Financial Statements
June 30, 2020

Newport-Mesa Unified School District

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, 2020, 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 *2019-2020 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, 2020, 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 4 through 14, budgetary comparison schedules on pages 83 through 84, schedule of changes in the District's total OPEB liability and related ratios on page 85, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 86, schedule of the District's proportionate share of the net pension liability on page 87, and the schedule of District contributions on page 88, 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 combining and individual nonmajor fund financial statements, the schedule of expenditures and federal awards, and the other supplementary information listed in the table of contents are 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 9, 2020, 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 9, 2020

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, 2020, with comparative information for the year ending June 30, 2020. 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.

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 Transitional 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.

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 2019-2020 year include Governmental Accounting Standards Board (GASB) changes and robust growth in revenues and expenditures. 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.

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.

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 2020 bestowed their highest credit rating 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, 2020 is $19,413,319. 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. GASB Statement 75 cost assumptions have slightly decreased the District's OPEB liability, from $123,356,569 2018-2019 to $119,890,958 in 2019-2020. Given the liability is substantial, 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 2021-2022.

The District continues to experience robust growth in both revenues and expenditures. Year over year increases from 2018-2019 for revenue and expense are 2.41 percent and 5.52 percent, respectively. Expenditures are increasing at a faster pace than revenues. This is unsustainable and concerning. Adjustments will be implemented on a going forward basis to bring revenue and expenditure rates of growth into alignment. 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, lower class sizez, 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.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $(174,132,818) for the fiscal year ended June 30, 2020. Of this amount, $(357,664,372) 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

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	$ 233,823,720	$ 244,573,998
Capital assets	353,013,939	338,458,549
Total assets	586,837,659	583,032,547
Deferred outflows of resources	107,421,707	109,751,357
Liabilities		
Current liabilities	26,407,237	21,517,490
Long-term liabilities othan than OPEB and pension	366,025,815	364,072,452
Other postemployment benefit liability	121,470,255	124,955,633
Aggregate net pension liability	327,110,779	316,413,788
Total liabilities	841,014,086	826,959,363
Deferred inflows of resources	27,378,098	22,390,223
Net Position		
Net investment in capital assets	134,855,244	113,586,448
Restricted	48,676,310	46,934,592
Unrestricted	(357,664,372)	(317,086,722)
Total net position	$ (174,132,818)	$ (156,565,682)

The $(357,664,372) 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 12.8 percent from $(317,086,722) in 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 16. Table 2 takes the information from the statement and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Charges for services	$ 3,530,735	$ 1,749,548
Operating grants and contributions	56,322,602	62,150,528
Capital grants and contributions	425,201	1,344,619
General revenues		
Federal and State aid not restricted	16,698,975	20,663,200
Property taxes	294,145,025	280,348,747
Other general revenues	28,298,327	26,880,893
Total revenues	399,420,865	393,137,535
Expenses		
Instruction-related	269,260,980	265,137,789
Pupil services	36,079,544	36,791,159
Administration	21,761,887	20,581,542
Plant services	35,427,713	32,316,000
Other	54,457,877	50,247,318
Total expenses	416,988,001	405,073,808
Change in net position	$ (17,567,136)	$ (11,936,273)

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all of our governmental activities this year was $416,988,001.

This represents the total cost less:

1) The costs paid by those who benefited from the programs ($3,530,735).
2) By other governments and organizations who subsidized certain programs with grants and contributions ($73,446,778).
3) Property tax collections from local taxpayers ($294,145,025); and
4) Other locally generated revenues ($28,298,327).

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

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	$ 269,260,980	$ 265,137,789	$ 226,836,442	$ 218,027,823
Pupil services	36,079,544	36,791,159	26,136,059	24,924,872
Administration	21,761,887	20,581,542	19,797,273	19,114,783
Plant services	35,427,713	32,316,000	35,331,003	32,280,807
All other services	54,457,877	50,247,318	48,608,686	45,480,828
Total	$ 416,988,001	$ 405,073,808	$ 356,709,463	$ 339,829,113

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $193,819,975, which is a decrease of $16,357,060 from last year (Table 4 - Governmental District Funds).

Table 4

	Balances and Activity			
Governmental Fund	June 30, 2019	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2020
General	$ 72,044,892	$ 352,555,972	$ 335,539,167	$ 89,061,697
Child Development	585,335	3,098,236	2,953,784	729,787
Cafeteria	267,842	8,662,145	8,829,986	100,001
Building	28,704,801	540,139	663,257	28,581,683
Capital Facilities	7,285,214	2,176,034	53,903	9,407,345
County School Facilities	22,453,543	425,201	-	22,878,744
Special Reserve Fund for Capital Outlay Projects	67,407,352	916,198	36,868,875	31,454,675
Bond Interest and Redemption	11,428,056	49,606,970	49,428,983	11,606,043
Total	$ 210,177,035	$ 417,980,895	$ 434,337,955	$ 193,819,975

The decrease in the combined fund balance can be attributed to a decrease of $35,952,677 within the Special Reserve Fund for Capital Outlay Projects. This decrease was partially offset by an increase of $17,016,805 million in the General Fund.

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 83.) The District experienced a total fund balance increase of $17,016,805 million between its final and actual budgets. This increase can be attributed to favorable property tax, other state and local support. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the District had $353,013,939 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 $14,555,390, or 4.30 percent, from last year.

	Governmental Activities	
	2020	2019
Land and construction in progress	$ 46,079,459	$ 29,267,596
Land improvements	60,748,912	62,644,325
Buildings and improvements	235,580,445	234,951,389
Equipment	10,605,123	11,595,239
Total	$ 353,013,939	$ 338,458,549

Several capital projects are planned for the 2020-2021 year. Additional detail regarding capital assets is provided in Note 5 to the financial statements.

Long-Term Liabilities

At the end of this year, the District had $814,606,849 in outstanding debt versus $805,441,873 last year, an increase of 1.14 percent. The increase can be attributed to increases in Aggregate net pension liability. The District's outstanding long-term liabilities at year-end consisted of:

Table 6

	Governmental Activities	
	2020	2019
Long-Term Liabilities		
General obligation bonds	$ 336,418,038	$ 335,037,864
California energy commission loan	1,285,716	1,714,287
Unamortized premium	9,648,818	9,958,298
Capital leases	65,197	86,014
Compensated absences	4,609,951	3,817,670
Claims liability	13,998,095	13,458,319
Net OPEB liability	121,470,255	124,955,633
Aggregate net pension liability	327,110,779	316,413,788
Total	$ 814,606,849	$ 805,441,873

The Moody Corporation studied the District's finances in June of 2020 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 $336,418,038 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.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2019-2020 ARE NOTED BELOW:

Following the guidelines provided in the District's strategic plan, District staff has made significant achievements in 2019-2020. Just a few of those achievements are listed below:

- The U.S. News and World Report's 2019 Best High recognized Corona Del Mar 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.

- Killybrooke, Paularino, and Sonora Elementary Schools were recognized as California Distinguished Schools in 2020.

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The COVID-19 Pandemic introduced extreme uncertainty. Beginning March 2020, the economy was shut down and the District closed its school sites. The State issued a May Revise Budget that included a 10 percent reduction. The District assumed this reduction in its June Budget Adoption. However, the State reversed those reductions, replacing them with apportionment deferrals. The District has received Federal COVID funding and is responding appropriately; expenditures are spiking. Consequently, substantial budget variances are expected in the 2020-2021 Fiscal Year. The situation remains fluid and will no doubt require adjustments as the year progresses. These adjustments will be reflected in the District's First and Second Interim Reports.

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.

	Governmental Activities
Assets	
Deposits and investments	$ 220,895,802
Receivables	12,686,173
Prepaid items	5,575
Stores inventories	236,170
Capital assets not depreciated	46,079,459
Capital assets, net of accumulated depreciation	306,934,480
Total assets	586,837,659
Deferred Outflows of Resources	
Deferred charge on refunding	12,637,606
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	7,873,581
Deferred outflows of resources related to pensions	86,910,520
Total deferred outflows of resources	107,421,707
Liabilities	
Accounts payable	23,974,238
Interest payable	1,907,282
Unearned revenue	525,717
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	13,067,701
Long-term liabilities other than OPEB and pensions due in more than one year	352,958,114
Other postemployment benefit liability	121,470,255
Aggregate net pension liability	327,110,779
Total liabilities	841,014,086
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	3,082,887
Deferred inflows of resources related to pensions	24,295,211
Total deferred inflows of resources	27,378,098
Net Position	
Net investment in capital assets	134,855,244
Restricted for	
Debt service	9,698,761
Capital projects	32,286,089
Educational programs	4,449,993
Other restrictions	2,241,467
Unrestricted	(357,664,372)
Total net position	$ (174,132,818)

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities					
Instruction	$ 220,144,978	$ 509,321	$ 35,485,370	$ 425,201	$ (183,725,086)
Instruction-related activities					
Supervision of instruction	19,765,124	72,243	4,525,210	-	(15,167,671)
Instructional library, media, and technology	5,104,925	4,182	147,663	-	(4,953,080)
School site administration	24,245,953	17,086	1,238,262	-	(22,990,605)
Pupil services					
Home-to-school transportation	7,106,487	-	31,939	-	(7,074,548)
Food services	9,078,765	1,116,159	4,871,966	-	(3,090,640)
All other pupil services	19,894,292	65,900	3,857,521	-	(15,970,871)
Administration					
Data processing	10,336,541	316	15,542	-	(10,320,683)
All other administration	11,425,346	62,254	1,886,502	-	(9,476,590)
Plant services	35,427,713	20,364	76,346	-	(35,331,003)
Ancillary services	3,689,486	77,342	302,901	-	(3,309,243)
Enterprise services	7,710	-	-	-	(7,710)
Interest on long-term liabilities	17,989,150	-	-	-	(17,989,150)
Other outgo	5,550,693	1,585,568	3,883,380	-	(81,745)
Depreciation (unallocated)	27,220,838	-	-	-	(27,220,838)
Total governmental activities	$ 416,988,001	$ 3,530,735	$ 56,322,602	$ 425,201	(356,709,463)
General Revenues and Subventions					
Property taxes, levied for general purposes					280,293,742
Property taxes, levied for debt service					13,140,621
Taxes levied for other specific purposes					710,662
Federal and State aid not restricted to specific purposes					16,698,975
Interest and investment earnings					3,489,547
Miscellaneous					24,808,780
Subtotal, general revenues					339,142,327
Change in Net Position					(17,567,136)
Net Position - Beginning					(156,565,682)
Net Position - Ending					$ (174,132,818)

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets							
Deposits and investments	$ 93,457,418	$ 2,164,069	$ 28,678,761	$ 22,856,779	$ 37,486,806	$ 20,643,933	$ 205,287,766
Receivables	10,673,956	436,957	28,627	22,808	38,597	1,470,282	12,671,227
Due from other funds	2,623,573	735,734	-	-	2,805	-	3,362,112
Prepaid expenditures	5,575	-	-	-	-	-	5,575
Stores inventories	142,154	94,016	-	-	-	-	236,170
Total assets	$ 106,902,676	$ 3,430,776	$ 28,707,388	$ 22,879,587	$ 37,528,208	$ 22,114,215	$ 221,562,850
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ 16,787,902	$ 653,918	$ 125,705	$ 843	$ 6,073,533	$ 215,140	$ 23,857,041
Due to other funds	738,418	2,465,799	-	-	-	155,900	3,360,117
Unearned revenue	314,659	211,058	-	-	-	-	525,717
Total liabilities	17,840,979	3,330,775	125,705	843	6,073,533	371,040	27,742,875
Fund Balances							
Nonspendable	297,729	94,016	-	-	-	-	391,745
Restricted	4,449,993	5,985	28,581,683	22,878,744	1,320,860	21,743,175	78,980,440
Assigned	72,650,183	-	-	-	30,133,815	-	102,783,998
Unassigned	11,663,792	-	-	-	-	-	11,663,792
Total fund balances	89,061,697	100,001	28,581,683	22,878,744	31,454,675	21,743,175	193,819,975
Total liabilities and fund balances	$ 106,902,676	$ 3,430,776	$ 28,707,388	$ 22,879,587	$ 37,528,208	$ 22,114,215	$ 221,562,850

Total Fund Balance - Governmental Funds		$ 193,819,975
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	$ 657,933,864	
Accumulated depreciation is	(304,919,925)	
Net capital assets		353,013,939
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(1,907,282)
An internal service fund is used by 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.		1,505,695
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings	12,637,606	
Other postemployment benefits	7,873,581	
Net pension obligation	86,910,520	
Total deferred outflows of resources		107,421,707
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits	(3,082,887)	
Net pension obligation	(24,295,211)	
Total deferred inflows of resources		(27,378,098)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(327,110,779)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(121,470,255)

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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
General obligation bonds	$ (248,378,253)	
Premium on issuance, net of amortization	(9,648,818)	
Capital leases payable	(65,197)	
Compensated absences (vacations)	(4,609,951)	
California energy commission loan	(1,285,716)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(88,039,785)	
Total long-term liabilities		(352,027,720)
Total net position - governmental activities		$ (174,132,818)

	General Fund	Cafeteria Fund	Building Fund
Revenues			
Local Control Funding Formula	$ 290,510,451	$ -	$ -
Federal sources	9,825,774	4,436,068	-
Other State sources	38,903,750	295,695	-
Other local sources	13,315,996	1,181,760	540,139
Total revenues	352,555,971	5,913,523	540,139
Expenditures			
Current			
Instruction	196,852,440	-	-
Instruction-related activities			
Supervision of instruction	17,865,441	-	-
Instructional library, media, and technology	4,814,408	-	-
School site administration	22,062,185	-	-
Pupil services			
Home-to-school transportation	6,798,559	-	-
Food services	409,677	8,418,702	-
All other pupil services	17,958,070	-	-
Administration			
Data processing	10,061,264	-	-
All other administration	10,491,677	411,284	-
Plant services	34,694,340	-	-
Ancillary services	3,520,018	-	-
Other outgo	3,003,264	-	-
Facility acquisition and construction	4,238,385	-	663,256
Debt service			
Principal	20,817	-	-
Interest and other	-	-	-
Total expenditures	332,790,545	8,829,986	663,256
Excess (Deficiency) of Revenues Over Expenditures	19,765,426	(2,916,463)	(123,117)
Other Financing Sources (Uses)			
Transfers in	1	2,748,622	-
Other sources - proceeds from issuance of general obligation bonds	-	-	-
Other sources - premium on issuance of general obligation bonds	-	-	-
Transfers out	(2,748,622)	-	(1)
Other uses - payments to escrow agent for refunded bonds	-	-	-
Net Financing Sources (Uses)	(2,748,621)	2,748,622	(1)
Net Change in Fund Balances	17,016,805	(167,841)	(123,118)
Fund Balance - Beginning	72,044,892	267,842	28,704,801
Fund Balance - Ending	$ 89,061,697	$ 100,001	$ 28,581,683

	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local Control Funding Formula	$ -	$ -	$ -	$ 290,510,451
Federal sources	-	-	-	14,261,842
Other State sources	-	-	2,992,575	42,192,020
Other local sources	425,201	916,198	15,568,414	31,947,708
Total revenues	425,201	916,198	18,560,989	378,912,021
Expenditures				
Current				
Instruction	-	-	2,249,694	199,102,134
Instruction-related activities				
Supervision of instruction	-	-	323,321	18,188,762
Instructional library, media, and technology	-	-	-	4,814,408
School site administration	-	-	166,887	22,229,072
Pupil services				
Home-to-school transportation	-	-	-	6,798,559
Food services	-	-	-	8,828,379
All other pupil services	-	-	2,737	17,960,807
Administration				
Data processing	-	-	-	10,061,264
All other administration	-	-	209,078	11,112,039
Plant services	-	-	51,962	34,746,302
Ancillary services	-	-	-	3,520,018
Other outgo	-	-	-	3,003,264
Facility acquisition and construction	-	36,415,386	-	41,317,027
Debt service				
Principal	-	428,571	9,230,000	9,679,388
Interest and other	-	24,918	4,243,241	4,268,159
Total expenditures	-	36,868,875	16,476,920	395,629,582
Excess (Deficiency) of Revenues Over Expenditures	425,201	(35,952,677)	2,084,069	(16,717,561)
Other Financing Sources (Uses)				
Transfers in	-	-	-	2,748,623
Other sources - proceeds from issuance of general obligation bonds	-	-	32,960,000	32,960,000
Other sources - premium on issuance of general obligation bonds	-	-	3,360,251	3,360,251
Transfers out	-	-	-	(2,748,623)
Other uses - payments to escrow agent for refunded bonds	-	-	(35,959,750)	(35,959,750)
Net Financing Sources (Uses)	-	-	360,501	360,501
Net Change in Fund Balances	425,201	(35,952,677)	2,444,570	(16,357,060)
Fund Balance - Beginning	22,453,543	67,407,352	19,298,605	210,177,035
Fund Balance - Ending	$ 22,878,744	$ 31,454,675	$ 21,743,175	$ 193,819,975

Total Net Change in Fund Balances - Governmental Funds		$ (16,357,060)
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 in the period.		
Capital outlays	$ 41,835,545	
Depreciation expense	(27,220,838)	
Net expense adjustment		14,614,707
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(59,317)
In the Statement of Activities, certain operating expenses, such as 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 amount is the difference between vacation earned and used.		(792,281)
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.		(17,181,752)
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.		5,612,311
Proceeds received from Sale of General Obligation Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		$ (32,960,000)

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Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Premium on issuance recognized	(3,360,251)
Premium amortization	3,669,731
Deferred amount on refunding amortization	(2,959,697)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	44,325,000
California energy commission loan	428,571
Capital leases	20,817
Interest on long-term liabilities 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 result of two factors. First, accrued interest on the general obligation bonds increased by $619,907, and second, $12,745,174 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.	(13,365,081)
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	797,166
Change in net position of governmental activities	$ (17,567,136)

	Governmental Activities - Internal Service Fund
Assets	
Current assets	
Deposits and investments	$ 15,608,036
Receivables	14,946
Total assets	15,622,982
Liabilities	
Current liabilities	
Accounts payable	117,197
Due to other funds	1,995
Current portion of claims liabilities	2,503,747
Total current liabilities	2,622,939
Noncurrent liabilities	
Claims liabilities	11,494,348
Total liabilities	14,117,287
Net Position	
Restricted for self-insurance	$ 1,505,695

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for services	$ 3,435,735
Operating Expenses	
Payroll costs	139,739
Professional and contract services	2,510,750
Other operating cost	216,362
Total operating expenses	2,866,851
Operating Income	568,884
Nonoperating Revenues	
Interest income	228,282
Change in Net Position	797,166
Total Net Position - Beginning	708,529
Total Net Position - Ending	$ 1,505,695

	Governmental Activities - Internal Service Fund
Operating Activities	
Cash received from assessments made to other funds	$ 3,448,187
Cash payments to other suppliers of goods or services	(2,014,398)
Cash payments to employees for services	(139,739)
Other operating cash payments	(216,362)
Net Cash From Operating Activities	1,077,688
Investing Activities	
Interest on investments	228,282
Net Change in Cash and Cash Equivalents	1,305,970
Cash and Cash Equivalents, Beginning	14,302,066
Cash and Cash Equivalents, Ending	$ 15,608,036
Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income	$ 568,884
Changes in assets and liabilities	
Receivables	12,346
Accrued liabilities	(43,424)
Due to other fund	106
Claims liability	539,776
Net Cash From Operating Activities	$ 1,077,688

	Agency Funds
Assets	
Deposits and investments	$ 3,626,804
Liabilities	
Due to student groups	$ 1,657,698
Due to bond holders	1,969,106
Total liabilities	$ 3,626,804

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 described below 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, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, and GASB Statement No. 80, Blending Requirements For Certain component Units 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.

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 $34,289,853 as of June 30, 2020.

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).

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.

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.).

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).

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.

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).

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).

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.

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. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. 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.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior t the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

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. Principal and interest on general long-term liabilities, 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 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)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 consumed rather than when purchased.

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 value 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.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities 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 liabilities 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 other long-term liabilities 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, which approximates the effective interest 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 in the period the bonds are issued.

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 deferred charges on refunding of debt, for pension related items, and for OPEB related items. The deferred charge on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB relate to differences between expected and actual earnings on investments, changes of assumptions, and other pensions and OPEB related changes.

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. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

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. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Fund Balances - Governmental Funds

As of June 30, 2020, 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.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. 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 $48,676,310 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 May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

The provisions of this Statement have been implemented as of June 30, 2020.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District’s financial statements have not yet been determined.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

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.

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.

As a result of the implementation of GASB Statement No. 95, 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. The effects of this change on the District's financial statements have not yet been determined.

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.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The effects of this change on the District’s financial statements have not yet been determined.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	$ 205,287,766
Proprietary funds	15,608,036
Fiduciary funds	3,626,804
Total deposits and investments	$ 224,522,606

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	$ 7,620,042
Cash in revolving	150,000
Investments	216,752,564
Total deposits and investments	$ 224,522,606

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 net asset value basis. The Orange County Educational Investment and the Los Angeles County Treasury Investment Pools have a daily redemption frequency period and a one-day redemption notice period.

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.

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:

Investment Type	Reported Amount	Maturity Date
Orange County Educational Investment Pool	$ 214,287,334	266
Los Angeles County Treasury Investment Pool	496,124	590
Federated Treasury Obligations Fund	1,969,106	44
Total	$ 216,752,564	

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, 2020, the District's bank balance of $7,724,743 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.

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 Treasurer 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 County Treasury Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

The District's fair value measurements are as follows at June 30, 2020:

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs	Uncategorized
Federal Treasury Obligations Fund	$ 1,969,106	$ 1,969,106	$ -
Orange County Educational Investment Pool	214,287,334	-	214,287,334
Los Angeles County Treasury Investment Pool	496,124	-	496,124
Total	$ 216,752,564	$ 1,969,106	$ 214,783,458

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

Note 4 - Receivables

Receivables at June 30, 2020, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Serivce Fund	Total Governmental Activities
Federal Government								
Categorical aid	$ 4,875,935	$ 401,472	$ -	$ -	$ -	$ -	$ -	$ 5,277,407
State Government								
LCFF apportionment	988,165	-	-	-	-	-	-	988,165
Categorical aid	1,778,442	34,487	-	-	-	732,792	-	2,545,721
Lottery	1,025,743	-	-	-	-	-	-	1,025,743
Local Government								
Interest	109,127	576	28,627	22,808	38,597	$ 32,094	14,946	246,775
Other local sources	1,896,544	422	-	-	-	705,396	-	2,602,362
Total	$ 10,673,956	$ 436,957	$ 28,627	$ 22,808	$ 38,597	$ 1,470,282	$ 14,946	$ 12,686,173

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental Activities				
Capital assets not being depreciated				
Land	$ 21,548,963	$ -	$ -	$ 21,548,963
Construction in progress	7,718,633	19,846,787	(3,034,924)	24,530,496
Total capital assets not being depreciated	29,267,596	19,846,787	(3,034,924)	46,079,459
Capital assets being depreciated				
Land improvements	84,357,617	2,388,997	-	86,746,614
Buildings and improvements	473,630,711	21,774,029	-	495,404,740
Furniture and equipment	29,288,434	860,656	(446,039)	29,703,051
Total capital assets being depreciated	587,276,762	25,023,682	(446,039)	611,854,405
Total capital assets	616,544,358	44,870,469	(3,480,963)	657,933,864
Accumulated depreciation				
Land improvements	(21,713,292)	(4,284,410)	-	(25,997,702)
Buildings and improvements	(238,679,322)	(21,144,973)	-	(259,824,295)
Furniture and equipment	(17,693,195)	(1,791,455)	386,722	(19,097,928)
Total accumulated depreciation	(278,085,809)	(27,220,838)	386,722	(304,919,925)
Governmental activities capital assets, net	$ 338,458,549	$ 17,649,631	$ (3,094,241)	$ 353,013,939

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Unallocated	$ 27,220,838

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2020, between major and non-major governmental funds are as follows:

	Due From				
Due To	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Internal Service Fund	Total
General Fund	$ -	$ 2,465,678	$ 155,900	$ 1,995	$ 2,623,573
Cafeteria Fund	735,734	-	-	-	735,734
Special Reserve Fund for Capital Outlay Projects	2,684	121	-	-	2,805
Total	$ 738,418	$ 2,465,799	$ 155,900	$ 1,995	$ 3,362,112

The balance of $2,465,678 due to the General Fund from the Cafeteria Fund resulted from reimbursement of various operating costs, including indirect costs.

The balance of $155,900 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 $735,734 due to the Cafeteria 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.

Operating Transfers

Interfund transfers for the year ended June 30, 2020, consisted of the following:

Transfer To	Transfer From: General Fund	Transfer From: Building Fund	Total
General Fund	$ -	$ 1	$ 1
Cafeteria Fund	2,748,622	-	2,748,622
Total	$ 2,748,622	$ 1	$ 2,748,623

The Building Fund transferred to the General Fund for reimbursement of qualified expenses.	$ 1
The General Fund transferred to the Cafeteria Fund for operating contributions.	2,748,622
Total	$ 2,748,623

Note 7 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Salaries and benefits	$ 9,031,414	$ 627,539	$ -	$ -	$ -	$ 201,036	$ 10,039	$ 9,870,028
Vendor payables	456,272	1,299	-	-	141,761	2,331	-	601,663
Supplies	2,546,553	23,586	-	-	-	138	-	2,570,277
Services	4,405,824	1,494	1,058	843	65,656	11,635	107,158	4,593,668
Construction	347,839	-	124,647	-	5,866,116	-	-	6,338,602
Total	$ 16,787,902	$ 653,918	$ 125,705	$ 843	$ 6,073,533	$ 215,140	$ 117,197	$ 23,974,238

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2020, consists of the following:

	General Fund	Cafeteria Fund	Total
Federal financial assistance	$ 61,086	$ -	$ 61,086
State categorical aid	80,185	-	80,185
Other local	173,388	211,058	384,446
Total	$ 314,659	$ 211,058	$ 525,717

Note 9 - Long-Term Liabilities other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 335,037,864	$ 45,705,174	$ (44,325,000)	$ 336,418,038	$ 10,115,000
Unamortized premium	9,958,298	3,360,251	(3,669,731)	9,648,818	
California energy commission loan	1,714,287	-	(428,571)	1,285,716	428,571
Capital leases	86,014	-	(20,817)	65,197	20,383
Compensated absences	3,817,670	792,281	-	4,609,951	-
Claims liability	13,458,319	3,043,523	(2,503,747)	13,998,095	2,503,747
Total	$ 364,072,452	$ 52,901,229	$ (50,947,866)	$ 366,025,815	$ 13,067,701

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 General Fund, Child Development Fund, Cafeteria Fund, and the Internal Service 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:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Issued	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2020
1/1/07	8/1/31	3.3-4.5%	$ 70,443,480	$ 74,350,838	$ -	$ 3,140,481	$ (4,410,000)	$ 73,081,319
11/9/10	8/1/26	2.0-5.0%	68,660,000	44,720,000	-	-	(39,710,000)	5,010,000
6/8/11	8/1/46	3.6-7.3%	95,000,670	104,213,926	-	6,929,830	(205,000)	110,938,756
8/10/17	8/1/46	3.9-5.0%	80,546,666	84,323,100	-	2,674,863	-	86,997,963
8/15/17	8/1/39	2.0-5.0%	28,130,000	27,430,000	-	-	-	27,430,000
5/5/20	8/1/26	5.0%	32,960,000	-	32,960,000	-	-	32,960,000
				$ 335,037,864	$ 32,960,000	$ 12,745,174	$ (44,325,000)	$ 336,418,038

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).

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, 2020, the principal balance outstanding was $73,081,319. Unamortized premium on issuance at June 30, 2019 was $302,696.

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, 2020, the principal balance of $5,010,000 remained outstanding.

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, 2020, the principal balance outstanding was $110,938,756. Unamortized premium at June 30, 2020 was $460,009.

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, 2020, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2017 was $86,997,963 and unamortized premium on issuance and deferred charge on refunding were $4,159,558 and $12,637,606, respectively.

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 30,2020, the principal balance outstanding of the 2005 General Obligation Bonds, Series 2017 was $27,430,000 and unamortized premium on issuance was $1,366,304.

2000 General Obligation Refunding Bonds, Series 2020

On May 5, 2020, the District issued $32,960,000 of the Newport-Mesa Unified School District, 2000 General Obligation Refunding Bonds, Series 2020. The bonds were issued as current interest bonds. The bonds have a final maturity to occur on August 1, 2026, with interest rate of 5.0 percent. The bonds issued at an aggregate price of $35,959,750 (including a premium of $3,360,251 and after payment of $360,501 for issuance costs). Proceeds from sale of bonds will be used to refund, on a current basis, a portion of the outstanding General Obligation Refunding Bonds, Election of 2000, Series 2010, and to pay costs of issuance of the Refunding Bonds. The refunding resulted in cumulative cash flow saving of $2,938,811 over the life of the new debt and an economic gain of $2,764,787 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.079 percent. At June 30, 2020, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2020 was $32,960,000 and unamortized premium on issuance was $3,360,251.

The general obligation bonds mature through 2047 as follows:

Bonds Maturing Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2021	$ 10,103,510	$ 11,490	$ 4,902,039	$ 15,017,039
2022	10,418,156	311,844	4,076,353	14,806,353
2023	10,014,279	405,721	4,517,030	14,937,030
2024	10,889,867	675,133	4,226,705	15,791,705
2025	11,775,444	1,009,556	3,910,455	16,695,455
2026-2030	71,292,151	15,717,849	13,903,650	100,913,650
2031-2035	63,254,991	61,645,009	9,866,375	134,766,375
2036-2040	67,865,562	83,510,588	8,907,150	160,283,300
2041-2045	65,521,213	65,538,787	3,525,638	134,585,638
2046-2047	15,282,865	27,342,135	-	42,625,000
Total	$ 336,418,038	$ 256,168,112	$ 57,835,395	$ 650,421,545

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2020, amounted to $4,609,951.

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, 2019	$ 86,014
Additions	-
Payments	(20,817)
Balance, July 1, 2020	$ 65,197

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2021	$ 20,383
2022	16,240
2023	11,934
2024	9,176
2025	7,464
Total	65,197
Less amount representing interest	-
Present value of minimum lease payments	$ 65,197

Leased equipment under capital assets at June 30, 2020 include the following:

Builidng	$ 222,752
Less Accumulated Depreciation	(33,413)
Total	$ 189,339

Amortization of leased building under capital assets is included with depreciation expense.

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, 2020, the District had an outstanding CEC loan balance of $1,285,716.

Year Ending June 30,	Future Payment
2021	$ 428,571
2022	428,571
2023	428,574
Total	$ 1,285,716

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.

Note 10 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2020, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
Retiree Health Plan	$ 119,890,958	$ 7,873,581	$ 3,082,887	$ 5,592,544
Medicare Premium Payment (MPP) Program	1,579,297	-	-	(19,767)
Total	$ 121,470,255	$ 7,873,581	$ 3,082,887	$ 5,572,777

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, 2020, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	107
Active employees	2,326
Total	2,433

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 2019-2020, the District contributed $5,165,629 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of $119,890,958 was measured as of June 30, 2020, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2020.

Actuarial Assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.66	percent
Salary increases	2.75	percent, average, including inflation
Discount rate	2.66	percent
Healthcare cost trend rates	7.00	percent for 2020

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

CalSTRS mortality rates are from the 2020 experience study and the CalPERS mortality rates are from the 2017 experience study.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actual experience study for the period July 1, 2019 to June 30, 2020.

	Total OPEB Liability
Balance, June 30, 2019	$ 123,356,569
Service cost	6,197,752
Interest	3,543,001
Differences between expected and actual experience	(8,947,739)
Changes of assumptions	907,004
Benefit payments	(5,165,629)
Net change in total OPEB liability	(3,465,611)
Balance, June 30, 2020	$ 119,890,958

No changes to the benefits terms noted.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.79 percent in 2019 to 2.66 percent in 2020.

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:

Discount Rate	Total OPEB Liability
1% decrease (1.66%)	$ 128,688,808
Current discount rate (2.66%)	119,890,958
1% increase (3.66%)	111,440,868

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:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (6.00%)	$ 106,685,300
Current healthcare cost trend rate (7.00%)	119,890,958
1% increase (8.00%)	135,341,062

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of $5,592,544. At June 30, 2020, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	7,873,581	-
Changes of assumptions	-	3,082,887
Total	$ 7,873,581	$ 3,082,887

The deferred outflows of resources related to difference between expected and actual experience and the deferred inflows of resources related to the changes of assumptions will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 586,280
2022	586,280
2023	586,280
2024	586,280
2025	586,280
Thereafter	1,859,294
Total	$ 4,790,694

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, 2018 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, contributions 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, 2020, the District reported a liability of $1,579,297 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. 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, 2019 and June 30, 2018, respectively, was 0.4241 percent, and 0.4178 percent, resulting in a net increase in the proportionate share of 0.0063 percent.

For the year ended June 30, 2020, the District recognized OPEB expense of $(19,767).

Actuarial Methods and Assumptions

The June 30, 2019 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total OPEB liability to June 30, 2019, using the assumptions listed in the following table:

Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2018	June 30, 2017
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	3.50%	3.87%
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, 2018, 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 380 or an average of 0.23 percent of the potentially eligible population (165,422).

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, 2019, 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, 2019, is 3.50 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.50 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37 percent from 3.87 percent as of June 30, 2018.

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 (2.50%)	$ 1,723,375
Current discount rate (3.50%)	1,579,297
1% increase (4.50%)	1,446,826

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)	$ 1,480,274
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,579,297
1% increase (4.7% Part A and 5.1% Part B)	1,777,094

Note 11 - 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, 2020, the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012 had an outstanding balance of $2,445,000.

The Special Tax Bonds mature through 2022 as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 1,205,000	$ 67,675	$ 1,272,675
2022	1,240,000	24,800	1,264,800
Total	$ 2,445,000	$ 92,475	$ 2,537,475

Note 12 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects Fund	Non-Major Governmental Funds	Total
Nonspendable							
Revolving cash	$ 150,000	$ -	$ -	$ -	$ -	$ -	$ 150,000
Stores inventories	142,154	94,016	-	-	-	-	236,170
Prepaid expenditures	5,575	-	-	-	-	-	5,575
Total nonspendable	297,729	94,016	-	-	-	-	391,745
Restricted							
Legally restricted programs	4,449,993	5,985	-	-	-	729,787	5,185,765
Capital projects	-	-	28,581,683	22,878,744	1,320,860	9,407,345	62,188,632
Debt services	-	-	-	-	-	11,606,043	11,606,043
Total restricted	4,449,993	5,985	28,581,683	22,878,744	1,320,860	21,743,175	78,980,440
Assigned							
Retiree benefits	19,413,318	-	-	-	-	-	19,413,318
Other	53,236,865	-	-	-	-	-	53,236,865
Capital projects	-	-	-	-	30,133,815	-	30,133,815
Total assigned	72,650,183	-	-	-	30,133,815	-	102,783,998
Unassigned							
Reserve for economic uncertainties	11,663,792	-	-	-	-	-	11,663,792
Total	$ 89,061,697	$ 100,001	$ 28,581,683	$ 22,878,744	$ 31,454,675	$ 21,743,175	$ 193,819,975

Note 13 - 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 Payment
2021	$ 16,560
2022	16,560
2023	17,089
2024	17,089
Total	$ 67,298

During the 2019-2020 fiscal year, a total of $86,775 in lease revenues was received by the District.

Note 14 - 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 17 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.

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. Unpaid claims and claims adjustment expenses were discounted at 0.6 percent and presented at their net present value. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2020:

	Workers' Compensation
Liability Balance, July 1, 2018	$ 13,122,826
Claims and changes in estimates	3,179,390
Claims payments	(2,843,897)
Liability Balance, June 30, 2019	13,458,319
Claims and changes in estimates	3,043,523
Claims payments	(2,503,747)
Liability Balance, June 30, 2020	$ 13,998,095
Assets available to pay claims at June 30, 2020	$ 15,622,982

Note 15 - 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, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 216,516,683	$ 62,257,120	$ 21,746,060	$ 26,249,995
CalPERS	110,594,096	24,653,400	2,549,151	17,616,283
Total	$ 327,110,779	$ 86,910,520	$ 24,295,211	$ 43,866,278

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, 2018, 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.

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

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, 2020, are presented above and the District's total contributions were $22,650,429.

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

At June 30, 2020, 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	
Proportionate share of net pension liability	$ 216,516,683
State’s proportionate share of the net pension liability	118,124,305
Total	$ 334,640,988

The net pension liability was measured as of June 30, 2019. 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, 2019 and June 30, 2018, respectively, was 0.2397 percent and 0.2328 percent, resulting in a net increase in the proportionate share of 0.0069 percent.

For the year ended June 30, 2020, the District recognized pension expense of $26,249,995. In addition, the District recognized pension expense and revenue of $17,591,256 for support provided by the State. At June 30, 2020, 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	$ 22,650,429	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	11,675,473	7,304,582
Differences between projected and actual earnings on pension plan investments	-	8,340,290
Differences between expected and actual experience in the measurement of the total pension liability	546,590	6,101,188
Changes of assumptions	27,384,628	-
Total	$ 62,257,120	$ 21,746,060

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
2021	$ (841,262)
2022	(6,621,209)
2023	(1,374,665)
2024	496,846
Total	$ (8,340,290)

The deferred outflows/(inflows) of resources related to the change in proportionate and differences between contributions made and District's proportionate share of contributions, 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
2021	$ 6,125,231
2022	6,125,233
2023	5,553,415
2024	7,114,313
2025	1,096,836
Thereafter	185,893
Total	$ 26,200,921

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, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
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.

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, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.8%
Fixed income	12%	1.3%
Real estate	13%	3.6%
Private equity	13%	6.3%
Risk mitigating strategies	9%	1.8%
Inflation sensitive	4%	-3.3%
Cash/liquidity	2%	-0.4%

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%)	$ 322,411,263
Current discount rate (7.10%)	216,516,683
1% increase (8.10%)	128,709,910

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, 2018 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
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	19.721%	19.721%

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, 2020, are presented above and the total District contributions were $10,833,330.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $110,594,096. 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, 2019 and June 30, 2018, respectively, was 0.3795 percent and 0.3844 percent, resulting in a net decrease in the proportionate share of 0.0049 percent.

For the year ended June 30, 2020, the District recognized pension expense of $17,616,283. At June 30, 2020, 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	$ 10,833,330	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	521,877	1,523,371
Differences between projected and actual earnings on pension plan investments	-	1,025,780
Differences between expected and actual experience in the measurement of the total pension liability	8,033,571	-
Changes of assumptions	5,264,622	-
Total	$ 24,653,400	$ 2,549,151

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
2021	$ 1,012,560
2022	(2,022,555)
2023	(306,493)
2024	290,708
Total	$ (1,025,780)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, 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 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 7,780,744
2022	3,431,542
2023	985,830
2024	98,583
Total	$ 12,296,699

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, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
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

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%)	$ 159,414,118
Current discount rate (7.15%)	110,594,096
1% increase (8.15%)	70,094,516

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 $61,129, 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 $16,477,195 (10.328 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 an additional 2019–2020 contribution on behalf of school employers of $1.1 billion for CalSTRS. 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 16 - 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, 2020.

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, 2020.

Construction Commitments

As of June 30, 2020, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Adams-Marquee	$ 4,733	09/30/20
Back Bay-Marquee	4,733	09/30/20
Davis-Asphalt/ patch/ overlay lunch area	35,644	09/01/20
District-District parking lot paving	40,852	12/31/20
District-Window Restoration	86,325	09/01/20
District-Flooring replacement for 60 classrooms	27,615	09/01/20
ECHS-Marquee	4,733	09/30/20
Lincoln-Marquee	4,733	9/302020
Newport ES-Marquee	4,733	09/30/20
Pomona-Marquee	4,733	09/30/20
Rea-Marquee	16,129	09/30/20
Sonora-Marquee	16,004	09/30/20
Paularino-install concrete pad for shed installation	2,578	09/30/20
CMHS-Baseball Scoreboard Replacement	10,758	09/30/20

Capital Project	Remaining Construction Commitment	Expected Date of Completion
EHS -Jim Scott Stadium Scoreboard	14,710	09/30/20
NHHS-netting project/baseball	13,600	09/30/20
NHHS-install data & power/Computer Lab	16,499	09/30/20
EHS -Theater	867,848	09/30/20
Victoria-HVAC 110-19VIC-1	160,877	02/05/20
CDM-HVAC 2020	36,501	06/30/21
CMHS-HVAC	1,366,685	06/30/21
CMHS-Panel metering for electrical panels	8,253	06/30/21
NHHS-HVAC	1,170,215	06/30/21
CDM -CDM security fencing	856,835	12/31/20
CMHS-Security Study/fencing	5,648	06/30/22
California-security fencing/ architectural and structural	2,661	06/30/22
Davis-Security Study/fencing	31,270	06/30/22
District-Security Fencing Study	64,035	06/30/22
EHS -Tennis court/weight room fencing replacement	162,676	06/30/21
CDM -Softball Scoreboard	1,023	06/30/21
District-Planning service regarding floor plan	22,747	06/30/21
EHS -Jim Scott Stadium Scoreboard	725	06/30/21
Harper-Parking lot & ADA updates	4,320	06/30/21
Newport Heights-Parking lot paving	26,469	06/30/21
Newport Heights-Security Fencing Project	11,049	06/30/21
BB/MV-Security Study/fencing	11,114	06/30/22
Ensign-Security Study/fencing	866,909	12/31/20
Ensign-Ensign Enginerring Lab	13,499	12/31/20
TeWinkle-security fencing/ architectural and structural	3,792	06/30/22
CDM -Softball Scoreboard	8,910	06/30/21
CDM -CDM Sports Field/ Stadium	9,048,280	08/24/20
EHS -Aquatic Center	9,285,913	06/30/21
EHS -storage container with cargo doors	6,548	06/30/21
EHS -EHS Football Viewing room planning	4,940	06/30/21
NHHS-Sportsfield/ Scoreboard	13,240	12/31/20
NHHS-Kiln project/architectural, electrical, remodeling	37,322	06/30/21
NHHS-aquatics shade and scorebooard	34,370	06/30/21
Total	$ 24,443,781	

Note 17 - 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, 2020, the District made payments of $1,467,255 and $1,598,274 to ASCIP and CROP, respectively, for services received.

Note 18 - Subsequent Events

Subsequent to year-end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the District’s financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Required Supplementary Information
June 30, 2020

Newport-Mesa Unified School District

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances - Positive (Negative) Final to Actual
Revenues				
Local Control Funding Formula	$ 289,554,302	$ 288,784,199	$ 290,510,451	$ 1,726,252
Federal sources	11,991,258	12,914,800	9,825,774	(3,089,026)
Other State sources	19,163,447	22,206,480	38,903,750	16,697,270
Other local sources	6,045,528	11,681,691	13,315,996	1,634,305
Total revenues [1]	326,754,535	335,587,170	352,555,971	16,968,801
Expenditures				
Current				
Certificated salaries	133,160,213	136,714,625	134,432,797	2,281,828
Classified salaries	54,731,601	56,157,601	55,330,461	827,140
Employee benefits	83,859,390	85,551,539	97,117,817	(11,566,278)
Books and supplies	14,405,628	19,923,583	12,513,453	7,410,130
Services and operating expenditures	27,741,880	32,608,250	27,871,481	4,736,769
Other outgo	2,474,972	2,370,049	2,322,635	47,414
Capital outlay	2,541,747	6,308,774	3,181,084	3,127,690
Debt service				
Debt service - principal	-	-	20,817	(20,817)
Total expenditures [1]	318,915,431	339,634,421	332,790,545	6,843,876
Excess of Revenues Over Expenditures	7,839,104	(4,047,251)	19,765,426	23,812,677
Other Financing Sources (Uses)				
Transfers in	-	-	1	1
Transfers out	(7,379,823)	(9,296,871)	(2,748,622)	6,548,249
Net financing sources (uses)	(7,379,823)	(9,296,871)	(2,748,621)	6,548,250
Net Change in Fund Balances	459,281	(13,344,122)	17,016,805	30,360,927
Fund Balance - Beginning	72,044,892	72,044,892	72,044,892	-
Fund Balance - Ending	$ 72,504,173	$ 58,700,770	$ 89,061,697	$ 30,360,927

[1] On behalf payments of $16,539,214 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.

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Federal sources	$ 5,680,413	$ 5,172,372	$ 4,436,068	$ (736,304)
Other State sources	389,087	350,178	295,695	(54,483)
Other local sources	1,735,000	1,785,000	1,181,760	(603,240)
Total revenues	7,804,500	7,307,550	5,913,523	(1,394,027)
Expenditures				
Current				
Classified salaries	3,940,251	4,046,736	3,694,152	352,584
Employee benefits	1,788,047	1,925,668	1,670,589	255,079
Books and supplies	3,890,012	4,068,103	3,031,390	1,036,713
Services and operating expenditures	50,704	37,378	8,690	28,688
Other outgo	495,309	497,655	411,284	86,371
Capital Outlay	15,000	28,881	13,881	15,000
Total expenditures	10,179,323	10,604,421	8,829,986	1,774,435
Excess (Deficiency) of Revenues Over Expenditures	(2,374,823)	(3,296,871)	(2,916,463)	(1,828,918)
Other Financing Sources (Uses)				
Transfers in	2,379,823	3,296,871	2,748,622	(548,249)
Net Change in Fund Balances	5,000	-	(167,841)	(167,841)
Fund Balance - Beginning	267,842	267,842	267,842	267,842
Fund Balance - Ending	$ 272,842	$ 267,842	$ 100,001	$ (167,841)

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 6,197,752	$ 6,232,910	$ 6,356,417
Interest	3,543,001	3,586,629	3,556,064
Difference between expected and actual experience	(8,947,739)	-	-
Changes of assumptions	907,004	1,815,674	1,390,692
Benefit payments	(5,165,629)	(4,769,780)	(4,104,142)
Net change in total OPEB liability	(3,465,611)	6,865,433	7,199,031
Total OPEB Liability - Beginning	123,356,569	116,491,136	109,292,105
Total OPEB Liability - Ending	$ 119,890,958	$ 123,356,569	$ 116,491,136
Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Total OPEB Liability as a Percentage of Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018

[1] The 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.

Year ended June 30,	2020	2019	2018
Proportion of the net OPEB liability	0.4241%	0.4178%	0.4063%
Proportionate share of the net OPEB liability	$ 1,579,297	$ 1,599,064	$ 1,709,152
Covered payroll	N/A[1]	N/A[1]	N/A[1]
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A[1]	N/A[1]	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	-0.81%	-0.40%	0.01%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

[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.

	2020	2019	2018	2017	2016	2015
CalSTRS						
Proportion of the net pension liability	0.2397%	0.2328%	0.2244%	0.2332%	0.2441%	0.2343%
Proportionate share of the net pension liability	$ 216,516,683	$ 213,913,594	$ 207,523,362	$ 188,647,018	$ 164,342,374	$ 136,898,547
State's proportionate share of the net pension liability	118,124,305	122,475,537	122,769,068	107,393,382	86,918,999	82,665,253
Total	$ 334,640,988	$ 336,389,131	$ 330,292,430	$ 296,040,400	$ 251,261,373	$ 219,563,800
Covered payroll	$ 128,783,943	$ 121,916,154	$ 117,960,676	$ 114,596,766	$ 115,079,583	103,627,675
Proportionate share of the net pension liability as a percentage of its covered payroll	168.12%	175.46%	175.93%	164.62%	142.81%	132.11%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS						
Proportion of the net pension liability	0.3795%	0.3844%	0.3789%	0.3928%	0.4069%	0.3936%
Proportionate share of the net pension liability	$ 110,594,096	$ 102,500,194	$ 90,460,321	$ 77,584,002	$ 59,973,861	$ 44,688,601
Covered payroll	$ 51,595,549	$ 49,724,396	$ 48,098,258	$ 47,007,715	$ 45,250,752	40,062,362
Proportionate share of the net pension liability as a percentage of its covered payroll	214.35%	206.14%	188.07%	165.05%	132.54%	111.55%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

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

	2020	2019	2018	2017	2016	2015
CalSTRS						
Contractually required contribution	$ 22,650,429	$ 20,966,026	$ 17,592,501	$ 14,839,453	$ 12,296,233	$ 10,219,067
Less contributions in relation to the contractually required contribution	22,650,429	20,966,026	17,592,501	14,839,453	12,296,233	10,219,067
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 132,458,649	$ 128,783,943	$ 121,916,154	$ 117,960,676	$ 114,596,766	$ 115,079,583
Contributions as a percentage of covered payroll	17.10%	16.28%	14.43%	12.58%	10.73%	8.88%
CalPERS						
Contractually required contribution	$ 10,833,330	$ 9,319,188	$ 7,722,696	$ 6,680,848	$ 5,569,004	$ 5,326,466
Less contributions in relation to the contractually required contribution	10,833,330	9,319,188	7,722,696	6,680,848	5,569,004	5,326,466
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 54,932,965	$ 51,595,549	$ 49,724,396	$ 48,105,184	$ 47,007,715	$ 45,250,752
Contributions as a percentage of covered payroll	19.721%	18.062%	15.531%	13.888%	11.847%	11.771%

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

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.

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.

- *Changes in Benefit Terms* – There were no changes in benefit terms.
- *Changes of Assumptions* – The rate of investment return assumption was changed from 2.79 to 2.66 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 3.87 percent to 3.50 percent since the previous valuation.

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
June 30, 2020

Newport-Mesa Unified School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
Special Education Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	$ 3,995,875
Local Assistance, Part B, Private School ISPs	84.027	10115	132,722
Preschool Grants, Part B, Section 619	84.173	13430	68,769
Mental Health Allocation Plan, Part B, Section 611	84.027	15197	229,058
Total Special Education Cluster			4,426,424
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	3,369,980
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	608,862
Title III, English Learner Student Program	84.365	14346	529,583
Title III, Immigrat Student Program	84.365	15146	12,439
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	198,758
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	160,491
Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation			
Workability II, Transition Partnership	84.126	10006	427,889
Total U.S. Department of Education			9,787,628
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	2,258,346
School Breakfast Program	10.553	13525	14,001
Meal Supplements	10.555	13755	121,533
Especially Needy Breakfast	10.553	13526	675,094
Seamless Summer Feeding Program	10.559	13004	35,525
Seamless Summer Option	10.555	13396	775,148
Food Distribution	10.555	13524	556,420
Total Child Nutrition Cluster			4,436,067
Fresh Fruit and Vegatable Program	10.582	14968	38,147
Total U.S. Department of Agriculture			4,474,214
Total Expenditures of Federal Awards			$ 14,261,842

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

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

ADMINISTRATION

Dr. Frederick Navarro	Superintendent
Mr. Russell Lee-Sung	Deputy Superintendent
Mr. John C. Drake	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

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,427.61	5,427.61
Fourth through sixth	4,193.86	4,193.86
Seventh and eighth	3,096.50	3,096.50
Ninth through twelfth	6,443.79	6,443.79
Total Regular ADA	19,161.76	19,161.76
Extended Year Special Education		
Transitional kindergarten through third	15.35	15.35
Fourth through sixth	3.68	3.68
Seventh and eighth	2.58	2.58
Ninth through twelfth	5.35	5.35
Total Extended Year Special Education	26.96	26.96
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.62	2.62
Fourth through sixth	2.29	2.29
Seventh and eighth	2.99	2.99
Ninth through twelfth	15.05	15.05
Total Special Education, Nonpublic, Nonsectarian Schools	22.95	22.95
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.35	0.35
Fourth through sixth	0.20	0.20
Seventh and eighth	0.70	0.70
Ninth through twelfth	1.98	1.98
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.23	3.23
Total ADA	19,214.90	19,214.90

See Notes to Supplementary Information

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
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 - 8	54,000				
Grade 4		56,580	180	N/A	Complied
Grade 5		56,580	180	N/A	Complied
Grade 6		56,580	180	N/A	Complied
Grade 7		59,720	180	N/A	Complied
Grade 8		59,720	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,400	180	N/A	Complied
Grade 10		65,400	180	N/A	Complied
Grade 11		65,400	180	N/A	Complied
Grade 12		65,400	180	N/A	Complied

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2020.

	(Budget) 2021 [1]	2020	2019	2018
General Fund [3]				
Revenues	$ 330,020,143	$ 335,441,687	$ 327,556,937	$ 308,825,315
Other sources	1,500,000	1	242	-
Total Revenues and Other Sources	331,520,143	335,441,688	327,557,179	308,825,315
Expenditures	328,651,378	316,313,350	299,765,244	289,309,480
Other uses and transfers out	4,742,404	2,748,622	21,971,930	27,568,307
Total Expenditures and Other Uses	333,393,782	319,061,972	321,737,174	316,877,787
Increase/(Decrease) in Fund Balance	(1,873,639)	16,379,716	5,820,005	(8,052,472)
Ending Fund Balance	$ 52,898,205	$ 54,771,844	$ 38,392,128	$ 32,572,123
Available Reserves [2, 4]	$ 11,551,392	$ 11,663,792	$ 14,500,000	$ 14,833,766
Available Reserves as a Percentage of Total Outgo [4]	3.46%	3.86%	4.85%	4.85%
Long-Term Liabilities	N/A	$ 814,606,849	$ 805,441,873	$ 778,637,391
K-12 Average Daily Attendance at P-2	19,115	19,215	19,661	20,283

The General Fund balance has increased by $22,199,721 over the past two years. The fiscal year 2020-2021 budget projects a further decrease of $1,873,639 (3.42 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 2020-2021 fiscal year. Total long-term obligations have increased by $35,969,458 over the past two years.

Average daily attendance has decreased by 1,068 over the past two years. Further decline of 100 ADA is anticipated during fiscal year 2020-2021.

[1] Budget 2021 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 $16,539,214, 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, 2020.

	Child Development Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
Assets				
Deposits and investments	$ 258,074	$ 8,802,810	$ 11,583,049	$ 20,643,933
Receivables	831,146	616,142	22,994	1,470,282
Total assets	$ 1,089,220	$ 9,418,952	$ 11,606,043	$ 22,114,215
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 203,533	$ 11,607	$ -	$ 215,140
Due to other funds	155,900	-	-	155,900
Total liabilities	359,433	11,607	-	371,040
Fund Balances				
Restricted	729,787	9,407,345	11,606,043	21,743,175
Total liabilities and fund balances	$ 1,089,220	$ 9,418,952	$ 11,606,043	$ 22,114,215

	Child Development Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
Revenues				
Other State sources	$ 2,962,688	$ -	$ 29,887	$ 2,992,575
Other local sources	135,548	2,176,034	13,256,832	15,568,414
Total revenues	3,098,236	2,176,034	13,286,719	18,560,989
Expenditures				
Current				
Instruction	2,249,694	-	-	2,249,694
Instruction-related activities				
Supervision of instruction	323,321	-	-	323,321
School site administration	166,887	-	-	166,887
Pupil services				
All other pupil services	2,737	-	-	2,737
Administration				
All other administration	186,509	22,569	-	209,078
Plant services	24,636	27,326	-	51,962
Debt service				
Principal	-	-	9,230,000	9,230,000
Interest and other	-	4,008	4,239,233	4,243,241
Total expenditures	2,953,784	53,903	13,469,233	16,476,920
Excess (Deficiency) of Revenues Over Expenditures	144,452	2,122,131	(182,514)	2,084,069
Other Financing Sources (Uses)				
Other sources - proceeds from issuance of general obligation bonds	-	-	32,960,000	32,960,000
Other sources - premium on issuance of general obligation bonds			3,360,251	3,360,251
Other uses - payments to escrow agent for refunded bonds	-	-	(35,959,750)	(35,959,750)
Net Financing Sources	-	-	360,501	360,501
Net Change in Fund Balances	144,452	2,122,131	177,987	2,444,570
Fund Balance - Beginning	585,335	7,285,214	11,428,056	19,298,605
Fund Balance - Ending	$ 729,787	$ 9,407,345	$ 11,606,043	$ 21,743,175

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Newport-Mesa Unified School District (the District) under programs of the federal government for the year ended June 30, 2020. The information 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). Because the schedule presents only a selected portion of the operations of the Newport-Mesa Unified School District, it is not intended to and does not present the financial position, changes in net assets of Newport-Mesa Unified School District.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the *modified accrual basis* basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal assistance was been provided to a subrecipient.

Indirect Cost Rate
The District has not elected to use the ten percent de minimis cost rate.

Food Donation
Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2020, the District did not have commodities reported as inventory.

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.

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 the 1986-87 requirements, as required by *Education Code* Section 46201.

Due to school closures caused by COVID-19, the District filed the COVID-19 School Closure Certification certifying that schools were closed for 48 days due to the pandemic.

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
June 30, 2020

Newport-Mesa Unified School District

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, 2020, 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 9, 2020.

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) as a basis for designing 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 financial statements. 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 9, 2020.

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.

Eide Bailly LLP

Rancho Cucamonga, California
December 9, 2020

Independent Auditor's Report on Compliance for Each Major Program and 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, 2020. 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.

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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, 2020.

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 9, 2020

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 described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Compliance Requirements Tested

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, 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
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 procedures for Independent Study because the independent study ADA was under the level that requires 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 procedures related to Juvenile Court Schools.

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by the District.

We did not perform District of Choice procedures because the program is not offered by the District.

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

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

Basis for Qualified Opinion on Middle or Early College High Schools

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 item 2020-001. Compliance with such requirement 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

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, 2020.

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, 2020, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

Eide Bailly LLP

Rancho Cucamonga, California
December 9, 2020

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Title I, Part A - Low Income and Neglected	84.010

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

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

Unmodified for all programs except for the following program which was qualified:

Name of Program
Middle or Early College High Schools

None reported.

None reported.

The following finding represents instances of noncompliance relating to compliance with state laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2020-001 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.

Condition

From the District's early college high school, 42 out of 196 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 40.72 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 20 students selected from the District's early college high school, we identified 4 students that did not meet the required 900 minutes of attendance per week during any five school day period or 1,800 minutes during any 10-school day period. 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 42 out of 196 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 40.72 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.

Repeat Finding (Yes or No)

Yes. Refer to prior year finding at 2019-002.

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, or 900 minutes per week and enrolled in college courses concurrently.

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.

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

Five Digit Code	AB 3627 Finding Type
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.

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	20,651	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.

Current Status

Implemented.

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.

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.

Current Status

Education Code Not implemented. See finding 2020-001.

EideBailly

CPAs & BUSINESS ADVISORS

Management
Newport-Mesa Unified School District
Costa Mesa, California

In planning and performing our audit of the financial statements of Template Binders (the District) for the year ended June 30, 2020, 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 9, 2020, on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY (ASB)

Ensign Intermediate School

Observations

1. Based on the review of the cash receipts, it was noted that three of eighteen deposits tested contained receipts that were not deposited in a timely manner. The delay in deposit was 11 days from the date of the receipt. This could result in large cash balance being maintained at the site which can hinder the safeguarding of the ASB assets.
2. Three of eleven disbursements tested were not approved prior to transaction taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved. We also noted that reimbursements to the ASB Advisor were being approved by ASB Advisor.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. Reimbursements to ASB Advisor should be approved by person other than her to ensure proper controls over reimbursement approval process.

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Estancia High School

Observation

One of seven revenue potential forms reviewed did not have adequate support for funds collected.

Recommendation

ASB should ensure there is adequate supporting documentation for all actual monies collected. The supporting document should be filed with deposits, so it can be easily accessed for review.

Eide Bailly LLP

Rancho Cucamonga, California
December 9, 2020