



Newport-Mesa
Unified School District

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 17, budgetary comparison schedule on page 79, schedule of changes in the District's total OPEB liability and related ratios on page 80, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 81, schedule of the District's proportionate share of the net pension liability on page 82, and the schedule of District contributions on page 83, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newport-Mesa Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, 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.

Rancho Cucamonga, California
December 4, 2018



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, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 fund 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FINANCIAL HIGHLIGHTS

Major financial highlights for the 2017-2018 year include Governmental Accounting Standards Board (GASB) changes associated with Other Post-Employment Benefits; additionally, the district continues to experience 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. GASB recently issued Statements 68 and 71 outlining new standards for pension reporting. Specifically, these statements required the district to reflect pension liabilities that heretofore were counted on the State's financial balance sheet, to now be counted on the district's financial Net Position Statement. Subsequently GASB also issued Statement 75 requiring Other Post-Employment Benefits (OPEB) to be treated in the same manner as pensions. OPEB includes obligations associated with health and welfare cost for eligible employees who retire before the age of 65.

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

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 2016 bestowed their highest credit ratings to the district. A high credit rating is valuable to the community and allows the Board to fulfill its objective of enriching the community; in the last general obligation bond debt offering the Board saved N-MUSD taxpayers over \$140M due to its high credit rating.

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

In anticipation of the need to fund OPEB liability, the Board of Education passed resolution #33-03-05 on March 8, 2005 creating a Special Reserve/Retiree Benefit fund for the purpose of accumulating monies for OPEB liability. This fund is used pursuant to Education Code Section 42840 to account for amounts the district has earmarked for the future cost of OPEB but has not contributed irrevocably to a separate trust for OPEB. The balance of this fund as of June 30, 2018 is \$18,751,371. 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The district's choice to earmark funding rather than irrevocably dedicating funds to OPEB liabilities has provided flexibility for the Board of Education to pursue substantial long term high priority projects including air conditioning and curriculum updates. However, GASB Statement 75 cost assumptions have more than doubled the district's OPEB liability, from \$43,554,335 in 2016-17 to \$116,491,136 in 2017-18. Given this dramatic increase, it is incumbent upon the district to consider a proactive, measured approach to resolving this unfunded liability. Recommendations will be brought to the Board for consideration with an expectation of implementing in 2019-20.

The district continues to experience robust growth in both revenues and expenditures. Year over year increases from 2016-17 for revenue and expense are 5.90 percent and 8.85 percent, respectively. The revenue growth reveals a stout property value environment and the expenditure increases reflect the district's substantial progress on a number of projects including multiple curriculum adoptions, site air conditioning, and site physical security upgrades. For the time being, the district is in a fortunate financial position that will allow for the continuation of these projects. However, the real estate market has a tremendous impact on district revenues; subsequently, the local real estate market is actively monitored and all indications point to a slowing of real estate value gains. The district's multi-year forecasts prudently factor in sluggish market growth on a going forward basis.

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(144,629,409) for the fiscal year ended June 30, 2018. Of this amount, \$(290,765,644) was unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the School Board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1 - Net Position) and change in net position (Table 2 - Changes in Net Position) of the District's governmental activities.

Table 1 - Net Position

	Governmental Activities	
	2018	2017 as Restated
ASSETS		
Current and other assets	\$ 233,624,088	\$ 172,895,667
Capital assets	337,695,891	350,475,171
Total Assets	571,319,979	523,370,838
Deferred Outflows of Resources	105,980,602	61,036,382
LIABILITIES		
Current liabilities	18,200,696	21,286,630
Long-term obligations	480,653,708	292,234,720
Aggregate net pension liability	297,983,683	266,231,020
Total Liabilities	796,838,087	579,752,370
Deferred Inflows of Resources	25,091,903	16,693,145
NET POSITION		
Net investment in capital assets	103,284,949	125,938,825
Restricted	42,851,286	18,595,671
Unrestricted (Deficit)	(290,765,644)	(291,931,099)
Total Net Position	\$ (144,629,409)	\$ (147,396,603)

The \$(290,765,644) 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 - increased 0.4 percent from \$(291,931,099) in 2017.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 19. Table 2 takes the information from the statement and rearranges it slightly so you can see our total revenues for the year.

Table 2 - Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 1,828,248	\$ 1,970,407
Operating grants and contributions	45,259,338	55,177,985
Capital grants and contributions	21,108,924	-
General revenues:		
Federal and State aid not restricted	19,769,336	20,396,127
Property taxes	263,583,734	243,007,451
Other general revenues	19,176,954	16,786,847
Total Revenues	370,726,534	337,338,817
Expenses		
Instruction-related	235,512,897	229,237,027
Pupil services	32,871,297	31,322,502
Administration	19,453,354	15,338,082
Plant services	32,770,275	31,537,783
Other	47,351,517	44,035,039
Total Expenses	367,959,340	351,470,433
Change in Net Position	\$ 2,767,194	\$ (14,131,616)

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

As reported in the *Statement of Activities* on 19, the cost of all of our governmental activities this year was \$367,959,340.

This represents the total cost less:

- 1) The costs paid by those who benefited from the programs (\$1,828,248).
- 2) By other governments and organizations who subsidized certain programs with grants and contributions (\$86,137,598).
- 3) Property tax collections from local taxpayers (\$263,583,734); and
- 4) Other locally generated revenues (\$19,176,954).

In Table 3 - Net Cost of Governmental Activities, we have presented the cost and net cost of each of the District's major functions: instruction including programs and other instructional programs, pupil services (including home-to-school transportation; food services; and all other pupil services); general administration (including data processing; and all other general administration); plant services; ancillary services; enterprise services; interest on long-term obligations; other outgo; and depreciation (unallocated). 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 - Net Cost of Governmental Activities

	2018		2017	
	Total Cost of Services	Net Cost* of Services	Total Cost of Services	Net Cost* of Services
Instruction	\$ 193,796,824	\$ 148,425,625	\$ 189,305,712	\$ 156,854,012
Instruction-related activities:				
Supervision of instruction	15,796,480	12,681,293	15,107,644	11,004,781
Instructional library, media, and technology	4,099,541	3,433,275	3,490,888	3,023,484
School site administration	21,820,052	21,496,162	21,332,783	20,347,860
Pupil Services:				
Home-to-school transportation	7,319,425	7,280,012	6,981,181	6,942,607
Food services	9,650,486	1,715,058	9,275,747	1,063,771
Other pupil services	15,901,386	12,936,619	15,065,574	12,044,188
General Administration:				
Data processing	9,171,692	9,171,692	7,884,079	7,884,079
All other general administration	10,281,662	8,475,643	7,454,003	5,363,844
Plant services	32,770,275	32,741,903	31,537,783	31,512,249
Ancillary services	3,654,968	3,449,532	3,806,334	3,501,856
Enterprise services	7,871	7,871	633,895	633,895
Interest on long-term obligations	14,508,588	14,508,588	15,481,351	15,481,351
Other outgo	3,959,106	(1,781,427)	2,710,851	(2,738,544)
Depreciation (unallocated)	25,220,984	25,220,984	21,402,608	21,402,608
Total	\$ 367,959,340	\$ 299,762,830	\$ 351,470,433	\$ 294,322,041

* Net of charges for services and sales, and operating and capital grants.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$203,480,375, which is an increase of \$62,331,739 from last year (Table 4 - Governmental District Funds).

Table 4 - Governmental District Funds

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 70,319,473	\$ 319,858,700	\$ 324,901,352	\$ 65,276,821
Measure F Building Fund	3,752	28,325,488	4,018	28,325,222
Special Reserve Fund for Capital Outlay Projects	55,721,421	25,494,316	10,887,703	70,328,034
Adult Education Fund	(62,077)	62,084	-	7
Child Development Fund	525,832	2,662,629	2,642,885	545,576
Cafeteria Fund	346,670	9,442,713	9,654,360	135,023
Capital Facilities Fund	4,393,849	1,772,123	113,350	6,052,622
County School Facilities Fund	-	21,108,924	-	21,108,924
Bond Interest and Redemption Fund	9,899,716	99,506,429	97,697,999	11,708,146
Total	\$ 141,148,636	\$ 508,233,406	\$ 445,901,667	\$ 203,480,375

The main reason for the increase in the combined fund balance is activity within the Building Fund and County School Facilities Fund. The net increase of the Building Fund and County School Facilities Fund totaled \$28,321,470, and \$21,108,924 million, respectively. This increase was partially offset by a decrease of \$5,042,652 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 12, 2018. (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 79.) The District experienced a total fund balance increase of \$7,306,776 million between its final and actual budgets. This increase can be attributed to LCFF and state revenues that were much more than expected. Drivers of the variances include the following:

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$337,695,891 in a broad range of capital assets, including land, buildings, and furniture and equipment based on historical value. This amount represents a net decrease (including additions, deductions, and depreciation) of \$12,779,280, or 3.65 percent, from last year.

The decline in 2017-2018 relates to the District exhausting prior proceeds received from Measure F.

Table 5 - Capital Assets

	Governmental Activities	
	2018	2017
Land and construction in process	\$ 27,352,379	\$ 47,109,954
Land improvements	63,070,482	49,206,680
Buildings and improvements	230,780,202	237,002,547
Portable classrooms and structures	5,678,620	6,280,462
Equipment	10,814,208	10,875,528
Total	\$337,695,891	\$350,475,171

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

	2018	2017
Land and construction in process	\$ (19,757,575)	\$ (6,357,444)
Land improvements	13,863,802	22,598,041
Buildings and improvements	(7,425,928)	(10,400,263)
Portable classrooms and structures	(601,842)	(622,365)
Furniture and equipment	912,270	217,524
Vehicles	229,993	260,558
Total	\$ (12,779,280)	\$ 5,696,051

Several capital projects are planned for the 2018-2019 year. Additional detail regarding capital assets is provided in Note 5 to the financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Long-Term Obligations

At the end of this year, the District had \$480,653,708 in outstanding debt versus \$427,593,028 last year, an increase of 12.4 percent. The increase can be attributed to increases in Net other postemployment benefits and general obligation bonds. The District's outstanding debt at year-end consisted of:

Table 6 - Outstanding Debt at Year-End

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017 as Restated</u>
General obligation bonds (financed with property taxes)	\$ 342,336,787	\$ 296,494,518
Capitalized lease obligations	107,264	128,514
Net other postemployment benefits	118,200,288	111,233,489
Other	20,009,369	19,736,507
Total	<u>\$480,653,708</u>	<u>\$427,593,028</u>

The Moody Corporation studied the District's finances in December of 2015 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 \$342,336,787 million is significantly below this statutorily-imposed limit.

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

Net Pension Liability (NPL)

At year-end, the District had a net pension liability of \$297,983,683 as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

Following the guidelines provided in the District's strategic plan, District staff has made significant achievements in 2017-2018. Just a few of those achievements are listed below:

- The U.S. News and World Report's 2018 Best High Schools awarded silver medals to Newport Harbor, Estancia, and Early College. This poll took into consideration various components such as Graduation Rates, College Acceptance Rates, and Test Scores.
- Newport Coast and Sonora Elementary were recognized as California Distinguished Schools in 2018.

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are the following:

- Basic Aid District: The District's assessed valuation has grown on average over the past five years at a rate of 5.80 percent per year which is higher than the rate of growth for the combined elements of student growth and cost of living adjustments through State funding. Because assessed valuation is the basis of the computation of tax revenue, the reported growth in assessed valuation will be somewhat indicative of the growth in property tax revenue. Consistent with the District's expectations for growth in assessed valuation, the District's tax projection growth for 2018-2019 is 4.30 percent. The final tax revenues for 2018-2019 will not be available until November 2019.
- Under Property Tax - LCFF, basic aid districts will receive minimum State funding of no less than the amount received in 2012-2013. The hold harmless amount is calculated based on the categorical allocation net of 8.92 percent fair share reduction. The 2018-2019 minimum guarantee for Newport-Mesa Unified School District is \$7,643,294.
- Education Protection Account Funding
- Lottery Funding
- Other Local Funding inclusive of the following:
 - Various Donations
 - Community Redevelopment
 - Interest
 - Leases
 - Fees

Expenditures are based on the following forecasts:

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

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades Kindergarten through third	29.0:1	6,072
Grades four through six	29.0:1	4,856
Grades seven through twelve	30.5:1	10,247

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Executive Director and Chief Financial Officer at 2985 Bear Street, Building A, Costa Mesa, California 92626-4300.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 224,020,990
Receivables	9,294,765
Prepaid expenses	53,042
Stores inventories	255,291
Capital Assets	
Land and work in progress	27,352,379
Other capital assets	563,437,956
Less: accumulated depreciation	(253,094,444)
Total Capital Assets	<u>337,695,891</u>
Total Assets	<u>571,319,979</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	16,546,613
Deferred outflow of resources related to net other postemployment benefits (OPEB) liability	1,227,081
Deferred outflows of resources related to pensions	88,206,908
Total Deferred Outflows of Resources	<u>105,980,602</u>
LIABILITIES	
Accounts payable	15,363,158
Accrued interest payable	1,445,153
Unearned revenue	1,392,385
Long-Term Obligations	
Current portion of long-term obligations other than pensions	12,485,243
Noncurrent portion of long-term obligations other than pensions	468,168,465
Total Long-Term Obligations	<u>480,653,708</u>
Aggregate net pension liability	297,983,683
Total Liabilities	<u>796,838,087</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>25,091,903</u>
NET POSITION	
Net investment in capital assets	103,284,949
Restricted for:	
Debt service	10,262,993
Capital projects	27,161,546
Educational programs	4,615,827
Other activities	810,920
Unrestricted (Deficit)	(290,765,644)
Total Net Position	<u>\$ (144,629,409)</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 193,796,824	\$ 18,551	\$ 24,243,724	\$ 21,108,924	\$ (148,425,625)
Instruction-related activities:					
Supervision of instruction	15,796,480	2,302	3,112,885	-	(12,681,293)
Instructional library, media, and technology	4,099,541	290	665,976	-	(3,433,275)
School site administration	21,820,052	489	323,401	-	(21,496,162)
Pupil services:					
Home-to-school transportation	7,319,425	-	39,413	-	(7,280,012)
Food services	9,650,486	1,667,324	6,268,104	-	(1,715,058)
All other pupil services	15,901,386	2,762	2,962,005	-	(12,936,619)
Administration:					
Data processing	9,171,692	-	-	-	(9,171,692)
All other administration	10,281,662	87,617	1,718,402	-	(8,475,643)
Plant services	32,770,275	96	28,276	-	(32,741,903)
Ancillary services	3,654,968	2,080	203,356	-	(3,449,532)
Enterprise services	7,871	-	-	-	(7,871)
Interest on long-term obligations	14,508,588	-	-	-	(14,508,588)
Other outgo	3,959,106	46,737	5,693,796	-	1,781,427
Depreciation (unallocated) ¹	25,220,984	-	-	-	(25,220,984)
Total Governmental Activities	\$ 367,959,340	\$ 1,828,248	\$ 45,259,338	\$ 21,108,924	(299,762,830)
General revenues and subventions:					
					250,487,757
Property taxes, levied for general purposes					12,515,848
Property taxes, levied for debt service					580,129
Taxes levied for other specific purposes					19,769,336
Federal and State aid not restricted to specific purposes					2,330,758
Interest and investment earnings					16,846,196
Miscellaneous					302,530,024
					Subtotal, General Revenues
					2,767,194
					Change in Net Position
					(147,396,603)
					Net Position - Beginning, as Restated
					\$ (144,629,409)
					Net Position - Ending

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund (01)	Measure F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 94,033,984	\$ 28,291,032	\$ 49,711,569	\$ 39,261,962	\$ 211,298,547
Receivables	6,935,622	38,395	69,370	2,234,703	9,278,090
Due from other funds	917,658	-	23,208,404	155,780	24,281,842
Prepaid expenditures	52,626	-	-	416	53,042
Stores inventories	116,595	-	-	138,696	255,291
Total Assets	\$ 102,056,485	\$ 28,329,427	\$ 72,989,343	\$ 41,791,557	\$ 245,166,812
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,153,613	\$ 4,205	\$ 2,143,979	936,202	\$ 15,237,999
Due to other funds	23,364,184	-	517,330	1,174,539	25,056,053
Unearned revenue	1,261,867	-	-	130,518	1,392,385
Total Liabilities	36,779,664	4,205	2,661,309	2,241,259	41,686,437
Fund Balances:					
Nonspendable	319,221	-	-	139,112	458,333
Restricted	4,615,827	28,325,222	1,448,769	39,415,268	73,805,086
Assigned	45,508,007	-	68,879,265	7	114,387,279
Unassigned	14,833,766	-	-	(4,089)	14,829,677
Total Fund Balances	65,276,821	28,325,222	70,328,034	39,550,298	203,480,375
Total Liabilities and Fund Balances	\$ 102,056,485	\$ 28,329,427	\$ 72,989,343	\$ 41,791,557	\$ 245,166,812

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds		\$ 203,480,375
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is the following:	\$ 590,790,335	
Accumulated depreciation is the following:	(253,094,444)	
Net Capital Assets	<u>337,695,891</u>	337,695,891
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	25,315,197	
Net change in proportionate share of net pension liability	4,094,862	
Difference between projected and actual earnings on pension plan investments	3,129,309	
Differences between expected and actual experience in the measurement of the total pension liability	4,008,261	
Changes of assumptions	<u>51,659,279</u>	
Total Deferred Outflows of Resources Related to Pensions		88,206,908
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(14,880,377)	
Difference between projected and actual earnings on pension plan investments	(5,526,926)	
Differences between expected and actual experience in the measurement of the total pension liability	(3,619,542)	
Changes of assumptions	<u>(1,065,058)</u>	
Total Deferred Inflows of Resources Related to Pensions		(25,091,903)
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions.		
		1,227,081

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018**

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	\$ (1,445,153)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are as follows:	265,344
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) and are included with governmental activities.	16,546,613
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(297,983,683)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of the following:	
General obligation bonds	\$ 266,335,606
Unamortized premium on issuance	10,697,049
Capital leases	107,264
Compensated absences (vacations)	4,743,685
Net other postemployment benefits (OPEB) liability	118,200,288
California energy commission loan	2,142,858
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is the following:	65,304,132
Total Long-Term Obligations	<u>(467,530,882)</u>
Total Net Position - Governmental Activities	<u><u>\$ (144,629,409)</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund (01)	Measure F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 262,126,183	\$ -	\$ -	\$ -	\$ 262,126,183
Federal sources	12,054,522	-	-	5,945,356	17,999,878
Other State sources	34,255,066	-	1,137,318	23,804,751	59,197,135
Other local sources	11,422,929	310,353	1,665,924	16,426,908	29,826,114
Total Revenues	<u>319,858,700</u>	<u>310,353</u>	<u>2,803,242</u>	<u>46,177,015</u>	<u>369,149,310</u>
EXPENDITURES					
Current					
Instruction	180,887,664	-	-	2,143,873	183,031,537
Instruction-related activities:					
Supervision of instruction	14,788,715	-	-	200,750	14,989,465
Instructional library, media, and technology	3,903,066	-	-	-	3,903,066
School site administration	20,433,243	-	-	137,494	20,570,737
Pupil services:					
Home-to-school transportation	6,956,244	-	-	-	6,956,244
Food services	163,419	-	-	9,188,220	9,351,639
All other pupil services	14,960,090	-	-	3,043	14,963,133
Administration:					
Data processing	8,905,412	-	-	-	8,905,412
All other administration	9,127,115	-	-	626,608	9,753,723
Plant services	32,501,614	-	-	107,817	32,609,431
Ancillary services	3,520,418	-	-	-	3,520,418
Other outgo	3,151,516	-	-	807,590	3,959,106
Facility acquisition and construction	896,376	4,018	10,427,166	-	11,327,560
Debt service					
Principal	21,250	-	428,571	8,115,000	8,564,821
Interest and other	-	-	31,966	3,981,707	4,013,673
Total Expenditures	<u>300,216,142</u>	<u>4,018</u>	<u>10,887,703</u>	<u>25,312,102</u>	<u>336,419,965</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,642,558</u>	<u>306,335</u>	<u>(8,084,461)</u>	<u>20,864,913</u>	<u>32,729,345</u>
Other Financing Sources (Uses)					
Transfers in	-	-	22,691,074	1,476,806	24,167,880
Other sources - proceeds from issuance of general obligation bonds	-	28,015,135	-	80,679,531	108,694,666
Other sources - premium on issuance of general obligation bonds	-	-	-	6,221,550	6,221,550
Transfers out	(24,685,210)	-	-	-	(24,685,210)
Other uses - payment to refunded general obligation bonds escrow agent	-	-	-	(84,796,492)	(84,796,492)
Net Financing Sources (Uses)	<u>(24,685,210)</u>	<u>28,015,135</u>	<u>22,691,074</u>	<u>3,581,395</u>	<u>29,602,394</u>
NET CHANGE IN FUND BALANCES	<u>(5,042,652)</u>	<u>28,321,470</u>	<u>14,606,613</u>	<u>24,446,308</u>	<u>62,331,739</u>
Fund Balances - Beginning	70,319,473	3,752	55,721,421	15,103,990	141,148,636
Fund Balances - Ending	<u>\$ 65,276,821</u>	<u>\$ 28,325,222</u>	<u>\$ 70,328,034</u>	<u>\$ 39,550,298</u>	<u>\$ 203,480,375</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ 62,331,739**
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 depreciation expense exceeds capital outlays in the period.

Depreciation expense	\$ (25,220,984)	
Capital outlays	<u>12,519,909</u>	
Net Expense Adjustment		(12,701,075)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (78,205)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation earned was more than the amounts used by \$105,966. (105,966)

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. (9,666,815)

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. (5,739,718)

Proceeds received from issuance of debt 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. This year the District issued Refunding General Obligation Bonds.

Sale of general obligation bonds	(28,130,000)	
Sale of refunding bonds	<u>(80,564,666)</u>	(108,694,666)

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (CONTINUED)
JUNE 30, 2018**

Governmental funds report the effect of premiums, issuance costs, and the deferred amount on refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities:

Premium on issuance	\$ (6,221,550)	
Deferred amount on refunding	<u>14,533,246</u>	
Combined Adjustment		\$ 8,311,696

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

Amortization of debt premium	3,019,587	
Amortization of deferred amount on refunding	<u>(1,300,713)</u>	
Combined Adjustment		1,718,874

Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. 76,448,813

Repayment of energy loan principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. 428,571

Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces the long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. 21,250

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors. First, accrued interest on long-term obligations decreased by \$110,097 and second, \$10,394,453 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds. (10,284,356)

An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

	<u>777,052</u>
Change in Net Position of Governmental Activities	<u>\$ 2,767,194</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 12,722,443
Receivables	16,675
Due from other funds	776,252
Total Current Assets	<u>13,515,370</u>
LIABILITIES	
Current Liabilities	
Accounts payable	125,159
Due to other funds	2,041
Current portion of claims liability	3,115,422
Total Current Liabilities	<u>3,242,622</u>
Noncurrent Liabilities	
Noncurrent portion of claims liability	10,007,404
Total Liabilities	<u>13,250,026</u>
NET POSITION	
Restricted	<u>\$ 265,344</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 3,282,061
OPERATING EXPENSES	
Payroll costs	126,623
Professional and contract services	2,812,516
Supplies and materials	654
Other operating cost	226,803
Total Operating Expenses	<u>3,166,596</u>
Operating Income	<u>115,465</u>
NONOPERATING REVENUES	
Interest income	<u>144,257</u>
Income Before Transfers	<u>259,722</u>
Transfers in	<u>517,330</u>
Change in Net Position	777,052
Total Net Position - Beginning	<u>(511,708)</u>
Total Net Position - Ending	<u><u>\$ 265,344</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 3,763,547
Cash payments to other suppliers of goods or services	(2,177,877)
Cash payments to employees for services	(126,623)
Other operating cash payments	(226,803)
Net Cash Provided by Operating Activities	<u>1,232,244</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	<u>517,330</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>144,257</u>
Net Increase in Cash and Cash Equivalents	1,893,831
Cash and Cash Equivalents - Beginning	<u>10,828,612</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 12,722,443</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 115,465
Changes in assets and liabilities:	
Receivables	(7,417)
Due from other fund	488,895
Accrued liabilities	39,826
Due to other fund	8
Claims liability	595,467
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,232,244</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 3,190,287
Receivables	13,487
Stores inventories	50,022
Total Assets	<u><u>\$ 3,253,796</u></u>
 LIABILITIES	
Accounts payable	\$ 90,204
Due to student groups	1,256,426
Due to bond holders	1,907,166
Total Liabilities	<u><u>\$ 3,253,796</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 kindergarten - twelve 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, one adult education center, and two alternative education centers for a total of 32 schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

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

Joint Venture

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$32,704,698 as of June 30, 2018.

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

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

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund This fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State School Facilities Fund (Proposition 1D). The fund is used primarily to account for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070.10 et seq.).

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

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

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 estimated fair market 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, 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.

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, only the governing board or chief business officer/assistant superintendent of business services 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 liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements reports \$42,851,286 of restricted net position, which is restricted by enabling legislation.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 224,020,990
Fiduciary funds	<u>3,190,287</u>
Total Deposits and Investments	<u>\$ 227,211,277</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 4,558,151
Cash in revolving	150,000
Investments	<u>222,503,126</u>
Total Deposits and Investments	<u>\$ 227,211,277</u>

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 and Los Angeles County Treasury Investment Pools 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	Average Maturity in Days
Orange County Educational Investment Pool	\$ 219,596,202	302
Los Angeles County Treasury Investment Pool	999,758	609
Federated Treasury Obligations Fund	1,907,166	27
Total	<u>\$ 222,503,126</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the District's bank balance of \$3,925,731 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements Using	Uncategorized
		Level 2 Inputs	
Federated Treasury Obligations Fund	\$ 1,907,166	\$ 1,907,166	\$ -
Orange County Educational Investment Pool	219,596,202	-	219,596,202
Los Angeles County Treasury Investment Pool	999,758	-	999,758
Total	<u>\$ 222,503,126</u>	<u>\$ 1,907,166</u>	<u>\$ 220,595,960</u>

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government							
Categorical aid	\$ 5,084,540	\$ -	\$ -	\$ 1,072,310	\$ -	\$ 6,156,850	\$ -
State Government							
Categorical aid	220,332	-	-	255,810	-	476,142	-
Lottery	906,448	-	-	-	-	906,448	-
Local Government							
Interest	138,468	38,395	69,370	63,511	16,675	326,419	-
Due from City of Costa Mesa	64,540	-	-	784,219	-	848,759	-
Due from Coastline ROP	311,951	-	-	-	-	311,951	-
Due from the City of Newport Beach	-	-	-	46,000	-	46,000	-
Other Local Sources	209,343	-	-	12,853	-	222,196	13,487
Total	<u>\$ 6,935,622</u>	<u>\$ 38,395</u>	<u>\$ 69,370</u>	<u>\$ 2,234,703</u>	<u>\$ 16,675</u>	<u>\$ 9,294,765</u>	<u>\$ 13,487</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 21,548,963	\$ -	\$ -	\$ 21,548,963
Construction in process	25,560,991	9,486,727	29,244,302	5,803,416
Total Capital Assets Not Being Depreciated	<u>47,109,954</u>	<u>9,486,727</u>	<u>29,244,302</u>	<u>27,352,379</u>
Capital Assets Being Depreciated				
Land improvements	62,528,770	18,098,282	-	80,627,052
Buildings and improvements	426,404,612	11,146,019	-	437,550,631
Portable classrooms and structures	17,601,243	14,148	-	17,615,391
Furniture and equipment	16,526,351	1,993,923	3,033,935	15,486,339
Vehicles	12,186,353	1,025,112	1,052,922	12,158,543
Total Capital Assets Being Depreciated	<u>535,247,329</u>	<u>32,277,484</u>	<u>4,086,857</u>	<u>563,437,956</u>
Less Accumulated Depreciation				
Land improvements	13,322,090	4,234,480	-	17,556,570
Buildings and improvements	188,198,482	18,571,947	-	206,770,429
Portable classrooms and structures	11,320,781	615,990	-	11,936,771
Furniture and equipment	11,610,197	1,049,663	3,001,945	9,657,915
Vehicles	7,430,562	748,904	1,006,707	7,172,759
Total Accumulated Depreciation	<u>231,882,112</u>	<u>25,220,984</u>	<u>4,008,652</u>	<u>253,094,444</u>
Governmental Activities Capital Assets, Net	<u>\$ 350,475,171</u>	<u>\$ 16,543,227</u>	<u>\$ 29,322,507</u>	<u>\$ 337,695,891</u>

Depreciation expense was charged to governmental functions as unallocated.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

Due To	Due From				Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service	
General Fund	\$ -	\$ -	\$ 915,617	\$ 2,041	\$ 917,658
Special Reserve Fund for Capital Outlay Projects	23,208,404	-	-	-	23,208,404
Non-Major Governmental Funds	155,780	-	-	-	155,780
Internal Service Fund	-	517,330	258,922	-	776,252
Total	<u>\$ 23,364,184</u>	<u>\$ 517,330</u>	<u>\$ 1,174,539</u>	<u>\$ 2,041</u>	<u>\$ 25,058,094</u>

The balance of \$853,636 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

A balance of \$61,981 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 \$23,208,404 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from a transfer of redevelopment funds set aside for future capital outlay projects.

A balance of \$517,330 due to the Internal Service Fund from the Special Reserve Fund for Capital Outlay Projects resulted from a contribution to cover the District's current and future workers' compensation activities.

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u> General Fund
Special Reserve Fund for Capital Outlay Projects	\$ 22,691,074
Non-Major Governmental Funds	1,476,806
Internal Service Fund	517,330
Total	<u>\$ 24,685,210</u>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for on-going and future capital outlay projects.	\$ 22,691,074
The General Fund transferred to the Child Development Non-Major Governmental Fund for operating contributions.	154,876
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for operating contributions.	1,321,930
The General Fund transferred to Internal Service Fund to cover the District's current and future workers' compensation activities.	517,330
Total	<u>\$ 24,685,210</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Salaries and benefits	\$ 11,451,453	\$ -	\$ 106,304	\$ 928,228
Materials and supplies	251,571	-	-	-
Services and other operating	407,955	4,205	-	-
Construction	-	-	2,037,675	-
Other vendor payables	42,634	-	-	7,974
Total	<u>\$ 12,153,613</u>	<u>\$ 4,205</u>	<u>\$ 2,143,979</u>	<u>\$ 936,202</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 124,527	\$ 12,610,512	\$ -
Materials and supplies	-	251,571	-
Services and other operating	-	412,160	-
Construction	-	2,037,675	-
Other vendor payables	632	51,240	90,204
Total	<u>\$ 125,159</u>	<u>\$ 15,363,158</u>	<u>\$ 90,204</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 33,976	\$ -	\$ 33,976
State categorical aid	1,080,183	1,464	1,081,647
Other local programs	147,708	129,054	276,762
Total	<u>\$ 1,261,867</u>	<u>\$ 130,518</u>	<u>\$ 1,392,385</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017 as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 288,999,432	\$ 119,089,119	\$ 76,448,813	\$ 331,639,738	\$ 8,920,000
Premium on issuance	7,495,086	6,221,550	3,019,587	10,697,049	-
Capital leases	128,514	-	21,250	107,264	21,250
Compensated absences	4,637,719	105,966	-	4,743,685	-
Net other postemployment benefits (OPEB) liability	111,233,489	11,303,173	4,336,374	118,200,288	-
California energy commission loan	2,571,429	-	428,571	2,142,858	428,571
Estimated insurance claims	12,527,359	3,710,889	3,115,422	13,122,826	3,115,422
	<u>\$ 427,593,028</u>	<u>\$ 140,430,697</u>	<u>\$ 87,370,017</u>	<u>\$ 480,653,708</u>	<u>\$ 12,485,243</u>

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

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds		
				Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018	
1/1/07	8/1/31	3.3-4.5%	\$ 70,443,480	\$ 76,115,864	\$ -	\$ 3,089,649	\$ 4,230,000	\$ 74,975,513	
11/9/10	8/1/26	2.0-5.0%	68,660,000	52,835,000	-	-	3,885,000	48,950,000	
6/8/11	8/1/46	3.6-7.3%	95,000,670	140,853,568	-	6,118,317	49,138,813	97,833,072	
4/10/12	8/1/28	2.0-5.0%	19,495,000	19,195,000	-	-	19,195,000	-	
8/10/17	8/1/2046	3.9-5.0%	80,564,666	-	80,564,666	1,186,487	-	81,751,153	
8/15/17	8/1/2039	2.0-5.0%	28,130,000	-	28,130,000	-	-	28,130,000	
				<u>\$ 288,999,432</u>	<u>\$ 108,694,666</u>	<u>\$ 10,394,453</u>	<u>\$ 76,448,813</u>	<u>\$ 331,639,738</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the principal balance outstanding was \$74,975,513. Unamortized premium on issuance at June 30, 2018 was \$355,340.

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, 2018, the principal balance of \$48,950,000 remained outstanding. Unamortized premium on issuance and deferred amount on refunding were \$3,856,544 and \$2,645,246, respectively.

2005 General Obligation Bonds, Series 2011

In June 2011, the District issued \$95,000,670 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2011. The bonds issued included \$11,928,966 of convertible bonds and \$83,071,704 of capital appreciation bonds. The bonds have final maturity dates through August 1, 2046, with interest yields of 3.6 to 7.3 percent. The conversion value for the convertible bonds is \$22,385,000 and total accretion on the capital appreciation bonds is \$537,190,398. The District received net proceeds of \$95,000,670 (including a premium of \$621,238 and after payment of \$621,238 for issuance costs). Proceeds from the sale of the bonds will be used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2018, the principal balance outstanding was \$97,833,073. Unamortized premium at June 30, 2018 was \$495,509.

2000 Refunding General Obligation Bonds, Series 2012

On April 10, 2012, the Newport-Mesa Unified School District issued 2012 Refunding General Obligation Bonds in the amount of \$19,495,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$22,648,995 (representing the principal amount of \$19,495,000 and premium of \$3,368,618, less cost of issuance of \$214,623). The bonds have a final maturity which occurs on August 1, 2028 with interest rates of 2.0 to 5.0 percent. Proceeds from the sale of the bonds were used to provide refunding of \$22,130,000 in current interest bonds associated with the District's 2000 General Obligation Bonds, Series 2003 that was issued in the amount of \$70,000,000. The refunding resulted in a cumulative cash flow saving of \$4,217,467 over the life of the new debt and an economic gain of \$2,886,425 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 3.0 percent. In August 2017, proceeds from the General Obligation Refunding Bonds, Series 2017 were used to refund all of the outstanding 2002 Refunding General Obligation Bonds, Series 2012. As of June 30, 2018, the bond has been fully defeased.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2017 was \$81,751,153 and unamortized premium on issuance and deferred charge on refunding were \$4,479,527 and \$13,901,366, 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, 2018, the principal balance outstanding of the 2005 General Obligation Bonds, Series 2017 was \$28,130,000 and unamortized premium on issuance was \$1,510,129.

The general obligation bonds mature through 2047 as follows:

Fiscal Year	Principal			Total
	Including Accreted Interest to Date	Accreted Interest	Current Interest	
2019	\$ 8,917,701	\$ 2,299	\$ 4,158,033	\$ 13,078,033
2020	8,979,530	250,470	3,879,400	13,109,400
2021	9,597,834	517,166	3,684,350	13,799,350
2022	10,222,653	852,347	4,159,228	15,234,228
2023	9,997,649	777,351	4,595,030	15,370,030
2024-2028	63,254,966	9,790,034	17,797,900	90,842,900
2029-2033	63,772,879	46,372,121	10,372,150	120,517,150
2034-2038	52,486,462	97,008,538	9,423,225	158,918,225
2039-2043	71,167,985	73,357,015	6,877,823	151,402,823
2044-2047	33,242,079	62,897,921	-	96,140,000
Total	\$ 331,639,738	\$ 291,825,262	\$ 64,947,139	\$ 688,412,139

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

	<u>Equipment</u>
Balance, July 1, 2017	\$ 128,514
Payments	<u>(21,250)</u>
Balance, June 30, 2018	<u>\$ 107,264</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2019	\$ 21,250
2020	20,817
Thereafter	<u>65,197</u>
Total	107,264
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 107,264</u>

Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$4,743,685.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the District had an outstanding CEC loan balance of \$2,142,858.

Year Ending June 30,	Principal
2019	\$ 428,571
2020	428,572
2021	428,571
2022	428,572
2023	428,572
Total	<u>\$ 2,142,858</u>

Estimated Insurance Claims - Workers' Compensation

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of \$13,122,826 were discounted at a rate of 0.6 percent and were accepted as estimated by the District's administrator.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Total OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 116,491,136	\$ 1,227,081	\$ 5,971,950
Medicare Premium Payment (MPP) Program	1,709,152	-	(232,232)
Total	<u>\$ 118,200,288</u>	<u>\$ 1,227,081</u>	<u>\$ 5,739,718</u>

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.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	129
Active employees	2,026
	<u>2,155</u>

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.

Contributions

The contribution 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 required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, N-MFT, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$4,104,142 to the Plan, which was used for current premiums.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$116,491,136 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	2.98 percent
Healthcare cost trend rates	7.00 percent for 2018

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

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

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 109,292,105
Service cost	6,356,417
Interest	3,556,064
Changes of assumptions or other inputs	1,390,692
Benefit payments	(4,104,142)
Net change in total OPEB liability	7,199,031
Balance at June 30, 2018	\$ 116,491,136

No changes to the benefits terms noted.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13 percent in 2017 to 2.98 percent in 2018.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (1.98%)	\$ 126,292,724
Current discount rate (2.98%)	116,491,136
1% increase (3.98%)	107,290,322

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (6.00%)	\$ 103,295,706
Current healthcare cost trend rate (7.00%)	116,491,136
1% increase (8.00%)	132,017,794

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$5,739,718. At June 30, 2018, the District reported deferred outflows of resources for changes of assumptions of \$1,227,081.

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

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$ 163,611
2020	163,611
2021	163,611
2022	163,611
2023	163,611
Thereafter	409,026
	<u>\$ 1,227,081</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$1,709,152 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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, 2017 and June 30, 2016, respectively, was 0.4063 percent, and 0.4148 percent, resulting in a net decrease in the proportionate share of 0.0085 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(232,232).

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
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, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now 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 the 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 571 or an average of 0.32 percent of the potentially eligible population (177,763).

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, 2017 and 2016, 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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 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 OPEB Liability
1% decrease (2.58%)	\$ 1,892,151
Current discount rate (3.58%)	1,709,152
1% increase (4.58%)	1,531,147

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 current discount rate, as well as what the net pension 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)	\$ 1,544,481
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,709,152
1% increase (4.7% Part A and 5.1% Part B)	1,872,179

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 10 - NON-OBLIGATORY DEBT

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

During the current year, a total of \$13,555 in dividends and interests were earned from investments held with a trustee. Additionally, a total of \$1,303,947 in special tax assessment revenues was received in connection with paying the annual debt service obligation and other administrative costs. As of June 30, 2018, the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012 had an outstanding balance of \$4,715,000.

The Special Tax Bonds mature through 2022 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest</u>	<u>Total</u>
2019	\$ 1,110,000	\$ 154,350	\$ 1,264,350
2020	1,160,000	108,950	1,268,950
2021	1,205,000	67,675	1,272,675
2022	1,240,000	24,800	1,264,800
Total	<u>\$ 4,715,000</u>	<u>\$ 355,775</u>	<u>\$ 5,070,775</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Measure F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	116,595	-	-	138,696	255,291
Prepaid expenditures	52,626	-	-	416	53,042
Total Nonspendable	<u>319,221</u>	<u>-</u>	<u>-</u>	<u>139,112</u>	<u>458,333</u>
Restricted					
Legally restricted programs	4,615,827	-	1,448,769	545,576	6,610,172
Capital projects	-	28,325,222	-	27,161,546	55,486,768
Debt services	-	-	-	11,708,146	11,708,146
Total Restricted	<u>4,615,827</u>	<u>28,325,222</u>	<u>1,448,769</u>	<u>39,415,268</u>	<u>73,805,086</u>
Assigned					
Adult education	-	-	-	7	7
Retiree benefits	18,751,371	-	-	-	18,751,371
Capital projects	-	-	68,879,265	-	68,879,265
Other	26,756,636	-	-	-	26,756,636
Total Assigned	<u>45,508,007</u>	<u>-</u>	<u>68,879,265</u>	<u>7</u>	<u>114,387,279</u>
Unassigned					
Reserve for economic uncertainties	14,833,766	-	-	-	14,833,766
Unassigned	-	-	-	(4,089)	(4,089)
Total Unassigned	<u>14,833,766</u>	<u>-</u>	<u>-</u>	<u>(4,089)</u>	<u>14,829,677</u>
Total	<u>\$ 65,276,821</u>	<u>\$ 28,325,222</u>	<u>\$ 70,328,034</u>	<u>\$ 39,550,298</u>	<u>\$ 203,480,375</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - LEASE REVENUES

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

Year Ending June 30,	Lease Revenue
2019	86,775
2020	86,775
2021	16,560
2022-2024	50,738
Total	<u><u>\$ 240,848</u></u>

During the 2017-2018 fiscal year, a total of \$90,321 in lease revenues was received by the District.

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool for the property and liability coverage. Refer to Note 15 for additional information regarding the JPAs. The Workers' Compensation Program, for which the District retains risk of loss, is administered by the Internal Service Fund. Excess workers' compensation coverage is obtained through the purchase of commercial insurance.

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

Claims Liabilities

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, June 30, 2016	\$ 10,599,851
Claims and changes in estimates	5,636,925
Claims payments	<u>(3,709,417)</u>
Liability Balance, June 30, 2017	12,527,359
Claims and changes in estimates	3,710,889
Claims payments	<u>(3,115,422)</u>
Liability Balance, June 30, 2018	<u>\$ 13,122,826</u>
Assets available to pay claims at June 30, 2018	<u>\$ 13,515,370</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 207,523,362	\$ 60,900,930	\$ 20,677,223	\$ 19,712,117
CalPERS	90,460,321	27,305,978	4,414,680	15,269,895
Total	<u>\$ 297,983,683</u>	<u>\$ 88,206,908</u>	<u>\$ 25,091,903</u>	<u>\$ 34,982,012</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

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, 2018, are presented above and the District's total contributions were \$17,592,501.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 207,523,362
State's proportionate share of the net pension liability associated with the District	122,769,068
Total	<u>\$ 330,292,430</u>

The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively, was 0.2244 percent and 0.2332 percent, resulting in a net decrease in the proportionate share of 0.0088 percent.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$19,712,117. In addition, the District recognized pension expense and revenue of \$12,357,886 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 17,592,501	\$ -
Net change in proportionate share of net pension liability	4,094,862	11,530,755
Difference between projected and actual earnings on pension plan investments	-	5,526,926
Differences between expected and actual experience in the measurement of the total pension liability	767,441	3,619,542
Changes of assumptions	38,446,126	
Total	<u>\$ 60,900,930</u>	<u>\$ 20,677,223</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (4,594,739)
2020	3,476,861
2021	501,342
2022	(4,910,390)
Total	<u>\$ (5,526,926)</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2016-2017 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 4,638,166
2020	4,638,166
2021	4,638,166
2022	4,638,166
2023	4,035,199
Thereafter	5,570,269
Total	<u>\$ 28,158,132</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 304,710,179
Current discount rate (7.10%)	207,523,362
1% increase (8.10%)	128,649,674

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2016 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, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after 1-Jan-13
Hire date	December 31, 2012	1-Jan-13
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%	6.50%
Required employer contribution rate	15.531%	15.531%

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, are presented above and the total District contributions were \$7,722,696.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$90,460,321. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively, was 0.3789 percent and 0.3928 percent, resulting in a net decrease in the proportionate share of 0.0139 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$15,269,895. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,722,696	\$ -
Net change in proportionate share of net pension liability	-	3,349,622
Difference between projected and actual earnings on pension plan investments	3,129,309	-
Differences between expected and actual experience in the measurement of the total pension liability	3,240,820	-
Changes of assumptions	13,213,153	1,065,058
Total	<u>\$ 27,305,978</u>	<u>\$ 4,414,680</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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
2019	\$ (84,793)
2020	3,610,543
2021	1,317,166
2022	(1,713,607)
Total	<u>\$ 3,129,309</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2016-2017 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 3,651,012
2020	4,345,567
2021	4,042,714
Total	<u>\$ 12,039,293</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	0.90%

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 133,096,120
Current discount rate (7.15%)	90,460,321
1% increase (8.15%)	55,090,355

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 \$72,451, 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 \$10,906,662 (9.328 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*.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

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, 2018.

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Estimated Completion Date</u>
CDM Sports Field	\$ 14,800,000	August 24, 2020
EHS Aquatics	8,330,000	June 30, 2020
College Park, Davis, Pomona, Kaiser, Wilson, Waldorf, Woodland HVAC	2,463,767	November 1, 2018
Newport Heights Fencing	400,000	November 1, 2018
Wilson Fencing	480,000	November 1, 2018
	<u>\$ 26,473,767</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and Coastline Regional Occupation Program (CROP) Joint Power Authority's (JPAs). The District pays an annual premium to SOCPLJPA and 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, 2018, the District made payments of \$12,799, \$1,252,327, and \$1,598,274 to SOCPLJPA, ASCIP, and CROP, respectively, for services received.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Net Position - Beginning	\$ (79,717,449)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(67,679,154)</u>
Net Position - Beginning as Restated	<u><u>\$ (147,396,603)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 258,520,120	\$ 261,099,478	\$ 262,126,183	\$ 1,026,705
Federal sources	10,753,158	12,789,543	12,054,522	(735,021)
Other State sources	18,974,707	23,519,538	34,255,066	10,735,528
Other local sources	5,756,755	11,402,692	11,422,929	20,237
Total Revenues ¹	294,004,740	308,811,251	319,858,700	11,047,449
EXPENDITURES				
Current				
Certificated salaries	126,783,302	128,011,294	125,858,780	2,152,514
Classified salaries	48,909,515	51,618,578	51,616,203	2,375
Employee benefits	71,580,142	71,271,588	81,513,078	(10,241,490)
Books and supplies	16,086,119	23,545,828	13,365,232	10,180,596
Services and operating expenditures	22,921,850	28,293,893	23,207,039	5,086,854
Capital outlay	2,031,112	3,249,866	2,110,333	1,139,533
Other outgo	2,543,930	2,575,933	2,524,227	51,706
Debt service - principal	428,571	428,571	21,250	407,321
Total Expenditures ¹	291,284,541	308,995,551	300,216,142	8,779,409
Excess (Deficiency) of Revenues Over Expenditures	2,720,199	(184,300)	19,642,558	19,826,858
Other Financing Uses				
Transfers out	(9,144,377)	(12,165,128)	(24,685,210)	(12,520,082)
NET CHANGE IN FUND BALANCES	(6,424,178)	(12,349,428)	(5,042,652)	7,306,776
Fund Balances - Beginning	70,319,473	70,319,473	70,319,473	-
Fund Balances - Ending	\$ 63,895,295	\$ 57,970,045	\$ 65,276,821	\$ 7,306,776

¹ On behalf payments of \$10,906,662 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.

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

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

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.4063%</u>
District's proportionate share of the net OPEB liability	<u>\$ 1,709,152</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.2244%</u>	<u>0.2332%</u>
District's proportionate share of the net pension liability	\$ 207,523,362	\$ 188,647,018
State's proportionate share of the net pension liability associated with the District	<u>122,769,068</u>	<u>107,393,382</u>
Total	<u>\$ 330,292,430</u>	<u>\$ 296,040,400</u>
District's covered - employee payroll	<u>\$ 117,960,676</u>	<u>\$ 114,596,766</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>175.93%</u>	<u>164.62%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.3789%</u>	<u>0.3928%</u>
District's proportionate share of the net pension liability	<u>\$ 90,460,321</u>	<u>\$ 77,584,002</u>
District's covered - employee payroll	<u>\$ 48,098,258</u>	<u>\$ 47,007,715</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>188.07%</u>	<u>165.05%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.2441%</u>	<u>0.2343%</u>
<u>\$ 164,342,374</u>	<u>\$ 136,898,547</u>
<u>86,918,999</u>	<u>82,665,253</u>
<u>\$ 251,261,373</u>	<u>\$ 219,563,800</u>
<u>\$ 115,079,583</u>	<u>\$ 103,627,675</u>
<u>142.81%</u>	<u>132.11%</u>
<u>74%</u>	<u>77%</u>
<u>0.4069%</u>	<u>0.3936%</u>
<u>\$ 59,973,861</u>	<u>\$ 44,688,601</u>
<u>\$ 45,254,596</u>	<u>\$ 40,062,362</u>
<u>132.53%</u>	<u>111.55%</u>
<u>79%</u>	<u>83%</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 17,592,501	\$ 14,839,453
Contributions in relation to the contractually required contribution	<u>17,592,501</u>	<u>14,839,453</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 121,916,154</u>	<u>\$ 117,960,676</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 CalPERS		
Contractually required contribution	\$ 7,722,696	\$ 6,680,848
Contributions in relation to the contractually required contribution	<u>7,722,696</u>	<u>6,680,848</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 49,724,396</u>	<u>\$ 48,098,258</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 12,296,233	\$ 10,219,067
<u>12,296,233</u>	<u>10,219,067</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 5,569,004	\$ 5,326,466
<u>5,569,004</u>	<u>5,326,466</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 47,007,715</u>	<u>\$ 45,254,596</u>
<u>11.85%</u>	<u>11.77%</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 State 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 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.

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

Change of Assumptions – The rate of investment return assumption was changed from 3.13 to 2.98 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 2.85 percent to 3.58 percent since the previous valuation.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	\$ 4,045,344
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	11,549
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	521,572
English Language Acquisition Grants			
Title III, English Learner Student Program	84.365	14346	518,671
Title III, Immigrant Student Program	84.365	15146	<u>38,136</u>
Total English Language Acquisition Grants			<u>556,807</u>
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	125,557
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,626,384
Local Assistance, Part B, Private School ISPs	84.027	10115	144,769
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	279,917
Preschool Grants, Part B, Section 619	84.173	13430	65,309
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,000
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	<u>236,975</u>
Total Special Education (IDEA) Cluster			<u>4,354,354</u>
Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation			
Workability II, Transition Partnership	84.126	10006	<u>409,734</u>
Total - U.S. Department of Education			<u>10,078,119</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch	10.555	13396	\$ 3,973,577
Basic Breakfast	10.553	13390	17,345
Especially Needy Breakfast	10.553	13390	1,176,198
Seamless Summer Feeding Program	10.559	13004	40,161
Meal Supplements	10.556	13392	178,506
Commodities	10.555	13396	559,569
Subtotal - Child Nutrition Cluster			<u>5,945,356</u>
Fresh Fruit and Vegetable Program	10.582	14968	97,655
Equipment assistance Grant	10.579	14906	67,004
Total - U.S. Department of Agriculture			<u>6,110,015</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	571,888
Passed through Orange County Department of Education:			
Medi-Cal Administrative Activities	93.778	10060	882,054
Subtotal - Medi-Cal Assistance Program			<u>1,453,942</u>
Total U.S. Department of Health and Human Services			<u>1,453,942</u>
Total Federal Programs			<u>\$ 17,642,076</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Vicki Snell	President	2020
Ms. Charlene Metoyer	Vice President	2018
Mr. Martha Fluor	Clerk	2020
Ms. Karen Yelsey	Member	2020
Ms. Dana Black	Member	2018
Ms. Judy Franco	Member	2018
Ms. Walt Davenport	Member	2020

ADMINISTRATION

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

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report		As Adjusted per Audit	
	Second Period	Annual	Second Period	Annual
	Report	Report	Report	Report
Regular ADA				
Transitional kindergarten through third	5,796.03	5,893.29	5,796.03	5,796.29
Fourth through sixth	4,654.04	4,546.70	4,654.04	4,649.33
Seventh and eighth	3,169.81	3,160.94	3,169.81	3,162.23
Ninth through twelfth	6,624.16	6,567.62	6,624.16	6,573.21
Total Regular ADA	20,244.04	20,168.55	20,244.04	20,181.06
Extended Year Special Education				
Transitional kindergarten through third	7.92	7.92	7.92	7.92
Fourth through sixth	5.03	5.03	5.03	5.03
Seventh and eighth	2.01	2.01	2.01	2.01
Ninth through twelfth	5.24	5.24	5.24	5.24
Total Extended Year Special Education	20.20	20.20	20.20	20.20
Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	0.92	0.94	0.92	0.94
Fourth through sixth	0.95	1.14	0.95	1.14
Seventh and eighth	2.66	3.29	2.66	3.29
Ninth through twelfth	12.08	12.01	12.08	12.01
Total Special Education, Nonpublic, Nonsectarian Schools	16.61	17.38	16.61	17.38
Extended Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	0.05	0.05	0.05	0.05
Fourth through sixth	0.10	0.10	0.10	0.10
Seventh and eighth	0.27	0.27	0.27	0.27
Ninth through twelfth	1.43	1.43	1.43	1.43
Total Extended Special Education, Nonpublic, Nonsectarian Schools	1.85	1.85	1.85	1.85
Total ADA	20,282.70	20,207.98	20,282.70	20,220.49

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,840	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,855	180	N/A	Complied
Grade 2		53,855	180	N/A	Complied
Grade 3		53,855	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,545	180	N/A	Complied
Grade 5		56,545	180	N/A	Complied
Grade 6		56,545	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,810	180	N/A	Complied
Grade 8		60,810	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,435	180	N/A	Complied
Grade 10		65,435	180	N/A	Complied
Grade 11		65,435	180	N/A	Complied
Grade 12		65,435	180	N/A	Complied

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget)			
	2019 ¹	2018	2017	2016
GENERAL FUND⁴				
Revenues	\$ 318,414,301	\$ 308,825,315	\$ 301,438,779	\$ 295,074,118
Other sources and transfers in	-	-	85,403	631
Total Revenues and Other Sources	<u>318,414,301</u>	<u>308,825,315</u>	<u>301,524,182</u>	<u>295,074,749</u>
Expenditures	310,098,439	289,309,480	282,200,583	264,775,408
Other uses and transfers out	13,455,618	27,568,307	18,811,220	24,795,129
Total Expenditures and Other Uses	<u>323,554,057</u>	<u>316,877,787</u>	<u>301,011,803</u>	<u>289,570,537</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (5,139,756)</u>	<u>\$ (8,052,472)</u>	<u>\$ 512,379</u>	<u>\$ 5,504,212</u>
ENDING FUND BALANCE	<u>\$ 27,432,367</u>	<u>\$ 32,572,123</u>	<u>\$ 40,624,595</u>	<u>\$ 40,112,216</u>
AVAILABLE RESERVES²	<u>\$ 14,634,783</u>	<u>\$ 14,833,766</u>	<u>\$ 13,225,000</u>	<u>\$ 11,600,000</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>4.5%</u>	<u>4.8%</u>	<u>4.5%</u>	<u>4.1%</u>
LONG-TERM OBLIGATIONS⁵	<u>N/A</u>	<u>\$ 480,653,708</u>	<u>\$ 427,593,028</u>	<u>\$ 349,727,950</u>
AVERAGE DAILY ATTENDANCE AT P-2	<u>20,206</u>	<u>20,283</u>	<u>20,579</u>	<u>20,711</u>

The General Fund balance has decreased by \$7,540,093 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$5,139,756 (15.8 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 2018-2019 fiscal year. Total long-term obligations have increased by \$130,925,758 over the past two years.

Average daily attendance has decreased by 428 over the past two years. Further decline of 77 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 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 On behalf payments of \$10,906,662, \$9,910,872, and \$7,160,624 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2018, 2017, and 2016.

⁴ 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.

⁵ Long-term obligations for fiscal year ending June 30, 2017 have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)
ASSETS			
Deposits and investments	\$ 7	\$ 486,431	\$ 790,785
Receivables	-	176,247	1,166,494
Due from other funds	-	155,258	522
Prepaid expenses	-	-	416
Stores inventories	-	-	138,696
Total Assets	<u>\$ 7</u>	<u>\$ 817,936</u>	<u>\$ 2,096,913</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 208,915	\$ 720,278
Due to other funds	-	61,981	1,112,558
Unearned revenue	-	1,464	129,054
Total Liabilities	<u>-</u>	<u>272,360</u>	<u>1,961,890</u>
Fund Balances:			
Nonspendable	-	-	139,112
Restricted	-	545,576	-
Assigned	7	-	-
Unassigned	-	-	(4,089)
Total Fund Balances	<u>7</u>	<u>545,576</u>	<u>135,023</u>
Total Liabilities and Fund Balances	<u>\$ 7</u>	<u>\$ 817,936</u>	<u>\$ 2,096,913</u>

See accompanying note to supplementary information.

Capital Facilities Fund (25)	County School Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ 5,221,477	\$ 21,081,398	\$ 11,681,864	\$ 39,261,962
837,070	28,610	26,282	2,234,703
-	-	-	155,780
-	-	-	416
-	-	-	138,696
<u>\$ 6,058,547</u>	<u>\$ 21,110,008</u>	<u>\$ 11,708,146</u>	<u>\$ 41,791,557</u>
\$ 5,925	\$ 1,084	\$ -	\$ 936,202
-	-	-	1,174,539
-	-	-	130,518
<u>5,925</u>	<u>1,084</u>	<u>-</u>	<u>2,241,259</u>
-	-	-	139,112
6,052,622	21,108,924	11,708,146	39,415,268
-	-	-	7
-	-	-	(4,089)
<u>6,052,622</u>	<u>21,108,924</u>	<u>11,708,146</u>	<u>39,550,298</u>
<u>\$ 6,058,547</u>	<u>\$ 21,110,008</u>	<u>\$ 11,708,146</u>	<u>\$ 41,791,557</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)
REVENUES			
Federal sources	\$ -	\$ -	\$ 5,945,356
Other State sources	-	2,375,999	412,474
Other local sources	62,084	131,754	1,762,953
Total Revenues	<u>62,084</u>	<u>2,507,753</u>	<u>8,120,783</u>
EXPENDITURES			
Current			
Instruction	-	2,143,873	-
Instruction-related activities:			
Supervision of instruction	-	200,750	-
School site administration	-	137,494	-
Pupil services:			
Food services	-	-	9,188,220
All other pupil services	-	3,043	-
Administration:			
All other administration	-	139,899	466,140
Plant services	-	17,826	-
Other outgo	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>-</u>	<u>2,642,885</u>	<u>9,654,360</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>62,084</u>	<u>(135,132)</u>	<u>(1,533,577)</u>
Other Financing Sources			
Transfers in	-	154,876	1,321,930
Other sources - proceeds of refunding bonds	-	-	-
Other sources - premium on issuance of general obligation bonds	-	-	-
Other uses - payment to refunded bond escrow agent	-	-	-
Net Financing Sources	<u>-</u>	<u>154,876</u>	<u>1,321,930</u>
NET CHANGE IN FUND BALANCES	<u>62,084</u>	<u>19,744</u>	<u>(211,647)</u>
Fund Balances - Beginning	<u>(62,077)</u>	<u>525,832</u>	<u>346,670</u>
Fund Balances - Ending	<u>\$ 7</u>	<u>\$ 545,576</u>	<u>\$ 135,023</u>

See accompanying note to supplementary information.

Capital Facilities Fund (25)	County School Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 5,945,356
-	20,981,334	34,944	23,804,751
1,772,123	127,590	12,570,404	16,426,908
<u>1,772,123</u>	<u>21,108,924</u>	<u>12,605,348</u>	<u>46,177,015</u>
-	-	-	2,143,873
-	-	-	200,750
-	-	-	137,494
-	-	-	9,188,220
-	-	-	3,043
20,569	-	-	626,608
89,991	-	-	107,817
-	-	807,590	807,590
-	-	8,115,000	8,115,000
2,790	-	3,978,917	3,981,707
<u>113,350</u>	<u>-</u>	<u>12,901,507</u>	<u>25,312,102</u>
<u>1,658,773</u>	<u>21,108,924</u>	<u>(296,159)</u>	<u>20,864,913</u>
-	-	-	1,476,806
-	-	80,679,531	80,679,531
-	-	6,221,550	6,221,550
-	-	(84,796,492)	(84,796,492)
-	-	2,104,589	3,581,395
<u>1,658,773</u>	<u>21,108,924</u>	<u>1,808,430</u>	<u>24,446,308</u>
<u>4,393,849</u>	<u>-</u>	<u>9,899,716</u>	<u>15,103,990</u>
<u>\$ 6,052,622</u>	<u>\$ 21,108,924</u>	<u>\$ 11,708,146</u>	<u>\$ 39,550,298</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that have not been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 17,999,878
Medi-Cal Billing Option	93.778	(357,802)
Total Schedule of Expenditures of Federal Awards		\$ 17,642,076

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2018, 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 4, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Newport-Mesa Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newport-Mesa Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Newport-Mesa Unified School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Newport-Mesa Unified School District in a separate letter dated December 4, 2018.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
December 4, 2018

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, 2018.

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.

Rancho Cucamonga, California
December 4, 2018

Qualified Opinion on Attendance and 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, 2018.

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, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	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
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below

	Procedures Performed
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
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

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

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

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

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

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

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

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

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

Rancho Cucamonga, California
December 4, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.556, <u>10.559</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medi-Cal Assistance Program</u>

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

STATE AWARDS

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

<u>Name of Programs</u>
<u>Attendance</u>
<u>Middle or Early College High Schools</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance

2018-001 10000

Criteria or Specific Requirements

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

Condition

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

Questioned Costs

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Context

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

Effect

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

Cause

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

Recommendation

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

Corrective Action Plan

District agrees with the Finding and Recommendation. Appropriate training will be provided to staff.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

2018-002 40000

Criteria or Specific Requirements

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

Condition

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

Questioned Costs

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

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

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

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

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Context

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

Effect

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

Cause

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

Recommendation

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

Corrective Action Plan

We are making every attempt for our students to be enrolled in at least 900 minutes during the week as it is a challenge for students to meet 180 minutes each day. Particularly by the 12th grade, as most students have advanced themselves by only having to take minimal high school graduation requirement courses by that year. The rest of the course load resides in mostly college courses within our regular bell schedule that meet every other day. Furthermore, college courses are not held on Fridays. We will have a better chance of meeting this minute requirement for all students if we elect to hold students back on their credit accrual plan (i.e., only attempt 30 credits per semester in each of their first three years of high school rather than the majority attempting 35-45 credits).

We realize the audit reflects findings from the 2017-18 school year. Our student schedules for the current 2018-19 school year are more compliant in relation to the Education Codes 46146.5(b) and 46160(a)(1) in terms of a higher percentage of students meeting this requirement, but not 100% as we do have students taking college courses outside of the regular bell schedule to complement their courses here in order to achieve either partial or complete IGETC certification.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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

2017-001 40000

Middle or Early College High School

Finding

From the District's early college high school, 69 out of 227 students enrolled did not meet the 180 minutes of attendance as required by *Education Code* Section 46146.5(b).

Condition

From the District's early college high school, 69 out of 227 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 District's attendance reports were overstated by 67.22 ADA and 67.32 ADA for Period 2 and Annual attendance reports, respectively, as a result of the condition identified. However, the District took immediate corrective actions and made amendments to the District's attendance reports remitted to the State. 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 nine 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 69 out of 227 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).

Cause

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Recommendation

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

Current Status

Not implemented. Refer to 2018-002 for current year finding.

Recommendation

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.

District's Response

It is standard practice to pre-approve expenditures prior to the transaction taking place. This particular order was placed by a new coach that had previously dealt with the Booster club for reimbursements. The coach has been reminded that items being purchased through the ASB funds must be pre-approved. In regards to the reimbursements to the ASB Advisor, all approval forms are also signed by the Advisor and the Principal to avoid any misappropriation of funds. In the event that one of those employees is receiving reimbursement, another administrator will be asked to sign as an additional layer of security.

Newport Harbor High School

Observations

1. Cash collections are not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Five of the eighteen receipts tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact.
2. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, seven of 25 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
3. Three of 3 revenue potential forms tested were incomplete. As a result, the auditor was not able to verify the cash received and disbursed for the fundraising events. The fundraisers associated with these revenue potential forms were not pre-approved by the ASB or the site administration.
4. Discrepancies between receipted amounts and deposits aren't investigated and have no explanations as to the reason for the difference.
5. Differences between perpetual and physical inventory is not being investigated by the ASB as the documents reviewed by the auditor lacked explanation for variances noted.
6. ASB bank reconciliations are prepared on a monthly basis, but there is no review procedure over these bank reconciliations.
7. During our review of ASB's financial statements, we noted pretty cash/change fund account showed a deficit balance of \$21,945.27 but the default balance for that account is \$3,000.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and Administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. All fundraisers should be approved by the ASB and the administration to ensure only approved fundraisers are held at the site. Revenue potentials should be prepared completely to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
4. Amounts receipted and deposited should match and any differences between them should be documented and investigated thoroughly to ensure money is not missing and proper explanation exists for any shortages and overages.
5. Differences between perpetual and physical inventory count should be investigated to ensure inventory isn't being stolen or lost due to theft and the explanation from the investigation should be documented on the inventory count.
6. All bank reconciliations should be prepared on a monthly basis and reviewed by a person independent of the preparer and having accounting knowledge to ensure the bank reconciliation is prepared accurately and all the activity is being accounted for.
7. ASB changed its record keeping system at the end of last school year, and the drastic change in the petty cash account could be due to improper roll forward of balances to the new system. ASB should review how the balances were carried forward to current fiscal year and review all of its activity in the petty cash to reconcile back to the \$3,000 balance.

District's Response

1. The tally sheets had previously been returned to the advisors with their receipts. The Accounting Technician will revise her procedure and maintain a log to provide sufficient supporting documentation.
2. The confirmation of receipt has previously been verbal. The site has purchased a "received" stamp to use on packing slips once it has been confirmed that the items have been received.
3. The ASB has added a new Fundraising Commissioner position. This student will work in conjunction with the Advisor and ASB Accounting Technician to ensure that the revenue potentials are complete.
4. The ASB Accounting Technician will investigate differences in a timely manner and make note of any findings.
5. This observation is in response to an inventory sheet that was printed out and given to the auditor. The original copy of the inventory submitted to the district for review included an explanation for the discrepancy, but the Accounting Technician forgot to hit save after the explanation was added.
6. All bank reconciliations are sent to the Financial Analyst for independent review at the District Office. The auditor reviewed a copy of the report that is sent for review, not the final audited version which is held at the District Office. The site now has a site administrator review them as well.
7. There was a problem with the software conversion process at this site. They have returned to the original accounting system and have reconciled their accounts.

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

Rancho Cucamonga, California
December 4, 2018