Assets	<u>338,458,549</u>
Total Assets	<u>583,032,547</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	15,597,303
Deferred outflow of resources related to net other postemployment benefits (OPEB) liability	2,663,761
Deferred outflows of resources related to pensions	91,490,293
Total Deferred Outflows of Resources	<u>109,751,357</u>
LIABILITIES	
Accounts payable	19,218,366
Accrued interest payable	1,287,375
Unearned revenue	1,011,749
Long-Term Obligations	
Current portion of long-term obligations other than pensions	12,523,285
Noncurrent portion of long-term obligations other than pensions	476,504,800
Total Long-Term Obligations	<u>489,028,085</u>
Aggregate net pension liability	316,413,788
Total Liabilities	<u>826,959,363</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	22,390,223
NET POSITION	
Net investment in capital assets	113,586,448
Restricted for:	
Debt service	10,140,681
Capital projects	29,738,757
Educational programs	5,633,619
Other activities	1,421,535
Unrestricted (Deficit)	(317,086,722)
Total Net Position	<u>\$ (156,565,682)</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$217,230,492	\$ -	\$39,383,001	\$ 1,344,619	\$(176,502,872)
Instruction-related activities:					
Supervision of instruction	19,903,398	-	4,787,882	-	(15,115,516)
Instructional library, media, and technology	4,097,450	-	201,170	-	(3,896,280)
School site administration	23,906,449	-	1,393,294	-	(22,513,155)
Pupil services:					
Home-to-school transportation	7,965,435	-	46,522	-	(7,918,913)
Food services	9,798,911	1,675,910	5,866,672	-	(2,256,329)
All other pupil services	19,026,813	-	4,277,183	-	(14,749,630)
Administration:					
Data processing	8,548,136	-	6,425	-	(8,541,711)
All other administration	12,033,406	73,638	1,386,696	-	(10,573,072)
Plant services	32,316,000	-	35,193	-	(32,280,807)
Ancillary services	4,298,089	-	357,364	-	(3,940,725)
Enterprise services	13,590	-	-	-	(13,590)
Interest on long-term obligations	16,564,901	-	-	-	(16,564,901)
Other outgo	3,392,090	-	4,409,126	-	1,017,036
Depreciation (unallocated) ¹	25,978,648	-	-	-	(25,978,648)
Total Governmental Activities	\$405,073,808	\$ 1,749,548	\$62,150,528	\$ 1,344,619	(339,829,113)
General revenues and subventions:					
Property taxes, levied for general purposes					267,023,276
Property taxes, levied for debt service					12,672,551
Taxes levied for other specific purposes					652,920
Federal and State aid not restricted to specific purposes					20,663,200
Interest and investment earnings					3,979,141
Miscellaneous					22,901,752
Subtotal, General Revenues					327,892,840
Change in Net Position					(11,936,273)
Net Position - Beginning					(144,629,409)
Net Position - Ending					\$(156,565,682)

¹ This amount excludes any depreciation that is included in the direct expenses of the various programs.

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	General Fund (01)	Measure F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 95,094,466	\$ 28,807,691	\$ 52,009,914	\$ 42,803,948	\$ 218,716,019
Receivables	9,236,000	56,206	102,029	1,789,188	11,183,423
Due from other funds	1,762,079	750	20,000,000	200,108	21,962,937
Prepaid expenditures	53,453	-	-	375	53,828
Stores inventories	151,574	-	-	139,796	291,370
Total Assets	\$ 106,297,572	\$ 28,864,647	\$ 72,111,943	\$ 44,933,415	\$ 252,207,577
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 13,172,732	\$ 159,657	\$ 4,704,591	\$ 1,020,765	\$ 19,057,745
Due to other funds	20,200,858	189	-	1,760,001	21,961,048
Unearned revenue	879,090	-	-	132,659	1,011,749
Total Liabilities	34,252,680	159,846	4,704,591	2,913,425	42,030,542
Fund Balances:					
Nonspendable	355,027	-	-	140,171	495,198
Restricted	5,633,619	28,704,801	1,020,198	41,879,819	77,238,437
Assigned	51,556,246	-	66,387,154	-	117,943,400
Unassigned	14,500,000	-	-	-	14,500,000
Total Fund Balances	72,044,892	28,704,801	67,407,352	42,019,990	210,177,035
Total Liabilities and Fund Balances	\$ 106,297,572	\$ 28,864,647	\$ 72,111,943	\$ 44,933,415	\$ 252,207,577

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds	\$ 210,177,035
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is the following:	\$ 616,544,358
Accumulated depreciation is the following:	<u>(278,085,809)</u>
Net Capital Assets	338,458,549
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds.	
Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	30,285,214
Net change in proportionate share of net pension liability	9,515,227
Differences between projected and actual earnings on pension plan investments	840,731
Differences between expected and actual experience in the measurement of the total pension liability	7,382,876
Changes of assumptions	<u>43,466,245</u>
Total Deferred Outflows of Resources Related to Pensions	91,490,293
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:	
Net change in proportionate share of net pension liability	(11,045,986)
Differences between projected and actual earnings on pension plan investments	(8,237,024)
Differences between expected and actual experience in the measurement of the total pension liability	<u>(3,107,213)</u>
Total Deferred Inflows of Resources Related to Pensions	(22,390,223)
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions.	
	2,663,761

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2019**

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	\$ (1,287,375)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are as follows:	708,529
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) and are included with governmental activities.	15,597,303
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(316,413,788)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of the following:	
General obligation bonds	\$ 257,415,606
Unamortized premium on issuance	9,958,298
Capital leases	86,014
Compensated absences (vacations)	3,817,670
Net other postemployment benefits (OPEB) liability	124,955,633
California energy commission loan	1,714,287
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is the following:	77,622,258
Total Long-Term Obligations	<u>(475,569,766)</u>
Total Net Position - Governmental Activities	<u><u>\$ (156,565,682)</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund (01)	Measure F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 278,647,158	\$ -	\$ -	\$ -	\$ 278,647,158
Federal sources	11,792,098	-	-	5,669,303	17,461,401
Other State sources	49,134,640	-	-	3,908,225	53,042,865
Other local sources	11,932,489	581,614	1,185,333	16,444,108	30,143,544
Total Revenues	351,506,385	581,614	1,185,333	26,021,636	379,294,968
EXPENDITURES					
Current					
Instruction	192,782,524	-	-	2,224,118	195,006,642
Instruction-related activities:					
Supervision of instruction	18,048,457	-	-	202,713	18,251,170
Instructional library, media, and technology	3,781,917	-	-	-	3,781,917
School site administration	21,673,299	-	-	140,785	21,814,084
Pupil services:					
Home-to-school transportation	7,624,886	-	-	-	7,624,886
Food services	267,799	-	-	9,252,614	9,520,413
All other pupil services	17,079,153	-	-	4,855	17,084,008
Administration:					
Data processing	8,296,640	-	-	-	8,296,640
All other administration	11,082,171	-	-	519,967	11,602,138
Plant services	34,063,913	-	-	94,172	34,158,085
Ancillary services	4,083,720	-	-	-	4,083,720
Other outgo	3,392,090	-	-	-	3,392,090
Enterprise services	5,960	-	-	-	5,960
Facility acquisition and construction	562,820	201,846	23,645,030	3,044	24,412,740
Debt service					
Principal	21,250	-	428,571	8,843,694	9,293,515
Interest and other	-	-	32,414	4,237,886	4,270,300
Total Expenditures	322,766,599	201,846	24,106,015	25,523,848	372,598,308
Excess (Deficiency) of Revenues Over Expenditures	28,739,786	379,768	(22,920,682)	497,788	6,696,660
Other Financing Sources (Uses)					
Transfers in	215	-	20,000,000	1,971,930	21,972,145
Transfers out	(21,971,930)	(189)	-	(26)	(21,972,145)
Net Financing Sources (Uses)	(21,971,715)	(189)	20,000,000	1,971,904	-
NET CHANGE IN FUND BALANCES	6,768,071	379,579	(2,920,682)	2,469,692	6,696,660
Fund Balances - Beginning	65,276,821	28,325,222	70,328,034	39,550,298	203,480,375
Fund Balances - Ending	\$ 72,044,892	\$ 28,704,801	\$ 67,407,352	\$ 42,019,990	\$ 210,177,035

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds **\$ 6,696,660**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation expense in the period.

Capital outlays	\$ 27,509,699	
Depreciation expense	(25,978,648)	
Net Expense Adjustment		1,531,051

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (768,393)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was more than the amounts earned by \$926,015. 926,015

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (12,445,040)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. (5,318,665)

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (CONTINUED)
JUNE 30, 2019**

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$ 738,751	
Amortization of deferred amount on refunding	<u>(949,310)</u>	
Combined Adjustment		\$ (210,559)
Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		8,920,000
Repayment of energy loan principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		428,571
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		21,250
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
The additional interest reported in the Statement of Activities is the net result of two factors. First, accrued interest on long-term obligations decreased by \$157,778 and second, \$12,318,126 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.		(12,160,348)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.		<u>443,185</u>
Change in Net Position of Governmental Activities		<u><u>\$ (11,936,273)</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 14,302,066
Receivables	27,292
Total Current Assets	<u>14,329,358</u>
LIABILITIES	
Current Liabilities	
Accounts payable	160,621
Due to other funds	1,889
Current portion of claims liability	2,843,897
Total Current Liabilities	<u>3,006,407</u>
Noncurrent Liabilities	
Noncurrent portion of claims liability	10,614,422
Total Liabilities	<u>13,620,829</u>
NET POSITION	
Restricted	<u>\$ 708,529</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 3,444,930</u>
OPERATING EXPENSES	
Payroll costs	133,782
Professional and contract services	2,850,116
Supplies and materials	106
Other operating cost	<u>240,587</u>
Total Operating Expenses	<u>3,224,591</u>
Operating Income	<u>220,339</u>
NONOPERATING REVENUES	
Interest income	<u>222,846</u>
Change in Net Position	443,185
Total Net Position - Beginning	<u>265,344</u>
Total Net Position - Ending	<u><u>\$ 708,529</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 4,210,413
Cash payments to other suppliers of goods or services	(2,479,267)
Cash payments to employees for services	(133,782)
Other operating cash payments	(240,587)
Net Cash Provided by Operating Activities	<u>1,356,777</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>222,846</u>
Net Increase in Cash and Cash Equivalents	1,579,623
Cash and Cash Equivalents - Beginning	12,722,443
Cash and Cash Equivalents - Ending	<u><u>\$ 14,302,066</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 220,339
Changes in assets and liabilities:	
Receivables	(10,617)
Due from other fund	776,252
Accrued liabilities	35,462
Due to other fund	(152)
Claims liability	335,493
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,356,777</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 3,295,347
Receivables	1,908
Stores inventories	41,830
Total Assets	<u><u>\$ 3,339,085</u></u>
 LIABILITIES	
Accounts payable	\$ 95,611
Due to student groups	1,283,243
Due to bond holders	1,960,231
Total Liabilities	<u><u>\$ 3,339,085</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Newport-Mesa Unified School District (the District) was unified in 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 TK-12 as mandated by the State and Federal agencies. The District operates 22 elementary schools, two middle schools, two 7-12 grade schools, two comprehensive high schools, one early college high school, and two alternative education centers for a total of 32 schools.

A 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 Newport-Mesa Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may 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. For financial reporting purposes, the component units have 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 are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The Newport-Mesa Unified School District Community Facilities District (the CFD) and the Newport-Mesa Unified School District Public Financing Authority (the Financing Authority), have financial and operational relationships with the Newport-Mesa Unified School District which meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the CFD and the Financing Authority as component units of Newport-Mesa Unified School District. The CFD's financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of Newport-Mesa Unified School District and are not included in the District-wide financial statements. While the Financing Authority still exists, there were no reportable activities associated with the Financing Authority during the current year.

Joint Venture

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, the Irvine Unified School District, and the Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their boundaries. The District does not include the Authority as a component unit, as the District is not financially accountable for the Authority's activities and the Authority is not fiscally dependent on the District. Complete separate financial statements can be obtained at the Newport-Mesa Unified School District, 2985 Bear Street, Costa Mesa, California.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental Funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. 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.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$33,652,764 as of June 30, 2019.

Measure F Building Fund The Measure F Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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Non-Major Governmental Funds

Special Revenue 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 that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education 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 and is to be expended for adult education purposes only.

Child Development Fund 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.

Cafeteria Fund 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).

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

Capital Facilities Fund 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 approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). 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).

County School Facilities Fund 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 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State School Facilities Fund (Proposition 1D). The fund is used primarily to account 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 17070.10 et seq.).

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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Proprietary Funds Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund Internal Service Fund may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insured workers' compensation program that is accounted for in an Internal Service Fund.

Fiduciary Funds 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 is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for student body activities (ASB) and receipt of special tax assessments used to pay principal and interest on non-obligatory bonds.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program and excludes fiduciary activity. 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 the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

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NOTES TO FINANCIAL STATEMENTS

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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 fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

Governmental Funds All Governmental Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. 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.

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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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NOTES TO FINANCIAL STATEMENTS

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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 unearned 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 unearned revenue.

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 general long-term obligations, which has 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.

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.

Investments

Investments held at June 30, 2019, 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. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventories

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General 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 position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at acquisition costs on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portable classrooms and structures, 25 years; equipment, five to 15 years; vehicles, 15 years.

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 activities column of the statement of net position.

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 statement of net position. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable 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. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not 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. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 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 fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs and costs of refunding as debt service expenditures. Issuance costs, and costs of refunding, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds, for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

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 California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, Superintendent or designee may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, 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. The government-wide financial statements report \$46,934,592 of restricted net position, which is restricted by enabling legislation.

Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

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.

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 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 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

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NOTES TO FINANCIAL STATEMENTS

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This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The District has implemented the provisions of this Statement as of June 30, 2019.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The District has implemented the provisions of this Statement as of June 30, 2019.

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018. Early implementation is encouraged.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 233,018,085
Fiduciary funds	3,295,347
Total Deposits and Investments	<u>\$ 236,313,432</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 6,277,341
Cash in revolving	150,000
Investments	<u>229,886,091</u>
Total Deposits and Investments	<u>\$ 236,313,432</u>

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.

Investment 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 balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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 investing in the Orange County Educational Investment Pool and Los Angeles County Treasury Investment Pool and short-term money market funds.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Average Maturity in Days</u>
Orange County Educational Investment Pool	\$ 226,746,200	310
Los Angeles County Treasury Investment Pool	1,179,660	547
Federated Treasury Obligations Fund	1,960,231	27
Total	<u>\$ 229,886,091</u>	

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 measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Federated Treasury Obligations Fund are rated AAA by Standard and Poor's. The District's investment in the Orange County Educational Investment Pool and Los Angeles County Treasury Investment Pool are not required to be rated, nor have they been rated.

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 have a policy for custodial credit risk for deposits. The District's policy states that monies received and deposited with a financial institution shall be in accounts that are fully covered by Federal insurance. In addition, 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. As of June 30, 2019, the District's bank balance of \$5,949,319 was exposed to custodial credit risk because it was uninsured, but collateralized with securities held by the pledging of financial institution's trust department or agent, but not in the name of the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Orange County Educational Investment Pool and Los Angeles County Treasury Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Reported Amount	Fair Value Measurements Using	Uncategorized
		Level 2 Inputs	
Federated Treasury Obligations Fund	\$ 1,960,231	\$ 1,960,231	\$ -
Orange County Educational Investment Pool	226,746,200	-	226,746,200
Los Angeles County Treasury Investment Pool	1,179,660	-	1,179,660
Total	<u>\$ 229,886,091</u>	<u>\$ 1,960,231</u>	<u>\$ 227,925,860</u>

All assets have been valued using a market approach, with quoted market prices.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 6,259,944	\$ -	\$ -	\$ 998,725
State Government				
Categorical aid	933,152	-	-	466,747
Lottery	1,014,776	-	-	-
Local Government				
Interest	203,378	56,206	102,029	97,441
Due from City of Costa Mesa	70,640	-	-	86,211
Due from Coastline ROP	266,597	-	-	-
Due from the City of Newport Beach	-	-	-	130,767
Other Local Sources	487,513	-	-	9,297
Total	<u>\$ 9,236,000</u>	<u>\$ 56,206</u>	<u>\$ 102,029</u>	<u>\$ 1,789,188</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government			
Categorical aid	\$ -	\$ 7,258,669	\$ -
State Government			
Categorical aid	-	1,399,899	-
Lottery	-	1,014,776	-
Local Government			
Interest	27,292	486,346	-
Due from City of Costa Mesa	-	156,851	-
Due from Coastline ROP	-	266,597	-
Due from the City of Newport Beach	-	130,767	-
Other Local Sources	-	496,810	1,908
Total	<u>\$ 27,292</u>	<u>\$ 11,210,715</u>	<u>\$ 1,908</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 21,548,963	\$ -	\$ -	\$ 21,548,963
Construction in process	5,803,416	6,257,940	4,342,723	7,718,633
Total Capital Assets Not Being Depreciated	<u>27,352,379</u>	<u>6,257,940</u>	<u>4,342,723</u>	<u>29,267,596</u>
Capital Assets Being Depreciated				
Land improvements	80,627,052	3,730,565	-	84,357,617
Buildings and improvements	437,550,631	18,464,689	-	456,015,320
Portable classrooms and structures	17,615,391	-	-	17,615,391
Furniture and equipment	15,486,339	1,333,555	1,296,441	15,523,453
Vehicles	12,158,543	2,065,673	459,235	13,764,981
Total Capital Assets Being Depreciated	<u>563,437,956</u>	<u>25,594,482</u>	<u>1,755,676</u>	<u>587,276,762</u>
Less Accumulated Depreciation				
Land improvements	17,556,570	4,156,722	-	21,713,292
Buildings and improvements	206,770,429	19,373,326	-	226,143,755
Portable classrooms and structures	11,936,771	598,796	-	12,535,567
Furniture and equipment	9,657,915	1,050,674	534,105	10,174,484
Vehicles	7,172,759	799,130	453,178	7,518,711
Total Accumulated Depreciation	<u>253,094,444</u>	<u>25,978,648</u>	<u>987,283</u>	<u>278,085,809</u>
Governmental Activities Capital Assets, Net	<u>\$ 337,695,891</u>	<u>\$ 5,873,774</u>	<u>\$ 5,111,116</u>	<u>\$ 338,458,549</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service	
General Fund	\$ -	\$ 189	\$ 1,760,001	\$ 1,889	\$ 1,762,079
Building Fund	750				750
Special Reserve Fund for Capital Outlay Projects	20,000,000	-	-	-	20,000,000
Non-Major Governmental Funds	200,108	-	-	-	200,108
Total	\$ 20,200,858	\$ 189	\$ 1,760,001	\$ 1,889	\$ 21,962,937

The balance of \$1,681,203 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

The balance of \$78,779 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

A balance of \$20,000,000 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from a transfer of redevelopment funds set aside for future capital outlay projects.

A balance of \$200,000 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from operating contribution.

All remaining balance resulted for the time lag between the date that (1) interfund goods and services are provide or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Operating Transfers

Interfund transfers for the year ended June 30, 2019, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Building Fund	Non-Major Governmental Fund	
General Fund	\$ -	\$ 189	\$ 26	\$ 215
Special Reserve Fund for Capital Outlay Projects	20,000,000	-	-	20,000,000
Non-Major Governmental Funds	1,971,930	-	-	1,971,930
Total	<u>\$ 21,971,930</u>	<u>\$ 189</u>	<u>\$ 26</u>	<u>\$ 21,972,145</u>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for on-going and future capital outlay projects.	\$ 20,000,000
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for operating contributions.	1,971,930
The Building Fund transferred to the General Fund for qualifying expenditure.	189
The Adult Education Non-Major Governmental Fund transferred to the General Fund to zero out the fund.	26
Total	<u>\$ 21,972,145</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Salaries and benefits	\$ 8,462,204	\$ -	\$ -	\$ 758,627
Materials and supplies	1,074,469	-	-	235,915
Services and other operating	3,402,342	52,561	23,728	22,845
Construction	118,099	107,096	4,680,863	-
Other vendor payables	115,618	-	-	3,378
Total	\$ 13,172,732	\$ 159,657	\$ 4,704,591	\$ 1,020,765

	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 9,575	\$ 9,230,406	\$ -
Materials and supplies	-	1,310,384	-
Services and other operating	151,046	3,652,522	-
Construction	-	4,906,058	-
Other vendor payables	-	118,996	95,611
Total	\$ 160,621	\$ 19,218,366	\$ 95,611

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 742,680	\$ -	\$ 742,680
State categorical aid	3,425	-	3,425
Other local programs	132,985	132,659	265,644
Total	\$ 879,090	\$ 132,659	\$ 1,011,749

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General obligation bonds	\$ 331,639,738	\$ 12,318,126	\$ 8,920,000	\$ 335,037,864	\$ 9,230,000
Premium on issuance	10,697,049	-	738,751	9,958,298	-
Capital leases	107,264	-	21,250	86,014	20,817
Compensated absences	4,743,685	-	926,015	3,817,670	-
California energy commission loan	2,142,858	-	428,571	1,714,287	428,571
Estimated insurance claims	13,122,826	3,179,390	2,843,897	13,458,319	2,843,897
Net other postemployment benefits (OPEB) liability	118,200,288	11,635,213	4,879,868	124,955,633	-
	<u>\$ 480,653,708</u>	<u>\$ 27,132,729</u>	<u>\$ 18,758,352</u>	<u>\$ 489,028,085</u>	<u>\$ 12,523,285</u>

Payments on the general obligation bonds are paid by the Bond Interest and Redemption Fund. Capital lease payments are made by the fund utilizing the equipment and modulars. The compensated absences will be paid by the fund for which the employee worked. Net postemployment benefits (OPEB) liabilities will be paid by the General Fund. The Internal Service Fund will pay the estimated insurance claims liabilities. California energy commission loan will be paid by the Special Reserve Fund for Capital Outlay Projects.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2018	Issued	Accreted	Redeemed	Outstanding June 30, 2019
1/1/07	8/1/31	3.3-4.5%	\$ 70,443,480	\$ 74,975,513	\$ -	\$ 3,230,325	\$ 3,855,000	\$ 74,350,838
11/9/10	8/1/26	2.0-5.0%	68,660,000	48,950,000	-	-	4,230,000	44,720,000
6/8/11	8/1/46	3.6-7.3%	95,000,670	97,833,072	-	6,515,854	135,000	104,213,926
8/10/17	8/1/46	3.9-5.0%	80,564,666	81,751,153	-	2,571,947	-	84,323,100
8/15/17	8/1/39	2.0-5.0%	28,130,000	28,130,000	-	-	700,000	27,430,000
				<u>\$ 331,639,738</u>	<u>\$ -</u>	<u>\$ 12,318,126</u>	<u>\$ 8,920,000</u>	<u>\$ 335,037,864</u>

2005 General Obligation Bonds, Series 2007

In January 2007, the District issued \$70,443,480 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2007. The bonds issued included \$27,900,000 of current interest bonds and \$42,543,480 of capital appreciation bonds, with the capital appreciation bonds accreting to \$102,915,000. The bonds have a final maturity to occur on August 1, 2031, with interest yields of 3.3 to 4.5 percent. The District received net proceeds of \$70,470,304 (including a premium of \$658,043 and after payment of \$631,219 for issuance costs).

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Proceeds from the sale of the bonds were used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2019, the principal balance outstanding was \$74,350,838. Unamortized premium on issuance at June 30, 2019 was \$329,018.

2000 General Obligation Refunding Bonds, Series 2010

In November 2010, the Newport-Mesa Unified School District issued 2010 Refunding Bonds in the amount of \$68,660,000. The bonds have a final maturity date of August 1, 2026, with interest rates ranging of 2.0 to 5.0 percent. Proceeds from the sale of the bonds were used to provide for the full refunding of the Series 2001 Bonds and a partial refunding of the Series 2003 Bonds. As of June 30, 2019, the principal balance of \$44,720,000 remained outstanding. Unamortized premium on issuance and deferred amount on refunding were \$3,393,761 and \$2,327,817, respectively.

2005 General Obligation Bonds, Series 2011

In June 2011, the District issued \$95,000,670 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2011. The bonds issued included \$11,928,966 of convertible bonds and \$83,071,704 of capital appreciation bonds. The bonds have final maturity dates through August 1, 2046, with interest yields of 3.6 to 7.3 percent. The conversion value for the convertible bonds is \$22,385,000 and total accretion on the capital appreciation bonds is \$537,190,398. The District received net proceeds of \$95,000,670 (including a premium of \$621,238 and after payment of \$621,238 for issuance costs). Proceeds from the sale of the bonds will be used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2019, the principal balance outstanding was \$104,213,926. Unamortized premium at June 30, 2019 was \$477,759.

2005 General Obligation Refunding Bonds, Series 2017

On August 10, 2017, the District issued \$80,564,666.30 of the Newport-Mesa Unified School District, 2005 General Obligation Refunding Bonds, Series 2017. The bonds issued included \$17,580,000 of current interest bonds and \$62,984,666.30 of capital appreciation bonds, with capital appreciation bonds accreting to \$171,355,000. The bonds have a final maturity to occur on August 1, 2046, with interest yields of 3.9 to 5.0 percent. The bonds issued at an aggregate price of \$84,977,762 (including a premium of \$4,639,509.95 and after payment of \$407,684.60 for issuance costs). Proceeds from sale of bonds will be used to refund a portion of the outstanding General Obligation Bonds, Election of 2005, Series 2011 and to refund all of the outstanding General Obligation Refunding Bonds, Election of 2000, Series 2012, and to pay costs of issuance of the Refunding Bonds. The refunding resulted in cumulative cash flow saving of \$140,004,873 over the life of the new debt and an economic gain of \$54,698,850 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 3.790 percent. At June 30, 2019, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2017 was \$84,323,100 and unamortized premium on issuance and deferred charge on refunding were \$4,319,542 and \$13,269,486, respectively.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2005 General Obligation Bonds, Series 2017

On August 15, 2017, the District issued \$28,130,000 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2017. The bonds were issued as current interest bonds. The bonds have a final maturity date of August 1, 2039, with interest yields of 2.0 to 5.0 percent. The bonds issued at an aggregate price of \$29,285,486 (including a premium of \$1,582,040 and after payment of \$426,554 for issuance costs). Proceeds from sale of bonds will be used to finance specific construction, repair, and improvement projects approved by the voter of the District held on November 8, 2005. At June 30, 2019, the principal balance outstanding of the 2005 General Obligation Bonds, Series 2017 was \$27,430,000 and unamortized premium on issuance was \$1,438,216.

The general obligation bonds mature through 2047 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest	Total
2020	\$ 9,226,513	\$ 3,487	\$ 3,879,400	\$ 13,109,400
2021	9,842,669	272,331	3,684,350	13,799,350
2022	10,484,893	590,107	4,159,228	15,234,228
2023	10,179,394	595,606	4,595,030	15,370,030
2024	11,064,241	880,759	4,288,955	16,233,955
2025-2029	69,312,419	10,802,581	15,827,150	95,942,150
2030-2034	61,717,541	55,852,459	10,002,400	127,572,400
2035-2039	55,548,661	103,106,339	9,246,825	167,901,825
2040-2044	72,957,329	61,982,671	5,105,768	140,045,768
2045-2047	24,704,204	45,420,796	-	70,125,000
Total	<u>\$ 335,037,864</u>	<u>\$ 279,507,136</u>	<u>\$ 60,789,106</u>	<u>\$ 675,334,106</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$3,817,670.

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Equipment
Balance, July 1, 2018	\$ 107,264
Payments	(21,250)
Balance, June 30, 2019	<u>\$ 86,014</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2020	\$ 20,817
2021	20,383
2022	16,240
Thereafter	28,574
Total	<u>86,014</u>
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 86,014</u>

California Energy Commission Loan

The District entered into a loan agreement with the California Energy Commission (CEC) during the 2014-2015 fiscal year to obtain a maximum loan of \$3,000,000. The proceeds from the loan were used for the District's solar shade structure project and the agreement stipulated that the CEC would reimburse the District up to the maximum agreed-upon loan amount. The loan was offered with a zero percent interest rate and the District will commence repayment beginning the 2016-2017 fiscal year. The District will be making a total of 14 semi-annual installment payments in the amount of \$214,286 until the obligation is fully paid. The District has made 2 separate draw-down requests to the CEC. Proceeds from the first draw-down request in the amount of \$1,883,599 were received during the 2014-2015 fiscal year. Proceeds from the second draw-down request in the amount of \$1,116,401 were received during the 2015-2016 fiscal year. As of June 30, 2019, the District had an outstanding CEC loan balance of \$1,714,287.

Year Ending June 30,	Principal
2020	\$ 428,572
2021	428,571
2022	428,572
2023	428,572
Total	<u>\$ 1,714,287</u>

Estimated Insurance Claims - Workers' Compensation

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of \$13,458,319 were discounted at a rate of 0.6 percent and were accepted as estimated by the District's administrator.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 123,356,569	\$ 2,663,761	\$ 5,428,753
Medicare Premium Payment (MPP) Program	1,599,064	-	(110,088)
Total	\$ 124,955,633	\$ 2,663,761	\$ 5,318,665

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2019, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	129
Active employees	2,026
	2,155

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of Plan members and the District are established and may be amended by the District, the Newport-Mesa Federation of Teachers (N-MFT), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, NMFT, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District contributed \$4,769,780 in benefits.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Total OPEB Liability of the District

The District's total OPEB liability of \$123,356,569 was measured as of June 30, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	2.79 percent
Healthcare cost trend rates	7.00 percent for 2019

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

CalSTRS mortality rates are from the 2015 experience study and the CalPERS mortality rates are from the 2017 experience study.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 116,491,136
Service cost	6,232,910
Interest	3,586,629
Changes of assumptions or other inputs	1,815,674
Benefit payments	(4,769,780)
Net change in total OPEB liability	<u>6,865,433</u>
Balance at June 30, 2019	<u>\$ 123,356,569</u>

No changes to the benefits terms noted.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.98 percent in 2018 to 2.79 percent in 2019.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (1.79%)	\$ 133,221,648
Current discount rate (2.79%)	123,356,569
1% increase (3.79%)	114,029,934

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (6.00%)	\$ 109,300,022
Current healthcare cost trend rate (7.00%)	123,356,569
1% increase (8.00%)	139,906,370

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$5,428,753. At June 30, 2019, the District reported deferred outflows of resources for changes of assumptions of \$2,663,761.

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>
2020	\$ 378,994
2021	378,994
2022	378,994
2023	378,994
2024	378,994
Thereafter	768,791
	<u>\$ 2,663,761</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Net OPEB Liability and OPEB Expense

At June 30, 2019, the District reported a liability of \$1,599,064 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.4178 percent, and 0.4063 percent, resulting in a net increase in the proportionate share of 0.0115 percent.

For the year ended June 30, 2019, the District recognized OPEB expense of \$(110,088).

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Actuarial Methods and Assumptions

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2017, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018, is 3.87 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.87%)	\$ 1,768,645
Current discount rate (3.87%)	1,599,064
1% increase (4.87%)	1,445,945

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,458,185
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,599,064
1% increase (4.7% Part A and 5.1% Part B)	1,750,577

NOTE 10 - NON-OBLIGATORY DEBT

These bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 as amended and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit, nor taxing power of the School District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the School District has no duty to pay the delinquency out of any available funds of the School District. The School District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Bonds currently active include the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012.

During the current year, a total of \$13,555 in dividends and interests were earned from investments held with a trustee. Additionally, a total of \$1,303,947 in special tax assessment revenues was received in connection with paying the annual debt service obligation and other administrative costs. As of June 30, 2019, the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012 had an outstanding balance of \$3,605,000.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The Special Tax Bonds mature through 2022 as follows:

Fiscal Year	Principal	Current Interest	Total
2020	\$ 1,160,000	\$ 108,950	\$ 1,268,950
2021	1,205,000	67,675	1,272,675
2022	1,240,000	24,800	1,264,800
Total	<u>\$ 3,605,000</u>	<u>\$ 201,425</u>	<u>\$ 3,806,425</u>

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	151,574	-	-	139,796	291,370
Prepaid expenditures	53,453	-	-	375	53,828
Total Nonspendable	<u>355,027</u>	<u>-</u>	<u>-</u>	<u>140,171</u>	<u>495,198</u>
Restricted					
Legally restricted programs	5,633,619	-	1,020,198	713,006	7,366,823
Capital projects	-	28,704,801	-	29,738,757	58,443,558
Debt services	-	-	-	11,428,056	11,428,056
Total Restricted	<u>5,633,619</u>	<u>28,704,801</u>	<u>1,020,198</u>	<u>41,879,819</u>	<u>77,238,437</u>
Assigned					
Retiree benefits	18,751,371	-	-	-	18,751,371
Capital projects	-	-	66,387,154	-	66,387,154
Other	32,804,875	-	-	-	32,804,875
Total Assigned	<u>51,556,246</u>	<u>-</u>	<u>66,387,154</u>	<u>-</u>	<u>117,943,400</u>
Unassigned					
Reserve for economic uncertainties	14,500,000	-	-	-	14,500,000
Total	<u>\$ 72,044,892</u>	<u>\$ 28,704,801</u>	<u>\$ 67,407,352</u>	<u>\$ 42,019,990</u>	<u>\$ 210,177,035</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days of written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2020	\$ 86,775
2021	16,560
2022	16,560
2023-2024	34,178
Total	<u>\$ 154,073</u>

During the 2018-2019 fiscal year, a total of \$86,775 in lease revenues was received by the District.

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool for the property and liability coverage. Refer to Note 16 for additional information regarding the JPAs. The Workers' Compensation Program, for which the District retains risk of loss, is administered by the Internal Service Fund. Excess workers' compensation coverage is obtained through the purchase of commercial insurance.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2019:

	<u>Workers'</u>
	<u>Compensation</u>
Liability Balance, July 1, 2017	\$ 12,527,359
Claims and changes in estimates	3,710,889
Claims payments	<u>(3,115,422)</u>
Liability Balance, June 30, 2018	13,122,826
Claims and changes in estimates	3,179,390
Claims payments	<u>(2,843,897)</u>
Liability Balance, June 30, 2019	<u>\$ 13,458,319</u>
Assets available to pay claims at June 30, 2019	<u>\$ 14,329,358</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 213,913,594	\$ 63,593,828	\$ 20,761,906	\$ 24,748,043
CalPERS	102,500,194	27,896,465	1,628,317	17,982,211
Total	<u>\$ 316,413,788</u>	<u>\$ 91,490,293</u>	<u>\$ 22,390,223</u>	<u>\$ 42,730,254</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required State contribution rate	9.828%	9.828%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$20,966,026.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 213,913,594
State's proportionate share of the net pension liability associated with the District	122,475,537
Total	<u>\$ 336,389,131</u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.2328 percent and 0.2244 percent, resulting in a net increase in the proportionate share of 0.0084 percent.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$24,748,043. In addition, the District recognized pension expense and revenue of \$14,388,114 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 20,966,026	\$ -
Net change in proportionate share of net pension liability	8,732,411	9,417,669
Differences between projected and actual earnings on pension plan investments	-	8,237,024
Differences between expected and actual experience in the measurement of the total pension liability	663,338	3,107,213
Changes of assumptions	33,232,053	-
Total	<u>\$ 63,593,828</u>	<u>\$ 20,761,906</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,788,491
2021	(1,297,776)
2022	(6,910,543)
2023	(1,817,196)
Total	<u>\$ (8,237,024)</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 5,762,768
2021	5,762,768
2022	5,762,766
2023	5,176,621
2024	6,725,875
Thereafter	912,122
Total	<u>\$ 30,102,920</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

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 the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.10%)	\$ 313,358,383
Current discount rate (7.10%)	213,913,594
1% increase (8.10%)	131,464,214

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. 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. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$9,319,188.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$102,500,194. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.3844 percent and 0.3789 percent, resulting in a net increase in the proportionate share of 0.0055 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$17,982,211. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Pension contributions subsequent to measurement date	\$ 9,319,188	\$ -
Net change in proportionate share of net pension liability	782,816	1,628,317
Difference between projected and actual earnings on pension plan investments	840,731	-
Differences between expected and actual experience in the measurement of the total pension liability	6,719,538	-
Changes of assumptions	10,234,192	-
Total	<u>\$ 27,896,465</u>	<u>\$ 1,628,317</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 3,057,926
2021	731,276
2022	(2,343,470)
2023	(605,001)
Total	<u>\$ 840,731</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 6,746,364
2021	6,887,624
2022	2,474,241
Total	<u>\$ 16,108,229</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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 the funds' asset classes, expected compound returns were calculated over the short-term (first ten 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 149,235,381
Current discount rate (7.15%)	102,500,194
1% increase (8.15%)	63,726,666

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Alternative Retirement Program

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Public Agency Retirement System (PARS) as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.5 percent of an employee's gross earnings. An employee is required to contribute 6.0 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$70,814, which represents 1.5 percent of its current year covered payroll.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$11,789,313 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded in the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contribution has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2019.

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Estimated Completion Date</u>
CDM Dance Floor Replacement	\$ 11,857	December 31, 2019
Lincoln Classroom Repair	7,625	January 1, 2020
CMHS Tennis Court Surfacing	23,628	June 30, 2020
NHHS Softball Cage and Kiln Project	7,595	June 30, 2020
CDM Sports Field	1,238,251	August 24, 2020
CDM Irrigations	40,258	August 24, 2020
Davis Garden Site Modernization	12,858	August 1, 2019
CDM and Ensign Security Fencing	397,378	December 31, 2020
EHS Aquatics	2,741,411	June 30, 2020
EHS Tennis Court Repair	1,600	September 5, 2020
EHS Weight Room Fencing Replacement	1,980	February 1, 2021
Back Bay and Davis Fencing	30,289	September 1, 2021
Back Bay, Ensign, Mariners, Newport, Newport Heights HVAC	2,552,721	November 15, 2019
Whittier HVAC	370,584	November 18, 2019
EHS Theatre	200,596	September 1, 2023
	<u>\$ 7,638,631</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and Coastline Regional Occupation Program (CROP) Joint Power Authority's (JPAs). The District pays an annual premium to ASCIP for its property liability coverage. Payments for funds received from the State on behalf of CROP are passed through to CROP. The relationships between the District, the pool, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2019, the District made payments of \$1,368,566 and \$1,598,274 to ASCIP and CROP, respectively, for services received.

NOTE 17 - SUBSEQUENT EVENTS

General Obligation Refunding Bonds, Series 2020 (Forward Delivery)

On March 12, 2019 the Board of Education of Newport-Mesa Unified School District adopted a resolution to issue General Obligation Refunding Bonds, Election of 2000, Series 2020 in the amount of \$32,960,000 to refund, on a current basis, a portion of the outstanding Newport-Mesa Unified School District General Obligation Refunding Bonds, Election of 2000, Series 2010, and to pay costs of issuance of the Refunding Bonds. It is expected that the Refunding Bonds in definitive form will be available for delivery on or about May 5, 2020.



REQUIRED SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 271,812,960	\$ 279,702,882	\$ 278,647,158	\$ (1,055,724)
Federal sources	11,914,736	12,750,097	11,792,098	(957,999)
Other State sources	26,921,964	24,207,255	49,134,640	24,927,385
Other local sources	7,404,720	11,746,250	11,932,489	186,239
Total Revenues ¹	318,054,380	328,406,484	351,506,385	23,099,901
EXPENDITURES				
Current				
Certificated salaries	131,672,313	131,839,329	131,760,043	79,286
Classified salaries	52,520,263	53,495,280	53,154,752	340,528
Employee benefits	74,423,993	75,962,596	98,932,295	(22,969,699)
Books and supplies	14,845,151	19,081,620	10,414,339	8,667,281
Services and operating expenditures	25,789,019	30,409,861	23,484,935	6,924,926
Capital outlay	2,890,497	3,095,749	2,132,492	963,257
Other outgo	2,456,509	2,664,847	2,866,493	(201,646)
Debt service - principal	-	-	21,250	(21,250)
Total Expenditures ¹	304,597,745	316,549,282	322,766,599	(6,217,317)
Excess of Revenues Over Expenditures	13,456,635	11,857,202	28,739,786	16,882,584
Other Financing Sources (Uses)				
Transfers in	-	242	215	(27)
Transfers out	(13,455,618)	(22,480,248)	(21,971,930)	508,318
Net Financing Sources (Uses)	(13,455,618)	(22,480,006)	(21,971,715)	508,291
NET CHANGE IN FUND BALANCES				
Fund Balances - Beginning	65,276,821	65,276,821	65,276,821	-
Fund Balances - Ending	\$ 65,277,838	\$ 54,654,017	\$ 72,044,892	\$ 17,390,875

¹ On behalf payments of \$11,789,313 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets. On behalf payments of \$11,212,043 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018
Total OPEB Liability		
Service cost	\$ 6,232,910	\$ 6,356,417
Interest	3,586,629	3,556,064
Changes of assumptions	1,815,674	1,390,692
Benefit payments	(4,769,780)	(4,104,142)
Net change in total OPEB liability	<u>6,865,433</u>	<u>7,199,031</u>
Total OPEB liability - beginning	116,491,136	109,292,105
Total OPEB liability - ending	<u><u>\$ 123,356,569</u></u>	<u><u>\$ 116,491,136</u></u>
Covered payroll	<u>N/A¹</u>	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

Year ended June 30,	2019	2018
District's proportion of the net OPEB liability	0.4178%	0.4063%
District's proportionate share of the net OPEB liability	\$ 1,599,064	\$ 1,709,152
District's covered payroll	N/A ¹	N/A ¹
District's proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	-0.40%	0.01%

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.2328%</u>	<u>0.2244%</u>
District's proportionate share of the net pension liability	\$ 213,913,594	\$ 207,523,362
State's proportionate share of the net pension liability associated with the District	122,475,537	122,769,068
Total	<u>\$ 336,389,131</u>	<u>\$ 330,292,430</u>
District's covered payroll	<u>\$ 121,916,154</u>	<u>\$ 117,960,676</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>175.46%</u>	<u>175.93%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.3844%</u>	<u>0.3789%</u>
District's proportionate share of the net pension liability	<u>\$ 102,500,194</u>	<u>\$ 90,460,321</u>
District's covered - payroll	<u>\$ 49,724,396</u>	<u>\$ 48,098,258</u>
District's proportionate share of the net pension liability as a percentage of its covered - payroll	<u>206.14%</u>	<u>188.07%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.2332%</u>	<u>0.2441%</u>	<u>0.2343%</u>
\$ 188,647,018	\$ 164,342,374	\$ 136,898,547
<u>107,393,382</u>	<u>86,918,999</u>	<u>82,665,253</u>
<u>\$ 296,040,400</u>	<u>\$ 251,261,373</u>	<u>\$ 219,563,800</u>
<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>	<u>\$ 103,627,675</u>
<u>164.62%</u>	<u>142.81%</u>	<u>132.11%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.3928%</u>	<u>0.4069%</u>	<u>0.3936%</u>
\$ 77,584,002	\$ 59,973,861	\$ 44,688,601
\$ 47,007,715	\$ 45,254,596	\$ 40,062,362
<u>165.05%</u>	<u>132.53%</u>	<u>111.55%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 20,966,026	\$ 17,592,501
Contributions in relation to the contractually required contribution	<u>20,966,026</u>	<u>17,592,501</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 128,783,943</u>	<u>\$ 121,916,154</u>
Contributions as a percentage of covered payroll	<u>16.28%</u>	<u>14.43%</u>
 CalPERS		
Contractually required contribution	\$ 9,319,188	\$ 7,722,696
Contributions in relation to the contractually required contribution	<u>9,319,188</u>	<u>7,722,696</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 51,595,549</u>	<u>\$ 49,724,396</u>
Contributions as a percentage of covered payroll	<u>18.06%</u>	<u>15.53%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 14,839,453	\$ 12,296,233	\$ 10,219,067
<u>14,839,453</u>	<u>12,296,233</u>	<u>10,219,067</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 117,960,676</u>	<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
\$ 6,680,848	\$ 5,569,004	\$ 5,326,466
<u>6,680,848</u>	<u>5,569,004</u>	<u>5,326,466</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 48,098,258</u>	<u>\$ 47,007,715</u>	<u>\$ 45,254,596</u>
<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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 and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2019, the District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	<u>\$ 339,029,530</u>	<u>\$ 344,738,529</u>	<u>\$ 5,708,999</u>

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – There were no changes in benefit terms.

Change of Assumptions – The rate of investment return assumption was changed from 2.98 to 2.79 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the Net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

Schedule of the District's Proportionate Share of the 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 Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.



SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	\$ 3,739,863
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	503,393
Title III, English Learner Student Program	84.365	14346	593,448
Title III, Immigrant Student Program	84.365	15146	37,362
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	124,475
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,016,617
Local Assistance, Part B, Private School ISPs	84.027	10115	124,082
Preschool Grants, Part B, Section 619	84.173	13430	69,290
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	234,757
Subtotal - Special Education (IDEA) Cluster			<u>4,444,746</u>
Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	417,345
Total - U.S. Department of Education			<u>9,913,834</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch	10.555	13396	\$ 3,753,510
Basic Breakfast	10.553	13390	17,125
Especially Needy Breakfast	10.553	13526	1,105,032
Seamless Summer Feeding Program	10.559	13004	40,457
Meal Supplements	10.556	13527	181,236
Commodities	10.555	13396	571,943
Subtotal - Child Nutrition Cluster			<u>5,669,303</u>
Fresh Fruit and Vegetable Program	10.582	14968	63,463
Total - U.S. Department of Agriculture			<u>5,732,766</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	\$ 362,796
Medi-Cal Administrative Activities	93.778	10060	1,255,705
Subtotal - Medicaid Cluster			<u>1,618,501</u>
Total Federal Programs			<u>\$ 17,265,101</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The Newport-Mesa Unified School District was established in 1966 and covers both the Newport and Costa Mesa areas of Orange County. The District operates 22 elementary schools, two middle schools, two 7-12 grade schools, two comprehensive high schools, one early college high school, two alternative education schools including both continuation and independent study, and one adult education school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Charlene Metoyer	President	2022
Ms. Martha Fluor	Vice President	2020
Ms. Dana Black	Clerk	2020
Ms. Ashley Anderson	Member	2022
Ms. Michelle Barto	Member	2022
Ms. Vicki Snell	Member	2020
Ms. Karen Yelsey	Member	2022

ADMINISTRATION

Dr. Frederick Navarro	Superintendent
Mr. Russell Lee-Sung	Deputy Superintendent
Mr. John C. Drake	Acting Assistant Superintendent, Chief Academic Officer
Mr. Tim Holcomb	Assistant Superintendent and Chief Operating Officer
Ms. Sara Jocham	Assistant Superintendent, Student Support Services/SELPA
Leona Olson	Assistant Superintendent, Chief Human Resources Officer
Jeff Trader	Executive Director, Chief Financial Officer

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,629.33	5,631.89
Fourth through sixth	4,380.32	4,376.71
Seventh and eighth	3,060.70	3,053.12
Ninth through twelfth	6,558.62	6,514.39
Total Regular ADA	<u>19,628.97</u>	<u>19,576.11</u>
Extended Year Special Education		
Transitional kindergarten through third	8.07	8.07
Fourth through sixth	5.34	5.34
Seventh and eighth	1.11	1.11
Ninth through twelfth	4.98	4.98
Total Extended Year Special Education	<u>19.50</u>	<u>19.50</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.52	0.64
Fourth through sixth	1.27	1.53
Seventh and eighth	1.59	1.32
Ninth through twelfth	7.07	5.58
Total Special Education, Nonpublic, Nonsectarian Schools	<u>10.45</u>	<u>9.07</u>
Extended Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.04	0.04
Fourth through sixth	0.19	0.19
Seventh and eighth	0.29	0.29
Ninth through twelfth	1.26	1.26
Total Extended Special Education, Nonpublic, Nonsectarian Schools	<u>1.78</u>	<u>1.78</u>
Total ADA	<u>19,660.70</u>	<u>19,606.46</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,820	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,895	180	N/A	Complied
Grade 2		53,895	180	N/A	Complied
Grade 3		53,895	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,585	180	N/A	Complied
Grade 5		56,585	180	N/A	Complied
Grade 6		56,585	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,620	180	N/A	Complied
Grade 8		60,620	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,440	180	N/A	Complied
Grade 10		65,440	180	N/A	Complied
Grade 11		65,440	180	N/A	Complied
Grade 12		65,440	180	N/A	Complied

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget) 2020 ¹	2019	2018	2017
GENERAL FUND ³				
Revenues	\$ 329,383,877	\$ 327,556,937	\$ 308,825,315	\$ 301,438,779
Other sources and transfers in	-	242	-	85,403
Total Revenues and Other Sources	329,383,877	327,557,179	308,825,315	301,524,182
Expenditures	324,879,592	299,765,244	289,309,480	282,200,583
Other uses and transfers out	7,379,823	21,971,930	27,568,307	18,811,220
Total Expenditures and Other Uses	332,259,415	321,737,174	316,877,787	301,011,803
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,875,538)	\$ 5,820,005	\$ (8,052,472)	\$ 512,379
ENDING FUND BALANCE	\$ 35,516,590	\$ 38,392,128	\$ 32,572,123	\$ 40,624,595
AVAILABLE RESERVES ²	\$ 14,684,000	\$ 14,500,000	\$ 14,833,766	\$ 13,225,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ⁴	4.4%	4.7%	4.8%	4.5%
LONG-TERM OBLIGATIONS	N/A	\$ 489,028,085	\$480,653,708	\$427,593,028
AVERAGE DAILY ATTENDANCE AT P-2	19,368	19,661	20,283	20,579

The General Fund balance has decreased by \$2,232,467 over the past two years. The fiscal year 2019-2020 budget projects a further decrease of \$2,875,538 (7.49 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have increased by \$61,435,057 over the past two years.

Average daily attendance has decreased by 918 over the past two years. Further decline of 293 ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁴ On behalf payments of \$23,001,356, which includes additional amounts relating to Senate Bill 90 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2019.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)
ASSETS			
Deposits and investments	\$ 19	\$ 455,595	\$ 1,496,987
Receivables	-	402,958	1,069,297
Due from other funds	-	108	200,000
Prepaid expenses	-	-	375
Stores inventories	-	-	139,796
Total Assets	<u>\$ 19</u>	<u>\$ 858,661</u>	<u>\$ 2,906,455</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 194,547	\$ 824,751
Due to other funds	19	78,779	1,681,203
Unearned revenue	-	-	132,659
Total Liabilities	<u>19</u>	<u>273,326</u>	<u>2,638,613</u>
Fund Balances:			
Nonspendable	-	-	140,171
Restricted	-	585,335	127,671
Total Fund Balances	<u>-</u>	<u>585,335</u>	<u>267,842</u>
Total Liabilities and Fund Balances	<u>\$ 19</u>	<u>\$ 858,661</u>	<u>\$ 2,906,455</u>

See accompanying note to supplementary information.

Capital Facilities Fund (25)	County School Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ 7,050,539	\$ 22,410,981	\$ 11,389,827	\$ 42,803,948
235,018	43,686	38,229	1,789,188
-	-	-	200,108
-	-	-	375
-	-	-	139,796
<u>\$ 7,285,557</u>	<u>\$ 22,454,667</u>	<u>\$ 11,428,056</u>	<u>\$ 44,933,415</u>
\$ 343	\$ 1,124	\$ -	\$ 1,020,765
-	-	-	1,760,001
-	-	-	132,659
<u>343</u>	<u>1,124</u>	<u>-</u>	<u>2,913,425</u>
-	-	-	140,171
<u>7,285,214</u>	<u>22,453,543</u>	<u>11,428,056</u>	<u>41,879,819</u>
<u>7,285,214</u>	<u>22,453,543</u>	<u>11,428,056</u>	<u>42,019,990</u>
<u>\$ 7,285,557</u>	<u>\$ 22,454,667</u>	<u>\$ 11,428,056</u>	<u>\$ 44,933,415</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)
REVENUES			
Federal sources	\$ -	\$ -	\$ 5,669,303
Other State sources	-	2,603,395	371,340
Other local sources	19	147,008	1,763,070
Total Revenues	<u>19</u>	<u>2,750,403</u>	<u>7,803,713</u>
EXPENDITURES			
Current			
Instruction	-	2,224,118	-
Instruction-related activities:			
Supervision of instruction	-	202,713	-
School site administration	-	140,785	-
Pupil services:			
Food services	-	-	9,252,614
All other pupil services	-	4,855	-
Administration:			
All other administration	-	114,138	390,210
Plant services	-	24,035	-
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>-</u>	<u>2,710,644</u>	<u>9,642,824</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>19</u>	<u>39,759</u>	<u>(1,839,111)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	1,971,930
Transfers out	(26)	-	-
Net Financing Sources (Uses)	<u>(26)</u>	<u>-</u>	<u>1,971,930</u>
NET CHANGE IN FUND BALANCES	<u>(7)</u>	<u>39,759</u>	<u>132,819</u>
Fund Balances - Beginning	7	545,576	135,023
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 585,335</u>	<u>\$ 267,842</u>

See accompanying note to supplementary information.

Capital Facilities Fund (25)	County School Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 5,669,303
-	903,258	30,232	3,908,225
1,325,114	441,361	12,767,536	16,444,108
<u>1,325,114</u>	<u>1,344,619</u>	<u>12,797,768</u>	<u>26,021,636</u>
-	-	-	2,224,118
-	-	-	202,713
-	-	-	140,785
-	-	-	9,252,614
-	-	-	4,855
15,619	-	-	519,967
70,137	-	-	94,172
3,044	-	-	3,044
-	-	8,843,694	8,843,694
3,722	-	4,234,164	4,237,886
<u>92,522</u>	<u>-</u>	<u>13,077,858</u>	<u>25,523,848</u>
<u>1,232,592</u>	<u>1,344,619</u>	<u>(280,090)</u>	<u>497,788</u>
-	-	-	1,971,930
-	-	-	(26)
-	-	-	1,971,904
<u>1,232,592</u>	<u>1,344,619</u>	<u>(280,090)</u>	<u>2,469,692</u>
6,052,622	21,108,924	11,708,146	39,550,298
<u>\$ 7,285,214</u>	<u>\$ 22,453,543</u>	<u>\$ 11,428,056</u>	<u>\$ 42,019,990</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides 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 amounts consist of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that have not been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 17,461,401
Medi-Cal Billing Option	93.778	(196,300)
Total Schedule of Expenditures of Federal Awards		<u>\$ 17,265,101</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. 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 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.



INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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***

Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

We have audited, in accordance with the 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 Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Newport-Mesa Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Newport-Mesa Unified School 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 Newport-Mesa Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Newport-Mesa Unified School District's internal control.

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

Our consideration of internal control 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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Newport-Mesa Unified School District in a separate letter dated December 2, 2019.

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 2, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

Report on Compliance for Each Major Federal Program

We have audited Newport-Mesa 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 Newport-Mesa Unified School District's major Federal programs for the year ended June 30, 2019. Newport-Mesa Unified School 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 the 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 Newport-Mesa Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Newport-Mesa Unified School 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 Newport-Mesa Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Newport-Mesa Unified School 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, 2019.

Report on Internal Control over Compliance

Management of Newport-Mesa Unified School 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 Newport-Mesa Unified School 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newport-Mesa Unified School 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
December 2, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

Report on State Compliance

We have audited Newport-Mesa Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Newport-Mesa Unified School District's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Newport-Mesa Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Newport-Mesa Unified School 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 opinions. Our audit does not provide a legal determination of Newport-Mesa Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Middle or Early College High Schools and Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Newport-Mesa Unified School District did not comply with requirements regarding *Middle or Early College High Schools and Unduplicated Local Control Funding Formula Pupil Counts* as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, respectively. Compliance with such requirements is necessary, in our opinion, for Newport-Mesa Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on Middle or Early College High Schools and Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Newport-Mesa Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Programs

In our opinion, Newport-Mesa Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Newport-Mesa Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	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
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

	<u>Procedures Performed</u>
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because the ADA was below the required threshold for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform procedures related to the Independent Study-Course Based Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Eide Bailly LLP

Rancho Cucamonga, California
December 2, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following:	

<u>Name of Programs</u>
Middle or Early College High Schools
Unduplicated Local Control Funding
Formula Pupil Counts

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2019-001 40000

Criteria or Specific Requirements

California *Education Code* Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System (CALPADS).

Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported 538 students as having designation of free or reduced on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

Questioned Costs

Using the audit penalty calculator published by the California Department Education, the calculated questioned cost was determined to be \$286,065. However, the District is a basic aid District and as a result, there would be no impact on current year's revenues.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 -FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the 2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Section 19489(a)(1). The initial sample was selected from eight school sites, which resulted in exception noted for two of the sites. For 40 students selected, four had its status as Paid in the NutriKids system and had no applications on file but they were included on the 1.18 report. The auditor requested that the District identify all remaining students who had Paid status on the NutriKids system and had no applications but were part of 1.18 report. The District's review of all remaining students resulted in total of 538 students identified that were incorrectly designated as having free or reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Effect

As a result of our testing, it appears that the District did not properly update the 1.18 -FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the most current free and reduced eligibility information from the District's Nutrition Services Department. The following schedule identifies the District-wide exceptions:

	Enrollment Count	Certified Total Unduplicated Count	Adjustment Based on Eligibility FRPM	Adjusted Total Unduplicated Count
Total District-wide	20,641	9,702	(538)	9,164

Cause

The primary cause appears to originate from District not importing accurate student statuses from NutriKids system into the Aeries attendance system as CALPADS data is pulled from the District’s attendance system.

Recommendation

The District should emphasize the importance of completing Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measure are taking place to ensure that CALPADS information is being updated.

Corrective Action Plan

The District agrees with the recommendation and will work in conjunction with the Information Technology and Nutrition Services Departments to ensure that accurate student statuses are imported into the Aeries attendance system by key CALPADS calendar due dates.

2019-002 40000

Criteria or Specific Requirements

In accordance to *California Education Code* Section 46146.5(b), a day of attendance for a pupil enrolled in an early college high school or middle college high school, who is a special part-time student enrolled in a community college under Article 1 (commencing with Section 48800) of Chapter 5 of Part 27, and who will receive academic credit upon satisfactory completion of enrolled courses, is 180 minutes of attendance. Or in accordance to *California Education Code* Section 46160(a)(1), a pupil enrolled in an early college high school or middle college high school, who is special part-time student enrolled in a community college may attend classes for at least 900 minutes during any five-school day period or 1,800 minutes during any 10-school day period.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

Condition

From the District's early college high school, 33 of 189 students enrolled did not meet the 180 minutes of attendance as required by *California Education Code* Section 46146.5(b).

Questioned Costs

There were no questioned costs associated with the condition identified. The impact of the condition resulted in the District's ADA decreasing by 33 ADA for both Period 2 and Annual attendance reports. The District adjusted its ADA reported on the Period 2 and Annual Attendance reports in anticipation of the ADA adjustment that would take place and has filed both reports in a timely manner and accurately. The District is a basic aid District and as a result, there was no impact on current year's revenues.

Context

Based on the initial sample of 19 students selected from the District's early college high school, we identified four students that did not meet the required 180 minutes of attendance per day. Subsequently, we performed additional procedures including inquiry with the site administrator and reviewing additional supporting documents, including a comprehensive listing of classes enrolled for each of the students and minutes offered by the high school. Our additional procedures performed resulted in 33 of 189 students enrolled in the District's early college high school did not meet the 180 minutes of attendance.

Effect

As a result of the condition identified, the District was not in compliance with *California Education Code* Section 46146.5(b). Additionally, the impact of the condition resulted in the District's ADA decreasing by 33 ADA for both Period 2 and Annual attendance reports.

Cause

It appears that the condition identified has materialized potentially as a result of the District not ensuring that each student enrolled is sufficiently scheduled for the minimum required minutes mandated by the State.

Recommendation

The District should emphasize the importance of students needing to meet the minimum required minutes per day. The District should review students' schedules to ensure that each student is scheduled for a minimum of 180 minutes per day and enrolled in college courses concurrently.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

Corrective Action Plan

Due to the nature of the Early College High School Initiative, students are enrolled simultaneously in high school and college courses. Students that enroll in summer programs are left with few high school course offerings by the time of their senior year. These students have a greater percentage of college courses as they advance and risk not meeting the required 180 minutes of high school attendance per day. As a corrective measure, the District adjusted its ADA reported at Period 2 and on the Annual Attendance reports by removing all seniors from the count. Early College High school will continue to work to balance the course offerings between high school and college so that the students meet the academic standards set forth in the California Education Code. In March, the Principal will compile a list of students in danger of not meeting the required minutes and offer opportunities for those students to make up the necessary time.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Awards Findings

2018-001 10000

Criteria or Specific Requirements

Pursuant to *Education Code* Section 42238.02, the Second Principal (P2) and Annual attendance reports submitted to the California Department of Education must reconcile back to supporting documents that the Local Educational Agency (LEA) has prepared in connection with the calculation of its Average Daily Attendance (ADA) reported on each of the reporting line items.

Condition

The District reported 20,168.55 ADA for its Regular ADA program on its Annual attendance report. However, supporting schedules from the District's attendance system did not agree with the District's reported ADA. Specifically, a cumulative attendance summary report that was generated from the District's attendance system as of the annual attendance reporting cutoff date, reported a total ADA of 20,219.38 for the Regular ADA program, prior to correction of the District's Early College program's ADA, as described in Finding 2018-002.

Questioned Costs

As a result of the condition identified above, it appears that the ADA reported by the District on its Annual attendance report appears to be overstated/understated. The following is a schedule of overstatement/understatement observed from the condition identified:

	Annual Report	Annual Audited	Overstatement/ (Understatement)
Annual Regular ADA			
Transitional kindergarten through third	5,893.29	5,796.29	97.00
Fourth through sixth	4,546.70	4,649.33	(102.63)
Seventh and eighth	3,160.94	3,162.23	(1.29)
Ninth through twelfth	6,567.62	6,611.53	(43.91)
Total Regular ADA	<u>20,168.55</u>	<u>20,219.38</u>	<u>(50.83)</u>

The District is a basic aid District and as a result, there was no impact on current year's revenues.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Context

The condition was identified during our review of the District's annual attendance reports. Cumulative attendance summary reports supporting each of the reported line items were generated from the District's attendance system and the reports were compared with spreadsheets used by the District to prepare its annual attendance report. Discrepancies between system generated cumulative attendance summary reports and the spreadsheet prepared by the District were noted in the "Questioned Cost" section above.

Effect

As a result of the condition identified, it appears that the ADA reported by the District for its Regular ADA program was understated by 50.83 on its annual attendance report.

Cause

The District experienced turnover of a position that was delegated to prepare the District's attendance reports. It appears that the condition materialized due to the general lack of understanding from the new employee that was assigned with the task of preparing the District's attendance report during the current fiscal year.

Recommendation

We recommend the District provide the necessary training to ensure that its attendance reports are accurately prepared. At a minimum, the training provided should cover the accurate use of attendance divisor to accurately calculate ADA. Additionally, the training should facilitate the understanding of various hourly attendance programs and how to convert hourly apportionments into daily apportionment for the purpose of calculating the reportable ADA.

Current Status

Implemented

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

2018-002 40000

Criteria or Specific Requirements

In accordance to *Education Code* Section 46146.5(b), a day of attendance for a pupil enrolled in an early college high school or middle college high school, who is a special part-time student enrolled in a community college under Article 1 (commencing with Section 48800) of Chapter 5 of Part 27, and who will receive academic credit upon satisfactory completion of enrolled courses, is 180 minutes of attendance. Or in accordance to *Education Code* Section 46160(a)(1), a pupil enrolled in an early college high school or middle college high school, who is special part-time student enrolled in a community college may attend classes for at least 900 minutes during any five-school day period or 1,800 minutes during any 10-school day period.

Condition

From the District's early college high school, 40 out of 199 students enrolled did not meet the 180 minutes of attendance as required by *Education Code* Section 46146.5(b).

Questioned Costs

There were no questioned costs associated with the condition identified. The District's attendance reports were overstated by 38.05 ADA and 38.32 ADA for Period 2 and Annual attendance reports, respectively, as a result of the condition identified. The District took corrective actions and made amendments to the District's P2 attendance report remitted to the State. However, the District's Annual attendance report was not corrected in a timely manner. The following is a schedule of overstatement observed from the condition identified:

	Second Period Report	Second Period Audited	Overstatement
Second Period Regular ADA			
Transitional kindergarten through third	5,796.03	5,796.03	-
Fourth through sixth	4,654.04	4,654.04	-
Seventh and eighth	3,169.81	3,169.81	-
Ninth through twelfth	6,662.21 *	6,624.16	38.05
Total Regular ADA	20,282.09	20,244.04	38.05
	Annual Report	Annual Audited	Overstatement
Annual Regular ADA			
Transitional kindergarten through third	5,796.29	5,796.29	-
Fourth through sixth	4,649.33	4,649.33	-
Seventh and eighth	3,162.23	3,162.23	-
Ninth through twelfth	6,611.53 **	6,573.21	38.32
Total Regular ADA	20,219.38	20,181.06	38.32

* Represents ADA prior to resubmission - Final Report, as presented in the Audit Report, represents corrected ADA.

** Represents ADA after correction made for condition identified in Finding 2018-001.

The District is a basic aid District and as a result, there was no impact on current year's revenues.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Context

Based on the initial sample of 20 students selected from the District's early college high school, we identified 10 students that did not meet the required 180 minutes of attendance per day. Subsequently, we performed additional procedures including inquiry with the site administrator and reviewing additional supporting documents, including a comprehensive listing of classes enrolled for each of the students and minutes offered by the high school. Our additional procedures performed resulted in 40 out of 199 students enrolled in the District's early college high school did not meet the 180 minutes of attendance.

Effect

As a result of the condition identified, the District was not in compliance with *Education Code* Section 46146.5(b).

Cause

It appears that the condition identified has materialized potentially as a result of the District not ensuring that each student enrolled is sufficiently scheduled for the minimum required minutes mandated by the State.

Recommendation

The District should emphasize the importance of students needing to meet the minimum required minutes per day. The District should review students' schedules to ensure that each student is scheduled for a minimum of 180 minutes per day and enrolled in college courses concurrently.

Current Status

Not implemented. Refer to 2019-002 for current year finding.



Management
Newport-Mesa Unified School District
Costa Mesa, California

In planning and performing our audit of the financial statements of Newport-Mesa Unified School District, for the year ended June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 2, 2019 on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY (ASB)

Newport Harbor High School

Observation

The site was unable to provide ASB transaction activity report for the last two months of the school year due to glitches with their system. Due to this issue, we are not able to audit ASB activities for those months.

Recommendation

We recommend the site implement a procedure to run and save this report on a monthly basis to prevent future loss of data in the event of system glitches.

Internal Controls – Rotation of Duties

Observation

The District does not appear to have an adopted rotation of duty policy among personnel with similar responsibilities (payroll, accounts payable, etc.). Additionally, the District has not rotated duties among employees with similar responsibilities in many years. Given this observation, the District is potentially at a risk of various key financial transactions being compromised.

Management
Newport-Mesa Unified School District

Recommendation

Rotation of duties is an additional deterrent to fraud. Job assignments should be changed periodically so that it is more difficult for various positions to collaborate to exercise complete control of transactions and subvert it for fraudulent purposes. Rotation of duties among staff is also critical in that it facilitates cross-training and improves depth of personnel skill and succession. We recommend the District to implement a periodic rotation of duties among similar responsibilities within the District's Business Services Department (payroll, payable, etc.)

We will review the status of the current year comments during our next audit engagement.

Eide Bailly LLP

Rancho Cucamonga, California
December 2, 2019