



**NEWPORT-MESA UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2016, 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 *2015-2016 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.

Opinion

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison schedule, schedule of other postemployment benefits funding progress, schedule of the District's proportionate share of net pension liability, and the schedule of District contributions on pages 75 through 78, 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* and the other supplementary information as listed on 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 Schedule of Expenditures of Federal Awards and 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 6, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Newport-Mesa Unified School District's internal control over financial reporting and compliance.



Rancho Cucamonga, California
December 6, 2016



NEWPORT-MESA Unified School District

2985 Bear Street • Costa Mesa • California 92626 • (714) 424-5000

BOARD OF EDUCATION

**Dana Black • Walt Davenport • Martha Fluor
Judy Franco • Charlene Metoyer • Vicki Snell • Karen Yelsey**

Frederick Navarro, Ed.D., Superintendent

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, 2016. 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 Fund* is prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Activities* 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, 2016

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, adult education students, the operation of child development activities, and the ongoing effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

Major financial highlights for the 2015-2016 year include adapting to the numerous changes imposed with the adoption of the Property Tax - Local Control Funding Formula (LCFF).

The Property Tax - LCFF was developed in an attempt to simplify how State funding is provided to local educational agencies. Revenue limits and most State categorical programs were eliminated. Districts now receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve student outcomes. Funding targets are created that consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. Districts must now draft a priority setting document called the Local Control Accountability Plan, or LCAP, which lays out the main objectives for meeting the learning requirements of high need students. The LCAP becomes a second statement of Board Budget priorities and must be adopted along with the budget.

The Property Tax - LCFF has significantly different meaning for Newport-Mesa as a district wholly reliant on its own property tax flow rather than on state funds. We come under the same strictures as all other school districts, but the State provides very little of the annual revenue from State sources. State support for programs in a locally funded school district such as Newport-Mesa Unified School District, has been frozen at the discounted low-point of 2012-2013. Nonetheless, as the laws pertaining to Property Tax - LCFF apply to all school districts, the State will continue to dictate how monies are spent, even though the State no longer provides the funding.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The District has focused on differentiated goals and methods that address areas of proficiency that are germane to both low-achieving and other subgroups. To maximize scarce resources in delivering services to all students, the District has chosen a strategy of utilizing economies of scale. Combined with assertive identification of those students who are falling behind, the specific skills they are not mastering, and intervention programs based on individual student needs, this strategy ensures an undiluted effort in addressing the needs of target populations.

The District has continued substantially upgrading its facilities and infrastructure which is funded by Measure F General Obligation bonds. Measure F provides for the levy of a special tax to support \$282 million in general obligation bonds to increase access to educational opportunities for all students, provide facilities to meet current State educational requirements and improve student safety by completing specific projects throughout the District.

In 2015-2016, two restricted programs had expenditures that significantly exceeded their revenue: Special Education and Transportation (Special Education Transportation and Home-to-School Transportation). The term used when restricted program expenditures exceed the agency approved revenue is "Encroachment". When encroachment occurs, funds must be "contributed" from unrestricted funds to offset the restricted program deficit.

Most school agencies throughout Orange County have been between 40 to 70 percent greater expenses than revenue (encroachment) for Special Education and Transportation. In 2015-2016, District Special Education encroachment on the General Fund was \$31.4 million and Transportation encroachment on the General Fund was \$3.1 million.

Correcting the shortfalls in funding for Special Education and Transportation require additional State aid. At the present time, inadequate resources to meet legal mandates leaves the District in the position of drawing money from all other parts of the budget to pay for Special Education and Transportation.

Overall, the District has been able 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, 2016

THE DISTRICT AS A WHOLE

Net Position

The District's net position was (\$65.6) million for the fiscal year ended June 30, 2016. Of this amount, (\$207.5) million 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	
	2016	as Restated 2015
ASSETS		
Current and other assets	\$ 178,136,093	\$ 165,876,466
Capital assets	344,779,120	332,463,832
Total Assets	522,915,213	498,340,298
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	3,663,947	4,013,814
Deferred outflows of resource related to pensions	51,734,157	15,545,533
Total Outflow of Resources	55,398,104	19,559,347
LIABILITIES		
Current liabilities	23,229,040	17,673,344
Long-term obligations	349,727,950	339,606,861
Aggregate net pension liability	224,316,235	181,587,148
Total Liabilities	597,273,225	538,867,353
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resource related to pensions	46,625,925	51,985,403
NET POSITION		
Net investment in capital assets	119,420,590	104,308,861
Restricted	22,506,748	15,876,465
Unrestricted (Deficit)	(207,513,171)	(193,138,437)
Total Net Position	\$ (65,585,833)	\$ (72,953,111)

The (\$207.5) million 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 7.5 percent from (\$193.1) million in 2015.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Changes in Net Position

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

Table 2 - Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 1,978,854	\$ 2,061,062
Operating grants and contributions	49,294,209	47,995,899
Capital grants and contributions	-	11
General revenues:		
Federal and State aid not restricted	27,412,600	16,641,280
Property taxes	234,925,225	215,945,600
Other general revenues	16,869,480	7,262,887
Total Revenues	330,480,368	289,906,739
Expenses		
Instruction-related	205,633,454	186,830,516
Student support services	29,028,811	27,815,852
Administration	15,856,679	16,379,039
Maintenance and operations	29,794,792	30,692,686
Other	42,799,354	39,642,371
Total Expenses	323,113,090	301,360,464
Change in Net Position	\$ 7,367,278	\$ (11,453,725)

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was \$323.1 million. However, \$51.3 million of that balance was financed from the District's program revenues.

This represents the total cost less:

- 1) The costs paid by those who benefited from the programs \$2.0 million; and
- 2) By other governments and organizations who subsidized certain programs with grants and contributions (\$49.3 million). Of the \$330.5 million, local taxpayers paid \$234.9 million.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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; instruction related activities (including supervision of instruction; instructional library, media, and technology; and school site administration); 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; 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

	<u>2016</u>		<u>2015</u>	
	Total Cost of Services	Net Cost* of Services	Total Cost of Services	Net Cost* of Services
Instruction	\$ 168,251,902	\$ 139,724,806	\$ 152,878,995	\$ 122,242,483
Instruction-related activities:				
Supervision of instruction	14,569,928	10,850,231	12,476,036	8,712,326
Instructional library, media, and technology	3,256,089	2,871,107	3,147,046	2,759,700
School site administration	19,555,535	18,745,632	18,328,439	17,550,510
Pupil Services:				
Home-to-school transportation	6,399,371	6,367,463	6,539,521	6,507,568
Food services	9,121,244	814,012	9,306,935	1,139,331
Other pupil services	13,508,196	10,839,884	11,969,396	8,816,598
General Administration:				
Data processing	7,493,690	7,493,690	6,639,518	6,639,518
All other general administration	8,362,989	6,478,770	9,739,521	7,638,987
Plant services	29,794,792	29,769,379	30,692,686	30,650,534
Ancillary services	3,591,256	3,347,489	3,189,801	2,601,833
Enterprise services	3,231	3,231	5,555	5,555
Interest on long-term obligations	15,021,752	15,021,752	14,610,663	14,610,663
Other	3,362,883	(1,307,651)	2,991,369	2,582,903
Depreciation (unallocated)	20,820,232	20,820,232	18,844,983	18,844,983
Total	<u>\$ 323,113,090</u>	<u>\$ 271,840,027</u>	<u>\$ 301,360,464</u>	<u>\$ 251,303,492</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$145.9 million, which is an increase of \$6.4 million from last year (Table 4 - Governmental District Funds).

Table 4 - Governmental District Funds

	Balances and Activity			June 30, 2016
	July 1, 2015	Revenues	Expenditures	
General Fund	\$ 59,832,457	\$ 295,345,959	\$ 286,931,966	\$ 68,246,450
Special Reserve Fund for				
Capital Outlay Projects	54,816,799	24,769,921	28,048,920	51,537,800
Adult Education Fund	25,188	347,643	349,589	23,242
Child Development Fund	205,165	2,459,169	2,560,364	103,970
Cafeteria Fund	151,246	9,848,015	9,205,109	794,152
Deferred Maintenance Fund	-	111	111	-
Measure A and F Building Funds	10,463,305	37,689	3,302,076	7,198,918
Capital Facilities Fund	5,375,625	1,800,299	225,988	6,949,936
Bond Interest and Redemption Fund	8,543,557	12,964,090	10,510,429	10,997,218
Total	\$ 139,413,342	\$ 347,572,896	\$ 341,134,552	\$ 145,851,686

The main reason for the increase/decrease in the combined fund balance is activity within the General Fund. The net increase of the General Fund totals \$8.4 million. This increase was partially offset by decrease of \$3.3 million in the Special Reserve Fund for Capital Outlay Projects and \$3.3 million in the Measure A & F Building Funds.

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 28, 2016. (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 75.) The District experienced a total fund balance increase of \$9.9 million between its original and final budgets. This increase can be attributed to LCFF and local 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, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$344.8 million in a broad range of capital assets, including land, buildings, and furniture and equipment based on historical value. This amount represents a net increase (including additions, deductions, and depreciation) of \$12.3 million, or 3.7 percent, from last year.

Several major changes in 2015-2016 relate to projects for Measure F. This includes an increase of \$47.6 million for land and construction in process. This year's changes include several Measure F related projects, vehicles, cafeteria equipment, and classroom equipment such as computers.

Table 5 - Capital Assets

	Governmental Activities	
	2016	2015
Land and construction in process	\$ 53,467,398	\$ 53,130,984
Land improvements	26,608,640	24,617,433
Buildings and improvements	248,317,533	237,453,361
Portable classrooms and structures	6,902,827	7,536,588
Equipment	9,482,722	9,725,466
Total	\$ 344,779,120	\$ 332,463,832

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

	2016	2015
Land and construction in process	\$ 336,414	\$ (47,257,820)
Land improvements	1,991,207	2,321,780
Buildings and improvements	10,864,172	53,962,373
Portable classrooms and structures	(633,761)	(646,323)
Furniture and equipment	26,437	410,678
Vehicles	(269,181)	(193,948)
Total	\$ 12,315,288	\$ 8,596,740

Several capital projects are planned for the 2016-2017 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, 2016

Long-Term Obligations

At the end of this year, the District had \$349.7 million in outstanding debt versus \$339.6 million last year, an increase of 3.0 percent. The increase can be attributed to increases in postemployment benefits and general obligation bonds. The District's outstanding debt at year-end consisted of:

Table 6 - Outstanding Debt at Year-End

	Governmental Activities	
	2016	2015
General obligation bonds (financed with property taxes)	\$ 292,349,943	\$ 288,109,847
Capitalized lease obligations	149,764	574,464
Postemployment benefits	39,108,652	34,501,904
Other	18,119,591	16,420,646
Total	\$ 349,727,950	\$ 339,606,861

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 \$288.1 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 \$224,316,235 as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

Following the guidelines provided in the District's strategic plan, District staff has made significant achievements in 2015-2016. Just a few of those achievements are listed below:

- The U.S. News and World Report's 2016 Best High Schools awarded Corona del Mar with a gold medal and Early College earned a silver medal. This poll took into consideration various components such as Graduation Rates, College Acceptance Rates, and Test Scores.
- Twelve Elementary Schools in the District were recognized as 2016 California Gold Ribbon Schools.

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, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016-2017 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 4.11 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 2016-2017 is 4.04 percent, exclusive of redevelopment/residual property tax. The final tax revenues for 2016-2017 will not be available until November 2017.
- **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 2016-2017 minimum guarantee for Newport-Mesa Unified School District is \$7,643,294.
- **Education Protection Account Funding**
- **Lottery Funding**
- **Other Local Funding inclusive of the following:**
 - Various Donations
 - Community Redevelopment
 - Interest
 - Leases
 - Fees

Expenditures are based on the following forecasts:

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	29.0:1	5,965
Grades four through six	29.0:1	4,375
Grades seven through twelve	30.5:1	9,382

For now, we can say that we have been prepared. As a result, we continue to be "Solvent and Moving Forward". 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 Deputy Superintendent and Chief Business Official at 2985 Bear Street, Building A, Costa Mesa, California 92626-4300.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 165,244,042
Receivables	12,566,118
Prepaid expenses	45,539
Stores inventories	280,394
Capital Assets	
Land and work in progress	53,467,398
Other capital assets	502,480,027
Less: accumulated depreciation	<u>(211,168,305)</u>
Total Capital Assets	<u>344,779,120</u>
Total Assets	<u>522,915,213</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	3,663,947
Deferred outflows of resources related to pensions	<u>51,734,157</u>
Total Deferred Outflows of Resources	<u>55,398,104</u>
 LIABILITIES	
Accounts payable	20,241,984
Accrued interest payable	1,672,125
Unearned revenue	1,314,931
Long-Term Obligations	
Current portion of long-term obligations other than pensions	10,138,621
Noncurrent portion of long-term obligations other than pensions	<u>339,589,329</u>
Aggregate net pension liability	<u>224,316,235</u>
Total Long-Term Obligations	<u>574,044,185</u>
Total Liabilities	<u>597,273,225</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>46,625,925</u>
 NET POSITION	
Net investment in capital assets	119,420,590
Restricted for:	
Debt service	9,325,093
Capital projects	6,949,936
Educational programs	5,330,062
Other activities	901,657
Unrestricted (Deficit)	<u>(207,513,171)</u>
Total Net Position	<u>\$ (65,585,833)</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, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 168,251,902	\$ 24,687	\$ 28,502,409	\$ (139,724,806)
Instruction-related activities:				
Supervision of instruction	14,569,928	3,178	3,716,519	(10,850,231)
Instructional library, media, and technology	3,256,089	348	384,634	(2,871,107)
School site administration	19,555,535	943	808,960	(18,745,632)
Pupil services:				
Home-to-school transportation	6,399,371	-	31,908	(6,367,463)
Food services	9,121,244	1,828,609	6,478,623	(814,012)
All other pupil services	13,508,196	2,337	2,665,975	(10,839,884)
Administration:				
Data processing	7,493,690	-	-	(7,493,690)
All other administration	8,362,989	68,357	1,815,862	(6,478,770)
Plant services	29,794,792	86	25,327	(29,769,379)
Ancillary services	3,591,256	2,698	241,069	(3,347,489)
Enterprise services	3,231	-	-	(3,231)
Interest on long-term obligations	15,021,752	-	-	(15,021,752)
Other outgo	3,362,883	47,611	4,622,923	1,307,651
Depreciation (unallocated) ¹	20,820,232	-	-	(20,820,232)
Total Governmental Activities	\$ 323,113,090	\$ 1,978,854	\$ 49,294,209	(271,840,027)
General revenues and subventions:				
				221,478,872
Property taxes, levied for general purposes				12,930,104
Property taxes, levied for debt service				516,249
Taxes levied for other specific purposes				27,412,600
Federal and State aid not restricted to specific purposes				1,071,628
Interest and investment earnings				15,797,852
Miscellaneous				
Subtotal, General Revenues				279,207,305
Change in Net Position				7,367,278
Net Position - Beginning				(72,953,111)
Net Position - Ending				\$ (65,585,833)

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, 2016

	General Fund (01)	Special Reserve Fund for Capital Outlay Projects (40)	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 93,400,917	\$ 34,383,673	\$ 26,627,515	\$ 154,412,105
Receivables	9,839,306	107,759	2,612,440	12,559,505
Due from other funds	1,055,509	20,773,330	47,500	21,876,339
Prepaid expenditures	45,539	-	-	45,539
Stores inventories	156,288	-	124,106	280,394
Total Assets	\$ 104,497,559	\$ 55,264,762	\$ 29,411,561	\$ 189,173,882
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 14,224,495	\$ 3,726,962	\$ 2,181,168	\$ 20,132,625
Due to other funds	20,820,830	-	1,053,810	21,874,640
Unearned revenue	1,205,784	-	109,147	1,314,931
Total Liabilities	36,251,109	3,726,962	3,344,125	43,322,196
Fund Balances:				
Nonspendable	351,827	-	124,106	475,933
Restricted	5,330,062	35,786	25,920,088	31,285,936
Assigned	50,964,561	51,502,014	23,242	102,489,817
Unassigned	11,600,000	-	-	11,600,000
Total Fund Balances	68,246,450	51,537,800	26,067,436	145,851,686
Total Liabilities and Fund Balances	\$ 104,497,559	\$ 55,264,762	\$ 29,411,561	\$ 189,173,882

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, 2016**

Total Fund Balance - Governmental Funds	\$ 145,851,686
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:	\$ 555,947,425
Accumulated depreciation is the following:	<u>(211,168,305)</u>
Net Capital Assets	344,779,120
Expenditures relating to issuance and refunding of debt were recognized on the modified accrual basis. Under the accrual basis, these expenditures are capitalized and will be amortized as an adjustment to interest expense.	3,663,947
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	17,865,237
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.	(1,672,125)
The net effect of proportionate share of net pension liability as of the measurement date is not recognized as an expenditures under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits	5,696,691
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:	127,641
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(15,450,129)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	681,394
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(3,684,961)

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, 2016

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (224,316,235)
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	\$ 224,859,149	
Unamortized premium on issuance	8,212,482	
Capital leases	149,764	
Compensated absences (vacations)	4,519,740	
Other postemployment benefits (OPEB)	39,108,652	
California energy commission loan	3,000,000	
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is the following.		
	<u>59,278,312</u>	
Total Long-Term Obligations		(339,128,099)
Total Net Position - Governmental Activities		<u><u>\$ (65,585,833)</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, 2016**

	General Fund (01)	Special Reserve Fund for Capital Outlay Projects (40)	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 233,297,819	\$ -	\$ -	\$ 233,297,819
Federal sources	10,862,454	-	6,160,564	17,023,018
Other State sources	39,116,114	2,329,436	3,125,742	44,571,292
Other local sources	12,069,461	550,754	16,783,483	29,403,698
Total Revenues	295,345,848	2,880,190	26,069,789	324,295,827
EXPENDITURES				
Current				
Instruction	157,172,176	-	2,201,072	159,373,248
Instruction-related activities:				
Supervision of instruction	13,762,531	-	268,778	14,031,309
Instructional library, media, and technology	3,096,162	-	-	3,096,162
School site administration	18,428,521	-	258,110	18,686,631
Pupil services:				
Home-to-school transportation	6,243,844	-	-	6,243,844
Food services	109,254	-	8,874,271	8,983,525
All other pupil services	12,789,901	-	2,516	12,792,417
Administration:				
Data processing	7,386,520	-	-	7,386,520
All other administration	7,579,361	-	501,650	8,081,011
Plant services	30,148,620	7,810	224,772	30,381,202
Facility acquisition and construction	817,868	28,011,448	3,308,153	32,137,469
Ancillary services	3,467,559	-	-	3,467,559
Other outgo	3,333,221	29,662	-	3,362,883
Debt service				
Principal	424,700	-	6,385,000	6,809,700
Interest and other	11,171	-	4,129,233	4,140,404
Total Expenditures	264,771,409	28,048,920	26,153,555	318,973,884
Excess (Deficiency) of Revenues Over Expenditures	30,574,439	(25,168,730)	(83,766)	5,321,943
Other Financing Sources (Uses)				
Transfers in	111	20,773,330	1,387,227	22,160,668
Other sources - energy loan	-	1,116,401	-	1,116,401
Transfers out	(22,160,557)	-	(111)	(22,160,668)
Net Financing Sources (Uses)	(22,160,446)	21,889,731	1,387,116	1,116,401
NET CHANGE IN FUND BALANCES	8,413,993	(3,278,999)	1,303,350	6,438,344
Fund Balances - Beginning	59,832,457	54,816,799	24,764,086	139,413,342
Fund Balances - Ending	\$ 68,246,450	\$ 51,537,800	\$ 26,067,436	\$ 145,851,686

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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 6,438,344
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceeds depreciation in the period.	
Capital outlays	\$ 33,292,019
Depreciation expense	<u>(20,820,232)</u>
Net Expense Adjustment	12,471,787
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(156,499)
Proceeds received from a multi-year loan 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 received \$1,116,401 in proceeds from the California Energy Commission's energy loan.	(1,116,401)
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 \$389,841.	(389,841)
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.	(1,180,985)
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual OPEB expense and the actual contribution made, if less, is recorded in the government-wide statements as an expense. The actual amount of the contribution was less than the annual OPEB expense.	(4,606,748)

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, 2016**

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 premium on issuance on general obligations bonds	\$ 717,396	
Amortization of deferred amount on refunding of general obligation bonds	<u>(349,867)</u>	
		\$ 367,529

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.	6,385,000
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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.	424,700
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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 \$93,615 and second, \$11,342,492 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.	(11,248,877)
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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.	(20,731)
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Change in Net Position of Governmental Activities	<u><u>\$ 7,367,278</u></u>
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The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 10,831,937
Receivables	6,613
Total Current Assets	<u>10,838,550</u>
LIABILITIES	
Current Liabilities	
Accounts payable	109,359
Due to other funds	1,699
Current portion of claims liability	2,681,503
Total Current Liabilities	<u>2,792,561</u>
Noncurrent Liabilities	
Noncurrent portion of claims liability	7,918,348
Total Liabilities	<u>\$ 10,710,909</u>
NET POSITION	
Restricted	<u>\$ 127,641</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, 2016

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 3,156,237</u>
OPERATING EXPENSES	
Payroll costs	115,313
Professional and contract services	2,824,893
Other operating cost	<u>292,078</u>
Total Operating Expenses	<u>3,232,284</u>
Operating Loss	<u>(76,047)</u>
NONOPERATING REVENUES	
Interest income	<u>55,316</u>
Change in Net Position	(20,731)
Total Net Position - Beginning	<u>148,372</u>
Total Net Position - Ending	<u><u>\$ 127,641</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, 2016

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 3,442,263
Cash payments to other suppliers of goods or services	(2,558,957)
Cash payments to employees for services	(115,313)
Other operating cash payments	(292,078)
Net Cash Provided by Operating Activities	<u>475,915</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>55,316</u>
 Net Increase in Cash and Cash Equivalents	531,231
Cash and Cash Equivalents - Beginning	10,300,706
Cash and Cash Equivalents - Ending	<u><u>\$ 10,831,937</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (76,047)
Changes in assets and liabilities:	
Receivables	(2,796)
Due from other fund	289,261
Accrued liabilities	73,233
Due to other fund	(439)
Claims liability	192,703
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 475,915</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, 2016**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 2,812,698
Receivables	8,734
Stores inventories	37,931
Total Assets	<u><u>\$ 2,859,363</u></u>
 LIABILITIES	
Accounts payable	\$ 118,552
Due to student groups	840,102
Due to bond holders	1,900,709
Total Liabilities	<u><u>\$ 2,859,363</u></u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016

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 \$28,134,235 as of June 30, 2016.

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

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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).

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

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

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

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 approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

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

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

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

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

Basis of Accounting - Measurement Focus

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

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

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

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

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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.

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, 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

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.

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.

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JUNE 30, 2016

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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JUNE 30, 2016

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 and for pension related activities.

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 activities.

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.

Fund Balances - Governmental Funds

As of June 30, 2016, 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$22,506,748 of restricted net position, which is restricted by enabling legislation.

Interfund Activity

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

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the *California Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. 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. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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NOTES TO FINANCIAL STATEMENTS

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In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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JUNE 30, 2016

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 165,244,042
Fiduciary funds	2,812,698
Total Deposits and Investments	<u>\$ 168,056,740</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 3,591,382
Cash in revolving	150,000
Investments	164,315,358
Total Deposits and Investments	<u>\$ 168,056,740</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, 2016

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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 Investment Pools and short-term money market funds.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Specific Identification

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

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Average Maturity in Days</u>
Orange County Educational Investment Pool	\$ 154,129,192	339
Los Angeles County Investment Pool	1,731,042	608
Federated Treasury Obligations Fund	8,455,124	42
Total	<u>\$ 164,315,358</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Federated Treasury Obligations Fund are rated AAA by Standard and Poor's. The District's investment in the Orange County Educational Investment Pool and Los Angeles County 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, 2016, the District's bank balance of \$3,183,286 was exposed to custodial credit risk because it was uninsured, but collateralized with securities held by the pledging of financial institution's trust department or agent, but not in the name of the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

Uncategorized - Investments in the Orange 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, 2016:

Investment Type	Reported Amount	Fair Value Measurements	
		Using Level 2 Inputs	Uncategorized
Federated Treasury Obligations Fund	\$ 8,455,124	\$ 8,455,124	\$ -
Orange County Educational Investment Pool	154,129,192	-	154,129,192
Los Angeles County Investment Pool	1,731,042	-	1,731,042
Total	<u>\$ 164,315,358</u>	<u>\$ 8,455,124</u>	<u>\$ 155,860,234</u>

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 4,957,332	\$ -	\$ 1,168,394	\$ -	\$ 6,125,726	\$ -
State Government						
Categorical aid	961,148	-	751,377	-	1,712,525	-
Lottery	2,408,364	-	-	-	2,408,364	-
Local Government						
Interest	70,035	22,739	5,652	6,613	105,039	-
Due from local LEAs	766	-	-	-	766	-
Due from City of Costa Mesa	7,219	-	508,432	-	515,651	-
Due from Coastline ROP	300,302	-	-	-	300,302	-
Due from the City of Newport Beach	784	40,020	165,387	-	206,191	-
Other Local Sources	1,133,356	45,000	13,198	-	1,191,554	8,734
Total	<u>\$ 9,839,306</u>	<u>\$ 107,759</u>	<u>\$ 2,612,440</u>	<u>\$ 6,613</u>	<u>\$ 12,566,118</u>	<u>\$ 8,734</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 21,548,963	\$ -	\$ -	\$ 21,548,963
Construction in process	31,582,021	32,009,058	31,672,644	31,918,435
Total Capital Assets Not Being Depreciated	<u>53,130,984</u>	<u>32,009,058</u>	<u>31,672,644</u>	<u>53,467,398</u>
Capital Assets Being Depreciated				
Land improvements	34,211,116	3,819,400	-	38,030,516
Buildings and improvements	391,738,476	27,715,585	-	419,454,061
Portable classrooms and structures	17,601,242	-	-	17,601,242
Furniture and equipment	15,240,687	1,005,704	392,183	15,854,208
Vehicles	11,271,203	414,916	146,119	11,540,000
Total Capital Assets Being Depreciated	<u>470,062,724</u>	<u>32,955,605</u>	<u>538,302</u>	<u>502,480,027</u>
Less Accumulated Depreciation				
Land improvements	9,593,683	1,828,193	-	11,421,876
Buildings and improvements	154,285,115	16,851,413	-	171,136,528
Portable classrooms and structures	10,064,654	633,761	-	10,698,415
Furniture and equipment	10,270,221	864,002	276,918	10,857,305
Vehicles	6,516,203	642,863	104,885	7,054,181
Total Accumulated Depreciation	<u>190,729,876</u>	<u>20,820,232</u>	<u>381,803</u>	<u>211,168,305</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 332,463,832</u>	<u>\$ 44,144,431</u>	<u>\$ 31,829,143</u>	<u>\$ 344,779,120</u>

Depreciation expense was charged to governmental functions as unallocated.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Internal Service	
General Fund	\$ -	\$ 1,053,810	\$ 1,699	\$ 1,055,509
Special Reserve Fund for Capital Outlay Projects	20,773,330	-	-	20,773,330
Non-Major Governmental Funds	47,500	-	-	47,500
Total	<u>\$ 20,820,830</u>	<u>\$ 1,053,810</u>	<u>\$ 1,699</u>	<u>\$ 21,876,339</u>

A balance of \$305,530 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 \$644,424 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 \$103,856 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

A balance of \$20,773,330 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from a transfer of one-time redevelopment funds set aside for future capital outlay projects.

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, 2016

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ -	\$ 111	\$ 111
Special Reserve Fund for Capital Outlay Projects	20,773,330	-	20,773,330
Non-Major Governmental Funds	1,387,227	-	1,387,227
Total	<u>\$ 22,160,557</u>	<u>\$ 111</u>	<u>\$ 22,160,668</u>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for on-going and future capital outlay projects.	\$ 20,773,330
The General Fund transferred to the Adult Education Non-Major Governmental Fund for operating contributions.	42,818
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for operating contributions.	1,344,409
The Deferred Maintenance Non-Major Governmental Fund transferred to the General Fund to close out the fund.	111
Total	<u>\$ 22,160,668</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 9,713,650	\$ -	\$ 690,578	\$ 8,199	\$ 10,412,427	\$ -
Materials and supplies	899,062	-	201,892	-	1,100,954	-
Services and other operating	3,531,813	6,010	48,928	12,918	3,599,669	-
Construction	291	3,717,796	1,087,233	-	4,805,320	-
Other vendor payables	79,679	3,156	152,537	88,242	323,614	118,552
Total	<u>\$ 14,224,495</u>	<u>\$ 3,726,962</u>	<u>\$ 2,181,168</u>	<u>\$ 109,359</u>	<u>\$ 20,241,984</u>	<u>\$ 118,552</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
State categorical aid	\$ 1,018,225	\$ -	\$ 1,018,225
Other local programs	187,559	109,147	296,706
Total	<u>\$ 1,205,784</u>	<u>\$ 109,147</u>	<u>\$ 1,314,931</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 279,179,969	\$ 11,342,492	\$ 6,385,000	\$ 284,137,461	\$ 7,200,000
Premium on issuance	8,929,878	-	717,396	8,212,482	-
Capital leases	574,464	-	424,700	149,764	21,250
Compensated absences	4,129,899	389,841	-	4,519,740	-
Other postemployment benefits (OPEB)	34,501,904	7,395,595	2,788,847	39,108,652	-
California energy commission loan	1,883,599	1,116,401	-	3,000,000	428,571
Estimated insurance claims	10,407,148	2,681,503	2,488,800	10,599,851	2,488,800
	<u>\$ 339,606,861</u>	<u>\$ 22,925,832</u>	<u>\$ 12,804,743</u>	<u>\$ 349,727,950</u>	<u>\$ 10,138,621</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, 2015	Accreted	Redeemed	Outstanding June 30, 2016
1/1/07	8/1/31	3.3-4.5%	\$ 70,443,480	\$ 77,144,137	\$ 2,826,557	\$ 3,145,000	\$ 76,825,694
11/9/10	8/1/26	2.0-5.0%	68,660,000	59,610,000	-	3,240,000	56,370,000
6/8/11	8/1/46	3.6-7.3%	95,000,670	123,230,832	8,515,935	-	131,746,767
4/10/12	8/1/28	2.0-5.0%	19,495,000	19,195,000	-	-	19,195,000
				<u>\$ 279,179,969</u>	<u>\$ 11,342,492</u>	<u>\$ 6,385,000</u>	<u>\$ 284,137,461</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, the principal balance outstanding was \$76,825,694. Unamortized premium on issuance at June 30, 2016 was \$407,984.

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, 2016, the principal balance of \$56,370,000 remained outstanding. Unamortized premium on issuance and deferred amount on refunding were \$4,782,116 and \$3,280,106, 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, 2016, the principal balance outstanding was \$131,746,767. Unamortized premium at June 30, 2016 was \$531,009.

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. As of June 30, 2016, the principal balance outstanding was \$19,195,000, and unamortized premium on issuance and deferred amount on refunding were \$2,491,373 and \$383,841, respectively.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The general obligation bonds mature through 2047 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest	Total
2017	\$ 7,200,000	\$ -	\$ 3,872,850	\$ 11,072,850
2018	8,115,000	-	3,578,175	11,693,175
2019	8,190,112	-	3,251,550	11,441,662
2020	8,526,515	62,941	2,990,050	11,579,506
2021	9,151,373	963,627	2,795,000	12,910,000
2022-2026	69,125,616	14,189,384	16,177,398	99,492,398
2027-2031	59,541,637	30,373,363	8,810,650	98,725,650
2032-2036	44,521,644	83,533,356	7,051,275	135,106,275
2037-2041	37,756,131	133,444,589	7,051,275	178,251,995
2042-2046	29,203,549	180,796,128	2,115,383	212,115,060
2047	2,805,884	21,634,116	-	24,440,000
Total	\$ 284,137,461	\$ 464,997,504	\$ 57,693,606	\$ 806,828,571

Capital Leases

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

	Equipment
Balance, July 1, 2015	\$ 585,633
Payments	(435,869)
Balance, June 30, 2016	\$ 149,764

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2017	\$ 21,250
2018	21,250
2019	21,248
2020	20,816
2021	20,383
Thereafter	44,814
Total	149,761
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 149,761</u>

Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$4,519,740.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$7,860,808, and contributions made by the District during the year were \$2,788,847. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$1,725,095 and \$(2,190,308), respectively, which resulted in an increase to the net OPEB obligation of \$4,606,748. As of June 30, 2016, the net OPEB obligation was \$39,108,652. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

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, 2016, the District had an outstanding CEC loan balance of \$3,000,000.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$10,599,851 were discounted at a rate of 0.6 percent and were accepted as estimated by the District's administrator.

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 \$158 in dividends and interests were earned from investments held with a trustee. Additionally, a total of \$1,332,673 in special tax assessment revenues was received in connection with paying the annual debt service obligation and other administrative costs. As of June 30, 2016, the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012 had an outstanding balance of \$6,815,000.

The Special Tax Bonds mature through 2022 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest</u>	<u>Total</u>
2017	\$ 1,030,000	\$ 239,950	\$ 1,269,950
2018	1,070,000	197,950	1,267,950
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>\$ 6,815,000</u>	<u>\$ 793,675</u>	<u>\$ 7,608,675</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 150,000	\$ -	\$ -	\$ 150,000
Stores inventories	156,288	-	124,106	280,394
Prepaid expenditures	45,539	-	-	45,539
Total Nonspendable	<u>351,827</u>	<u>-</u>	<u>124,106</u>	<u>475,933</u>
Restricted				
Legally restricted programs	5,330,062	35,786	774,016	6,139,864
Capital projects	-	-	14,148,854	14,148,854
Debt services	-	-	10,997,218	10,997,218
Total Restricted	<u>5,330,062</u>	<u>35,786</u>	<u>25,920,088</u>	<u>31,285,936</u>
Assigned				
Adult education	-	-	23,242	23,242
Retiree benefits	15,933,469	-	-	15,933,469
Capital projects	-	51,502,014	-	51,502,014
Stabilization	21,170,953	-	-	21,170,953
Other	13,860,139	-	-	13,860,139
Total Assigned	<u>50,964,561</u>	<u>51,502,014</u>	<u>23,242</u>	<u>102,489,817</u>
Unassigned				
Reserve for economic uncertainties	11,600,000	-	-	11,600,000
Total	<u>\$ 68,246,450</u>	<u>\$ 51,537,800</u>	<u>\$ 26,067,436</u>	<u>\$ 145,851,686</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 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
2017	\$ 469,062
2018	90,321
2019	86,775
2020	86,775
2021	16,560
2022-2024	50,738
Total	<u>\$ 800,231</u>

During the 2015-2016 fiscal year, a total of \$464,636 in lease revenues was received by the District.

NOTE 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses in accordance with bargaining unit agreements. Participants in the Plan consist of 252 retirees and their beneficiaries currently receiving benefits, 27 terminated Plan members entitled to but not yet receiving benefits, and 2,191 active employees eligible for these benefits in the future.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Newport-Mesa Federation of Teachers (NMFT) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually as approved by the governing board. For fiscal year 2015-2016, the District contributed \$2,788,847 to the plan, of which \$2,045,890 was for current pay-as-you-go premiums, and \$742,957 was a contribution for the implicit rate subsidy portion of the obligation. Plan members receiving benefits contributed \$2,527,487.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 7,860,808
Interest on net OPEB obligation	1,725,095
Adjustment to annual required contribution	<u>(2,190,308)</u>
Annual OPEB cost (expense)	7,395,595
Contributions made	<u>(2,788,847)</u>
Increase in net OPEB obligation	4,606,748
Net OPEB obligation, beginning of year	<u>34,501,904</u>
Net OPEB obligation, end of year	<u><u>\$ 39,108,652</u></u>

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 6,253,891	\$ 2,777,521	44.41%	\$ 29,731,679
2015	7,084,068	2,313,843	32.66%	34,501,904
2016	7,395,595	2,788,847	37.71%	39,108,652

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c]
July 1, 2014	\$ -	\$ 57,617,539	\$ 57,617,539	0%	\$ 157,207,146	37%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial eight percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 21 years. The actuarial value of assets was not determined in this actuarial valuation since there were no assets.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 14 - RISK MANAGEMENT

Description

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

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

Claims Liabilities

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

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, 2014 to June 30, 2016:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, June 30, 2014	\$ 10,407,148
Claims and changes in estimates	2,442,195
Claims payments	<u>(2,442,195)</u>
Liability Balance, June 30, 2015	10,407,148
Claims and changes in estimates	2,681,503
Claims payments	<u>(2,488,800)</u>
Liability Balance, June 30, 2016	<u>\$ 10,599,851</u>
Assets available to pay claims at June 30, 2016	<u><u>\$ 10,838,550</u></u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, 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:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 164,342,374	\$ 31,387,165	\$ 29,091,412	\$ 14,386,296
CalPERS	59,973,861	20,346,992	17,534,513	5,073,902
Total	\$ 224,316,235	\$ 51,734,157	\$ 46,625,925	\$ 19,460,198

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, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

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, 2016, are presented above and the District's total contributions were \$12,296,233.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

At June 30, 2016, 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	\$ 164,342,374
State's proportionate share of the net pension liability associated with the District	86,918,999
Total	<u><u>\$ 251,261,373</u></u>

The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, respectively, was 0.2441 percent and 0.2343 percent, resulting in a net increase/decrease in the proportionate share of 0.0098 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$14,386,296. In addition, the District recognized pension expense and revenue of \$6,732,853 for support provided by the State. At June 30, 2016, 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	\$ 12,296,233	\$ -
Net change in proportionate share of net pension liability	6,142,294	-
Difference between projected and actual earnings on pension plan investments	12,948,638	26,345,212
Differences between expected and actual experience in the measurement of the total pension liability	-	2,746,200
Total	<u><u>\$ 31,387,165</u></u>	<u><u>\$ 29,091,412</u></u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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
2017	\$ (5,544,578)
2018	(5,544,578)
2019	(5,544,578)
2020	3,237,160
Total	<u>\$ (13,396,574)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability 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 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 566,016
2018	566,016
2019	566,015
2020	566,016
2021	566,016
Thereafter	566,015
Total	<u>\$ 3,396,094</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.60 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 (7.60 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 (6.60%)	\$ 248,144,193
Current discount rate (7.60%)	164,342,374
1% increase (8.60%)	94,696,300

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, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

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, 2016, are presented above and the total District contributions were \$5,569,004.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$59,973,861. The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, respectively, was 0.4069 percent and 0.3936 percent, resulting in a net decrease in the proportionate share of 0.0133 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$5,073,902. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 5,569,004	\$ -
Net change in proportionate share of net pension liability	1,500,325	1,945,928
Difference between projected and actual earnings on pension plan investments	9,850,069	11,903,624
Differences between expected and actual experience in the measurement of the total pension liability	3,427,594	-
Changes of assumptions	-	3,684,961
Total	<u>\$ 20,346,992</u>	<u>\$ 17,534,513</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
2017	\$ (1,505,358)
2018	(1,505,358)
2019	(1,505,358)
2020	2,462,519
Total	<u>\$ (2,053,555)</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability 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 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (544,357)
2018	(544,357)
2019	385,744
Total	<u>\$ (702,970)</u>

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 97,612,454
Current discount rate (7.65%)	59,973,861
1% increase (8.65%)	28,674,855

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$71,062, 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 \$7,160,624 (7.12589 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 from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

Litigation

The District is involved in various litigations 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, 2016.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Construction Commitments

As of June 30, 2016, 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>
Paularino Fire Alarm Upgrade	\$ 1,700	October 1, 2016
CDM Baseball Backstop	600,000	November 1, 2017
CDM Pool, Wall and City Approach	15,000	October 15, 2016
CDM Attendance Office	5,000	November 1, 2016
CDM Sports Field	10,800,000	September 6, 2018
CMHS Weight Lighting and Storage	25,000	November 1, 2016
CMHS Sports Facilities	543,000	December 1, 2016
NHHS Stadium	8,900,000	June 30, 2017
NHHS Monument Sign	50,000	June 30, 2017
Early College/Mesa Verde Modernization	900,000	August 10, 2017
Banning Ranch	50,000	February 1, 2017
Anderson Office and Fencing	200,000	September 6, 2017
Eastbluff Admin and Fencing	105,000	January 1, 2017
Adams and Sonora HVAC	840,000	December 1, 2016
Solar - Path of Travel	90,000	December 1, 2016
Estancia Solar Area Landscaping	60,000	January 1, 2017
Estancia Classroom Wall Enclosures	1,250,000	September 6, 2017
Estancia Netting	90,000	November 1, 2016
Best Center	25,000	December 1, 2016
CMHS Project Lead the Way	495,000	September 6, 2017
Estancia Project Lead the Way	400,000	June 30, 2017
	<u>\$ 25,444,700</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and Coastline Regional Occupation Program (CROP) Joint Power Authority's (JPAs). The District pays an annual premium to SOCPLJPA 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, 2016, the District made payments of \$1,231,419 and \$1,598,247 to ASCIP and CROP, respectively, for services received.

REQUIRED SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 227,930,700	\$ 231,940,162	\$ 233,297,819	\$ 1,357,657
Federal sources	12,610,847	13,421,292	10,862,454	(2,558,838)
Other State sources	31,033,724	31,587,302	39,116,114	7,528,812
Other local sources	6,412,255	10,229,224	12,069,461	1,840,237
Total Revenues ¹	<u>277,987,526</u>	<u>287,177,980</u>	<u>295,345,848</u>	<u>8,167,868</u>
EXPENDITURES				
Current				
Certificated salaries	118,475,953	118,516,010	117,647,785	868,225
Classified salaries	48,361,215	48,425,717	48,124,783	300,934
Employee benefits	57,898,058	59,459,752	61,938,187	(2,478,435)
Books and supplies	15,385,523	14,006,416	10,641,309	3,365,107
Services and operating expenditures	22,608,009	23,152,693	21,085,205	2,067,488
Capital outlay	1,802,639	2,337,460	2,068,878	268,582
Other outgo	2,412,560	2,230,397	2,829,391	(598,994)
Debt service - principal	403,452	403,452	424,700	(21,248)
Debt service - interest	11,169	11,169	11,171	(2)
Total Expenditures ¹	<u>267,358,578</u>	<u>268,543,066</u>	<u>264,771,409</u>	<u>3,771,657</u>
Excess of Revenues				
Over Expenditures	<u>10,628,948</u>	<u>18,634,914</u>	<u>30,574,439</u>	<u>11,939,525</u>
Other Financing Sources (Uses)				
Transfers in	-	631	111	(520)
Transfers out	<u>(20,582,790)</u>	<u>(18,657,735)</u>	<u>(22,160,557)</u>	<u>(3,502,822)</u>
Net Financing Sources (Uses)	<u>(20,582,790)</u>	<u>(18,657,104)</u>	<u>(22,160,446)</u>	<u>(3,503,342)</u>
NET CHANGE IN FUND BALANCES	<u>(9,953,842)</u>	<u>(22,190)</u>	<u>8,413,993</u>	<u>8,436,183</u>
Fund Balances - Beginning	<u>59,832,457</u>	<u>59,832,457</u>	<u>59,832,457</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 49,878,615</u>	<u>\$ 59,810,267</u>	<u>\$ 68,246,450</u>	<u>\$ 8,436,183</u>

¹ On behalf payments of \$7,160,624 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 OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2010	\$ -	\$ 47,340,056	\$ 47,340,056	0%	\$ 143,882,589	33%
July 1, 2012	-	50,476,920	50,476,920	0%	147,241,703	34%
July 1, 2014	-	57,617,539	57,617,539	0%	157,207,146	37%

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, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.2441%</u>	<u>0.2343%</u>
District's proportionate share of the net pension liability	\$ 164,342,374	\$ 136,898,547
State's proportionate share of the net pension liability associated with the District	<u>86,918,999</u>	<u>82,665,253</u>
Total	<u>\$ 251,261,373</u>	<u>\$ 219,563,800</u>
District's covered - employee payroll	<u>\$ 115,079,583</u>	<u>\$ 103,627,675</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>142.81%</u>	<u>132.11%</u>
liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.4069%</u>	<u>0.3936%</u>
District's proportionate share of the net pension liability	<u>\$ 59,973,861</u>	<u>\$ 44,688,601</u>
District's covered - employee payroll	<u>\$ 45,254,596</u>	<u>\$ 40,062,362</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>132.53%</u>	<u>111.55%</u>
liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 12,296,233	\$ 10,219,067
Contributions in relation to the contractually required contribution	<u>12,296,233</u>	<u>10,219,067</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
 CalPERS		
Contractually required contribution	\$ 5,569,004	\$ 5,326,466
Contributions in relation to the contractually required contribution	<u>5,569,004</u>	<u>5,326,466</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 47,007,715</u>	<u>\$ 45,254,596</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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.

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.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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):			
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies:			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	\$ 4,152,842
Title I, Part A - Program Improvement LEA Corrective Action Minor Performance Problems	84.010	14957	<u>9,545</u>
Subtotal - Title I Grants to Local Educational Agencies			<u>4,162,387</u>
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	565,197
Title III Limited English Proficient Student Program	84.365	14346	345,201
Carl D. Perkins Vocational Education Act of 1998:			
Vocational and Applied Tech Secondary II C, Section 131	84.048	14894	164,072
Adult Education and Family Literacy Act			
Adult Education - Basic Grants to States			
Adult Basic Education and ESL	84.002A	14508	450
Adult Basic Education Secondary Education	84.002	13978	<u>41</u>
Subtotal - Adult Education - Basic Grants to States			<u>491</u>
Individuals with Disabilities Education Act:			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,602,975
Local Assistance, Part B, Private School ISPs	84.027	10115	165,709
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	191,371
Preschool Grants, Part B, Section 619	84.173	13430	60,261
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,101
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	<u>241,501</u>
Subtotal - Special Education (IDEA) Cluster			<u>4,262,918</u>
Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation			
Workability II, Transition Partnership	84.126	10006	<u>316,867</u>
Total - U.S. Department of Education			<u>9,870,335</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, 2016**

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	\$ 4,079,123
Basic Breakfast	10.553	13390	24,821
Especially Needy Breakfast	10.553	13390	1,331,497
Meal Supplements	10.556	13392	177,260
Commodities	10.555	N/A	547,372
Subtotal - Child Nutrition Cluster			<u>6,160,073</u>
Fresh Fruit and Vegetable Program	10.582	14968	112,234
Passed through Orange County Department of Education (OCDE):			
California Nutrition Network for Healthy, Active Families	10.000	N/A	8,283
Total - U.S. Department of Agriculture			<u>6,280,590</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Medi-Cal Billing Option	93.778	10013	707,886
Passed through OCDE:			
Medi-Cal Administrative Activities	93.778	10060	382,709
Total U.S. Department of Health and Human Services			<u>1,090,595</u>
Total Federal Programs			<u>\$ 17,241,520</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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. Dana Black	President	2016
Ms. Karen Yelsey	Vice President	2018
Mr. Vicki Snell	Clerk	2016
Ms. Martha Fluor	Member	2016
Ms. Charlene Metoyer	Member	2018
Ms. Judy Franco	Member	2018
Ms. Walt Davenport	Member	2018

ADMINISTRATION

Dr. Frederick Navarro	Superintendent
Mr. Paul H. Reed	Deputy Superintendent and Chief Business Official
Mr. Russell Lee-Sung	Associate Superintendent, Elementary Education and Chief Academic Officer
Ms. Sara Jocham	Assistant Superintendent, Student Support Services/SELPA

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,099.92	6,104.48
Fourth through sixth	4,791.26	4,791.56
Seventh and eighth	3,184.31	3,179.57
Ninth through twelfth	6,588.56	6,544.00
Total Regular ADA	<u>20,664.05</u>	<u>20,619.61</u>
Extended Year Special Education		
Transitional kindergarten through third	20.65	20.65
Fourth through sixth	4.61	4.61
Seventh and eighth	2.32	2.32
Ninth through twelfth	4.07	4.07
Total Extended Year Special Education	<u>31.65</u>	<u>31.65</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.83	0.92
Fourth through sixth	0.91	1.22
Seventh and eighth	2.23	1.91
Ninth through twelfth	9.89	10.10
Total Special Education, Nonpublic, Nonsectarian Schools	<u>13.86</u>	<u>14.15</u>
Extended Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.12	0.12
Fourth through sixth	0.22	0.22
Seventh and eighth	0.17	0.17
Ninth through twelfth	0.71	0.71
Total Extended Special Education, Nonpublic, Nonsectarian Schools	<u>1.22</u>	<u>1.22</u>
Total ADA	<u>20,710.78</u>	<u>20,666.63</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	43,200	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,040	180	N/A	Complied
Grade 2		52,040	180	N/A	Complied
Grade 3		52,040	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,075	180	N/A	Complied
Grade 5		55,075	180	N/A	Complied
Grade 6		55,075	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,480	180	N/A	Complied
Grade 8		60,480	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,341	180	N/A	Complied
Grade 10		65,341	180	N/A	Complied
Grade 11		65,341	180	N/A	Complied
Grade 12		65,341	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, 2016**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND ⁴				
Revenues	\$ 285,281,202	\$ 295,070,118	\$ 264,235,230	\$ 253,851,514
Other sources and transfers in	-	631	13,557,690	22,179
Total Revenues and Other Sources	285,281,202	295,070,749	277,792,920	253,873,693
Expenditures	280,632,633	264,775,409	250,533,759	235,034,471
Other uses and transfers out	9,646,319	24,795,129	25,045,102	18,981,765
Total Expenditures and Other Uses	290,278,952	289,570,538	275,578,861	254,016,236
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (4,997,750)</u>	<u>\$ 5,500,211</u>	<u>\$ 2,214,059</u>	<u>\$ (142,543)</u>
ENDING FUND BALANCE	<u>\$ 35,110,465</u>	<u>\$ 40,108,215</u>	<u>\$ 34,608,004</u>	<u>\$ 32,393,945</u>
AVAILABLE RESERVES ²	<u>\$ 11,600,000</u>	<u>\$ 11,600,000</u>	<u>\$ 30,225,702</u>	<u>\$ 9,500,000</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>4.0%</u>	<u>4.1%</u>	<u>11.2%</u>	<u>3.8%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 349,727,950</u>	<u>\$ 339,606,861</u>	<u>\$ 328,493,874</u>
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	<u>20,690</u>	<u>20,711</u>	<u>20,948</u>	<u>21,071</u>

The General Fund balance has increased by \$7,714,270 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$4,997,750 (12.5 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 2016-2017 fiscal year. Total long-term obligations have increased by \$21,234,076 over the past two years.

Average daily attendance has decreased by 360 over the past two years. Additional decline of 21 ADA is anticipated during fiscal year 2016-2017.

¹ Budget 2017 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 \$7,160,624, \$5,893,960, and \$5,614,232 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.

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.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)	Deferred Maintenance Fund (14)
ASSETS				
Deposits and investments	\$ 209,695	\$ 253,938	\$ 529,946	\$ -
Receivables	130	664,159	1,269,314	-
Due from other funds	-	3,006	44,494	-
Stores inventories	-	-	124,106	-
Total Assets	<u>\$ 209,825</u>	<u>\$ 921,103</u>	<u>\$ 1,967,860</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 82,727	\$ 172,709	\$ 759,031	\$ -
Due to other funds	103,856	644,424	305,530	-
Unearned revenue	-	-	109,147	-
Total Liabilities	<u>186,583</u>	<u>817,133</u>	<u>1,173,708</u>	<u>-</u>
Fund Balances:				
Nonspendable	-	-	124,106	-
Restricted	-	103,970	670,046	-
Assigned	23,242	-	-	-
Total Fund Balances	<u>23,242</u>	<u>103,970</u>	<u>794,152</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 209,825</u>	<u>\$ 921,103</u>	<u>\$ 1,967,860</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Measure A, F Building Fund (21)	Capital Facilities Fund (25)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ 8,360,454	\$ 6,276,264	\$ 10,997,218	\$ 26,627,515
1,124	677,713	-	2,612,440
-	-	-	47,500
-	-	-	124,106
<u>\$ 8,361,578</u>	<u>\$ 6,953,977</u>	<u>\$ 10,997,218</u>	<u>\$ 29,411,561</u>
\$ 1,162,660	\$ 4,041	\$ -	\$ 2,181,168
-	-	-	1,053,810
-	-	-	109,147
<u>1,162,660</u>	<u>4,041</u>	<u>-</u>	<u>3,344,125</u>
-	-	-	124,106
7,198,918	6,949,936	10,997,218	25,920,088
-	-	-	23,242
<u>7,198,918</u>	<u>6,949,936</u>	<u>10,997,218</u>	<u>26,067,436</u>
<u>\$ 8,361,578</u>	<u>\$ 6,953,977</u>	<u>\$ 10,997,218</u>	<u>\$ 29,411,561</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, 2016**

	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)	Deferred Maintenance Fund (14)
REVENUES				
Federal sources	\$ 491	\$ -	\$ 6,160,073	\$ -
Other State sources	297,900	2,346,205	441,196	-
Other local sources	6,434	112,964	1,902,337	111
Total Revenues	<u>304,825</u>	<u>2,459,169</u>	<u>8,503,606</u>	<u>111</u>
EXPENDITURES				
Current				
Instruction	182,763	2,018,309	-	-
Instruction-related activities:				
Supervision of instruction	40,027	228,751	-	-
School site administration	117,027	141,083	-	-
Pupil services:				
Food services	-	-	8,874,271	-
All other pupil services	-	2,516	-	-
Administration:				
All other administration	-	151,743	330,838	-
Plant services	9,772	17,962	-	-
Facility acquisition and construction	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>349,589</u>	<u>2,560,364</u>	<u>9,205,109</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(44,764)</u>	<u>(101,195)</u>	<u>(701,503)</u>	<u>111</u>
Other Financing Sources (Uses)				
Transfers in	42,818	-	1,344,409	-
Transfers out	-	-	-	(111)
Net Financing Sources (Uses)	<u>42,818</u>	<u>-</u>	<u>1,344,409</u>	<u>(111)</u>
NET CHANGE IN FUND BALANCES	(1,946)	(101,195)	642,906	-
Fund Balances - Beginning	25,188	205,165	151,246	-
Fund Balances - Ending	<u>\$ 23,242</u>	<u>\$ 103,970</u>	<u>\$ 794,152</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Measure A, F Building Fund (21)	Capital Facilities Fund (25)	Bond Interest and Redemption Fund (51)	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 6,160,564
-	-	40,441	3,125,742
37,689	1,800,299	12,923,649	16,783,483
<u>37,689</u>	<u>1,800,299</u>	<u>12,964,090</u>	<u>26,069,789</u>
-	-	-	2,201,072
-	-	-	268,778
-	-	-	258,110
-	-	-	8,874,271
-	-	-	2,516
-	19,069	-	501,650
-	197,038	-	224,772
3,302,076	6,077	-	3,308,153
-	-	6,385,000	6,385,000
-	3,804	4,125,429	4,129,233
<u>3,302,076</u>	<u>225,988</u>	<u>10,510,429</u>	<u>26,153,555</u>
<u>(3,264,387)</u>	<u>1,574,311</u>	<u>2,453,661</u>	<u>(83,766)</u>
-	-	-	1,387,227
-	-	-	(111)
-	-	-	1,387,116
<u>(3,264,387)</u>	<u>1,574,311</u>	<u>2,453,661</u>	<u>1,303,350</u>
<u>10,463,305</u>	<u>5,375,625</u>	<u>8,543,557</u>	<u>24,764,086</u>
<u>\$ 7,198,918</u>	<u>\$ 6,949,936</u>	<u>\$ 10,997,218</u>	<u>\$ 26,067,436</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

(Amounts in thousands)

	Actual Results for the Years					
	2015-2016		2014-2015		2013-2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES¹						
Federal revenue	\$ 10,862	3.7	\$ 10,248	3.9	\$ 8,492	3.4
State and local revenue included in Local Control Funding Formula	233,298	79.1	216,985	82.1	206,139	81.2
Other State revenue	39,116	13.2	25,574	9.7	29,256	11.5
Other local revenue	11,795	4.0	11,429	4.3	9,964	3.9
Total Revenues	295,071	100.0	264,236	100.0	253,851	100.0
EXPENDITURES¹						
Salaries and Benefits						
Certificated salaries	117,648	39.9	112,294	42.5	104,907	41.3
Classified salaries	48,125	16.3	46,533	17.6	42,673	16.8
Employee benefits	61,939	21.0	57,039	21.6	54,827	21.6
Total Salaries and Benefits	227,712	77.2	215,866	81.7	202,407	79.7
Books and supplies	10,641	3.6	10,784	4.1	9,240	3.6
Contracts and operating expenses	21,085	7.1	19,721	7.5	19,313	7.6
Capital outlay	2,069	0.7	1,539	0.6	1,434	0.6
Other outgo	3,269	1.1	2,803	1.1	2,640	1.0
Total Expenditures	264,776	89.7	250,713	95.0	235,034	92.5
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	30,295	10.1	13,523	5.0	18,817	7.5
OTHER FINANCING SOURCES (USES)						
Operating transfers in and other sources	-	0.0	13,737	5.2	22	0.0
Operating transfers out and other uses	(24,795)	(8.4)	(25,045)	(9.5)	(18,982)	(7.5)
Total Other Financing Sources (Uses)	(24,795)	(8.4)	(11,308)	(4.3)	(18,960)	(7.5)
INCREASE (DECREASE) IN FUND BALANCES	5,500	1.7	2,215	0.7	(143)	0.0
FUND BALANCES, BEGINNING	34,608		32,393		32,536	
FUND BALANCES, ENDING	\$ 40,108		\$ 34,608		\$ 32,393	
ENDING FUND BALANCES TO TOTAL REVENUES		13.6		13.1		12.8

¹ 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.

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2015-2016		2014-2015		2013-2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 6,160	72.4	\$ 6,185	72.9	\$ 6,369	73.3
State meal program	441	5.2	480	5.7	460	5.3
Food sales	1,897	22.3	1,816	21.4	1,848	21.3
Other	6	0.1	-	0.0	7	0.1
Total Revenues	<u>8,504</u>	<u>100.0</u>	<u>8,481</u>	<u>100.0</u>	<u>8,684</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	4,913	57.8	4,918	58.0	4,614	53.1
Food	3,728	43.8	3,854	45.4	3,905	45.0
Supplies	95	1.1	82	1.0	246	2.8
Other	469	5.5	597	7.0	585	6.7
Total Expenditures	<u>9,205</u>	<u>108.2</u>	<u>9,451</u>	<u>111.4</u>	<u>9,350</u>	<u>107.6</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(701)</u>	<u>(8.2)</u>	<u>(970)</u>	<u>(11.4)</u>	<u>(666)</u>	<u>(7.6)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in and other source:	<u>1,344</u>		<u>904</u>		<u>500</u>	
INCREASE (DECREASE) IN FUND BALANCES	643		(66)		(166)	
FUND BALANCES, BEGINNING	151		217		383	
FUND BALANCES, ENDING	<u>\$ 794</u>		<u>\$ 151</u>		<u>\$ 217</u>	
ENDING FUND BALANCES TO TOTAL REVENUES		<u>9.3</u>		<u>1.8</u>		<u>2.5</u>

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2015-2016		2014-2015		2013-2014	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	446,421	26.1	427,068	24.5	388,037	22.1
Reduced price	168,063	9.8	172,792	9.9	148,183	8.4
Free	1,096,302	64.1	1,146,415	65.6	1,224,511	69.5
Total Lunches	<u>1,710,786</u>	<u>100.0</u>	<u>1,746,275</u>	<u>100.0</u>	<u>1,760,731</u>	<u>100.0</u>
BREAKFAST						
Paid	103,538	13.2	95,624	11.8	91,756	10.3
Reduced price	70,166	9.0	71,212	8.8	57,515	6.5
Free	608,711	77.8	642,060	79.4	738,058	83.2
Total Breakfast	<u>782,415</u>	<u>100.0</u>	<u>808,896</u>	<u>100.0</u>	<u>887,329</u>	<u>100.0</u>

See accompanying note to supplementary information.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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 Options funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 17,023,018
Medi-Cal Billing Option	93.778	218,502
Total Schedule of Expenditures of Federal Awards		<u>\$ 17,241,520</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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.

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

Cafeteria Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the Cafeteria Fund for the past three years.

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, 2016, 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 6, 2016.

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 6, 2016.

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 6, 2016



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

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

Report on Compliance for Each Major Federal Program

We have audited Newport-Mesa Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Newport-Mesa Unified School District's major Federal programs for the year ended June 30, 2016. Newport-Mesa Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Newport-Mesa Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Newport-Mesa Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

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 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 6, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Newport-Mesa Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Newport-Mesa Unified School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Newport-Mesa Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Newport-Mesa Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Newport-Mesa Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Middle or Early College High Schools

As described in the accompanying schedule of findings and questioned costs, Newport-Mesa Unified School District did not comply with requirements regarding the Middle or Early College High Schools as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001. Compliance with such requirements is necessary, in our opinion, for Newport-Mesa Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on the 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, 2016.

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, 2016, 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:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	Yes
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below

Procedures
Performed

CHARTER SCHOOLS:

Contemporaneous Records of 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 a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

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

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

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



Rancho Cucamonga, California
December 6, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173 and 84.173A	<u>Special Education (IDEA) Cluster</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 Program</u>	
<u>Middle or Early College High Schools</u>	

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

2016-001 40000

Criteria or Specific Requirements

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

Condition

From the District's early college high school, 57 out of 266 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 55.58 ADA and 56.03 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 25 students selected from the District's early college high school, we identified 8 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 57 out of 266 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).

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

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.

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 schedule for a minimum of 180 minutes per day and enrolled in college courses concurrently.

Corrective Action Plan

Due to the nature of the Early College High School Initiative, students are enrolled simultaneously in high school and college courses. Students that enroll in summer programs are left with few high school course offerings by the time of their senior year. These students have a greater percentage of college courses as they advance and risk meeting the required 180 minutes of high school attendance per day. Early College High School will work to balance the course offerings between high school and college so that students meet the academic standards set forth in the *California Education Code*.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of findings and questioned costs.



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

In planning and performing our audit of the financial statements of Newport-Mesa Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 6, 2016 on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY

Ensign Intermediate School

Observations

1. During our review of the ASB procedures over cash receipts, we noted that not all sample deposits reviewed were deposited in a timely manner. Delay in deposit ranged from 12 to 16 days from the documented date of initial cash receipts.
2. Cash Disbursements are not always preapproved by the ASB. Specifically, four of the 15 sample disbursements reviewed were not approved prior to the transactions taking place.

Recommendations

1. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely.
2. The site should ensure all cash disbursements are being preapproved by the ASB prior to the purchasing of the goods or services. The ASB policy should be communicated to club advisors regarding the disbursement process. Preapproval from the ASB is necessary for all cash disbursements to ensure that goods and services being purchased are allowable and necessary for the student body. Additionally, the process allows the ASB to determine if sufficient funds are available prior to purchases being made.

District Response

1. The District agrees with the recommendation. District policy dictates that deposits are to be made at least once a week or when receipts reach \$300. In this instance, deposits that were selected were around the holidays and days that the ASB Accounting Assistant was out sick so there was an added delay. Deposits are picked up by a District Courier and taken to the safe in the Warehouse to be collected by the armored car. If the deposit arrives after the scheduled pick up, the deposit may take longer than 10 days to reach the bank, but it is in a secure safe. The ASB Accounting Technicians have been reminded to be aware of the pick-up schedule and try to make their deposits before the safe is emptied.
2. The District agrees with the recommendation. Two of the transactions noted above were pre-approved and the check requisitions were signed in June, but the ASB failed to include them in their minutes. The ASB Accounting Technician will remind the students to include all business transactions and approvals in their minutes. The other two instances were fishing trips that were booked in June 2015, for the fall of 2015, to reserve the time slot. The paperwork was approved in October before any payment was made, however the documentation was dated in June 2015.

Estancia High School

Observations

1. During our review of the ASB procedures over cash receipts, we noted that not all sample deposits reviewed were deposited in a timely manner. Delay in deposit ranged from 13 to 16 days from the documented date of initial cash receipts.
2. Cash Disbursements are not always preapproved by the ASB. Specifically, one of the 15 sample disbursements reviewed were not approved prior to the transactions taking place.

Recommendations

1. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely.
2. The site should ensure all cash disbursements are being preapproved by the ASB prior to the purchasing of the goods or services. The ASB policy should be communicated to club advisors regarding the disbursement process. Preapproval from the ASB is necessary for all cash disbursements to ensure that goods and services being purchased are allowable and necessary for the student body. Additionally, the process allows the ASB to determine if sufficient funds are available prior to purchases being made.

District Response

1. The District agrees with the recommendation. District policy dictates that deposits are to be made at least once a week or when receipts reach \$300. The deposits are then scanned and dropped in a safe at the school site. The armored car company picks up these deposits once a week, so it is possible for an item to be receipted at the start of the week and be deposited in the safe just after the pick-up. This is especially true if the scheduled pick up is during a holiday when the site is closed. In those cases, the deposit may take longer than 10 days to reach the bank, but it is in a secure safe. The ASB Accounting Technicians have been reminded to be aware of the pick-up schedule and try to make deposits before the safe is emptied for the week.
2. The District agrees with the recommendation, but disagrees with the observation. The one sample noted was actually approved before it was paid. The invoice was for the prom location deposit. The ASB prom committee viewed the location in July, but the actual contract was not signed until August by the District. The school did not assume any financial obligation until the company received the signed contract and deposit in August. The payment was not made until the ASB approved the expense.

Corona Del Mar High School

Observations

The following observations were made in connection with the ASB year-end financial statement:

1. The ASB ended the 2015-2016 fiscal year, with a deficit balance in its checking account. Specifically, we noted that the reconciled ending balance of the ASB check account was \$26,278. This appears to indicate that the ASB is not properly monitoring its budget and engaging in disbursements without making sure sufficient funds are available.
2. The ASB financial statement reported an account called "Webstore Clear for Remittance". The account serves as an intermediary holding account for the ASB credit card transactions processed through the internet. As of June 30, 2016, the ASB reported a deficit balance of \$162,100.44 and also appears that the account has been improperly reconciled.
3. The ASB appears to have incurred an overall operating deficit for the past two years. Overall cash position declined from \$579,532 from the beginning of 2013-2014 to \$82,883 at the end of 2015-2016. The ASB incurred approximately \$250,000 in net operating deficit in for each of the past two fiscal years. It appears that the ASB will be in an overall deficit position and potentially become insolvent if the ASB does not correct its operating trend.
4. The ASB financial statements indicate that numerous transfers were made during the year to correct multiple trust accounts that would have been in deficit positions without transfer.

Recommendation

We encourage the District to explore and examine the detailed underlying reasons that resulted in the observations made. The ASB accounting records suggest that the ASB is engaged in poor accounting practices and may also indicate the potential for lack of knowledge over the accounting system used by the ASB. During the examination of the site's ASB records, we encourage the District to carefully review the reason behind the deficit ending cash balance. Additionally, the District should review the detailed transactions posted to the ASB "Webstore Clear for Remittance" account to determine if the activities are reasonable. Lastly, the ASB should emphasize on efforts to raise additional funds or cut back costs in order to avoid ending the 2016-2017 in an overall deficit position.

District Response

While the District agrees that these accounts should be more closely monitored, we feel that these observations misrepresent the financial position at Corona del Mar.

1. The deficit noted in the checking account was caused when the Active Network failed to issue payment of \$153,611 to the school for items sold on the webstore in a timely fashion. Active Network was notified in early May, but the check didn't clear until after a large check was remitted to the District for exams fees. In the future, the ASB Accounting Technician will make sure to check the account balance before issuing checks. Our new bank has provided better online banking which will make it easier to monitor on a regular basis.
2. The District agrees with the recommendation. There was a BlueBear software problem that would occasionally cause the imports to be assigned to the web sales account instead of the regular checking account. The ASB Accounting Technician attempted to fix it by reversing out the incorrect entry and re-importing it to the correct account. The technician thought that it was fixed because the checking account was in balance, but the reversal caused problems in the webstore clearing account. The support staff at BlueBear explained that the problem has been fixed in recent updates. The District has since performed a software update and the problem should not occur again.
3. As noted in item number one, a large deposit from webstore sales failed to clear before the end of June. By only looking at the cash position, it would appear that the school had overspent. A more fair representation of spending would be to look at the total assets. At the beginning of 2013-2014, total assets were \$558,786. The money market account totaled \$403,467, a result of many years of prudent savings for future needs. The school was told that the balance was too high and they were instructed to start spending the funds so that the students who earned the money could reap the benefits. The students took that as an opportunity to improve their campus. They approved the purchase of a baby grand piano for the new theater, new uniforms for the sports teams, specialty gym floors, speaker systems, a new technology room, and many other items that would enhance their educational experience. This was all planned spending. At the end of 2015-2016, the total assets were \$236,494. The ASB at Corona del Mar was never in any danger of becoming insolvent.
4. The ASB Accounting Technician will work with the Advisors to make sure they are aware of the balances in specific club accounts before committing to expenditures.

Newport Harbor High School

Observation

The ASB financial statement reported an account called "Webstore Clearing Bank". The account serves as an intermediary holding account for the ASB credit card transactions processed through the internet. As of June 30, 2016, the ASB reported a deficit balance and also appears that the account has been improperly reconciled. Specifically, the account began the 2015-2016 fiscal year with a deficit balance of \$5,589.34 and ended the year with a deficit balance of \$22,623.34.

Recommendation

The District should examine the detailed transactions posted to this account to determine if activities posted to this account are reasonable. Additionally, the District should consider providing sufficient level of training to the site's ASB bookkeeper so that future errors of this nature are prevented.

District Response

The District agrees with the recommendation. There was a BlueBear software problem that would occasionally cause the imports to be assigned to the web sales account instead of the regular checking account. The ASB Accounting Technician attempted to fix it by reversing out the incorrect entry and re-importing it to the correct account. The technician thought that it was fixed because the checking account was in balance, but the reversal caused problems in the webstore clearing account. The support staff at BlueBear explained that the problem has been fixed in recent updates. The accounts have been corrected and the school no longer shows a negative balance. The District has since performed a software update and the problem should not occur again.

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



Rancho Cucamonga, California
December 6, 2016