NEW ISSUE — BOOK-ENTRY ONLY

Ratings: Moody's: "Aaa"
S&P: "AA+"
(See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Refunding Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Refunding Bonds. See "TAX MATTERS" herein.

$80,564,666.30
NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017

Dated: Date of Delivery **Due: August 1, as shown herein**

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Newport-Mesa Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2017 (the "Refunding Bonds") are being issued by the Newport-Mesa Unified School District (the "District") (i) to refund, on an advance basis, a portion of the outstanding Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011, (ii) to refund, on an advance basis, all of the outstanding Newport-Mesa Unified School District General Obligation Refunding Bonds, Election of 2000, Series 2012, and (iii) to pay costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued under the laws of the State and pursuant to a resolution of the Board of Education of the District, adopted on July 5, 2017.

The Refunding Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal or maturity value of and interest on the Refunding Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS" herein.

The Refunding Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"), all as set forth on the inside front cover hereof. Interest on the Current Interest Bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2018. Principal of the Current Interest Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Refunding Bonds issued as Capital Appreciation Bonds will not pay interest on a current, periodic basis but will accrete in value to their maturity value payable at maturity on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. Interest on the Capital Appreciation Bonds will be compounded on each February 1 and August 1 to maturity, commencing February 1, 2018.

The Refunding Bonds will be issued in denominations of $5,000 principal amount or maturity value, as applicable, or any integral multiple thereof as shown on the inside front cover hereof.

The Refunding Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Refunding Bonds. Individual purchases of the Refunding Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Refunding Bonds purchased by them. See "THE REFUNDING BONDS – Form and Registration" herein. Payments of the principal or maturity value of and interest on the Refunding Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar and transfer agent with respect to the Refunding Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS – Payment of Principal and Interest" herein.

The Refunding Bonds are subject to redemption prior to maturity as described herein. See "THE REFUNDING BONDS — Redemption" herein.

The Refunding Bonds will be offered when, as and if issued by the District and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District; and for the Underwriters by their counsel, Kutak Rock LLP, Denver, Colorado. It is anticipated that the Refunding Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about August 10, 2017.

STIFEL RAYMOND JAMES®

Date of this Official Statement is July 13, 2017

MATURITY SCHEDULE
BASE CUSIP†: 652113

$80,564,666.30
NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017

$17,580,000 Current Interest Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2026	$3,445,000.00	5.000%	1.840%	WZ0
2027	6,385,000.00	5.000	1.980	XA4
2028	7,750,000.00	5.000	2.110[C]	XB2

$62,984,666.30 Capital Appreciation Bonds

Maturity (August 1)	Initial Principal Amount	Accretion Rate	Maturity Value	Reoffering Yield	CUSIP Number†
2039	$8,600,787.30	3.890%	$20,055,000	3.890%	XC0
2040	8,707,688.15	3.920	21,245,000	3.920	XD8
2041	8,789,777.85	3.960	22,505,000	3.960	XE6
2042	4,264,145.20	3.980	11,410,000	3.980	XF3
2043	9,322,735.40	3.990	26,015,000	3.990	XG1
2044	9,448,175.00	4.000	27,500,000	4.000	XH9
2045	9,571,685.80	4.010	29,065,000	4.010	XJ5
2046	4,279,671.60	4.020	13,560,000	4.020	XK2

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.
[C] Yield to call at par on August 1, 2027.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)

BOARD OF EDUCATION

Karen Yelsey, President
Vicki Snell, Vice President
Charlene Metoyer, Clerk
Dana Black, Member
Walt Davenport, Member
Martha Fluor, Member
Judy Franco, Member

DISTRICT ADMINISTRATORS

Dr. Frederick Navarro, Superintendent
Tim Holcomb, Assistant Superintendent, Chief Operations Officer
Jeffery S. Trader, Executive Director, Chief Financial Officer

PROFESSIONAL SERVICES

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent, Registrar and Transfer Agent and Escrow Bank

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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(continued)

This Official Statement does not constitute an offering of any security other than the original offering of the Refunding Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Refunding Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Refunding Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Refunding Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward–looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Refunding Bonds.

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market prices of the Refunding Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Refunding Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

$80,564,666.30
NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Refunding Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of $80,564,666.30 aggregate initial principal amount of Newport-Mesa Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2017 (the "Refunding Bonds"), consisting of $17,580,000 aggregate principal amount of current interest bonds (the "Current Interest Bonds") and $62,984,666.30 aggregate initial principal amount of capital appreciation bonds (the "Capital Appreciation Bonds"), all as indicated on the inside front cover hereof, to be offered by the Newport-Mesa Unified School District (the "District").

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See "OTHER LEGAL MATTERS – Continuing Disclosure."

The purpose of this Official Statement is to supply information to prospective buyers of the Refunding Bonds. Quotations from and summaries and explanations of the Refunding Bonds, the resolution of the Board of Education of the District providing for the issuance of the Refunding Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Refunding Bonds.

Copies of documents referred to herein and information concerning the Refunding Bonds are available from the District by contacting: Newport-Mesa Unified School District, 2985 Bear Street, Costa Mesa, California 92626, Attention: Chief Financial Officer. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District began operations in 1966. The District serves the cities of Newport Beach and Costa Mesa and adjacent unincorporated areas of the western portion of the County of Orange, California (the "County"), and encompasses an area of approximately 59 square miles. The District currently operates several preschools, 22 elementary schools, two intermediate schools, two middle/high schools, two high schools, and three alternative education centers. Total fiscal year 2016-17 enrollment is approximately 21,585 students.

The District is governed by a seven-member Board of Education (the "Board of Education"), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District's other key personnel. Dr. Frederick Navarro is the District Superintendent and has served in this position since August 2012.

For additional information about the District, see APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

THE REFUNDING BONDS

Authority for Issuance; Plan of Finance

The Refunding Bonds are issued by the District pursuant to the Constitution and laws of the State, including Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code and other applicable provisions of law, and pursuant to a resolution adopted by the Board of Education of the District on July 5, 2017, providing for the issuance of the Refunding Bonds (the "Resolution"). Proceeds from the Refunding Bonds will be used (i) to refund, on an advance basis, a portion of the outstanding Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011 (the "Series 2011 Bonds"), (ii) to refund, on an advance basis, all of the outstanding Newport-Mesa Unified School District General Obligation Refunding Bonds, Election of 2000, Series 2012 (the "Series 2012 Bonds"), and (iii) to pay costs of issuance of the Refunding Bonds. See "–Plan of Finance" and "–Estimated Sources and Uses of Funds" below.

Form and Registration

The Refunding Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 principal amount or maturity value, as applicable, or integral multiples thereof. The Refunding Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Refunding Bonds. Purchases of Refunding Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Refunding Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Refunding Bonds, beneficial owners ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX H – "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

The Refunding Bonds will be issued as Current Interest Bonds and Capital Appreciation Bonds, all as set forth on the inside front cover page hereof.

Interest; Current Interest Bonds. The Refunding Bonds issued as Current Interest Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an "Interest Date"), commencing on February 1, 2018, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Current Interest Bond shall bear interest from the Interest Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Date (the "Record Date") and on or prior to the succeeding Interest Date, in which event it shall bear interest from such Interest Date, or unless it is authenticated on or before the Record Date preceding the first Interest Date, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Current Interest Bond, interest is in default on any outstanding Current Interest Bonds, such Current Interest Bond shall bear interest from the Interest Date to which interest has previously been paid or made available for payment on the outstanding Current Interest Bonds.

Interest; Capital Appreciation Bonds. The Refunding Bonds issued as Capital Appreciation Bonds will be dated as of their date of delivery. The Capital Appreciation Bonds will not bear interest on a current, periodic basis; instead, each Capital Appreciation Bond will accrete in value daily over the term to its maturity (on the basis of a 360-day year of twelve 30-day months), from its initial principal amount on the date of issuance thereof to its stated maturity value at maturity thereof ("Maturity Value"), as stated on the inside front cover page of this Official Statement, on the basis of a constant interest rate compounded semiannually on each Interest Date (with straight-line interpolations between Interest Dates), commencing on February 1, 2018.

Accreted Values. The rate of interest at which a Capital Appreciation Bond's Maturity Value is discounted to its initial principal amount is known as the "Accretion Rate," and is stated on the inside front cover hereof. For any Capital Appreciation Bond, the value of principal plus accrued interest on any given Interest Date prior to maturity may be calculated by discounting the Maturity Value of the Capital Appreciation Bond from its maturity date to that Interest Date at a discount rate equal to the Accretion Rate, assuming a year of 360 days comprising twelve 30-day months. The imputed value on any other date may be calculated on the basis of a straight-line interpolation between the values calculated for the Interest Dates immediately preceding and following the date in question.

The Underwriters have prepared the Table of Accreted Values shown in Appendix I hereto with respect to the Capital Appreciation Bonds, in order to provide the value per $5,000 of Maturity Value for each Capital Appreciation Bond on each Interest Date prior to maturity.

Payment of Refunding Bonds. The principal or maturity value of the Refunding Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") at the maturity thereof or upon redemption prior to maturity.

Interest on the Current Interest Bonds is payable in lawful money of the United States of America by check mailed on each Interest Date (if a business day, or on the next business day if the Interest Date does not fall on a business day) to the registered owner thereof (the "Owner") at such Owner's address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least $1,000,000 of outstanding Current Interest Bonds who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Refunding Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX H – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption of Refunding Bonds. The Refunding Bonds issued as Current Interest Bonds maturing on or before August 1, 2027, are not subject to optional redemption prior to their respective stated maturity dates. The Refunding Bonds issued as Current Interest Bonds maturing on August 1, 2028, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2027, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

The Refunding Bonds issued as Capital Appreciation Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2027, at a redemption price equal to the principal amount of the Capital Appreciation Bonds called for redemption plus accreted interest thereon to the date of redemption, without premium.

Selection of Refunding Bonds for Redemption. If less than all of the Refunding Bonds are called for redemption, such Refunding Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Refunding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Refunding Bonds of such maturity to be redeemed by lot. For purposes of such selection, each Refunding Bond shall be deemed to consist of individual Refunding Bonds of denominations of $5,000 principal amount or maturity value, as applicable, each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Refunding Bond will be given by the Paying Agent not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Refunding Bonds. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Refunding Bonds and the date of issue of the Refunding Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Refunding Bonds to be redeemed; (vi) if less than all of the Refunding Bonds of any maturity are to be redeemed, the distinctive numbers of the Refunding Bonds of each maturity to be redeemed; (vii) in the case of Refunding Bonds redeemed in part only, the respective portions of the principal amount of the Refunding Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Refunding Bonds to be redeemed; (ix) a statement that such Refunding Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent or at such other place or places designated by the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Refunding Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. Neither the failure to receive the notice of redemption, nor any defect in such notice shall affect the sufficiency of the proceedings for the redemption of the Refunding Bonds called for redemption or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above and when the redemption price of the Refunding Bonds called for redemption is set aside, the Refunding Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Refunding Bonds at the place specified in the notice of redemption, such Refunding Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Refunding Bonds so called for redemption after such redemption date shall look for the payment of such Refunding Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the "Interest and

Sinking Fund") or the trust fund established for such purpose. All Refunding Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Refunding Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Refunding Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Refunding Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Defeasance of Refunding Bonds

The District may pay and discharge any or all of the Refunding Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money and/or non-callable direct obligations of the United States of America (including zero interest bearing State and Local Government Series) or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available monies then on deposit in the related interest and sinking fund of the District, be fully sufficient to pay and discharge the indebtedness on such Refunding Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Moneys

Any money held in any fund created pursuant to the Resolution, or by the Paying Agent or an escrow agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Refunding Bonds and remaining unclaimed for two years after the principal of all of such Refunding Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to any interest and sinking fund of the District for payment of any outstanding bonds of the District payable from the fund; or, if no such bonds of the District are at such time outstanding, the monies shall be transferred to the general fund of the District as provided and permitted by law.

Plan of Finance

The proceeds of the Refunding Bonds will be issued (i) to refund, on an advance basis, a portion of the District's outstanding Series 2011 Bonds, maturing on August 1 in the years 2041 and 2046 (the "Prior Series 2011 Bonds"), (ii) to refund, on an advance basis, all of the District's outstanding Series 2012 Bonds, maturing on August 1 in the years 2026, 2027 and 2028 (the Series 2012 Bonds together with the Prior Series 2011 Bonds, the "Prior Bonds"), and (iii) to pay certain costs of issuance of the Refunding Bonds.

The District and The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") will enter into the Escrow Agreement, dated as of August 1, 2017 (the "Escrow Agreement"), with respect to the Prior Bonds being refunded, pursuant to which the District will deposit a portion of the proceeds from the sale of the Refunding Bonds into a special fund to be held by the Escrow Bank. The amounts deposited with the Escrow Bank with respect to the Prior Bonds, which will be held pursuant to the Escrow Agreement, will be used to purchase non-callable direct obligations of the United States of America (including zero interest bearing State and Local Government Series) or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, the principal of and interest on which (together with any uninvested amount) will be sufficient to enable the Escrow Bank (i) to redeem the Prior Series 2011 Bonds on August 1, 2021 at a redemption price equal to the accreted value of the Prior Series 2011 Bonds and (ii) to pay, when due, the interest on the Series 2012 Bonds to and including August 1, 2022 and to redeem the Series 2012 Bonds on August 1, 2022 at a redemption price equal to 100% of the principal amount of the Series 2012 Bonds without premium. See "ESCROW VERIFICATION" herein. Amounts on deposit with the Escrow Bank pursuant to the Escrow Agreement are not available to pay debt service on the Refunding Bonds.

SERIES 2011 BONDS TO BE REFUNDED

Maturity Date	Original Principal	Accretion Rate	Redemption Date	Accreted Value at Redemption	CUSIP† Number
8/1/2041	$14,784,370.75	7.16%	8/1/2021	$30,187,582.00	652113WP2
8/1/2046	17,923,838.10	7.31	8/1/2021	37,139,766.30	652113WQ0

SERIES 2012 BONDS TO BE REFUNDED

Maturity Date	Original Principal	Interest Rate	Redemption Date	Redemption Price	CUSIP† Number
8/1/2026	$3,760,000	5.00%	8/1/2022	100%	652113WV9
8/1/2027	6,970,000	5.00	8/1/2022	100	652113WW7
8/1/2028	8,465,000	5.00	8/1/2022	100	652113WX5

† CUSIP numbers are provided for convenience of reference only. None of the District, the Underwriters or their agents or counsel assumes responsibility for the accuracy of such CUSIP numbers.

UNREFUNDED SERIES 2011 BONDS

Series 2011 Capital Appreciation Bonds

Maturity Date	Original Principal	Accretion Rate	Yield	CUSIP[†] Number
8/1/2018	$58,693.95	12.00%	3.57%	652113 VU2
8/1/2019	79,324.75	12.00	4.01	652113 VV0
8/1/2020	232,456.50	12.00	4.34	652113 VW8
8/1/2021	506,731.35	9.14	4.62	652113 VX6
8/1/2023	107,584.00	5.17	5.17	652113 VZ1
8/1/2024	202,708.10	5.43	5.43	652113 WA5
8/1/2025	293,897.50	5.69	5.69	652113 WB3
8/1/2026	262,413.75	5.92	5.92	652113 WC1
8/1/2027	438,314.30	5.98	5.98	652113 WD9
8/1/2028	331,760.50	6.07	6.07	652113 WE7
8/1/2029	2,079,975.15	6.16	6.16	652113 WF4
8/1/2030	2,046,670.50	6.25	6.25	652113 WG2
8/1/2031	2,009,003.40	6.34	6.34	652113 WH0
8/1/2032	6,314,150.25	6.43	6.43	652113 WJ6
8/1/2033	6,164,984.40	6.52	6.52	652113 WK3
8/1/2034	6,033,871.10	6.59	6.59	652113 WL1
8/1/2035	5,937,795.00	6.63	6.63	652113 WM9
8/1/2036	5,824,336.00	6.68	6.68	652113 WN7
8/1/2037	5,750,377.50	6.70	6.70	652113 WR8
8/1/2038	5,688,447.10	6.71	6.71	652113 WT4

Series 2011 Convertible Capital Appreciation Bonds

Maturity Date	Original Principal	Accretion Rate	Yield	Conversion Date	Value at Conversion Date	CUSIP[†] Number
8/1/2042	$11,928,966.50	6.30%	6.30%	8/1/2021	$22,385,000.00	652113 WS6

Other Bond Issuances of the District. In August 2017, the District anticipates issuing approximately $30,000,000 of its General Obligation Bonds, Election of 2005, Series 2017 (the "Series 2017 Bonds") in order to (i) finance projects authorized by voters at the election on November 8, 2005 and (ii) pay costs of issuance with respect to the Series 2017 Bonds. The final amount and timing of the issuance of the Series 2017 Bonds will depend on, among other things, market conditions and project timing.

[†] CUSIP numbers are provided for convenience of reference only. None of the District, the Underwriters or their agents or counsel assumes responsibility for the accuracy of such CUSIP numbers.

Estimated Sources and Uses of Funds

The proceeds of the Refunding Bonds are expected to be applied as follows:

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
General Obligation Refunding Bonds, Series 2017

Estimated Sources and Uses of Funds

Sources of Funds:	
Aggregate Initial Principal Amount of Refunding Bonds	$80,564,666.30
Plus Original Issue Premium	4,639,509.95
Total Sources of Funds	$85,204,176.25
Uses of Funds:	
Escrow Fund	$84,796,491.65
Costs of Issuance[1]	206,272.93
Underwriters' Discount	201,411.67
Total Uses of Funds	$85,204,176.25

[1] Includes legal fees, rating agency fees, municipal advisory fees, printing fees, verification agent fees and other miscellaneous expenses.

Debt Service

Debt service on the Refunding Bonds, assuming no early redemptions, is as shown in the following table.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
General Obligation Refunding Bonds, Series 2017

Period Ending August 1,	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds Principal	Capital Appreciation Bonds Interest Paid at Maturity	Total Debt Service
2018	–	$ 857,025.00	–	–	$ 857,025.00
2019	–	879,000.00	–	–	879,000.00
2020	–	879,000.00	–	–	879,000.00
2021	–	879,000.00	–	–	879,000.00
2022	–	879,000.00	–	–	879,000.00
2023	–	879,000.00	–	–	879,000.00
2024	–	879,000.00	–	–	879,000.00
2025	–	879,000.00	–	–	879,000.00
2026	$ 3,445,000.00	879,000.00	–	–	4,324,000.00
2027	6,385,000.00	706,750.00	–	–	7,091,750.00
2028	7,750,000.00	387,500.00	–	–	8,137,500.00
2029	–	–	–	–	–
2030	–	–	–	–	–
2031	–	–	–	–	–
2032	–	–	–	–	–
2033	–	–	–	–	–
2034	–	–	–	–	–
2035	–	–	–	–	–
2036	–	–	–	–	–
2037	–	–	–	–	–
2038	–	–	–	–	–
2039	–	–	$ 8,600,787.30	$ 11,454,212.70	20,055,000.00
2040	–	–	8,707,688.15	12,537,311.85	21,245,000.00
2041	–	–	8,789,777.85	13,715,222.15	22,505,000.00
2042	–	–	4,264,145.20	7,145,854.80	11,410,000.00
2043	–	–	9,322,735.40	16,692,264.60	26,015,000.00
2044	–	–	9,448,175.00	18,051,825.00	27,500,000.00
2045	–	–	9,571,685.80	19,493,314.20	29,065,000.00
2046	–	–	4,279,671.60	9,280,328.40	13,560,000.00
Total:	$17,580,000.00	$8,983,275.00	$62,984,666.30	$108,370,333.70	$197,918,275.00

Outstanding Bonds

In addition to the Refunding Bonds (and not accounting for the planned refunding of the Prior Bonds with proceeds of the Refunding Bonds), the District has outstanding four additional series of general obligation bonds, each of which is secured by ad valorem taxes upon all property subject to taxation by the District on a parity with the Refunding Bonds.

At a special election held on June 6, 2000, the District received authorization under Measure A to issue bonds of the District in an aggregate principal amount not to exceed $110,000,000 to improve health and safety conditions in neighborhood schools by rehabilitating aging school facilities, replacing deteriorated roofs and plumbing, upgrading electrical service to safely accommodate technology, renovating inadequate classrooms, science labs, and restrooms, and upgrading fire alarms. The measure required approval by at least two-thirds of the votes cast be eligible voters within the District (the "2000 Authorization") and received an affirmative vote of approximately 72.1% of the votes cast by eligible voters within the District. On December 4, 2001, the County, on behalf of the District, issued the District's General Obligation Bonds, Election of 2000, Series 2001 (the "Series 2001 Bonds") in the aggregate principal amount of $40,000,000. The Series 2001 Bonds were issued as the first series of bonds to be issued under the 2000 Authorization. On November 20, 2003, the County, on behalf of the District, issued the District's General Obligation Bonds, Election of 2000, Series 2003 (the "Series 2003 Bonds") in the aggregate principal amount of $70,000,000 and were issued as the second and final series of bonds to be issued under the 2000 Authorization.

On November 30, 2010, the District issued its General Obligation Refunding Bonds, Election of 2000, Series 2010 (the "Series 2010 Refunding Bonds") in the aggregate principal amount of $68,660,000 to refund on an advance basis all of the then outstanding Series 2001 Bonds and a portion of the outstanding Series 2003 Bonds. On May 9, 2012, the District issued the Series 2012 Bonds in the aggregate principal amount of $19,495,000 to refund on a current basis the District's then outstanding Series 2003 Bonds maturing on August 1 of each of the years 2026 through 2028, inclusive.

At an election held on November 8, 2005, the District received authorization under Measure F to issue bonds of the District in an aggregate principal amount not to exceed $282,000,000 to finance specific construction and modernization projects approved by eligible voters within the District. The measure required approval by at least 55% of the votes cast by eligible voters within the District (the "2005 Authorization"). On January 4, 2007, the County, at the request of the District, issued $70,443,480.25 aggregate initial principal amount of the District's General Obligation Bonds, Election of 2005, Series 2007 (the "Series 2007 Bonds") as the District's first series of bonds issued under the 2005 Authorization. On June 8, 2011, the District issued $95,000,670.45 aggregate initial principal amount of the Series 2011 Bonds as the second series of bonds to be issued under the 2005 Authorization. In August 2017, the District anticipates issuing approximately $30,000,000 of its Series 2017 Bonds as the third series of bonds to be issued under the 2005 Authorization. See " – Plan of Finance – Other Bond Issuances of the District" herein for more information on the District's plan of finance.

A summary of the District's general obligation bonded debt is set forth on the following page.

Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District (including the Refunding Bonds), assuming such general obligation bonds are not optionally redeemed prior to the respective stated date of maturity.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
General Obligation Bonds – Aggregate Debt Service[1]

Year Ending (August 1),	Series 2007 Bonds	Series 2010 Refunding Bonds	Series 2011 Bonds[2]	Series 2012 Bonds[3]	Refunding Bonds	Total
2017	$ 4,553,400.00	$ 6,334,450.00	–	$959,750.00	–	$ 11,847,600.00
2018	4,009,200.00	6,539,800.00	$ 135,000.00	–	$ 857,025.00	11,541,025.00
2019	4,410,000.00	6,734,600.00	205,000.00	–	879,000.00	12,228,600.00
2020	4,430,000.00	6,951,000.00	675,000.00	–	879,000.00	12,935,000.00
2021	4,440,000.00	7,109,500.00	1,255,000.00	–	879,000.00	13,683,500.00
2022	4,835,000.00	7,350,500.00	1,410,255.00	–	879,000.00	14,474,755.00
2023	5,295,000.00	7,522,250.00	1,610,255.00	–	879,000.00	15,306,505.00
2024	5,795,000.00	7,695,750.00	1,820,255.00	–	879,000.00	16,190,005.00
2025	6,335,000.00	7,849,750.00	2,060,255.00	–	879,000.00	17,124,005.00
2026	6,925,000.00	3,549,000.00	2,045,255.00	–	4,324,000.00	16,843,255.00
2027	7,990,000.00	–	2,545,255.00	–	7,091,750.00	17,627,005.00
2028	8,160,000.00	–	2,335,255.00	–	8,137,500.00	18,632,755.00
2029	13,915,000.00	–	7,665,255.00	–	–	21,580,255.00
2030	14,750,000.00	–	8,060,255.00	–	–	22,810,255.00
2031	15,635,000.00	–	8,475,255.00	–	–	24,110,255.00
2032	–	–	25,485,255.00	–	–	25,485,255.00
2033	–	–	26,940,255.00	–	–	26,940,255.00
2034	–	–	28,475,255.00	–	–	28,475,255.00
2035	–	–	30,095,255.00	–	–	30,095,255.00
2036	–	–	31,810,255.00	–	–	31,810,255.00
2037	–	–	33,625,255.00	–	–	33,625,255.00
2038	–	–	35,540,255.00	–	–	35,540,255.00
2039	–	–	1,410,255.00	–	20,055,000.00	21,465,255.00
2040	–	–	1,410,255.00	–	21,245,000.00	22,655,255.00
2041	–	–	1,410,255.00	–	22,505,000.00	23,915,255.00
2042	–	–	23,795,255.00	–	11,410,000.00	35,205,255.00
2043	–	–	–	–	26,015,000.00	26,015,000.00
2044	–	–	–	–	27,500,000.00	27,500,000.00
2045	–	–	–	–	29,065,000.00	29,065,000.00
2046	–	–	–	–	13,560,000.00	13,560,000.00
	$111,477,600.00	$67,636,600.00	$280,295,355.00	$959,750.00	$197,918,275.00	$658,287,580.00

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(1) Does not reflect the District's anticipated issuance of the Series 2017 Bonds in August 2017. See " – Plan of Finance – Other Bond Issuances of the District" herein.
(2) Reflects the refunding of the Prior Series 2011 Bonds from proceeds of the Refunding Bonds.
(3) Reflects the refunding of the Series 2012 Bonds from proceeds of the Refunding Bonds.
Source: Fieldman, Rolapp & Associates, Inc.

SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Refunding Bonds, the Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Refunding Bonds are payable from ad valorem taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Refunding Bonds.

Statutory Lien on Taxes (Senate Bill 222)

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

The District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Refunding Bonds (collectively, the "Bonds"), of the District heretofore or hereafter issued pursuant to voter-approved measures of the District and amounts on deposit in the Interest and Sinking Fund of the District to the payment of the principal or redemption price of and interest on the Bonds. The Resolution provides that the property taxes and amounts held in the Interest and Sinking Fund of the District shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund of the District to secure the payment of the Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The Resolution provides that this pledge constitutes an agreement between the District and the owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist, and the Bonds secured by the pledge are or were issued to finance (or refinance) one or more of the projects specified in the applicable voter-approved measure.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as ex-officio treasurer of the school district.

Assessed Valuation of Property Within the District

Taxable property located in the District has a fiscal year 2016-17 assessed value of $62,496,448,716. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See "– Appeals of Assessed Valuation; Blanket Reductions of Assessed Values" below.

Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State–assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

The following table sets forth the assessed valuation of the various classes of property in the District's boundaries from fiscal year 2002-03 through 2016-17.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Assessed Valuations
Fiscal Years 2002-03 through 2016-17

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual Percent Change
2002-03	$27,996,342,894	$16,534,150	$1,870,796,173	$29,883,673,217	8.58%
2003-04	30,384,040,501	16,534,525	1,993,353,134	32,393,928,160	8.40
2004-05	32,757,666,787	57,080	1,823,904,932	34,581,628,799	6.75
2005-06	36,260,030,799	56,827	1,810,054,743	38,070,142,369	10.09
2006-07	40,063,220,951	56,202	2,182,400,902	42,245,678,055	10.97
2007-08	43,513,841,553	53,310	2,231,282,135	45,745,176,998	8.28
2008-09	45,546,130,684	699,230	2,175,632,947	47,722,462,861	4.32
2009-10	46,007,362,776	699,230	2,243,799,956	48,251,861,962	1.11
2010-11	45,994,176,823	699,230	2,308,008,338	48,302,884,391	0.11
2011-12	46,780,797,090	699,230	2,166,748,135	48,948,244,455	1.34
2012-13	48,130,076,373	53,310	2,129,786,347	50,259,916,030	2.68
2013-14	50,776,237,313	53,310	2,018,986,776	52,795,277,399	5.04
2014-15	53,638,300,141	53,310	2,227,558,627	55,865,912,078	5.82
2015-16	56,948,824,304	53,310	2,082,454,166	59,031,331,780	5.67
2016-17	60,448,209,235	53,310	2,048,186,171	62,496,448,716	5.87

Source: California Municipal Statistics, Inc.; annual percent change provided by Stifel, Nicolaus & Company, Incorporated.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also "*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" below.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (such pre-reduction level escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIIIA of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to ad valorem taxes.

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2016–17 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $1.562 billion and its net bonding capacity is approximately $1.344 billion (taking into account current outstanding debt before issuance of the Refunding Bonds and the Series 2017 Bonds and not accounting for the refunding of the Prior Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Assessed Valuation by Jurisdiction. The following table describes a distribution of taxable real property located in the District by jurisdiction.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
2016-17 Assessed Valuation by Jurisdiction

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Costa Mesa	$16,587,953,297	26.54%	$17,513,150,535	94.72%
City of Newport Beach	45,747,220,618	73.20	50,341,686,565	90.87%
Unincorporated Orange County	161,274,801	0.26	26,380,369,799	0.61%
Total District	$62,496,448,716	100.00%		
Orange County	$62,496,448,716	100.00%	$525,037,541,960	11.90%

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2016-17 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
2016-17 Assessed Valuation and Parcels by Land Use

	2016-17 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Non-Residential:						
Agricultural/Rural	$ 77,967,691	0.13%	127	0.15%	122	0.15%
Commercial	7,686,960,086	12.72	2,717	3.27	2,697	3.29
Industrial	994,516,923	1.65	778	0.94	778	0.95
Government/Exempt	0	0.00	1,032	1.24	0	0.00
Miscellaneous	9,604,595	0.02	40	0.05	40	0.05
Subtotal Non-Residential	$8,769,049,295	14.51%	4,694	5.65%	3,637	4.44%
Residential:						
Single Family Residence	$40,067,501,474	66.28%	39,332	47.33%	39,332	48.00%
Condominium/Townhouse	5,191,713,035	8.59	9,609	11.56	9,609	11.73
Mobile Home	31,495,083	0.05	1,001	1.20	1,001	1.22
Timeshare Properties	250,410,428	0.41	22,742	27.37	22,742	27.76
2+ Residential Units/Apartments	5,951,654,499	9.85	5,217	6.28	5,163	6.30
Subtotal Residential	$51,492,774,519	85.18%	77,901	93.75%	77,847	95.01%
Vacant Parcels	$186,385,421	0.31%	501	0.60%	453	0.55%
TOTAL	$60,448,209,235	100.00%	83,096	100.00%	81,937	100.00%

(1) Local secured assessed valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2016-17.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
2016-17 Per Parcel Assessed Valuation of Single Family Homes

	Number of Parcels[1]	2016-17 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	39,332	$40,067,501,474	$1,018,700	$609,479

2016-17 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	2,932	7.454%	7.454%	$211,977,820	0.529%	0.529%
$100,000 - $199,999	3,509	8.921	16.376	510,250,357	1.273	1.803
$200,000 - $299,999	3,473	8.830	25.206	871,539,816	2.175	3.978
$300,000 - $399,999	3,467	8.815	34.021	1,208,714,311	3.017	6.994
$400,000 - $499,999	3,112	7.912	41.933	1,397,466,843	3.488	10.482
$500,000 - $599,999	2,901	7.376	49.308	1,597,262,769	3.986	14.469
$600,000 - $699,999	2,697	6.857	56.165	1,750,564,681	4.369	18.838
$700,000 - $799,999	2,117	5.382	61.548	1,580,426,543	3.944	22.782
$800,000 - $899,999	1,613	4.101	65.649	1,368,672,760	3.416	26.298
$900,000 - $999,999	1,389	3.531	69.180	1,319,793,739	3.294	29.492
$1,000,000 - $1,099,999	1,081	2.748	71.929	1,132,663,776	2.827	32.319
$1,100,000 - $1,199,999	904	2.298	74.227	1,040,752,959	2.597	34.916
$1,200,000 - $1,299,999	868	2.207	76.434	1,084,436,943	2.707	37.623
$1,300,000 - $1,399,999	701	1.782	78.216	945,709,619	2.360	39.983
$1,400,000 - $1,499,999	678	1.724	79.940	980,915,358	2.448	42.431
$1,500,000 - $1,599,999	620	1.576	81.516	960,333,576	2.397	44.828
$1,600,000 - $1,699,999	569	1.447	82.963	938,591,134	2.343	47.171
$1,700,000 - $1,799,999	527	1.340	84.303	922,345,649	2.302	49.473
$1,800,000 - $1,899,999	516	1.312	85.615	954,744,262	2.383	51.855
$1,900,000 - $1,999,999	471	1.197	86.812	917,367,773	2.290	54.145
$2,000,000 and greater	5,187	13.188	100.000	18,372,970,786	45.855	100.000
Total	39,332	100.00%		$40,067,501,474	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2016-17 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Largest 2016-17 Local Secured Taxpayers

	Property Owner	Primary Land Use	2016-17 Assessed Valuation	Percent of Total[1]
1.	The Irvine Company	Commercial	$1,616,012,944	2.67%
2.	South Coast Plaza	Commercial	362,471,097	0.60
3.	PH Finance LLC	Commercial	286,473,762	0.47
4.	PR II/MCC South Coast Property Owner LLC	Commercial	233,000,000	0.39
5.	Block 500 Newport Center Drive LLC	Commercial	203,034,528	0.34
6.	United Dominion Realty LP	Apartments	194,669,466	0.32
7.	Marjack LLC Irvine Company LLC	Apartments	153,657,985	0.25
8.	Newport Bluffs LLC	Apartments	150,350,196	0.25
9.	Interinsurance Exchange of the Automobile Club of Southern California	Commercial	130,381,181	0.22
10.	UDR Newport Beach North LP	Apartments	129,962,688	0.21
11.	Casden Lakes LP	Apartments	126,946,891	0.21
12.	Balboa Bay Club Ventures LLC	Commercial	126,036,927	0.21
13.	Coronado South Apartments LP	Apartments	124,735,592	0.21
14.	Soco Retail Fee Owner LLC	Industrial	120,000,000	0.20
15.	C.J. Segerstrom & Sons	Apartments	118,295,833	0.20
16.	JKS-CMFV LLC	Apartments	113,427,480	0.19
17.	Bay Island Club	Residential	98,886,193	0.16
18.	100 Bayview LLC	Commercial	97,035,506	0.16
19.	Newport Healthcare Center LLC	Commercial	95,155,348	0.16
20.	HHR Newport Beach LLC	Commercial	90,892,812	0.15
			$4,571,426,429	7.56%

[1] 2016-17 local secured assessed valuation: $60,448,209,235
Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See "*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" above.

Tax Rates

The State Constitution permits the levy of an ad valorem tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special ad valorem property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Refunding Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Refunding Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Refunding Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth ad valorem property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 7-001). This Tax Rate Area comprises approximately 29.68% of the total fiscal year 2016-17 assessed value of the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 7-001)
Fiscal Years 2012-13 through 2016-17

	2012-13	2013-14	2014-15	2015-16	2016-17
General	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Coast Community College District	0.01881	0.02899	0.03015	0.03092	0.03116
Newport-Mesa Unified School District	0.01890	0.01860	0.01768	0.02125	0.01490
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
Total All Property	$1.04121	$1.05109	$1.05133	$1.05567	$1.04956

Source: California Municipal Statistics, Inc.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special ad valorem taxes for voter-approved indebtedness, including the Refunding Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $23 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The following table sets forth real property tax charges and corresponding delinquencies with respect to the property located in the District for fiscal years 2011–12 through 2015–16.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2011–12 through 2015–16

	Secured Tax Charge[1]	Amount Delinquent June 30	% Delinquent June 30
2011–12	$8,662,217.42	$134,474.40	1.55%
2012–13	9,361,698.24	102,168.37	1.09
2013–14	9,921,668.72	98,615.68	0.99
2014–15	9,987,783.25	96,430.30	0.97
2015–16	12,941,306.45	349,995.26	2.70

	Secured Tax Charge[2]	Amount Delinquent June 30	% Delinquent June 30
2011–12	$171,744,345.08	$2,318,110.64	1.35%
2012–13	176,571,475.90	1,706,407.05	0.97
2013–14	186,068,954.26	1,402,676.88	0.75
2014–15	196,850,812.39	1,367,490.16	0.69
2015–16	209,119,749.14	1,417,283.22	0.68

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(1) District's general obligation bond debt service levy.
(2) 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

Teeter Plan. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including the District, receives the full amount of uncollected taxes credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district general obligation bonds.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective May 19, 2017 for debt outstanding as of June 1, 2017. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Statement of Direct and Overlapping Bonded Debt

May 19, 2017

2016-17 Assessed Valuation: $62,496,448,716

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/1/17
Metropolitan Water District	2.418%	$ 1,811,203
Coast Community College District	47.209	238,804,132
Newport Mesa Unified School District	100.000	217,659,150[1]
Newport Mesa Unified School District Community Facilities District No. 90-1	100.000	5,785,000
Irvine Ranch Water District Improvement Districts	Various	49,706,427
Bonita Canyon Community Facilities District No. 98-1	100.000	31,675,000
City Community Facilities Districts	100.000	1,280,000
City of Newport Beach 1915 Act Bonds	100.000	7,476,808
County 1915 Act Bonds	100.000	47,417,639
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$601,615,359
OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	11.903%	$ 8,941,057
Orange County Pension Obligations	11.903	50,711,248
Orange County Board of Education Certificates of Participation	11.903	1,718,793
Coast Community College District General Fund Obligations	47.209	1,704,245
City of Costa Mesa General Fund Obligations	94.717	19,568,532
City of Newport Beach Certificates of Participation	90.873	100,500,994
TOTAL OVERLAPPING GENERAL FUND DEBT		$183,144,869
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$11,545,765
COMBINED TOTAL DEBT		$796,305,993[2]

Ratios to 2016-17 Assessed Valuation:
Direct Debt ($217,659,150) 0.35%
Total Direct and Overlapping Tax and Assessment Debt 0.96%
Combined Total Debt 1.27%

Ratio to Redevelopment Incremental Valuation ($1,761,721,262):
Total Overlapping Tax Increment Debt 0.66%

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(1) Excludes the Refunding Bonds and the Series 2017 Bonds; excludes accreted value; includes the Prior Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Refunding Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Refunding Bonds is less than the amount to be paid at maturity of such Refunding Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Refunding Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Refunding Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Refunding Bonds is the first price at which a substantial amount of such maturity of the Refunding Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Refunding Bonds accrues daily over the term to maturity of such Refunding Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Refunding Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bonds. Beneficial Owners of the Refunding Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Refunding Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Refunding Bonds in the original offering to the public at the first price at which a substantial amount of such Refunding Bonds is sold to the public.

Refunding Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Refunding Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Refunding Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Refunding Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Refunding Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Refunding Bonds may adversely affect the value of, or the tax status of interest on, the Refunding Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Refunding Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Refunding Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Refunding Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Refunding Bonds. Prospective purchasers of the Refunding Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Refunding Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Refunding Bonds ends with the issuance of the Refunding Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Refunding Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Refunding Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Refunding Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Refunding Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Refunding Bonds at the time of issuance substantially in the form set forth in Appendix D hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriters by Kutak Rock LLP, Denver, Colorado.

Legality for Investment in California

Under the provisions of the California Financial Code, the Refunding Bonds are a legal investment for commercial banks in California to the extent that the Refunding Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the California Government Code, the Refunding Bonds are eligible securities for deposit of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Refunding Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2016-17 fiscal year (which is due no later than April 1, 2018) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission (the "SEC").

In the past five years, the District failed to timely file notice of a rating change and in one instance the District failed to associate an underlying rating change notice with all of the CUSIP numbers for the District's outstanding general obligation bonds.

Applied Best Practices, LLC currently serves as the District's dissemination agent for each of its continuing disclosure undertakings pursuant to the Rule.

Litigation

No litigation is pending or threatened concerning or contesting the validity of the Refunding Bonds or the District's ability to receive ad valorem taxes and to collect other revenues, or contesting the District's ability to issue and retire the Refunding Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Refunding Bonds or District officials who will sign certifications relating to the Refunding Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriters at the time of the original delivery of the Refunding Bonds.

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

ESCROW VERIFICATION

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters relating to the computation of projected receipts of principal and interest on the defeasance securities, and the projected payments of principal, redemption premium, if any, and interest to retire the Prior Bonds to be refunded will be verified by Causey, Demgen & Moore P.C., Denver, Colorado (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the District and the Underwriters. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

MISCELLANEOUS

Ratings

Moody's Investors Service and S&P Global Ratings have assigned their respective ratings of "Aaa" and "AA+" to the Refunding Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from the District, which are not included in this Official Statement). The ratings reflect only the view of the rating agency furnishing the same, and any explanation of the significance of such ratings should be obtained only from the rating agency providing the same. Such ratings are not a recommendation to buy, sell or hold the Refunding Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Refunding Bonds. Neither the Underwriters nor the District has undertaken any responsibility after the offering of the Refunding Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Refunding Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Refunding Bonds. Fieldman, Rolapp & Associates, Inc. is acting as the District's Municipal Advisor with respect to the Refunding Bonds. Payment of the fees and expenses of the Municipal Advisor is also contingent upon the sale and delivery of the Refunding Bonds.

Underwriting

The Refunding Bonds are being purchased for reoffering to the public by Stifel, Nicolaus & Company, Incorporated, on its own behalf and as representative of Raymond James & Associates, Inc. (collectively, the "Underwriters"), pursuant to the terms of a bond purchase agreement executed on July 13, 2017, by and between the Underwriters and the District (the "Purchase Agreement"). The Underwriters have agreed to purchase the Refunding Bonds at a price of $85,002,764.58 (representing the aggregate initial principal amount of the Refunding Bonds, plus an original issue premium of $4,639,509.95, and less an Underwriters' discount of $201,411.67). The Purchase Agreement provides that the Underwriters will purchase all of the Refunding Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriters may offer and sell the Refunding Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

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ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Refunding Bonds. Quotations from and summaries and explanations of the Refunding Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Refunding Bonds.

The District has duly authorized the delivery of this Official Statement.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

By: /s/ Dr. Frederick Navarro
Superintendent

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Newport-Mesa Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal (or, in the case of Capital Appreciation Bonds, accreted value) of or interest on the Refunding Bonds is payable from the general fund of the District or from State revenues. The Refunding Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County of Orange on property within the District in an amount sufficient for the timely payment of principal (or, in the case of Capital Appreciation Bonds, accreted value) of and interest on the Refunding Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS" in the front portion of the Official Statement.

THE DISTRICT

Introduction

The District began operations in 1966. The District serves the cities of Newport Beach and Costa Mesa and adjacent unincorporated areas of the western portion of the County of Orange, California (the "County"), and encompasses an area of approximately 59 square miles. The District currently operates several preschools, 22 elementary schools, two intermediate schools, two middle/high schools, two high schools, and three alternative education centers. Total fiscal year 2016-17 enrollment is approximately 21,585 students.

Board of Education

The District is governed by a seven-member Board of Education (the "Board of Education"), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. Currently, Board of Education members are elected through an at-large voting system in which each Board of Education member is required to reside in one of the trustee areas. Due to the extensive population growth on the east side of the District, the Board of Education is working toward balancing trustee areas to each have proportionate population. At the February 28, 2017 Board of Education meeting, the Board of Education voted to conduct public hearings to obtain public input regarding the readjustment of the trustee area boundaries. The Board of Education also voted on a resolution to move to a voting by trustee area, beginning with the November 2018 election. The discussions regarding trustee area boundaries are ongoing, and changes to trustee areas would not impact the school boundary map.

On July 5, 2017, the Board of Education voted to submit to the electors of the District at the regularly scheduled election on November 6, 2018 a proposal to limit members of the Board of Education to three consecutive four-year terms with the option to return to the Board of Education after a break in service.

The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District's other key personnel.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)

Board of Education

Name	Office	Term Expires
Karen Yelsey	President	November 2018
Vicki Snell	Vice President	November 2020
Charlene Metoyer	Clerk	November 2018
Dana Black	Member	November 2020
Walt Davenport	Member	November 2018
Martha Fluor	Member	November 2020
Judy Franco	Member	November 2018

Superintendent and Business Services Personnel

The Superintendent of the District is appointed by the Board of Education and reports to the Board of Education. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and Chief Financial Officer is set forth below.

Dr. Frederick Navarro, Superintendent. A lifelong educator, Dr. Fred Navarro started his career as a teacher in the Long Beach Unified School District. He was appointed to serve as superintendent of Newport-Mesa Unified School District on August 1, 2012. Dr. Navarro has a wide range of experience having served in several positions during his career from activities director, to assistant director of human resources, middle and high school principal, assistant superintendent of education, and superintendent of the Lennox School District in Los Angeles County. He earned his teaching credential at California State University Dominguez Hills and has two advanced degrees from the University of California, Los Angeles.

Jeffery S. Trader, Executive Director, Chief Financial Officer. Mr. Trader is in his 20th year with the District. Additionally, his career includes experience in the petroleum, retail and telecommunications industries. Mr. Trader currently serves on the Board of the Southern Orange County Property and Liability Joint Powers Authority. Mr. Trader earned an undergraduate degree from Brigham Young University, a graduate degree from Pepperdine University, and is a Certified Chief Business Official by the California Association of School Business Officials.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (see "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein) and a local portion derived from the District's share of the 1% local ad valorem tax authorized by the State Constitution (see "– Local Sources of Education Funding" herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has budgeted to receive approximately 10.46% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local ad valorem tax), budgeted at approximately $30.77 million in fiscal year 2017-18. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "–Allocation of State Funding to

School Districts; Local Control Funding Formula – Attendance and LCFF" and "–Other District Revenues – Other State Revenues" below). The District is a community funded district, which means that it receives a minimal amount of general financial support from the State and the District is funded primarily by local property tax collections, which derive from the 1% countywide property tax levy required by statute. However, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may affect the District's revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented a new funding formula for school finance system called the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF"). Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein for more information.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2017-18 State budget on June 27, 2017.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of White v. Davis (also referred to as Jarvis v. Connell), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the White v. Davis decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the White v. Davis decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Refunding Bonds, and the District takes no responsibility for informing owners of the Refunding Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2017–18 State Budget. The Governor signed the fiscal year 2017–18 State Budget (the "2017–18 State Budget") on June 27, 2017. The 2017–18 State Budget sets forth a balanced budget for fiscal year 2017–18 that projects approximately $127.88 billion in revenues, and $72.47 billion in non-Proposition 98 expenditures and $52.63 billion in Proposition 98 expenditures. The 2017–18 State Budget includes a $1.4 billion reserve in the Special Fund for Economic Uncertainties and adds $1.8 billion to the Proposition 2 Budget Stabilization Account, bringing the balance to $8.5 billion in 2017–18, which is 66% of the constitutional target. The 2017–18 State Budget uses dedicated proceeds from Proposition 2 to pay down nearly $1.8 billion in past budgetary borrowing and State employee pension liabilities. The 2017–18 State Budget also includes a $6 billion supplemental payment to CalPERS (as defined herein) through a loan from the Surplus Money Investment Fund that the Governor expects will reduce unfunded liabilities and stabilize state contribution rates. The State's General Fund share of the repayment will come from Proposition 2's revenues dedicated to reducing debts and long-term liabilities.

Certain budgeted adjustments for K–12 education set forth in the 2017–18 State Budget include the following:

- Local Control Funding Formula. The 2017–18 State Budget includes an increase of almost $1.4 billion in Proposition 98 general funds to continue the State's transition to LCFF. The LCFF commits most new funding to school districts serving English language learners, students from low-income families, and youth in foster care. The Governor expects this increase will bring the formula to approximately 97 percent of full implementation.

- One-Time Discretionary Grants. The 2017–18 State Budget includes an increase of $877 million in Proposition 98 general fund to provide school districts, county offices of education, and charter schools with discretionary resources to support critical investments at the local level. These funds can be used for activities such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and the implementation of new educational standards. Funds received by K–12 local educational agencies will first satisfy any outstanding claims for reimbursement of State-mandated local program costs for any fiscal year, but the 2017–18 State Budget authorizes the governing boards of school districts to expend these one-time funds for any purpose.

- After School and Education Safety ("ASES") Program. The 2017–18 State Budget includes an increase of $50 million in Proposition 98 general funds to increase provider reimbursement rates for the ASES program, bringing the total spending to $600 million of Proposition 98 general funds.

- Teacher Workforce. The 2017–18 State Budget includes a combined increase of $41.3 million one-time ($30 million one-time in Proposition 98 general fund and $11.3 million in one-time federal Title II funds) to fund several programs aimed at recruiting and developing additional teachers and school leaders, with particular emphasis on key shortage areas such as special education, math, science, and bilingual education. Specific investments include:

    - California Educator Development Program. The 2017–18 State Budget includes an increase of $11.3 million in one-time federal Title II funds for a one-time competitive grant program designed to assist local educational agencies in attracting and supporting the preparation and continued learning of teachers, principals, and other school leaders in high-need subjects and schools.

- o Classified School Employees Credentialing Program. The 2017-18 State Budget includes an increase of $25 million in one-time Proposition 98 general funds, available for five years, to support a second cohort of the California Classified School Employees Credentialing Program established in the State's 2016 Budget Act. The program will provide grants to K-12 local educational agencies to support recruitment of non-certificated school employees to participate in a teacher preparation program and become certificated classroom teachers in California public schools.

- o Bilingual Professional Development Program. The 2017-18 State Budget includes an increase of $5 million one-time Proposition 98 general funds for one-time competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.

- County Office of Education Accountability Assistance. The 2017-18 State Budget includes an increase of $7 million in Proposition 98 general funds on an ongoing basis to support county office Local Control and Accountability Plan review and technical assistance workload. Specifically, this funding will be distributed proportionally to 24 county offices currently funded at their LCFF target level on a per district basis with no county receiving less than $80,000. The 2017-18 State Budget directs the State to adjust such amounts by the cost of living annually commencing with fiscal year 2018-19. The 2017-18 State Budget also requires county superintendents of schools to prepare a summary of how the county office of education will support school districts and schools within the county, and work with the California Collaborative for Education Excellence, the California Department of Education and other county offices of education.

- K-12 Mandate Block Grant. The 2017-18 State Budget includes an increase of $3.5 million in Proposition 98 general funds, which is the result of a cost-of-living adjustment for the block grant. The 2017-18 State Budget also adds two additional mandated programs to the block grant for 2017-18, the California Assessment of Student Performance and Progress program and the Training for School Employee Mandated Reporters program.

- California Equity Performance and Improvement Program. The 2017-18 State Budget includes an increase of $2.5 million in one-time Proposition 98 general funds to support and build capacity within local educational agencies and the State Department of Education to promote equity in California public schools. The 2017-18 State Budget directs the Superintendent of Public Instruction to apportion the funds to at least two designated lead agencies, which shall be county offices of education.

- Refugee Student Support. The 2017-18 State Budget appropriates $10 million for fiscal year 2017-18 from the State's General Fund to the California Department of Social Services in order to provide additional services for refugee pupils by allocating funding to school districts impacted by significant numbers of refugee pupils and other eligible populations served by the federal Office of Refugee Resettlement based on the eligibility criteria and allocation methodology set forth for the federal Refugee School Impact program. The 2017-18 State Budget directs the State to appropriate an equal amount for grants in fiscal years 2017-18, 2018-19, and 2019-20.

- K-12 School Facilities Program Accountability. The 2017-18 State Budget requires that projects funded under the Office of Public School Construction's School Facility Program be subject to expenditure audits in the annual K-12 audit guide. Accordingly, any local educational agency that receives specified funds relating to school facility projects will be required to annually report a detailed list of all expenditures of State funds, including interest, and of the local educational agency's matching funds for completed projects until all State funds, including interest, all of the local educational agency's matching funds, and savings achieved, including interest, are expended in accordance with State law. To help facilitate compliance with this requirement, the 2017-18 State Budget authorizes participating local educational agencies to repay any audit findings with local funds.

- District of Choice Program Extension. If a school district is designated as a District of Choice it must agree to accept interested students regardless of their academic abilities or personal characteristics. In addition, interested students generally do not need to seek permission from their home districts to attend a District of Choice. The 2017-18 State Budget extends the district of choice program, due to sunset in 2018, by six years and adds various oversight and accountability requirements for participating districts.

The complete 2017-18 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Future Budgets and Budgetary Actions. The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2017-18 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District. As the Refunding Bonds are payable from ad valorem property taxes, the State budget is not expected to have an impact on the payment of the Refunding Bonds.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and community college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert $1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of $1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Assembly Bill No. 26 & California Redevelopment Association v. Matosantos" herein). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Allocation of State Funding to School Districts; Local Control Funding Formula. Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some equalization aid were commonly referred to as "revenue limit districts," which are now referred to as "LCFF districts." The District is a community funded district. As such, the District receives a minimal amount of general financial support from the State, and local property tax collections are the primary funding source for the District.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant ("Base Grant") per unit of average daily attendance ("A.D.A.") with additional supplemental funding (the "Supplemental Grant") allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The LCFF includes the following components:

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2016-17, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to $7,820 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to $7,189 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to $7,403 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each

LEA equivalent to $8,801 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.

- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, LEAs would receive the greater of the Base Grant or the ERT.

Under LCFF, for community funded districts, local property tax revenues would be used to offset up to the entire allocation under the new formula. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

Local Control Accountability Plans. A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year local control and accountability plan ("LCAP"). Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district's budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district's LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the "Collaborative"), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency's LCAP.

Attendance and Base Revenue Limit. The following table sets forth the District's actual A.D.A., enrollment and base revenue limit per unit of A.D.A. for fiscal years 2011-12 and 2012-13 for grades kindergarten through grade 12, including special education.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Average Daily Attendance, Enrollment and Funded Base Revenue Limit
Fiscal Years 2011-12 and 2012-13

Fiscal Year	Average Daily Attendance[1]	Enrollment[2]	Base Revenue Limit Per Unit of Average Daily Attendance
2011-12[3]	20,871	21,803	$6,399.90
2012-13[4]	21,025	21,850	6,542.90

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(1) A.D.A. for the second period of attendance, typically in mid-April of each school year.
(2) Reflects enrollment as of October report submitted to the California Basic Educational Data System ("CBEDS") in each school year.
(3) The District had a 20.602% base revenue limit deficit factor and a 2.24% cost of living adjustment in fiscal year 2011-12, which resulted in a funded base revenue limit of $6,542.90.
(4) The District had a 22.272% base revenue limit deficit factor and a 3.243% cost of living adjustment in fiscal year 2012-13, which resulted in a funded base revenue limit of $6,187.54.

Source: Newport-Mesa Unified School District.

Attendance and LCFF. The following table sets forth the District's actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, "EL/LI Students")), and targeted Base Grant per unit of A.D.A. for fiscal years 2013–14 through 2016–17. The A.D.A. and enrollment numbers reflected in the following table include special education.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Average Daily Attendance, Enrollment and Targeted Base Grant
Fiscal Years 2013–14 through 2016–17

		A.D.A./Base Grant					Enrollment[6]	
Fiscal Year		K-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2013–14	A.D.A.[1]:	6,483.71	4,881.05	3,126.05	6,661.39	21,152.20	22,018	48.17%
	Targeted Base Grant[2]:	$6,952	$7,056	$7,266	$8,419	—	—	—
2014–15	A.D.A.[1]:	6,479.19	4,879.67	3,130.84	6,664.07	21,153.77	21,905	47.99%
	Targeted Base Grant[2][3]:	$7,011	$7,116	$7,328	$8,491	—	—	—
2015–16	A.D.A.[1]:	6,323.07	4,785.52	3,185.56	6,692.63	20,986.78	21,736	47.95%
	Targeted Base Grant[2][4]:	$7,083	$7,189	$7,403	$8,578	—	—	—
2016–17	A.D.A.[1]:	6,124.88	4,814.57	3,202.69	6,617.71	20,759.85	21,585	47.25%
	Targeted Base Grant[2][5]:	$7,083	$7,189	$7,403	$8,578	—	—	—

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(1) A.D.A. for the second period of attendance, typically in mid-April of each school year.
(2) Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years 2013–14, 2014–15, 2015-16 and 2016-17.
(3) Targeted fiscal year 2014–15 Base Grant amounts reflect a 0.85% cost-of-living adjustment from targeted fiscal year 2013–14 Base Grant amounts.
(4) Targeted fiscal year 2015–16 Base Grant amounts reflect a 1.02% cost-of-living adjustment from targeted fiscal year 2014–15 Base Grant amounts.
(5) Targeted fiscal year 2016–17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015–16 Base Grant amounts.
(6) Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and CALPADS for the 2015-16 school year. For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013–14 percentage of unduplicated EL/LI Students will be expressed solely as a percentage of its fiscal year 2013–14 total enrollment. For fiscal year 2014–15, the percentage of unduplicated EL/LI Students enrollment will be based on the two-year average of EL/LI Students enrollment in fiscal years 2013–14 and 2014–15. Beginning in fiscal year 2015–16, a school district's percentage of unduplicated EL/LI Students will be based on a rolling average of such school district's EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Newport-Mesa Unified School District.

The District received approximately $244.79 million (estimated) in aggregate revenues reported under LCFF sources in fiscal year 2016–17, and has budgeted to receive approximately $258.52 million in aggregate revenues under the LCFF in fiscal year 2017–18 (or approximately 87.93% of its general fund revenues in fiscal year 2017–18). Such amount includes the supplemental grants budgeted to be approximately $15.50 million in fiscal year 2017–18. The District does not expect to receive any concentration grants in fiscal year 2017-18. See " – Local Sources of Education Funding" below for a discussion of the District's primary revenue source.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some State equalization aid were commonly referred to as "revenue limit districts." The District was a basic aid district and is now referred to as a community funded district.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See *"–Allocation of State Funding to School* Districts; Local Control Funding Formula" herein for more information about the LCFF.

Local property tax revenues account for approximately 95.44% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately $246.73 million, or 83.92% of total general fund revenues in fiscal year 2017-18.

For information about the property taxation system in California and the District's property tax base, see the sections titled – "Property Taxation System," –"Assessed Valuation of Property within the District," and –"Tax Charges and Delinquencies" under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS."

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

Effect of Changes in Enrollment. Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently.

In an LCFF district, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In community funded districts, such as the District, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 3.66% (or approximately $10.75 million) of the District's general fund budgeted revenues for fiscal year 2017-18.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 6.45% (or approximately $18.97 million) of the District's general fund budgeted revenues for fiscal year 2017-18.

A significant portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is projected at approximately $3,921,735 for fiscal year 2017-18.

Other Local Revenues. In addition to ad valorem property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 1.96% (or approximately $5.76 million) of the District's general fund budgeted revenues for fiscal year 2017-18.

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There are currently no District-authorized charter schools operating within the District. The District cannot provide any assurances whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's finances in future years.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2016, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's auditor, Vavrinek, Trine, Day & Co., LLP, Rancho Cucamonga, California, for fiscal years 2011-12 through 2015-16.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its reports in this Official Statement, and it has not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The following table sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2011-12 through 2015-16.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2011–12 through 2015–16

	Fiscal Year 2011–12	Fiscal Year 2012–13	Fiscal Year 2013–14	Fiscal Year 2014–15	Fiscal Year 2015–16
REVENUES					
LCFF/Revenue limit sources[1]	$176,848,388	$205,911,700	$206,138,782	$216,985,641	$233,297,819
Federal sources	15,884,960	12,612,045	8,492,049	10,247,699	10,862,454
Other State sources	28,446,698	31,593,284	29,256,493	25,572,991	39,116,114
Other local sources	12,030,227	10,858,788	10,121,593	11,535,679	12,069,461
Total Revenues	233,210,273	260,975,817	254,008,917	264,342,010	295,345,848
EXPENDITURES					
Current					
Instruction	138,595,636	138,832,159	140,267,959	148,393,921	157,172,176
Instruction-related activities:					
Supervision of instruction	7,899,996	7,903,832	10,104,177	12,131,777	13,762,531
Instructional library, media and technology	2,728,800	2,624,720	2,624,087	3,022,719	3,096,162
School site administration	17,348,068	17,378,638	17,061,277	17,640,029	18,428,521
Pupil services:					
Home-to-school transportation	6,633,627	6,136,472	6,141,687	6,281,688	6,243,844
Food services	120,954	134,564	122,572	117,405	109,254
All other pupil services	10,885,530	11,556,767	11,561,546	11,749,730	12,789,901
Administration:					
Data processing	3,991,103	4,605,054	5,409,970	6,468,246	7,386,520
All other administration	8,232,534	8,085,547	7,771,532	8,797,603	7,579,361
Plant services	26,243,681	25,509,537	27,112,203	29,288,550	30,148,620
Facility acquisition and construction	574,736	103,585	633,694	275,556	817,868
Ancillary services	3,011,626	2,946,664	3,004,824	3,131,560	3,467,559
Other outgo	3,703,906	2,846,060	2,804,322	2,991,369	3,333,221
Debt service					
Principal	420,295	361,644	375,074	396,869	424,700
Interest and other	67,877	52,977	39,547	25,616	11,171
Total Expenditures	230,458,369	229,078,220	235,034,471	250,712,638	264,771,409
Excess (Deficiency) of Revenues Over Expenditures	2,751,904	31,897,597	18,974,446	13,629,372	30,574,439
Other Financing Sources (Uses)					
Transfers In	463,017	–	22,179	67,812	111
Transfers out[2]	(2,864,796)	(22,563,023)	(12,698,221)	(18,761,558)	(22,160,557)
Other Sources	–	–	–	178,879	–
Net Financing Sources (Uses)	(2,401,779)	(22,563,023)	(12,676,042)	(18,514,867)	(22,160,446)
NET CHANGE IN FUND BALANCES	350,125	9,334,574	6,298,404	(4,885,495)	8,413,993
Fund Balances – Beginning	48,734,849	49,084,974	58,419,548	64,717,952	59,832,457
Fund Balances – Ending	$49,084,974	$58,419,548	$64,717,952	$59,832,457	$68,246,450

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(1) The LCFF was implemented beginning in fiscal year 2013-14. See "—Allocation of State Funding to School Districts: Local Control Funding Formula" herein for more information about the LCFF.
(2) Transfers out include certain one-time transfers to funds such as the adult education fund as well as annual transfers to funds including the nutrition services fund and education protection account. The District transfers funds to its revocable OPEB trust and Special Reserve Fund for Capital Outlay Projects depending on the availability of funds each fiscal year.
Source: Newport-Mesa Unified School District Audited Financial Reports for fiscal years 2011-12 through 2015-16.

The following table shows the general fund balance sheet of the District for fiscal years 2011–12 through 2015–16.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2011–12 through 2015–16

	Fiscal Year 2011–12	Fiscal Year 2012–13	Fiscal Year 2013–14	Fiscal Year 2014–15	Fiscal Year 2015–16
ASSETS					
Deposits and investments	$50,511,625	$64,045,908	$76,081,748	$78,633,175	$93,400,917
Receivables	12,402,925	14,992,620	17,690,529	8,718,149	9,839,306
Due From Other Funds	1,067,723	1,320,571	1,261,222	1,486,531	1,055,509
Prepaid Expenditures	30,572	46,114	20,849	27,927	45,539
Stores inventories	123,191	176,574	163,590	157,666	156,288
Total Assets	$64,136,036	$80,581,787	$95,217,938	$89,023,448	$104,497,559
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$12,466,635	$11,958,284	$19,568,578	$11,724,849	$14,224,495
Due to other funds	1,885,654	9,528,220	10,445,493	16,954,581	20,820,830
Deferred revenue	698,773	675,735	485,915	511,561	1,205,784
Total Liabilities	15,051,062	22,162,239	30,499,986	29,190,991	36,251,109
Fund Balances:					
Nonspendable	303,763	372,688	334,439	335,593	351,827
Restricted	3,164,432	4,724,903	8,103,043	3,517,858	5,330,062
Committed	15,898,697	–	–	–	–
Assigned	21,665,338	45,194,256	46,780,470	25,753,304	50,964,561
Unassigned	8,052,744	8,126,701	9,500,000	30,225,702	11,600,000
Total Fund Balances	49,084,974	58,419,548	64,717,952	59,832,457	68,246,450
Total Liabilities and Fund Balances	$64,136,036	$80,581,787	$95,217,938	$89,023,448	$104,497,559

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Source: Newport-Mesa Unified School District Audited Financial Reports for fiscal years 2011–12 through 2015–16.

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the County of Orange Superintendent of Schools.

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than August 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the county superintendent no later than September 8. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the county superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the county superintendent determines that a district cannot meet its current or the subsequent year's obligations, the county superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the county superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the county superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the county superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent in that fiscal year or in the next succeeding year. In the last five years, the District has not received a negative or qualified certification for an interim financial report.

For school districts under fiscal distress, the county superintendent of schools is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent of schools, receive an emergency appropriation from the State, the acceptance of which constitutes an agreement to submit to management of the school district by a Superintendent appointed administrator.

In the event the State elects to provide an emergency appropriation to a school district, such appropriation may be accomplished through the issuance of "State School Fund Apportionment Lease Revenue Bonds" to be issued by the California Infrastructure and Economic Development Bank, on behalf of the school district. State law provides that so long as such bonds are outstanding, the recipient school district (via its State-appointed administrator) cannot file for bankruptcy.

The following table sets forth the District's adopted general fund budgets for fiscal years 2014–15 through 2017–18, unaudited actuals for fiscal years 2014–15 through 2015–16 and estimated actuals for fiscal year 2016–17.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
General Fund Budgets for Fiscal Years 2014–15 through 2017–18, Unaudited Actuals for Fiscal Years 2014–15 through 2015–16 and Estimated Actuals for Fiscal Year 2016–17

	2014–15 Original Budget	2014–15 Unaudited Actuals[1]	2015–16 Original Budget	2015–16 Unaudited Actuals[1]	2016–17 Original Budget	2016–17 Estimated Actuals[2]	2017–18 Original Budget
REVENUES							
LCFF Sources							
State Aid	$ 11,432,381.00	$ 11,857,053.99	$ 11,926,838.00	$ 11,818,946.00	$ 11,926,838.00	$ 11,789,015.00	$ 11,791,938.00
Local Portion	202,626,347.00	205,128,587.02	216,003,862.00	221,478,872.31	230,354,179.00	233,005,495.00	246,728,182.00
Total LCFF Sources	214,058,728.00	216,985,641.01	227,930,700.00	233,297,818.31	242,281,017.00	244,794,510.00	258,520,120.00
Federal Revenue	10,137,111.00	10,247,700.11	11,883,476.00	10,862,454.40	12,961,011.00	12,787,920.00	10,753,158.00
Other State Revenue	17,427,583.00	19,679,031.43	17,617,853.00	31,955,490.28	23,776,727.00	24,629,551.00	18,974,707.00
Other Local Revenue	7,907,656.00	11,428,895.36	4,952,112.00	11,793,730.76	6,048,178.00	9,975,085.00	5,756,755.00
TOTAL REVENUES	249,531,078.00	258,341,267.91	262,384,141.00	287,909,493.75	285,066,933.00	292,187,066.00	294,004,740.00
EXPENDITURES							
Certificated Salaries	114,697,166.00	112,294,332.05	118,894,363.00	117,647,785.07	124,928,949.00	122,487,422.00	126,783,302.00
Classified Salaries	46,171,170.00	46,533,026.33	47,977,570.00	48,124,782.63	48,283,099.00	48,509,116.00	48,909,515.00
Employee Benefits	54,694,025.00	51,144,446.66	58,450,369.00	54,777,562.67	67,682,521.00	66,246,670.00	71,580,142.00
Books and Supplies	11,062,216.00	10,784,435.16	11,628,404.00	10,641,309.39	12,594,079.00	13,430,095.00	16,086,119.00
Services, Other Operating Expenses	19,465,742.00	19,720,607.13	20,864,692.00	21,085,205.34	21,281,495.00	24,406,582.00	22,921,850.00
Capital Outlay	1,340,898.00	1,360,449.57	1,650,278.00	2,068,878.01	2,049,528.00	2,873,400.00	2,031,112.00
Other Outgo (excluding Direct Support/Indirect Costs)	3,025,685.00	3,405,989.41	3,593,294.00	3,747,841.19	3,802,156.00	3,547,358.00	3,652,156.00
Transfers of Direct Support/Indirect Costs	(653,274.00)	(603,487.03)	(716,821.00)	(482,580.96)	(788,379.00)	(630,120.00)	(679,655.00)
TOTAL EXPENDITURES	249,803,628.00	244,639,799.28	262,342,149.00	257,610,783.34	279,833,448.00	280,870,523.00	291,284,541.00
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(272,550.00)	13,701,468.63	41,992.00	30,298,710.41	5,233,485.00	11,316,543.00	2,720,199.00
OTHER FINANCING SOURCES (USES)							
Inter-fund Transfers In	–	13,557,690.81	–	631.42	–	85,403.00	–
Inter-fund Transfers Out	(10,249,876.00)	(25,045,101.32)	(5,580,589.00)	(24,795,129.44)	(10,618,324.00)	(16,155,897.00)	(9,144,377.00)
Other Sources (Uses)	–	–	–	–	–	–	–
Contributions	–	–	–	–	–	–	–
TOTAL, OTHER FINANCING SOURCES (USES)	(10,249,876.00)	(11,487,410.51)	(5,580,589.00)	(24,794,498.02)	(10,618,324.00)	(16,070,494.00)	(9,144,377.00)
NET INCREASE (DECREASE) IN FUND BALANCE	(10,522,426.00)	2,214,058.12	(5,538,597.00)	5,504,212.39	(5,384,839.00)	(4,753,951.00)	(6,424,178.00)
BEGINNING BALANCE, as of July 1	26,090,345.00	32,393,945.91	28,403,948.00	34,608,004.03	34,585,812.00	40,112,216.00	35,358,265.00
Audit Adjustments	–	–	–	–	–	–	–
As of July 1 – Audited	26,090,345.00	32,393,945.91	28,403,948.00	34,608,004.03	34,585,812.00	40,112,216.00	35,358,265.00
Other Restatements	–	–	–	–	–	–	–
Adjusted beginning Balance	26,090,345.00	32,393,945.91	28,403,948.00	34,608,004.03	34,585,812.00	40,112,216.00	35,358,265.00
ENDING BALANCE	$15,567,919.00	$34,608,004.03	$22,865,351.00	$40,112,216.42	$29,200,973.00	$35,358,265.00	$28,934,087.00
Unrestricted Balance	$14,859,495.00	$30,559,805.32	$22,865,351.00	$34,771,462.14	$28,518,165.00	$33,980,950.00	$27,556,772.00
Restricted Balance	$708,424.00	$4,048,198.71	–	$5,340,754.28	$682,808.00	$1,377,315.00	$1,377,315.00

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(1) For fiscal years 2014–15 and 2015–16, the unaudited actuals differ from the District's audited financial reports because the unaudited actuals do not include the activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits with the activity of the general fund as required by GASB Statement No. 54.
(2) Figures are projections.
Source: Newport-Mesa Unified School District adopted general fund budgets for fiscal years 2014–15 through 2017–18; unaudited actuals for fiscal years 2014–15 through 2015–16; and estimated actuals for fiscal year 2016–17.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District's long-term obligations for the year ended June 30, 2016, consisted of the following:

Long-Term Debt	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016	Due in One Year
General Obligation Bonds[1]	$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
	$339,606,861	$22,925,832	$12,804,743	$349,727,950	$10,138,621

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[1] Does not include the Series 2017 Bonds, the Refunding Bonds or the refunding of the Series 2011 Bonds maturing on August 1 in the years 2041 and 2046 and the refunding of the Series 2012 Bonds maturing on August 1 in the years 2026 through 2028, inclusive.
Source: Newport-Mesa Unified School District Audited Financial Report for fiscal year 2015-16.

General Obligation Bonds. Prior to the issuance of the Series 2017 Bonds and the Refunding Bonds, the District has outstanding four additional series of general obligation bonds, each of which is secured by ad valorem taxes levied upon all property subject to taxation by the District on a parity with the Refunding Bonds.

See "THE REFUNDING BONDS – Outstanding Bonds" and " – Aggregate Debt Service" in the front portion of the Official Statement with respect to the Refunding Bonds for more information about such outstanding bonds.

Capital Leases. The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchase (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

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	$149,761

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Source: District's Audited Financial Report for fiscal year 2015-16.

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

California Energy Commission Loan. The District entered into an agreement with the California Energy Commission ("CEC") during fiscal year 2014-15 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 0% interest rate, and the District began repayment in fiscal year 2016-17. 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 two separate draw-down requests to the CEC. Proceeds from the first draw-down request in the amount of $1,883,599 were received during fiscal year 2014-15. Proceeds from the second draw-down request in the amount of $1,116,401 were received during fiscal year 2015-16. As of June 30, 2016, the District had an outstanding CEC loan balance of $3,000,000.

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% and were accepted as estimated by the District's administrator.

Community Facilities District (CFD) Special Tax Bonds. The bonds issued by certain community facilities districts ("CFDs") established by the District (the "CFD Bonds") are not obligations of the District. The CFD Bonds, the interest thereon, and any premiums on the redemption of any of the CFD Bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFD, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the CFD Bonds, which are payable from the proceeds of an annual special tax levied on and collected from property within the respective CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Board of Education of the District. The CFD Bonds are secured only by a first pledge of all revenues derived from the net special taxes and the moneys deposited in certain funds held under their respective fiscal agent agreements.

For more information about outstanding CFD Bonds, see Note 10 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

Lease Revenues. Lease agreements have been entered into with various leases 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	$800,231

Source: District's Audited Financial Report for fiscal year 2015-16.

During fiscal year 2015-16, a total of $464,636 in lease revenues was received by the District.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS, CalPERS and PARS (described below), the District provides certain post-retirement healthcare benefits, in accordance with District employment contracts. Employees who retire from the District may be eligible for post-employment medical, dental, vision and life insurance benefits. Those eligible include retirees from active service that are 55 years old with 10 years of consecutive service. The District provides coverage at no cost to the retiree until he or she reaches age 65. At age 65, the retiree can continue coverage but must pay the premium cost. Dependent coverage is available but the retiree must pay the premium cost for any such dependent. The District blends its rates for active and retirees, which means that the premium cost for the retiree population is lower than the actual cost of providing the benefit. All retirees are eligible for $10,000 of life insurance until age 65. All benefits cease at age 65. As of June 30, 2016, participants in the plan consist of 252 retirees and their beneficiaries currently receiving benefits and 2,191 active employees eligible for these benefits in the future.

GASB 45 requires accrual accounting for the expensing of other post-employment benefits ("OPEBs") much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The District implemented GASB 45 in fiscal year 2007-08.

The contribution requirement of plan members and the District are established under a funding policy approved by the District's Board of Education, and may be amended by the District from time to time. The District has established a revocable trust to fund its OPEB obligations and currently has approximately $16.17 million set aside in such fund. The District contributions to the revocable trust for these benefits for fiscal years 2013-14, 2014-15 and 2015-16 were $2,000,000, $2,000,000 and $0, respectively. These contributions were in addition to the pay-as-you-go amounts for fiscal years 2013-14, 2014-15 and 2015-16 of approximately $2,007,822, $1,697,428 and $2,045,890, respectively. None of the amounts set aside in the District's revocable trust are counted as plan assets for purposes of GASB 45, which requires an irrevocable contribution to a trust or equivalent arrangement protected from creditors and dedicated solely to providing benefits to retirees and beneficiaries.

Grant Thornton LLP, Chicago, Illinois, has prepared an actuarial report as of July 1, 2015, relying on the actuarial valuation report as of July 1, 2014, and reports that, as of July 1, 2015, the District had an actuarial accrued liability of $57,617,539 million—all of which was unfunded. A discount rate of 5% was applied. For more information regarding the actuarial valuation, see Note 13 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

Tax and Revenue Anticipation Notes. The most recent fiscal year in which the District issued tax and revenue anticipation notes ("TRANS") was fiscal year 2009-10. The District does not expect to issue TRANS or borrow funds to supplement the District's cash flow in fiscal year 2017-18. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

Employment

As of June 2017, the District employed 3,137 employees, consisting of 1,847 non-management certificated employees, 73 certificated management employees, 1,164 classified non-management employees, and 53 classified management employees. For the year ended June 30, 2017, the total certificated and classified payrolls were $122.49 million (estimated) and $48.51 million (estimated), respectively. For fiscal year 2017–18, the total certificated and classified payrolls are budgeted to be approximately $126.78 million and $48.91 million, respectively. These employees, except management and some part-time employees, are represented by the bargaining units as noted below:

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
Newport-Mesa Federation of Teachers	1,112.40	June 30, 2017[1]
California School Employees Association Chapter No. 18 (Classified employees)	908.44	June 30, 2019

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[1] Contract negotiations are ongoing. During negotiations, the District and the bargaining unit are operating under the expired contract.
Source: Newport-Mesa Unified School District.

Retirement Benefits

The District participates in retirement plans with CalSTRS, which covers all full-time certificated District employees, and the State Public Employees' Retirement System ("CalPERS"), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

CalSTRS. Contributions to CalSTRS are fixed in statute. For fiscal year 2013–14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to Fiscal Year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015–16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. The State's total contribution also increased from approximately 3% in fiscal year 2013–14 to 6.30% of payroll in fiscal year 2016–17, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021–22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers' Retirement Board voted to adopt revised actuarial assumptions reflecting members' increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2016, an actuarial valuation (the "2016 CalSTRS Actuarial Valuation") for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of $96.7 billion, an increase of approximately $20.5 million from the June 30, 2015 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2016, June 30, 2015 and June 30, 2014, based on the actuarial assumptions, were approximately 63.7%, 68.5% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2016 CalSTRS Actuarial Valuation: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," a 7.25% investment rate of return for measurements as of June 30, 2016 and an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2016 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See "–Governor's Pension Reform" below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

As indicated above, there was no required contribution from teachers, schools districts or the State to fund the unfunded actuarial liability for the CalSTRS defined benefit program and only the State legislature can change contribution rates. The 2016 CalSTRS Actuarial Valuation stated that the aggregate contribution rate as of June 30, 2017, inclusive of an equivalent rate contribution of 10.219% from members, 8.000% from employers relating to the base rate, 0.250% from employers based on the sick leave rate, 10.096% from employers based on the supplemental rate, 1.881% from the State based on the base rate and 4.021% from the State based on the supplemental rate is equivalent to 34.467%.

Pursuant to Assembly Bill 1469, school district's contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	18.13
2020	19.10

Source: Assembly Bill 1469.

The following table sets forth the District's total employer contributions to CalSTRS for fiscal years 2013–14 through 2016–17 and the budgeted contribution for fiscal year 2017–18.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Contributions to CalSTRS for Fiscal Years 2013–14 through 2017–18

Fiscal Year	Contribution
2013–14	$ 8,290,214
2014–15	10,219,067
2015–16	12,529,372
2016–17(1)	15,194,076
2017–18(2)	16,576,739

(1) Figure is a projection based on estimated actuals for fiscal year 2016–17.
(2) Original Budget for fiscal year 2017–18.
Source: Newport-Mesa Unified School District.

The District's total employer contributions to CalSTRS for fiscal years 2013–14 through 2016–17 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

CalPERS. All qualifying classified employees of K-12 districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

The CalPERS Finance and Administration Committee has reported that the CalPERS Schools Actuarial Valuation as of June 30, 2016, which is expected to be released in late 2017, will indicate that the funded ratio as of June 30, 2016 is approximately 71.9% on a market value of assets basis. According to the CalPERS Schools Actuarial Valuation as of June 30, 2015, the CalPERS Schools plan had a funded ratio of 77.5% on a market value of assets basis. The funded ratio, on a market value basis, as of June 30, 2014, June 30, 2013, June 30, 2012, June 30, 2011 and June 30, 2010 was 86.6%, 80.5%, 75.5%, 78.7% and 69.5%. In April 2013, the CalPERS Board of Administration approved changes to the CalPERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. Beginning with the June 30, 2013 actuarial valuation, CalPERS employed a new amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period (as compared to the current policy of spreading investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period). Such changes, the implementation of which were delayed until fiscal year 2015-16 for the State, schools and all public agencies, have increased contribution rates in the near term but are expected to lower contribution rates in the long term. In November 2015, the CalPERS Board of Administration approved a proposal pursuant to which the discount rate would be reduced by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the then-current discount rate of 7.5% by at least four percentage points. In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5% to 7.375% for fiscal year 2017-18, 7.25% for fiscal year 2018-19, and 7.00% beginning fiscal year 2019-20. The new discount rates will take effect beginning July 1, 2017 for the State and July 1, 2018 for school districts. The change in the assumed rate of return is expected to result in increases in the District's normal costs and unfunded actuarial liabilities.

In February 2014, the CalPERS Board of Administration adopted actuarial demographic assumptions that take into account public employees living longer. Such assumptions are expected to increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. CalPERS applied the assumptions beginning with the June 30, 2015 valuation for the schools pool, which was used to establish employer contribution rates for fiscal year 2016-17. CalPERS estimates that the new demographic assumptions could cost public agency employers up to 9% of payroll for safety employees and up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that future experiences differ from CalPERS' current assumptions, the required employer contributions may vary. In April 2016, CalPERS approved an increase to the contribution rate for school districts from 11.847% during fiscal year 2015-16 to 13.888% during fiscal year 2016-17. In April 2017, CalPERS adopted an employer contribution rate of 15.531% for the schools pool and a member contribution rate of 6.5% for school employees subject to PEPRA for the period of July 1, 2017 to June 30, 2018.

The following table sets forth the District's total employer contributions to CalPERS for fiscal years 2013-14 through 2016-17 and the budgeted contribution for fiscal year 2017-18.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(Orange County, California)
Contributions to CalPERS for Fiscal Years 2013-14 through 2017-18

Fiscal Year	Contribution
2013-14	$4,747,390
2014-15	5,326,466
2015-16	5,569,004
2016-17(1)	6,109,241
2017-18(2)	6,438,833

(1) Figure is a projection based on estimated actuals for fiscal year 2016-17.
(2) Original Budget for fiscal year 2017-18.
Source: Newport-Mesa Unified School District.

The District's total employer contributions to CalPERS for fiscal years 2013-14 through 2016-17 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "–Governor's Pension Reform" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

PARS. The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution plan. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

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 PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.5% of an employee's gross earnings. An employee is required to contribute 6.0% of his or her gross earnings to the pension plan. During the fiscal year ended June 30, 2016, the District's required and actual contributions amounted to $71,062, which represents 1.5% of its current year covered payroll.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalPERS, CalSTRS and PARS are more fully described APPENDIX B — "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 15.

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 11 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements); (ii) full pension costs would be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures

The District participates in the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), the Coastline Regional Occupation Program (CROP), and the Southern Orange County Property/Liability Joint Powers Authority (SOCPLJPA) risk pool for property and liability coverage. 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 financial statements of the District; however, fund transactions between the entities and the District are included in the District's financial 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 rendered. See Note 17 to the District's financial statements attached hereto as APPENDIX B— "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016" for more information.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIIIA. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID ("Article XIIIC" and "Article XIIID," respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in Santa Clara County Transportation Authority v. Guardino. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 districts Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of

Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when general fund revenue growth exceeds personal income growth.

Assembly Bill No. 26 & California Redevelopment Association v. Matosantos

On February 1, 2012, pursuant to the California Supreme Court's decision in California Redevelopment Association v. Matosantos, Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency were transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District.

Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Proposition 30 and Proposition 55

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State's income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see "– Proposition 98 and Proposition 111" above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the official results of the statewide general election on November 8, 2016 reflect that 63.3% of voters in the State voted in favor of the California Tax Extension to Fund Education and Healthcare Initiative ("Proposition 55"), which extends by twelve years the temporary personal income tax increases on incomes over $250,000 that was first enacted by Proposition 30. Revenues from the tax increase will be allocated to school districts and community colleges in the State.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process."

Proposition 2

General. Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

Rainy Day Fund. The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year's deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year's deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the "Public School System Stabilization Account") to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System

Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

SB 858. Senate Bill 858 ("SB 858") became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses. The Refunding Bonds are payable from ad valorem taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 to adversely affect its ability to pay the principal of and interest on the Refunding Bonds as and when due.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

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APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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Newport-Mesa Unified School District

Annual Financial Report

June 30, 2016

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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.

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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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

NEWPORT-MESA Unified School District

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

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.

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 on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

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.

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.

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.

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.

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

	2016		2015	
	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	$ 323,113,090	$ 271,840,027	$ 301,360,464	$ 251,303,492

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

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			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
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.

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.

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.

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

	Staffing Ratio	Enrollment
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	(211,168,305)
Total Capital Assets	344,779,120
Total Assets	522,915,213
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	3,663,947
Deferred outflows of resources related to pensions	51,734,157
Total Deferred Outflows of Resources	55,398,104
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	339,589,329
Aggregate net pension liability	224,316,235
Total Long-Term Obligations	574,044,185
Total Liabilities	597,273,225
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	46,625,925
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)	(207,513,171)
Total Net Position	$ (65,585,833)

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) 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:	
Property taxes, levied for general purposes	221,478,872
Property taxes, levied for debt service	12,930,104
Taxes levied for other specific purposes	516,249
Federal and State aid not restricted to specific purposes	27,412,600
Interest and investment earnings	1,071,628
Miscellaneous	15,797,852
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:	(211,168,305)	
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.

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.	59,278,312	
Total Long-Term Obligations		(339,128,099)
Total Net Position - Governmental Activities		$ (65,585,833)

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	(20,820,232)	
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.

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	(349,867)	
		$ 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
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
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)
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)
Change in Net Position of Governmental Activities		$ 7,367,278

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	10,838,550
LIABILITIES	
Current Liabilities	
Accounts payable	109,359
Due to other funds	1,699
Current portion of claims liability	2,681,503
Total Current Liabilities	2,792,561
Noncurrent Liabilities	
Noncurrent portion of claims liability	7,918,348
Total Liabilities	$ 10,710,909
NET POSITION	
Restricted	$ 127,641

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	$ 3,156,237
OPERATING EXPENSES	
Payroll costs	115,313
Professional and contract services	2,824,893
Other operating cost	292,078
Total Operating Expenses	3,232,284
Operating Loss	(76,047)
NONOPERATING REVENUES	
Interest income	55,316
Change in Net Position	(20,731)
Total Net Position - Beginning	148,372
Total Net Position - Ending	$ 127,641

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		475,915
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		55,316
Net Increase in Cash and Cash Equivalents		531,231
Cash and Cash Equivalents - Beginning		10,300,706
Cash and Cash Equivalents - Ending	$	10,831,937
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	$	475,915

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

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

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

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

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.

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.

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.

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

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

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.

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.

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.

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.

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.

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.

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

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.

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.

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	$ 168,056,740

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	$ 168,056,740

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.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Orange County and Los Angeles County Investment Pools and short-term money market funds.

Specific Identification

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

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

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.

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:

		Fair Value Measurements Using	
Investment Type	Reported Amount	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	$ 164,315,358	$ 8,455,124	$ 155,860,234

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

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	$ 9,839,306	$ 107,759	$ 2,612,440	$ 6,613	$ 12,566,118	$ 8,734

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	53,130,984	32,009,058	31,672,644	53,467,398
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	470,062,724	32,955,605	538,302	502,480,027
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	190,729,876	20,820,232	381,803	211,168,305
Governmental Activities Capital Assets, Net	$ 332,463,832	$ 44,144,431	$ 31,829,143	$ 344,779,120

Depreciation expense was charged to governmental functions as unallocated.

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 From			
Due To	General Fund	Non-Major Governmental Funds	Internal Service	Total
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	$ 20,820,830	$ 1,053,810	$ 1,699	$ 21,876,339

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.

Operating Transfers

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

	Transfer From		
Transfer To	General Fund	Non-Major Governmental Funds	Total
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	$ 22,160,557	$ 111	$ 22,160,668

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	$ 22,160,668

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	$14,224,495	$ 3,726,962	$ 2,181,168	$ 109,359	$ 20,241,984	$ 118,552

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	$ 1,205,784	$ 109,147	$ 1,314,931

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
	$ 339,606,861	$ 22,925,832	$ 12,804,743	$ 349,727,950	$ 10,138,621

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 Outstanding July 1, 2015	Accreted	Redeemed	Bonds 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
				$ 279,179,969	$ 11,342,492	$ 6,385,000	$ 284,137,461

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.

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

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	$ 149,761

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.

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:

Fiscal Year	Principal	Current Interest	Total
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	$ 6,815,000	$ 793,675	$ 7,608,675

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	351,827	–	124,106	475,933
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	5,330,062	35,786	25,920,088	31,285,936
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	50,964,561	51,502,014	23,242	102,489,817
Unassigned				
Reserve for economic uncertainties	11,600,000	–	–	11,600,000
Total	$ 68,246,450	$ 51,537,800	$ 26,067,436	$ 145,851,686

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	$ 800,231

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.

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	(2,190,308)
Annual OPEB cost (expense)	7,395,595
Contributions made	(2,788,847)
Increase in net OPEB obligation	4,606,748
Net OPEB obligation, beginning of year	34,501,904
Net OPEB obligation, end of year	$ 39,108,652

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

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 Accrued 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.

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:

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

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.

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.

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	$ 251,261,373

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	$ 31,387,165	$ 29,091,412

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	$ (13,396,574)

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	$ 3,396,094

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%

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:

Discount rate	Net Pension Liability
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.

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	On or after
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.

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	$ 20,346,992	$ 17,534,513

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	$ (2,053,555)

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	$ (702,970)

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.

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

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.

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Estimated Completion Date
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
	$ 25,444,700	

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	Variances – Positive (Negative)
	Original	Final	(GAAP Basis)	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]	277,987,526	287,177,980	295,345,848	8,167,868
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]	267,358,578	268,543,066	264,771,409	3,771,657
Excess of Revenues Over Expenditures	10,628,948	18,634,914	30,574,439	11,939,525
Other Financing Sources (Uses)				
Transfers in	-	631	111	(520)
Transfers out	(20,582,790)	(18,657,735)	(22,160,557)	(3,502,822)
Net Financing Sources (Uses)	(20,582,790)	(18,657,104)	(22,160,446)	(3,503,342)
NET CHANGE IN FUND BALANCES	(9,953,842)	(22,190)	8,413,993	8,436,183
Fund Balances - Beginning	59,832,457	59,832,457	59,832,457	-
Fund Balances - Ending	$ 49,878,615	$ 59,810,267	$ 68,246,450	$ 8,436,183

[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 Accrued 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

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

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

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

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

See accompanying note to required supplementary information.

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	9,545
Subtotal - Title I Grants to Local Educational Agencies			4,162,387
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	41
Subtotal - Adult Education - Basic Grants to States			491
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	241,501
Subtotal - Special Education (IDEA) Cluster			4,262,918
Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation			
Workability II, Transition Partnership	84.126	10006	316,867
Total - U.S. Department of Education			9,870,335

See accompanying note to supplementary information.

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			6,160,073
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			6,280,590
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			1,090,595
Total Federal Programs			$ 17,241,520

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

MEMBER	OFFICE	TERM EXPIRES
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	20,664.05	20,619.61
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	31.65	31.65
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	13.86	14.15
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	1.22	1.22
Total ADA	20,710.78	20,666.63

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 Traditional Calendar	Number of Days Multitrack Calendar	Status
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.

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	$ (4,997,750)	$ 5,500,211	$ 2,214,059	$ (142,543)
ENDING FUND BALANCE	$ 35,110,465	$ 40,108,215	$ 34,608,004	$ 32,393,945
AVAILABLE RESERVES[2]	$ 11,600,000	$ 11,600,000	$ 30,225,702	$ 9,500,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	4.0%	4.1%	11.2%	3.8%
LONG-TERM OBLIGATIONS	N/A	$ 349,727,950	$ 339,606,861	$ 328,493,874
AVERAGE DAILY ATTENDANCE AT P-2[4]	20,690	20,711	20,948	21,071

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	$ 209,825	$ 921,103	$ 1,967,860	$ –
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	186,583	817,133	1,173,708	–
Fund Balances:				
Nonspendable	–	–	124,106	–
Restricted	–	103,970	670,046	–
Assigned	23,242	–	–	–
Total Fund Balances	23,242	103,970	794,152	–
Total Liabilities and Fund Balances	$ 209,825	$ 921,103	$ 1,967,860	$ –

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
$ 8,361,578	$ 6,953,977	$ 10,997,218	$ 29,411,561
$ 1,162,660	$ 4,041	$ –	$ 2,181,168
–	–	–	1,053,810
–	–	–	109,147
1,162,660	4,041	–	3,344,125
–	–	–	124,106
7,198,918	6,949,936	10,997,218	25,920,088
–	–	–	23,242
7,198,918	6,949,936	10,997,218	26,067,436
$ 8,361,578	$ 6,953,977	$ 10,997,218	$ 29,411,561

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	304,825	2,459,169	8,503,606	111
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	349,589	2,560,364	9,205,109	–
Excess (Deficiency) of Revenues Over Expenditures	(44,764)	(101,195)	(701,503)	111
Other Financing Sources (Uses)				
Transfers in	42,818	–	1,344,409	–
Transfers out	–	–	–	(111)
Net Financing Sources (Uses)	42,818	–	1,344,409	(111)
NET CHANGE IN FUND BALANCES	(1,946)	(101,195)	642,906	–
Fund Balances - Beginning	25,188	205,165	151,246	–
Fund Balances - Ending	$ 23,242	$ 103,970	$ 794,152	$ –

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
37,689	1,800,299	12,964,090	26,069,789
–	–	–	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
3,302,076	225,988	10,510,429	26,153,555
(3,264,387)	1,574,311	2,453,661	(83,766)
–	–	–	1,387,227
–	–	–	(111)
–	–	–	1,387,116
(3,264,387)	1,574,311	2,453,661	1,303,350
10,463,305	5,375,625	8,543,557	24,764,086
$ 7,198,918	$ 6,949,936	$ 10,997,218	$ 26,067,436

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
REVENUES[1]						
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
EXPENDITURES[1]						
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.

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	8,504	100.0	8,481	100.0	8,684	100.0
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	9,205	108.2	9,451	111.4	9,350	107.6
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(701)	(8.2)	(970)	(11.4)	(666)	(7.6)
OTHER FINANCING SOURCES (USES)						
Operating transfers in and other source	1,344		904		500	
INCREASE (DECREASE) IN FUND BALANCES	643		(66)		(166)	
FUND BALANCES, BEGINNING	151		217		383	
FUND BALANCES, ENDING	$ 794		$ 151		$ 217	
ENDING FUND BALANCES TO TOTAL REVENUES		9.3		1.8		2.5

* *

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	1,710,786	100.0	1,746,275	100.0	1,760,731	100.0
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	782,415	100.0	808,896	100.0	887,329	100.0

See accompanying note to supplementary information.

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		$ 17,241,520

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.

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

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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.

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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.

Vavrinek, Trine, Day & Co., LLP

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.

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Opinion on Each Major Federal Program

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

Vavrinek, Trine, Day & Co., LLP

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.

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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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

Schedule of Findings and Questioned Costs

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173 and 84.173A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified
Unmodified for all programs except for the following	

Name of Program
Middle or Early College High Schools

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

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

None reported.

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:

Five Digit Code	AB 3627 Finding Type
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).

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.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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.

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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.

Governing Board
Newport-Mesa Unified School District

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2016

ORANGE COUNTY
DEPARTMENT
OF EDUCATION
200 KALMUS DRIVE
P.O. BOX 9050
COSTA MESA, CA
92628-9050
(714) 966-4000
FAX (714) 432-1916
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January 26, 2017

Jeff Trader, Acting Chief Business Official
Newport-Mesa Unified School District
2985-A Bear Street
Costa Mesa, CA 92626

Re: 2015-16 Annual Financial Report Findings and Recommendations

Dear Mr. Trader:

Pursuant to California Education Code Section 41020(j), the county superintendent of schools is responsible for reviewing audit exceptions in the annual financial report that are not related to state or federal compliance. In this capacity, we have completed our review of your 2015-16 annual financial report, focusing solely on audit exceptions related to attendance (10000), inventory of equipment (20000), internal control (30000), other miscellaneous exceptions (60000), classroom teacher salaries (61000), instructional materials (70000), teacher misassignments (71000), and school accountability report cards (72000).

We are pleased to note that your annual financial report did not contain any of the above mentioned findings or recommendations. We want to thank you and your staff for your efforts. Please feel free to call me at (714) 966-4176 if you need any additional information.

Sincerely,

Howard C. Marinier
Administrator, Business Services

cc: Frederick Navarro, Ed.D., District Superintendent

APPENDIX C

GENERAL ECONOMIC DATA REGARDING THE CITY OF NEWPORT BEACH, THE CITY OF COSTA MESA AND THE COUNTY OF ORANGE

THE FOLLOWING DATA HAS BEEN PROVIDED AS GENERAL BACKGROUND INFORMATION ONLY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE NEWPORT-MESA UNIFIED SCHOOL DISTRICT OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY IS PLEDGED TO THE PAYMENT OF THE REFUNDING BONDS. SEE "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS."

ALTHOUGH REASONABLE EFFORTS HAVE BEEN MADE TO INCLUDE UP-TO-DATE INFORMATION HEREIN, MUCH OF THE INFORMATION IS NOT CURRENT. IT SHOULD NOT BE ASSUMED THAT THE TRENDS INDICATED BY THE FOLLOWING DATA WOULD CONTINUE BEYOND THE SPECIFIC PERIODS REFLECTED HEREIN.

Population

The following table provides a historical summary of population from 2010 to 2017 in the City of Newport Beach ("Newport Beach"), City of Costa Mesa ("Costa Mesa"), and Orange County (the "County").

CITY OF NEWPORT BEACH — CITY OF COSTA MESA — ORANGE COUNTY POPULATION GROWTH COMPARISON

Year	City of Newport Beach	City of Costa Mesa	Orange County
2010	85,186	109,960	3,010,232
2011	85,378	110,253	3,035,167
2012	85,412	111,347	3,069,454
2013	85,137	112,299	3,102,606
2014	85,110	112,516	3,127,083
2015	85,026	113,874	3,152,376
2016	85,045	114,102	3,172,152
2017	84,915	114,044	3,194,024

Source: California Department of Finance, Demographic Research Unit.

Employment

The California Employment Development Department compiles monthly data on the status of employment for the County labor market (employment figures for Newport Beach and Costa Mesa are not reported separately). The following table summarizes employment in the County over the past six years.

ORANGE COUNTY METROPOLITAN STATISTICAL AREA
Estimated Number of Wage and Salary Workers by Industry

ANNUAL AVERAGE
2011 through 2016

Industry	2011	2012	2013	2014	2015	2016
Total Farm	3,200	2,800	2,900	2,800	2,400	2,800
Mining and Logging	600	600	600	700	600	500
Construction	70,300	72,900	78,400	83,100	91,700	96,900
Manufacturing:						
Nondurable Goods	43,500	43,900	43,000	42,000	41,800	41,300
Durable Goods	110,800	114,400	115,100	115,500	115,200	115,100
Trade, Transportation and Utilities:						
Wholesale Trade	77,300	77,200	79,400	80,900	80,800	80,800
Retail Trade	142,600	144,000	145,500	148,500	151,500	152,200
Transportation, Warehousing & Utilities	27,500	28,000	27,500	26,500	26,900	27,600
Information	23,800	24,300	25,000	24,500	25,500	26,000
Financial Activities	104,800	108,300	113,100	113,600	116,100	117,400
Professional and Business Services	247,700	260,600	267,300	276,600	286,600	296,200
Educational and Health Services	172,000	177,000	186,000	190,800	198,800	203,700
Leisure & Hospitality	174,000	180,600	187,800	194,500	203,800	211,800
Other Services	43,200	44,600	45,600	47,300	48,900	50,300
Government	149,300	147,900	148,700	152,200	156,400	160,100
Total(1)	**1,390,700**	**1,427,100**	**1,465,700**	**1,499,300**	**1,546,900**	**1,582,600**

(1) Columns may not sum to totals due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

The following table summarizes the labor force, employment and unemployment figures over the period from 2011 through 2016 for Newport Beach, Costa Mesa, the County, and the State.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Years 2011 through 2016
(Amounts in 000's)

Year and Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2011				
City of Newport Beach	43,600	40,300	3,3000	7.5%
City of Costa Mesa	63,400	57,600	5,800	9.2
Orange County	1,546,400	1,406,400	140,000	9.1
California	18,415,100	16,258,100	2,157,000	11.7
2012				
City of Newport Beach	44,100	41,200	2,900	6.5%
City of Costa Mesa	64,000	58,900	5,100	8.0
Orange County	1,562,100	1,439,300	122,900	7.9
California	18,523,800	16,602,700	1,921,100	10.4
2013				
City of Newport Beach	44,300	41,900	2,400	5.4%
City of Costa Mesa	64,100	59,800	4,300	6.7
Orange County	1,565,300	1,462,400	102,900	6.6
California	18,624,300	16,958,700	1,665,600	8.9
2014				
City of Newport Beach	44,600	42,600	2,000	4.5%
City of Costa Mesa	64,400	60,800	3,600	5.6
Orange County	1,572,000	1,485,700	86,200	5.5
California	18,755,000	17,348,600	1,406,400	7.5
2015				
City of Newport Beach	45,200	43,500	1,700	3.7%
City of Costa Mesa	65,100	62,100	2,900	4.5
Orange County	1,588,700	1,518,000	70,700	4.4
California	18,893,200	17,723,300	1,169,900	6.2
2016				
City of Newport Beach	45,600	44,100	1,500	3.3%
City of Costa Mesa	65,600	62,900	2,700	4.1
Orange County	1,602,400	1,538,000	64,300	4.0
California	19,102,700	18,065,000	1,037,700	5.4

Source: California Employment Development Department.

Industry

Some of the largest employers in Newport Beach, Costa Mesa and the County are shown below:

PRINCIPAL EMPLOYERS[(1)]
IN THE CITY OF NEWPORT BEACH

Company	Number of Employees
Hoag Memorial Hospital	4,800
Pacific Life Insurance	1,274
PIMCO Advisors	1,072
Glidewell Dental	1,043
Newport-Mesa Unified School District	988
Jazz Semi-Conductor	822
Resort at Pelican Hill	756
City of Newport Beach	730
Balboa Bay Club and Resort	650
Fletcher Jones Motor Cars Inc.	490
The Island Hotel	450
Marriott-Newport Beach	290

(1) Figures reflect number of employees of employer at the time the information was collected.
Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

LARGEST EMPLOYERS
CITY OF COSTA MESA

Firm	Product/Service	Employment
EPL Intermediate	Restaurants	3,998
Experian Information Solution	Information Services	3,700
Coast Community College District Foundation	Higher Education	2,900
Automobile Club of Southern California	Automotive/Insurance	2,516
Orange Coast Community College	Higher Education	1,900
California State Hospital-Fairview Develop. Center	Hospital	1,500
Westar Capital Associates II, LLC	Private Equity	1,184
Deloitte Consulting LLP	Consulting	800
Dynamic Cooking Systems, Inc.	Retail	700
Filenet Corporation	Data Management	600

Source: City of Costa Mesa, Comprehensive Annual Financial Report, June 2016.

LARGEST EMPLOYERS
COUNTY OF ORANGE

Firm	Product/Service	Employment
Walt Disney Co.	Entertainment	27,000
University of California, Irvine	Higher Education	22,385
County of Orange	Government	18,190
St. Joseph Health System	Health Care	12,227
Kaiser Permanente	Medical	7,000
Boeing	Aerospace	6,890
Wal-Mart	Retail	6,000
Memorial Care Health System	Hospital	5,650
Bank of America Corporation	Banking	5,500
Target Corporation	Retail	5,400

Source: County of Orange, Comprehensive Annual Financial Report, June 2016. Based on 2015 data.

Personal Income

Residents of Newport Beach and Costa Mesa have a per capita income level above the levels of the County, the State and the nation as a whole. The following table summarizes the total effective buying income for the County, the State and the nation over the period 2011 through 2016:

PERSONAL INCOME
For the Years 2011 through 2016

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2011		
Orange County	$ 157,031,273	$51,383
California	1,727,433,579	45,820
United States	13,233,436,000	42,453
2012		
Orange County	$ 169,583,534	$54,893
California	1,838,567,162	48,312
United States	13,904,485,000	44,267
2013		
Orange County	$ 166,369,802	$53,321
California	1,861,956,514	48,471
United States	14,068,960,000	44,462
2014		
Orange County	$ 174,451,316	$55,470
California	1,977,923,740	50,988
United States	14,801,624,000	46,414
2015		
Orange County	$ 183,052,341	$57,749
California	2,103,669,473	53,741
United States	15,463,981,000	48,112
2016		
Orange County	-[1]	-[1]
California	$ 2,197,492,012	-[1]
United States	16,017,781,445	-[1]

[1] Data not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Commercial Activity

Retail trade comprises an important part of the Newport Beach economy. Retail centers include Fashion Island, a premier open-air regional shopping center, Balboa Island, Lido Marina Village and Cannery Village. Additional retail centers are available at South Coast Plaza, located in Costa Mesa, the Spectrum, located in Irvine, and Laguna Hills Mall, in Laguna Hills.

Taxable Transactions

The following tables show the annual volume of permits and taxable transactions within Newport Beach, Costa Mesa and the County from 2010 through 2015.

CITY OF NEWPORT BEACH
Taxable Sales
($000's)

Year	Number of Permits	Taxable Transactions
2010	4,030	$2,211,287
2011	4,056	2,390,352
2012	3,853	2,566,623
2013	3,926	2,695,874
2014	4,031	2,943,344
2015	4,541	3,034,392

Source: California State Board of Equalization.

CITY OF COSTA MESA
Taxable Sales
($000's)

Year	Number of Permits	Taxable Transactions
2010	9,761	$3,506,318
2011	9,811	3,773,536
2012	9,849	4,058,400
2013	10,068	4,291,314
2014	10,536	4,538,729
2015	12,266	4,765,158

Source: California State Board of Equalization.

COUNTY OF ORANGE
Taxable Sales
($000's)

Year	Number of Permits	Taxable Transactions
2010	92,047	$47,667,179
2011	92,207	51,731,139
2012	93,183	55,230,612
2013	94,862	57,591,217
2014	97,943	60,097,128
2015	110,717	61,358,087

Source: California State Board of Equalization.

Building Permit Activity

The following tables show building permit activity within Newport Beach, Costa Mesa and the County from 2012 through 2016:

BUILDING PERMIT ACTIVITY
City of Newport Beach
2012 to 2016

	2012	2013	2014	2015	2016
Valuation ($000):					
Residential	$121,715	$167,022	$352,701	$187,237	$244,519
Non-residential	190,234	130,149	197,287	113,206	77,345
Total	$311,949	$297,172	$549,988	$300,443	$321,864
Residential Units:					
Single family	76	99	120	138	153
Multiple family	26	63	543	42	54
Total	102	162	663	180	207

Source: Construction Industry Research Board.

BUILDING PERMIT ACTIVITY
City of Costa Mesa
2012 to 2016

	2012	2013	2014	2015	2016
Valuation ($000):					
Residential	$45,448	$50,840	$49,153	$55,868	$106,312
Non-residential	95,224	45,124	59,137	52,562	81,715
Total	$140,672	$95,964	$108,291	$108,430	$188,027
Residential Units:					
Single family	36	69	151	195	221
Multiple family	215	127	33	6	494
Total	251	196	184	201	715

Source: Construction Industry Research Board.

BUILDING PERMIT ACTIVITY
County of Orange
2012 to 2016

	2012	2013	2014	2015	2016
Valuation ($000):					
Residential	$1,554,904	$2,596,543	$2,633,471	$2,826,883	$3,151,640
Non-residential	1,271,035	1,578,467	2,000,168	2,203,105	2,495,387
Total	$2,825,939	$4,175,009	$4,633,639	$5,029,988	$5,647,327
Residential Units:					
Single family	2,438	3,889	3,646	3,667	4,226
Multiple family	3,725	6,564	6,990	7,230	7,908
Total	6,163	10,453	10,636	10,897	12,134

Source: Construction Industry Research Board.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Refunding Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Refunding Bonds in substantially the following form:

[Date of Delivery]

Newport-Mesa Unified School District
Costa Mesa, California

Newport-Mesa Unified School District
(Orange County, California)
General Obligation Refunding Bonds, Series 2017
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Newport-Mesa Unified School District (the "District"), which is located in the County of Orange (the "County"), in connection with the issuance by the District of $80,564,666.30 aggregate initial principal amount of Newport-Mesa Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2017 (the "Refunding Bonds"), pursuant to a resolution of the Board of Education of the District adopted on July 5, 2017 (the "Resolution"). Capitalized undefined terms used herein have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), certificates of the District, the County and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Refunding Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Refunding Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Refunding Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. We also express no opinion regarding the accreted value table or calculation set forth or referred to in any of the Series 2017 Bonds or the Resolution. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated July 13, 2017, or other offering material relating to the Refunding Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Refunding Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Refunding Bonds and the interest thereon.

4. Interest on the Refunding Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Refunding Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Refunding Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Newport-Mesa Unified School District (the "District") in connection with the issuance of $80,564,666.30 aggregate initial principal amount of Newport-Mesa Unified School District (Orange County, California), General Obligation Refunding Bonds, Series 2017 (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on July 5, 2017 (the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean Applied Best Practices, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement, dated July 13, 2017 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which due date shall be April 1 of each year, so long as the fiscal year ends on June 30), commencing with the report for the 2016-2017 Fiscal Year (which is due not later than April 1, 2018), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e) hereof. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice in a timely manner to the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then-current fiscal year.

(ii) Assessed value of taxable property in the District for the then-current fiscal year as shown on the most recent equalized assessment role.

(iii) If the County of Orange (the "County") no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections, and delinquencies for the District for the most recently completed fiscal year.

(iv) Top twenty property owners in the District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value, if provided by the County.

(c) In addition to any of the information expressly required to be provided under subsections (a) and (b) hereof, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of the credit or liquidity providers or their failure to perform;

(v) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes; or

(ix) bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) unless described in paragraph 5(a)(v) hereof, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) optional, unscheduled or contingent Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b) hereof, the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) hereof.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Applied Best Practices, LLC.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(e) hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Orange or in U.S. District Court in or nearest to the County of Orange. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: August 10, 2017

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

By: ______________________________________

ACCEPTED AND AGREED TO:

APPLIED BEST PRACTICES, LLC, as Dissemination Agent

By: ______________________________________
Authorized Signatory

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	NEWPORT-MESA UNIFIED SCHOOL DISTRICT
Name of Issue:	Newport-Mesa Unified School District (Orange County, California), General Obligation Refunding Bonds, Series 2017
Date of Issuance:	August 10, 2017

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated August 10, 2017. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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APPENDIX F

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE

The County Board of Supervisors (the "Board") approved the current County Investment Policy Statement (the "Investment Policy") on November 22, 2016 (see APPENDIX G – ORANGE COUNTY INVESTMENT POLICY STATEMENT" or ocgov.com/ocinvestments). (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.) The Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board including the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Fund and various other small non-Pooled investment funds. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

Oversight of the investments is conducted in several ways. First, the Board established the County Treasury Oversight Committee (the "Committee") on December 19, 1995, pursuant to California Government Code Section 27130 et. seq. The Committee's primary responsibilities are as follows: to review and monitor the annual investment policy; cause an annual audit to be conducted to determine if the County Treasurer is in compliance with California Government Code Sections 27130 to 27137, and to investigate any and all irregularities in the treasury operation that are reported. The County Treasurer nominates the public members and the Board confirms the members of the Committee, which is comprised of the County Executive Officer, the County Auditor-Controller, the County Superintendent of Schools, and four public members. Next, the Auditor-Controller's Internal Audit Division audits the portfolio on a quarterly and annual basis pursuant to California Government Code Sections 26920 and 26922. Finally, an annual compliance audit is also conducted as required by California Government Code Sections 27134. All investment audit reports and the monthly Treasurer's Investment Report are available on-line at ocgov.com/ocinvestments. (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.)

The District's funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the District's funds. As of May 31, 2017, the balance in the District's funds was $171,443,529.12 or 3.69% of the Pool. The pool is invested 93% in securities rated in the two highest rating categories. As of May 31, 2017, the Pool has a weighted average maturity of 341 days and the year-to-date net yield is 0.80%.

The following represents the composition of the Pool as of May 31, 2017:

Type of Investment	Market Value (In thousands)	% of Pool
U.S. Government Agencies	$ 2,835,679	61.23%
U.S. Treasuries	918,314	19.83%
Local Agency Investment Fund	358,213	7.73%
Medium-Term Notes	201,981	4.36%
Money Market Funds	197,823	4.27%
Municipal Debt	101,504	2.19%
Certificates of Deposit	18,215	0.39%
Total	$ 4,631,729	100.00%

Neither the District nor the Underwriters has made an independent investigation of the investments in the Pools and has made no assessment of the current County Investment Policy. The value of the various investments in the Pools will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, after a review by the Committee and approval by the Board may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pools will not vary significantly from the values described therein.

APPENDIX G

ORANGE COUNTY INVESTMENT POLICY STATEMENT

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Orange County Treasurer

Investment Policy Statement

(Approved By B.O.S. 11/22/2016)

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ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the "Treasurer") and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS
   The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds, for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

   - Governmental Funds, including the General Fund
   - Enterprise Funds
   - Fiduciary Funds
   - Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.

ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be authorized by a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities as allowed by Government Code. Participating agencies will sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

No investment will be made in any security with a remaining maturity in excess of five years at the time of purchase, unless the Board of Supervisors has granted express authority to make such an investment specifically or as part of an investment program, which may include investing through pooled funds. Board of Supervisor's approval must occur at least three months prior to the investment or investment programs being effective. Strategies for such deposits may include matching maturities with long-term liabilities.

III. PRUDENCE

Government Code Sections 27000.3 and Section 53600.3 provides that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. SAFETY
   Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

   The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

   a) Credit Risk: Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

   b) Market Risk: Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. LIQUIDITY
   Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. YIELD

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a $1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than $.995 or greater than $1.005, holdings may be sold as necessary to maintain the ratio between $.995 and $1.005.

The Treasurer will act on a "best efforts" basis to stabilize any short-term pools within the $.995 to $1.005 range. However, the $1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U.S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of a pool that can be invested in this category.

2. U.S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of a pool that can be invested in this category, but each issuer is limited to 50% of any individual pool's total assets except that GSE issuers rated AA- or higher with final maturities of 30 days or less are excluded from the calculation of the 33% limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization (NRSRO), shall not exceed 270 days maturity, and shall not exceed 40% of a pool. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, has commercial paper that is rated A-1 or higher, or the equivalent, by a NRSRO.

Split ratings (i.e. A2/P1) are not allowed, and two NRSRO ratings are required. No more than 5% of the total assets of any individual pool may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or, federal association (as defined by Section 5102 of the California Financial Code) a state-licensed branch of a foreign bank. Issuing banks must be rated by at least two NRSROs, have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a NRSRO, if any. No more than 30% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed three years.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. **BANKERS' ACCEPTANCES**
Bankers' acceptances, also known as time drafts (bills of exchange), are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the NRSROs and have a short-term rating of at least A1/P1 and a long-term rating of not less than "A" from a NRSRO, if any. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. MONEY MARKET MUTUAL FUNDS
Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.

b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of $500,000,000.

8. STATE POOL – LOCAL AGENCY INVESTMENT FUND
The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed $50 million per pool.

9. MUNICIPAL DEBT
Such instruments are defined as being issued by a local or state agency, including:

a) Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b) Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from the NRSROs, and two NRSRO ratings of "A" or better are required unless they have a single NRSRO rating of AA-/AA3 or better. Municipal debt issued by the County of Orange, California is exempt from this credit rating requirement.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and three years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated not less than "A" or its equivalent from at least two NRSROs and if remaining maturity is longer than 397 days, it shall be rated by at least two NRSROs and have obtained no less than an "AA" rating by both. Investments in medium-term notes are limited to no more than 30% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of an individual pool shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and, Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Supranational securities eligible for investment shall be rated "AA" or better from at least two NRSROs. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT RESTRICTIONS

1. CREDIT RATINGS

Credit ratings will be applied at the time of purchase of a security. A subsequent downgrade in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time. Municipal debt issued by the County of Orange, California is exempt from the credit rating requirements listed below. U.S. Government obligations (as defined in Section VI (1) and VI (2)) are exempt from the credit rating requirements listed below. The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation "S&P," Moody's Investors Service, Inc. "Moody's", and Fitch Ratings "Fitch."

a) Short-term debt ratings – (two of the following and not less than the following)

"A-1" or "SP-1"	Standard & Poor's Corporation (S&P)
"P-1" or "MIG 1/VMIG 1"	Moody's Investors Service, Inc. (Moody's)
"F1"	Fitch Ratings (Fitch)

Split ratings are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt must have no less than an "A" rating on long-term debt, if any.

Long-term debt ratings – Investments purchased for short-term pools or with remaining maturities of 397 days or less- shall be rated by at least two NRSROs and have obtained no less than an "A" rating by any. Investments purchased for pools with remaining maturities longer than 397 days, shall be rated by at least two NRSROs and have obtained no less than an "AA" rating by any. If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1 or F1 and should be rated by two NRSROs.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by two NRSROs and have capital of not less than $500 million.

c) Any issuer that has been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:
The issuer has:
(a) an A-1+ or F1+ short-term rating; or
(b) at least an AA or Aa2 long-term rating.

d) If any issuer is placed on “Credit Watch-Negative” by a NRSRO, all related entities, including parent and subsidiaries, will also be placed on hold and subject to the above requirements.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer’s Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100% Total, no more than 50% in one issuer excluding securities with final maturities of30 days or less	5 Years	5 Years	397 Days
Municipal Debt	100%	30% Total, no more than 5% in one issuer except 10% – County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% Total, no more than 5% in one issuer	5 Years	3 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	30% Total, no more than 5% in one issuer	5 Years	3 Years	397 Days
State of California Local Agency Investment Fund	$50 million per account	$50 million per pool	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%	20% Total	N/A	N/A	N/A
Investment Pools	100%	20% Total, no more than 10% in one pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.

b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of Supervisors to be invested in longer than five year maturities.

If short-term and long-term pools are used, the following restrictions will apply:

Short-term pool	13 months (397)
Long-term pool	5 years

c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

a) All pools, except short-term pools, shall have an effective duration not to exceed a leading 1-3 year index +25%.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuation that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty <u>at time of purchase</u> must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

a) Borrowing for investment purposes ("Leverage").

b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.

c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips, or other callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

d) Structured Investment Vehicles (SIV).

e) Derivatives (e.g. options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).

f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors ("outside entities") that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700
The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County's Conflict-of-Interest Code.

2. **COUNTY'S GIFT BAN ORDINANCE** – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.
The County's Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and "designated employees" from business entities and individuals that "do business with the County" as that termed in defined in the Ordinance. Under the Ordinance, the term "designated employee" includes every employee of the County who is designated in the County's Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer's Office, "designated employees" include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of "designated employees" periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a "primary" or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a "well capitalized" national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period. A detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall conduct an annual review of each broker/dealer's and financial institution's financial condition and registrations to determine whether it should remain on the approved list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall, at least every two years, review all new broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved list. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31 and 40, the Treasurer shall provide financial information on investments for the County's Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department's Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES
   The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

   No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period, the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer’s monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency’s request in writing. Upon the Treasurer’s approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer’s Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency’s authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency’s excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

Withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury. (Government Code Sections 27000.3, 27133(h), 27136 and 53684(c))

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer's Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT
GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 180 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

+ (positive)	Credit is under review for possible upgrade.
– (negative)	Credit is under review for possible downgrade.
Evolving/Neutral	Credit is under review, direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

DOMINION BOND RATING SERVICE, LTD: (see Nationally Recognized Statistical Rating Organization)

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTORLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch, Inc.; and Dominion Bond Rating Service, Ltd.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: One of 21 banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR'S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

(Price appreciation) + (Dividends paid) + (Capital gains) = Total Return

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB), Resolution Trust Corporation (RTC), and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> Treasury bills: non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.
>
> Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.
>
> Treasury bonds: interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Refunding Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Refunding Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Refunding Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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APPENDIX I

TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS

Date	Capital Appreciation Bonds 08/01/2039 3.89%	Capital Appreciation Bonds 08/01/2040 3.92%	Capital Appreciation Bonds 08/01/2041 3.96%	Capital Appreciation Bonds 08/01/2042 3.98%	Capital Appreciation Bonds 08/01/2043 3.99%	Capital Appreciation Bonds 08/01/2044 4%	Capital Appreciation Bonds 08/01/2045 4.01%	Capital Appreciation Bonds 08/01/2046 4.02%
8/10/2017	2,144.30	2,049.35	1,952.85	1,868.60	1,791.80	1,717.85	1,646.60	1,578.05
2/1/2018	2,183.90	2,087.50	1,989.55	1,903.90	1,825.75	1,750.45	1,677.95	1,608.15
8/1/2018	2,226.35	2,128.40	2,028.95	1,941.80	1,862.15	1,785.50	1,711.60	1,640.45
2/1/2019	2,269.65	2,170.10	2,069.15	1,980.40	1,899.30	1,821.20	1,745.95	1,673.45
8/1/2019	2,313.80	2,212.65	2,110.10	2,019.85	1,937.20	1,857.60	1,780.95	1,707.10
2/1/2020	2,358.80	2,256.00	2,151.90	2,060.05	1,975.85	1,894.75	1,816.65	1,741.40
8/1/2020	2,404.70	2,300.25	2,194.50	2,101.00	2,015.30	1,932.65	1,853.05	1,776.40
2/1/2021	2,451.45	2,345.30	2,237.95	2,142.85	2,055.50	1,971.30	1,890.20	1,812.10
8/1/2021	2,499.15	2,391.30	2,282.25	2,185.50	2,096.50	2,010.75	1,928.10	1,848.55
2/1/2022	2,547.75	2,438.15	2,327.45	2,228.95	2,138.30	2,050.95	1,966.80	1,885.70
8/1/2022	2,597.30	2,485.95	2,373.55	2,273.35	2,181.00	2,092.00	2,006.20	1,923.60
2/1/2023	2,647.85	2,534.65	2,420.55	2,318.55	2,224.50	2,133.80	2,046.45	1,962.25
8/1/2023	2,699.35	2,584.35	2,468.45	2,364.70	2,268.85	2,176.50	2,087.45	2,001.70
2/1/2024	2,751.85	2,635.00	2,517.35	2,411.75	2,314.15	2,220.05	2,129.35	2,041.95
8/1/2024	2,805.35	2,686.65	2,567.20	2,459.75	2,360.30	2,264.45	2,172.00	2,082.95
2/1/2025	2,859.90	2,739.30	2,618.00	2,508.70	2,407.40	2,309.70	2,215.55	2,124.85
8/1/2025	2,915.55	2,793.00	2,669.85	2,558.65	2,455.40	2,355.90	2,260.00	2,167.55
2/1/2026	2,972.25	2,847.75	2,722.70	2,609.55	2,504.40	2,403.05	2,305.30	2,211.10
8/1/2026	3,030.05	2,903.55	2,776.60	2,661.50	2,554.35	2,451.10	2,351.55	2,255.55
2/1/2027	3,089.00	2,960.45	2,831.60	2,714.45	2,605.35	2,500.10	2,398.70	2,300.90
8/1/2027	3,149.10	3,018.50	2,887.65	2,768.45	2,657.30	2,550.10	2,446.75	2,347.15
2/1/2028	3,210.35	3,077.65	2,944.85	2,823.55	2,710.30	2,601.10	2,495.85	2,394.35
8/1/2028	3,272.80	3,138.00	3,003.15	2,879.75	2,764.40	2,653.15	2,545.85	2,442.45
2/1/2029	3,336.45	3,199.50	3,062.60	2,937.05	2,819.55	2,706.20	2,596.90	2,491.55
8/1/2029	3,401.35	3,262.20	3,123.25	2,995.50	2,875.80	2,760.35	2,649.00	2,541.65
2/1/2030	3,467.50	3,326.15	3,185.10	3,055.10	2,933.15	2,815.55	2,702.10	2,592.70
8/1/2030	3,534.90	3,391.35	3,248.15	3,115.90	2,991.70	2,871.85	2,756.25	2,644.85
2/1/2031	3,603.70	3,457.80	3,312.45	3,177.90	3,051.35	2,929.30	2,811.55	2,698.00
8/1/2031	3,673.75	3,525.60	3,378.05	3,241.15	3,112.25	2,987.85	2,867.90	2,752.20
2/1/2032	3,745.25	3,594.70	3,444.95	3,305.65	3,174.35	3,047.65	2,925.40	2,807.55
8/1/2032	3,818.05	3,665.15	3,513.15	3,371.45	3,237.65	3,108.60	2,984.05	2,864.00
2/1/2033	3,892.35	3,736.95	3,582.70	3,438.55	3,302.25	3,170.75	3,043.90	2,921.55
8/1/2033	3,968.05	3,810.20	3,653.65	3,506.95	3,368.15	3,234.15	3,104.95	2,980.25
2/1/2034	4,045.20	3,884.90	3,726.00	3,576.75	3,435.35	3,298.85	3,167.20	3,040.15
8/1/2034	4,123.90	3,961.05	3,799.75	3,647.90	3,503.85	3,364.85	3,230.70	3,101.30
2/1/2035	4,204.10	4,038.70	3,875.00	3,720.50	3,573.75	3,432.15	3,295.45	3,163.60
8/1/2035	4,285.90	4,117.85	3,951.75	3,794.55	3,645.05	3,500.75	3,361.55	3,227.20
2/1/2036	4,369.25	4,198.55	4,029.95	3,870.05	3,717.80	3,570.80	3,428.95	3,292.05
8/1/2036	4,454.20	4,280.85	4,109.75	3,947.10	3,791.95	3,642.20	3,497.70	3,358.25
2/1/2037	4,540.85	4,364.75	4,191.15	4,025.65	3,867.60	3,715.05	3,567.80	3,425.75
8/1/2037	4,629.20	4,450.30	4,274.15	4,105.75	3,944.75	3,789.35	3,639.35	3,494.60
2/1/2038	4,719.20	4,537.50	4,358.75	4,187.45	4,023.45	3,865.15	3,712.30	3,564.85
8/1/2038	4,811.00	4,626.45	4,445.05	4,270.80	4,103.75	3,942.45	3,786.75	3,636.50
2/1/2039	4,904.60	4,717.15	4,533.05	4,355.75	4,185.60	4,021.30	3,862.70	3,709.60
8/1/2039	5,000.00	4,809.60	4,622.85	4,442.45	4,269.10	4,101.70	3,940.10	3,784.15
2/1/2040		4,903.85	4,714.35	4,530.85	4,354.25	4,183.75	4,019.10	3,860.20
8/1/2040		5,000.00	4,807.70	4,621.00	4,441.15	4,267.45	4,099.70	3,937.80
2/1/2041			4,902.90	4,712.95	4,529.75	4,352.80	4,181.90	4,016.95
8/1/2041			5,000.00	4,806.75	4,620.10	4,439.85	4,265.75	4,097.70
2/1/2042				4,902.40	4,712.30	4,528.65	4,351.30	4,180.05
8/1/2042				5,000.00	4,806.30	4,619.20	4,438.55	4,264.10
2/1/2043					4,902.20	4,711.60	4,527.50	4,349.80
8/1/2043					5,000.00	4,805.80	4,618.30	4,437.20
2/1/2044						4,901.95	4,710.90	4,526.40
8/1/2044						5,000.00	4,805.35	4,617.40
2/1/2045							4,901.70	4,710.20
8/1/2045							5,000.00	4,804.90
2/1/2046								4,901.45
8/1/2046								5,000.00