

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Financial Statements

Fiscal Year Ended June 30, 2014

(With Report of Independent Auditor Thereon)

Prepared by
Department of Accounting
Dr. James T. Roberts
Superintendent of Schools

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Table of Contents

	Exhibit or Schedule	Page Number
Financial Section:		
Report of Independent Auditor		1 - 2
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	I	3
Statement of Activities.....	II	4
Fund Financial Statements:		
Governmental Funds Financial Statements:		
Balance Sheet	III	5
Statement of Revenues, Expenditures and Changes in Fund Balances.....	IV	6 - 7
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	V	8
Statement of Changes in Fiduciary Net Position	V-A	9
Notes to Basic Financial Statements.....	VI	10 - 38
Required Supplementary Information Other Than Management's		
Discussion and Analysis (Unaudited):		
Budgetary Comparison Schedules:		
General Fund.....	VII	39
Schools' Food Services Fund.....	VIII	40
School Textbook Fund	IX	41
Schedule of Funding Progress	X	42
Schedule of Funding Progress - Other Post-Employment Benefits	XI	43
Schedule of Employer Contributions - Other Post-Employment Benefits.....	XII	44
Note to Required Supplementary Information	XIII	45
Report of Independent Auditor 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.....		46 - 47
Schedule of Findings and Management Response		48

FINANCIAL SECTION

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Report of Independent Auditor

The Members of the School Board
Chesapeake Public Schools
City of Chesapeake, Virginia

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 Chesapeake Public Schools ("School Board"), a component unit of the City of Chesapeake, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Board'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 did not audit the financial statements of the Activity Funds of the Chesapeake Public Schools (the "Activity Funds"), which represents 100% of the assets of the agency funds. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for the Activity Funds, is based on the report of the other auditors. 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 *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The financial statements of the Activity Funds were not audited in accordance with *Government Auditing Standards*. 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 entity'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 School Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, 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 School Board, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

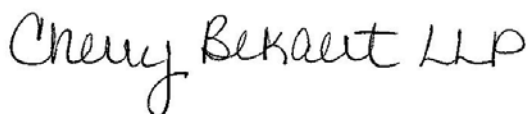
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information other than Management's Discussion and Analysis as listed in the table of contents 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 other than MD&A 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.

Management has elected to omit Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, on our consideration of the Chesapeake Public Schools' 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 the School Board's internal control over financial reporting and compliance.



Virginia Beach, Virginia
March 26, 2015

Basic Financial Statements

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)
Statement of Net Position – Governmental Activities
June 30, 2014

Assets

Assets:

Cash and temporary investments (note 2)	\$ 47,777,502
Receivables	1,040,314
Due from federal government	17,352,519
Due from Commonwealth of Virginia	11,257,776
Prepaid interest	2,957
Inventory	2,021,793
Restricted cash and temporary investments (note 2)	23,396,037
Capital assets, net (notes 3 and 4)	229,441,016
	<hr/>
Total assets	\$ 332,289,914

Liabilities

Liabilities:

Accounts payable to vendors	\$ 3,268,797
Accrued payroll	37,003,509
Claims payable	6,122,389
Noncurrent liabilities (notes 4, 5 and 7):	
Due within one year	3,590,506
Due in more than one year	52,785,633
Net OPEB Obligation (notes 4 and 8)	278,140,621
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Total liabilities	\$ 380,911,455

Net Position

Net position:

Net investment in capital assets	\$ 220,600,714
Restricted for capital projects	22,562,553
Restricted for other purposes	27,288,626
Unrestricted deficit	(319,073,434)
	<hr/>
Total net position (deficit)	\$ (48,621,541)

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)
Statement of Activities – Governmental Activities
Year Ended June 30, 2014

Functions/programs	Expenses	Program revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Administration	\$ 8,439,959	158,693	—	—	(8,281,266)
Instruction	333,873,135	8,011,837	78,680,714	1,311,294	(245,869,290)
Attendance and health services	5,960,235	123,881	582,513	—	(5,253,841)
Pupil transportation	27,830,570	619,328	—	—	(27,211,242)
Operations and maintenance	42,065,199	1,610,727	—	—	(40,454,472)
School facilities services	440,547	10,789	—	—	(429,758)
School technology services	12,834,803	170,621	—	—	(12,664,182)
Food services	12,378,771	3,986,731	8,484,807	—	92,767
Interest on long-term liabilities	295,609	—	—	—	(295,609)
Payment to primary government for returning interest income	146,377	—	—	—	(146,377)
Total	\$ 444,265,205	14,692,607	87,748,034	1,311,294	(340,513,270)
General revenues:					
Interest					168,006
Grants and contributions not restricted to specific programs					147,665,810
Payment from primary government					182,260,318
Miscellaneous					1,046,806
Total					331,140,940
Change in net position (deficit)					(9,372,330)
Net position (deficit) – beginning of year					(39,249,211)
Net position (deficit) – ending of year					\$ (48,621,541)

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Balance Sheet – Governmental Funds

June 30, 2014

Assets	General	Schools' Food Services	School Textbook	Capital Projects	Total Governmental Funds
Assets:					
Cash and temporary investments	\$ 40,770,643	2,897,848	4,109,011	—	47,777,502
Receivables	1,024,074	8,980	7,260	—	1,040,314
Due from federal government	17,005,954	346,565	—	—	17,352,519
Due from Commonwealth of Virginia	11,257,776	—	—	—	11,257,776
Inventory	1,586,698	435,095	—	—	2,021,793
Restricted cash and temporary investments (note 2)	—	—	—	23,396,037	23,396,037
Total assets	\$ 71,645,145	3,688,488	4,116,271	23,396,037	102,845,941
Liabilities, Deferred Inflows and Fund Balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 38,905,427	436,548	96,847	833,484	40,272,306
Claims payable	6,122,389	—	—	—	6,122,389
Total liabilities	45,027,816	436,548	96,847	833,484	46,394,695
Deferred inflows of resources:					
Unavailable revenues - sales taxes	3,624,780	—	—	—	3,624,780
Total deferred inflows of resources	3,624,780	—	—	—	3,624,780
Fund balances:					
Nonspendable:					
Inventory	1,586,698	435,095	—	—	2,021,793
Restricted:					
Capital Projects	—	—	—	22,562,553	22,562,553
Food services	—	2,816,845	—	—	2,816,845
School textbook	—	—	4,019,424	—	4,019,424
Future health, dental, workers' compensation	19,125,968	—	—	—	19,125,968
Technology	107,725	—	—	—	107,725
Instruction	1,218,664	—	—	—	1,218,664
Assigned to:					
Instruction	953,494	—	—	—	953,494
Total fund balances	22,992,549	3,251,940	4,019,424	22,562,553	52,826,466
Total liabilities, deferred inflows and fund balances	\$ 71,645,145	3,688,488	4,116,271	23,396,037	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position:					
Adjustments for the statement of net position:					
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.					229,441,016
Long-term liabilities are not reported as liabilities in the governmental funds.					(56,376,139)
Net OPEB liabilities are not reported as liabilities in the governmental funds.					(278,140,621)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.					2,957
Assets are not available to pay current period expenditures and therefore are reported as unavailable in the governmental funds.					3,624,780
Net position (deficit) of governmental activities					\$ (48,621,541)

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2014

	<u>General</u>	<u>Schools' Food Services</u>	<u>School Textbook</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:					
Intergovernmental:					
From City of Chesapeake	\$ 178,345,206	—	—	—	178,345,206
From Commonwealth of Virginia	207,399,456	265,897	—	—	207,665,353
From Federal government	20,840,875	7,382,533	—	—	28,223,408
Donated commodities from Federal government	—	836,377	—	—	836,377
Total intergovernmental	406,585,537	8,484,807	—	—	415,070,344
Charges for services	10,705,876	3,986,731	—	—	14,692,607
Interest	56,531	11,112	10,517	89,846	168,006
Miscellaneous	858,469	34,303	12,724	90,000	995,496
Total revenues	418,206,413	12,516,953	23,241	179,846	430,926,453
Expenditures:					
Education:					
Administration	8,354,515	—	—	—	8,354,515
Instruction	325,917,480	—	4,333,540	—	330,251,020
Attendance and health services	5,930,593	—	—	—	5,930,593
Pupil transportation	26,045,067	—	—	—	26,045,067
Operations and maintenance	41,884,001	—	—	—	41,884,001
School facilities services	438,493	—	—	—	438,493
School technology services	12,463,649	—	—	—	12,463,649
Total education	421,033,798	—	4,333,540	—	425,367,338
Food services	—	12,382,527	—	—	12,382,527
Debt service	2,052,384	—	—	—	2,052,384
Payment to primary government – return of interest income	56,531	—	—	89,846	146,377
Capital outlay	2,113,812	—	—	8,565,095	10,678,907
Total expenditures	425,256,525	12,382,527	4,333,540	8,654,941	450,627,533
Excess (deficiency) of revenues over expenditures	(7,050,112)	134,426	(4,310,299)	(8,475,095)	(19,701,080)
Other financing sources (uses):					
Proceeds from capital leases	2,113,812	—	—	—	2,113,812
Payment from primary government for capital outlay	—	—	—	3,915,112	3,915,112
Total other financing sources (uses)	2,113,812	—	—	3,915,112	6,028,924
Net change in fund balances	(4,936,300)	134,426	(4,310,299)	(4,559,983)	(13,672,156)
Fund balances at beginning of year	27,847,133	3,072,475	8,329,723	27,122,536	
Increase in reserve for inventory	81,716	45,039	—	—	
Fund balances at end of year	\$ 22,992,549	3,251,940	4,019,424	22,562,553	

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2014

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds

to the Statements of Activities:

Net change in fund balance from previous page	\$ (13,672,156)
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded depreciation expense in the current period.	6,463,456
In the statement of activities, the loss on the sale of equipment is reported, whereas in the governmental funds, only the proceeds from the sale increase financial resources. Thus the change in net position differs from the change in fund balances by the cost of the equipment sold.	(92,787)
Some capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. Capital leases are not revenues in the statement of activities	(2,113,812)
Repayment of debt principal is an expenditure in the governmental funds, but does not affect the statement of activities.	1,751,604
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due. In the statement of activities, however, interest expense is recognized as the interest accrues.	5,171
Because some sales taxes will not be received for several months after the fiscal year ends, they are reported as unavailable revenue in the governmental funds.	144,221
Change in reserve for inventory from governmental funds is included in expenditures in the statement of activities.	126,755
Changes in net OPEB obligations are reported only in the statement of activities	(124,344)
In the statement of activities, certain operating expenses are measured by the liabilities incurred during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used. This year, compensated absences liabilities incurred exceeded the amount used by \$2,562,684, pension liability incurred exceeded contributions made by \$1,513 and self insurance amount paid exceeded claims incurred by \$703,759	(1,860,438)
Change in net position of governmental activities	\$ <u><u>(9,372,330)</u></u>

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2014

	<u>Schools' OPEB Trust Fund</u>	<u>Agency Fund</u>
Assets		
Assets:		
Cash and temporary investments (note 2)	\$ —	5,074,816
Investments, at fair value		
Money market trust	<u>11,658,005</u>	<u>—</u>
Total assets	<u>\$ 11,658,005</u>	<u>5,074,816</u>
Liabilities and Net Position		
Liabilities:		
Due to students	\$ —	5,074,816
Total liabilities	<u>—</u>	<u>5,074,816</u>
Net position:		
Net Position restricted for Other		
Postemployment Benefits	<u>11,658,005</u>	<u>—</u>
Total net position	<u>11,658,005</u>	<u>—</u>
Total liabilities and net position	<u>\$ 11,658,005</u>	<u>5,074,816</u>

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended June 30, 2014

	<u>Schools' OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 7,753,753
Plan member contributions	3,154,443
Total contributions	<u>10,908,196</u>
Net investment income:	
Net appreciation in the fair value of investments	—
Interest and dividends	1,242,941
Total investment income	<u>1,242,941</u>
Total additions	<u>\$ 12,151,137</u>
Deductions	
Benefits	\$ 9,908,197
Administrative expenses	12,178
Total deductions	<u>9,920,375</u>
Change in net position	2,230,762
Net position at beginning of year	<u>9,427,243</u>
Net position at end of year	<u><u>\$ 11,658,005</u></u>

See accompanying notes to basic financial statements.

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CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The accounting policies of Chesapeake Public Schools (CPS) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

(a) *The Financial Reporting Entity*

As defined by accounting principles generally accepted in the United States of America, the financial reporting entity of the City of Chesapeake, Virginia (the City) consists of the City as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. CPS is considered a component unit of the City and, accordingly, the financial position and results of operations are reflected in the basic financial statements included in the Comprehensive Annual Financial Report of the City. CPS has no component units for financial reporting purposes.

(b) *Basis of Presentation*

CPS' basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements: The statement of net position and the statement of activities display information about CPS as a whole. These statements are reflected on a full accrual, economic resources basis, which incorporates long-term assets as well as long-term liabilities.

The statement of net position presents the financial condition of the governmental activities of CPS at year-end. CPS does not have any business-type activities. The statement of activities presents a comparison between direct expenses and program revenues for each function of CPS' governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore identifiable to a particular function. Expenses are grouped in the following categories: administration, instruction, attendance and health services, transportation, operations and maintenance, school facilities services, school technology services and food services. Program revenues include charges paid by the recipient of the goods or services offered by the program or from grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Charges for services include adult education, summer school tuition, cafeteria sales, and printing services. Revenues not classified as program revenues are presented as general revenues of CPS. The comparison of direct expenses with program revenues identifies the extent to which the governmental function is self-financing or draws from the general revenues of CPS. CPS does not allocate indirect expenses. When both restricted and unrestricted resources are available for use, it is CPS' policy to use restricted resources first, then unrestricted resources as they are needed.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(b) Basis of Presentation

Fund Financial Statements: During the year, CPS segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements present financial information of CPS at this more detailed level. The focus of governmental fund financial statements is on major funds, each displayed in a separate column. CPS has identified all of its governmental funds as major.

The accounts of CPS are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. The acquisition, use and balances of CPS' expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination.

CPS reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of CPS. It is used to account for all financial resources except those required to be accounted for in another fund.

Schools' Food Services Fund – The Schools' Food Services Fund is used to account for the operation of the Schools' cafeterias.

School Textbook Fund – The School Textbook Fund is used to account for the operation of the School Textbook program.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or maintenance of the school plant (other than those financed by the other funds or the City).

Additionally, CPS reports the following fiduciary funds:

Fiduciary Funds – Fiduciary funds are used to account for assets held by CPS in a trustee capacity or as an agent for individuals. The Fiduciary Funds are the Agency Fund (Student Activity Fund) and the OPEB Trust Fund.

CPS' Agency Fund is the Student Activity Fund, which accounts for the student activity monies maintained on behalf of the students by the principals at each school. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CPS also reports the Schools' Other Post-Employment Benefits (OPEB) Trust Fund. This fund accounts for assets accumulated to fund other post-employment benefit obligations of the Schools using the economic resources measurement focus.

CPS Fiduciary funds are not included in the government-wide financial statements.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(c) *Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported in the basic financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. CPS considers collections within 45 days of year-end as available. Expenditures, other than principal and interest on long-term debt which is recorded when due, are recorded when the related fund liability is incurred.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to CPS; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Under the accrual basis of accounting, revenues are recognized when earned. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenses are recognized at the time they are incurred.

(d) *Encumbrances*

Encumbrances outstanding at year-end represent the estimated amount of the expenditures required to complete contracts, purchase orders, and commitments in process at year-end. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

(e) *Deposits and Temporary Investments*

Deposits and temporary investments are pooled with the deposits and temporary investments of the City. Income from the investment of pooled deposits is allocated by the City to the various funds and entities based on the percentage of deposits and temporary investments of each fund to total pooled deposits and temporary investments. Investments that are held for more than one year to maturity are stated at fair value while investments that are held for less than one year to maturity are stated at amortized cost.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(f) Receivables and Due From Other Governments

Amounts due from Commonwealth of Virginia consist primarily of May and June sales tax, receivables from state entitlements and reimbursement of grants expenditures. Amounts due from federal government are for reimbursement of grants expenditures. Receivables consist primarily of amounts due from students and other customers of CPS. All amounts should be collected within one year.

(g) Inventories

Inventories of governmental funds are accounted for under the purchase method. Costs are recorded as an expenditure at the time inventory is purchased. Quantities on hand at year-end are recorded on the balance sheet at cost on a first-in, first-out basis with an offsetting nonspendable fund balance.

(h) Capital Assets

General capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent CPS' capitalization threshold is met.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. CPS maintains a capitalization threshold of \$5,000 for equipment, improvements and buildings. Land and textbooks are capitalized regardless of value. CPS has no infrastructure assets.

Under Virginia law, certain property maintained by CPS is subject to tenancy in common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. CPS and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. At June 30, 2014, the City holds capital assets related to school property with a net book value of \$191,525,477.

Depreciation is recorded on general capital assets on a government-wide basis. All reported capital assets, except land, are depreciated. Depreciation is computed using the straight-line method with full month convention over the following useful lives:

Description	Estimated Lives
Buildings	50 years
Improvements	20 years
Furniture and equipment	5–20 years
Textbooks	5 years

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(i) *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. CPS does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net assets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. CPS has one item, which arises under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from sales taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

(j) *Vacation and Sick Pay*

Employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their most current rate of pay. The cost of accumulated vacation is accrued as a liability as the benefits are earned by employees if attributable to services already rendered and compensation through paid time off or some other means is probable. Sick leave liability is accrued as the benefits are earned by employees if it is probable CPS will compensate the employees for the benefits through cash payments conditioned upon the employees' termination or retirement. The liability is an estimate based on CPS' past experience of making termination and retirement payments.

(k) *Fund Balance Items*

Fund balance is divided into 5 classifications based primarily on the extent to which CPS is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid items.

Restricted - The restricted classification is used when constraints are placed on the use of resources either externally by creditors, grantors, contributors, laws and regulations or through enabling legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes determined by formal action (resolution) of the School Board – the highest level of authority and requires a similar formal action to remove the commitment.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

Assigned - The assigned classification is intended to be used by the School Board for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School Board or a School Board official delegated that authority by an appropriate action such as a resolution.

Unassigned - The unassigned classification is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed or assigned.

CPS applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

(l) Net Position

The difference between assets, liabilities and deferred inflows in the government-wide statement of net position must be labeled as *net position*. In addition, net position must be subdivided into three components; net investment in capital assets; restricted net position; and unrestricted net position, as follows:

Net Investment in Capital Assets - The invested in capital assets component presents the net position that comprise the capital assets (net of accumulated depreciation) less related debt.

Restricted Net Position - The restricted net position component presents the net position that are restricted when constraints are placed on the net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - The unrestricted net position component consists of all other net position that does not meet the “invested in capital assets” or “restricted” definitions.

(m) Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it, that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

All interfund balances, which are short term in nature, result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

(n) Use of Estimates

Management of the School Board has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

(2) Deposits and Temporary Investments

Deposits and temporary investments (except for the Agency Fund) pertaining to CPS of \$71,173,539 are pooled and invested with the deposits and temporary investments of the City. Because CPS' deposits and temporary investments are pooled with the deposits and investments of the City, information to categorize investments for CPS only, by the level of risk assumed, is unavailable for disclosure. However, the following provides information for pooled deposits and investments for the City as a whole:

(a) City Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia, or covered by federal depository insurance. The carrying value of pooled deposits, as of June 30, 2014, is \$213,516,857, including petty cash of \$45,330 and cash in the special welfare fiduciary fund of \$956. Cash of \$700,701 is being held by the Commonwealth of Virginia.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(b) City Investments

Investments of the City by type at year-end are shown below:

	AAA	AA+	AA	AA-	AA2	Ae3e	Aae	Unrated / Various	Total
Investments:									
Bank Money Market Accounts	\$ 29,554,207	-	-	-	-	-	-	-	29,554,207
Commercial Paper	-	-	-	-	-	-	-	-	-
U.S. Government-Sponsored Coupon Securities	-	145,519,452	-	-	-	-	-	-	145,519,452
Corporate Notes and Municipal Bonds	2,977,590	740,196	203,092	8,521,755	-	-	-	-	12,442,633
Federal Agency Step-Up	-	9,011,300	-	-	-	-	-	-	9,011,300
Municipal Bonds - Taxable	903,915	9,602,570	-	402,692	-	-	-	-	10,909,177
Municipal Bonds - Non-Taxable	1,237,541	127,234	429,620	-	102,732	-	-	-	1,897,127
U.S. Treasury Coupon Securities	3,997,800	-	-	-	-	-	-	-	3,997,800
Local Government Investment Pool	56,518,209	-	-	-	-	-	-	-	56,518,209
OPEB - Money at US Bank	-	-	-	-	-	-	-	-	-
OPEB - Money at Local Investment Pool	17,734	-	-	-	-	-	-	-	17,734
Virginia State Non-Arbitrage Program	24,814,581	-	-	-	-	-	-	-	24,814,581
Evergreen Money Market Mutual Fund	28,101	-	-	-	-	-	-	-	28,101
Total	\$ 120,049,678	165,000,752	632,712	8,924,447	102,732	-	-	-	294,710,321
Restricted investments:									
Money Market Deposit	-	-	-	-	-	-	-	2,009,749	2,009,749
Virginia State Non-Arbitrage Program (Ches. Transp. Sys., Jail, and VML)	6,520,302	-	-	-	-	-	-	-	6,520,302
Wells Fargo Advantage Heritage - Money Market Institutional (VML)	13	-	-	-	-	-	-	-	13
U.S. Government-Sponsored Discount Securities	777,998	-	-	-	-	-	-	-	777,998
PFM - SNAP (Virginia State Non-Arbitrage Program)	39,338,558	-	-	-	-	-	-	-	39,338,558
PFM - SNAP First American Treas Oblig Fd - CI D - Toll Road Bonds	362,125	-	-	-	-	-	-	-	362,125
Total	\$ 46,998,996	-	-	-	-	-	-	2,009,749	49,008,745
Irrevocable Trust:									
OPEB - Diversified Portfolio	-	-	-	-	-	-	-	56,292,696	56,292,696
Total	\$ -	-	-	-	-	-	-	56,292,696	56,292,696
Total Investments and Restricted Investments and Irrevocable Trust	\$ 167,048,674	\$ 165,000,752	\$ 632,712	\$ 8,924,447	\$ 102,732	\$ -	\$ -	\$ 58,302,445	\$ 400,011,762

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(b) City Investments (continued)

Statutes, as well as the City investment policy, authorize the City to invest in obligations of the United States or agencies thereof; “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, certain certificates of deposits and time deposits and the State Treasurer’s Local Government Investment Pool (LGIP). Money market accounts and mutual funds with underlying securities which are within parameters described above are also allowable as well as investment of funds in deposits. Though not authorized by the City’s investment policy, statutes do allow the following investments: obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, obligations of any state of the United States, obligations of any city, county, town or district situated in any one of the states of the United States, and certificates representing ownership of either treasury bond principal at maturity or its coupons for accrued periods.

Credit Risk

Generally 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 nationally recognized statistical rating organizations. Presented at the end of this footnote are the specifically identified investment ratings as of June 30, 2014.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. All deposits of the City are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, section 2.2-400 et seq. of the Code of Virginia or covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk – Investments

Investment custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments. The City of Chesapeake investment policy requires securities be purchased only from brokerage firms/institutions with offices that are under the Commonwealth of Virginia’s supervision and located in the Commonwealth of Virginia. The City holds no investments that are at risk.

Concentrations of Credit Risk

The City’s investment policy requires that its portfolio be diversified with not more than 5% of the value of the portfolio invested in securities of any single issuer, excluding securities of the U.S. Government or agency thereof, government-sponsored corporation securities, or fully insured and/or collateralized certificates of deposit.

At June 30, 2014, the City was holding certificates of deposit in Towne Bank of \$57,000,000 which represented 14.25%, BB&T of \$24,000,000 which represented 6.0%; and Monarch Bank of \$11,188,704 which represented 2.80% of the City’s total investments. The City held no other

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

investment by any one issuer that represented over 5% of the City's total investments, other than U.S. Treasury securities, mutual funds, and external investment pools.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits U.S. Treasury and U.S. Agency securities to maturities of less than five years; guaranteed investment contracts to maturities of less than 30 years; bankers acceptances to maturities of less than 180 days; commercial paper to maturities of less than 270 days; and corporate notes to maturities of less than five years.

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. These debt agreements limit U.S. Agency securities to maturities of less than five years and guaranteed investment contracts to maturities of less than 30 years.

The City assumes all investments will be held until maturity or until called at their par value. However, an investment may be sold at an earlier date to meet certain obligations or if the investment's credit quality drops. This makes the City's investments sensitive to market rate fluctuations. To mitigate the impact of market rate fluctuations, the City maintains enough liquidity to meet its short-term needs with a smaller portion invested in long-term government-sponsored organizations and high-quality corporate notes.

Foreign Currency Risk

The City's OPEB Trust invests in U.S. dollars denominated through mutual funds that may invest in international stocks, bonds, and other assets. Although the assets of the funds are all held in U.S. dollars, the market value of the assets may fluctuate in part due to changes in foreign currency exchange rates.

The total deposits and investments carried by the City are summarized below:

Pooled deposits	\$ 213,516,857
State set-aside fund	700,071
Restricted Deposits	1,000,000
Investments	400,011,762
Other component units	4,696,344
Total City deposits and investments	<u><u>\$ 619,925,034</u></u>

(c) Cash and Investments of Agency Fund

As of June 30, 2014, the cash and investments of the Agency Fund are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Demand Deposit Checking Accounts	\$ 1,735,124	N/A
Local Government Investment Pool	3,339,692	AAA

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(3) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land and land improvements	\$ 17,277,065	-	-	17,277,065
Construction in progress	47,330,129	8,565,095	44,349,063	11,546,161
Total capital assets not being depreciated	<u>64,607,194</u>	<u>8,565,095</u>	<u>44,349,063</u>	<u>28,823,226</u>
Other capital assets:				
Buildings	146,398,092	44,349,063	-	190,747,155
Building improvements	5,604,230	-	-	5,604,230
Furniture and equipment	63,843,083	2,451,195	1,966,554	64,327,724
Textbooks	8,486,117	3,693,939	618,526	11,561,530
Total other capital assets	<u>224,331,522</u>	<u>50,494,197</u>	<u>2,585,080</u>	<u>272,240,639</u>
Less accumulated depreciation for:				
Buildings	13,833,875	2,908,896	-	16,742,771
Building improvements	3,534,332	169,063	-	3,703,395
Furniture and equipment	46,182,442	3,471,590	1,873,767	47,780,265
Textbooks	2,317,720	1,697,224	618,526	3,396,418
Total accumulated depreciation	<u>65,868,369</u>	<u>8,246,773</u>	<u>2,492,293</u>	<u>71,622,849</u>
Other capital assets, net	158,463,153	42,247,424	92,787	200,617,790
Totals	<u>\$ 223,070,347</u>	<u>50,812,519</u>	<u>44,441,850</u>	<u>229,441,016</u>

Depreciation expense was charged to governmental functions for the year ended June 30, 2014 as follows:

Instruction	\$ 6,096,163
Administration	48,328
Pupil transportation	1,704,422
Operations and maintenance	65,758
School technology services	326,691
Food services	5,411
Total governmental activities depreciation expense	<u>\$ 8,246,773</u>

At June 30, 2014, the Schools had contractual commitments of approximately \$3.7 million for work remaining to be performed under capital projects.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for CPS for the year ended June 30, 2014 follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts Due</u> <u>in One Year</u>
Compensated absences	\$ 40,227,825	5,377,997	(2,815,313)	42,790,509	1,825,674
Net pension obligation	99,962	1,513	-	101,475	-
Net OPEB obligation	278,016,277	7,878,097	(7,753,753)	278,140,621	-
Claims payable	5,347,612	239,675	(943,434)	4,643,853	-
Equipment capital leases	8,478,094	2,113,812	(1,751,604)	8,840,302	1,764,832
	<u>\$ 332,169,770</u>	<u>15,611,094</u>	<u>(13,264,104)</u>	<u>334,516,760</u>	<u>3,590,506</u>

Long-term liabilities are normally paid from the General Fund.

CPS leases certain equipment under non-cancelable capital leases that expire over the next ten years. At June 30, 2014, \$18,101,604 of equipment financed under capital leases is included in the accompanying statement of net position. The amortization charge of \$1,976,190 is included in depreciation expense. Accumulated amortization on these assets at June 30, 2014 is \$10,148,125.

The present value of future minimum capital lease payments as of June 30, 2014 is as follows:

Fiscal years:	
2015	\$ 2,052,384
2016	2,052,384
2017	1,576,291
2018	1,377,926
2019	662,026
2020 - 2023	<u>2,074,549</u>
Total minimum lease payments	9,795,560
Less amounts representing interest	<u>955,258</u>
Present value of minimum capital lease payments	<u>\$ 8,840,302</u>

The future payments by year of compensated absences and net pension obligation are not determinable.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(5) Defined Benefit Pension Plan

(a) Plan Description

CPS contributes to the Virginia Retirement System (VRS or the System), an agent and cost-sharing multiple- employer, defined benefit pension plan administered by the VRS. All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the VRS. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1 and Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

		<ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

		Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
<p>Retirement Contributions</p> <p>State employees, excluding state elected officials, judges, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions</p> <p>State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions</p> <p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service</p> <p>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service</p>	<p>Creditable Service</p> <p>Same as Plan 1.</p>	<p>Creditable Service</p> <p><u>Defined Benefit Component:</u></p> <p>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

<p>is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

		<p>contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS and JRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.</p> <p>SPORS, sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS and JRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>SPORS, sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>VaLORS: The retirement multiplier for VaLORS employees is 2.00%.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS and JRS: The retirement multiplier for the defined benefit component is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>SPORS, sheriffs and regional jail superintendents: Not applicable.</p> <p>VaLORS: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

<p>Normal Retirement Age VRS: Age 65.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Age 60.</p> <p>JRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Same as Plan 1.</p> <p>JRS: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Not applicable.</p> <p>JRS: Same as Plan 1.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> <p>JRS: Age 65 with at least five years of creditable service or at age 60 with at least 30 years of creditable service. Service earned under JRS is weighted. The weighting factors under Plan 1 are:</p> <ul style="list-style-type: none"> • 3.5 for JRS members appointed or elected before January 1, 1995. • 2.5 for JRS members appointed or elected on or after January 1, 1995. 	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Same as Plan 1.</p> <p>JRS: Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are:</p> <ul style="list-style-type: none"> • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older. 	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Not applicable.</p> <p>JRS: Same as Plan 2. Service earned under JRS is weighted. The weighting factors under Plan 2 are:</p> <ul style="list-style-type: none"> • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

		<p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> <p>JRS: Age 55 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Same as Plan 1.</p> <p>JRS: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>SPORS, VaLORS, and political subdivisions hazardous duty employees: Not applicable.</p> <p>JRS: Same as Plan 1.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a 	<p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
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CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

<p>monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p>		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions and school divisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including Plan 1 and Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.		
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The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2013-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of 5 years and CPS is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, CPS is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code and approved by the VRS Board of Trustees. CPS' contribution rate for nonprofessional employees for the fiscal year ended June 30, 2014 was 11.40% of annual covered payroll. CPS' contribution rate for professional employees for the fiscal year ended June 30, 2014 was 11.66% of annual covered payroll.

The following table relates to CPS' contribution for professional employees:

	Annual Required Contributions	Actual Amount Contributed	Amount Contributed in Percent
Fiscal year ended June 30:			
2014	\$ 25,246,794	25,246,794	100%
2013	28,707,084	28,707,084	100%
2012	23,589,821	23,589,821	100%

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(c) Annual Pension Cost and Net Pension Obligation

For fiscal year 2014, CPS' annual pension cost and net pension obligation for nonprofessional employees were as follows:

Annual required contribution	\$ 2,399,639
Interest on net pension obligation	6,997
Adjustment to annual required contribution	(5,484)
Annual pension cost	<u>2,401,152</u>
Contributions made	<u>2,399,639</u>
Increase in net pension obligation	1,513
Net pension obligation at July 1, 2013	<u>99,962</u>
Net pension obligation at June 30, 2014	<u><u>\$ 101,475</u></u>

The FY 2014 required contributions were determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) a 7.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% to 6.20% per year, and (c) cost-of-living adjustments of 2.50% per year for Plan 1 members and 2.25% per year for Plan 2 members. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of CPS' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. CPS' unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the UAAL was 30 years.

(d) Trend Information for Nonprofessional Employees

The trend information for CPS' nonprofessional employees is as follows:

Three-Year Trend Information

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Fiscal year ended June 30:			
2014	\$ 2,401,152	100%	101,475
2013	2,759,272	100%	99,962
2012	2,949,881	100%	98,572

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(e) Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 87,595,888
Less actuarial value of plan assets	64,305,904
Unfunded actuarial accrued liability (UAAL)	<u>\$ 23,289,984</u>
Funded ratio	73.41%
Covered payroll	\$ 20,766,822
UAAL as a percentage of covered payroll	112.15%

The Schedule of Funding Progress, presented as RSI following the Notes to Basic Financial Statements, presents multiyear trend information about whether the actuarial present value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(6) Contingent Liabilities

(a) Litigation

Various claims and lawsuits are pending against CPS. In the opinion of legal counsel, resolution of these cases would not involve a significant liability to CPS.

(b) Federal Award Programs

CPS participates in a number of federal award programs. Although CPS was audited in accordance with the provisions of OMB Circular A-133 in conjunction with the audit of the City, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Based on prior experience, CPS' management believes such disallowances, if any, will not be significant.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(c) **Encumbrances**

CPS has outstanding purchase orders representing goods or services not received as of June 30, 2014. These amounts are encumbrances of fiscal year 2013-2014 budgeted funds and are not reflected in the accompanying financial statements. The encumbrances are as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 2,172,155
Schools' Food Services	201
School Textbook	4,140
Capital Projects	3,696,541
Total Encumbrances	<u>\$ 5,873,037</u>

(7) **Self-Insurance**

CPS is self-insured for its workers' compensation, health and dental insurance through the General Fund. The health insurance program became self-insured during the fiscal year ended June 30, 2009. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Workers' compensation has a \$750,000 limit per claim. Health insurance has a specific stop loss limit of \$300,000 per member covering both medical and drug expenses. Dental care has a cap at 120% of expected claims as calculated by the third-party administrator. Commercial insurance is purchased to cover other types of losses including property and casualty damage, personal and real property damage, and personal liability. The insurance coverage is substantially the same as in prior fiscal years. Claims processing and payments for the workers' compensation, medical and dental claims are made through a third-party administrator. The settlements using commercial insurance did not exceed insurance coverage for each of the past three years. CPS uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2014 are recognized as a long-term liability in the statement of net position. Changes in the claims payable amount during the fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

	<u>Balance July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance June 30</u>
Worker's Compensation Claims				
2013 - 2014	\$ 5,347,612	239,675	943,434	4,643,853
2012 - 2013	5,481,648	1,103,124	1,237,160	5,347,612
2011 - 2012	5,825,602	845,741	1,189,695	5,481,648
Medical Claims				
2013 - 2014	\$ 5,434,077	62,386,076	61,697,764	6,122,389
2012 - 2013	6,063,518	59,404,787	60,034,228	5,434,077
2011 - 2012	5,444,635	61,797,164	61,178,281	6,063,518
2010 - 2011	5,249,226	56,612,700	56,417,291	5,444,635

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(8) Other Post-Employment Benefits

Plan Description

The Schools' Pre-Medicare and Post-Medicare Medical Plans are single-employer defined benefit plans that provide medical and dental insurance benefits to eligible retirees and their dependents. Plan membership as of July 1, 2013, consisted of 5,132 active service participants and 1,436 retirees and beneficiaries currently receiving benefits. The Schools' administrative policies and regulations outline the benefits provided and criteria for eligibility. City Ordinance established the CPS Other Post-Employment Benefits (OPEB) Trust for the purpose of accumulating and investing assets to fund other post-employment benefits obligations. The School Board, in accordance with this election, has agreed to become part of the Virginia Pooled OPEB Trust Fund (the Trust). Amounts contributed to the Trust by the Schools are irrevocable and must be used solely to discharge the Schools' obligations for other post-employment benefits and pay for reasonable expenses of the Trust. The OPEB Trust is included as a fiduciary fund in the Schools' financial statements.

Significant Accounting Policies

The OPEB Trust is a fiduciary-type component unit of the Schools. Fiduciary funds use the flow of economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, and benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value based on quoted market prices.

Funding Policy

The contribution requirements of plan members and the Schools are established and may be amended by the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School Board. For fiscal year 2014, the Schools contributed \$7,753,753 to the plan, including \$6,753,753 to pay for current premiums (68% of total premiums) and an additional \$1,000,000 transfer from the City to prefund benefits. Plan members receiving benefits contributed \$3,154,443, or 32% of the total premiums, through their required monthly contributions. Costs to administer current benefits are paid from the general fund.

Annual OPEB Cost and Net OPEB Obligation

The Schools' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities over a period not to exceed 30 years.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(8) Other Post-Employment Benefits (continued)

For the year ended June 30, 2014, the Schools' annual OPEB cost and net OPEB obligation were as follows:

Annual required contribution	\$ 12,216,794
Interest on net OPEB obligation	11,120,651
Adjustment to annual required contribution	<u>(15,459,348)</u>
Annual OPEB cost	7,878,097
Less employer contributions made	<u>(7,753,753)</u>
Increase in net OPEB obligation	124,344
Net OPEB obligation at June 30, 2013	<u>278,016,277</u>
Net OPEB obligation at June 30, 2014	<u><u>\$ 278,140,621</u></u>

The Schools' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 7,878,097	7,753,753	98.4%	278,140,621
June 30, 2013	33,678,756	7,222,623	21.4%	278,016,277
June 30, 2012	53,753,073	6,624,530	12.3%	251,560,144

In an effort to manage cost, CPS changed the basis for contributions to participants from a premium-based calculation to a fixed dollar amount. The plan provisions have been updated to reflect these changes.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2014

(8) Other Post-Employment Benefits (continued)

Funded Status and Funding Progress

Based on the most recent actuarial valuation dated July 1, 2013, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 143,710,654
Less actuarial value of plan assets	9,427,243
Unfunded actuarial accrued liability (UAAL)	<u>\$ 134,283,411</u>
 Funded ratio (actuarial value of plan assets/AAL)	 6.6%
 Covered payroll	 \$ 237,598,942
 UAAL as a percentage of covered payroll	 56.5%

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, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the Schools' annual required contributions 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 information as of June 30, 2014, the seventh year of implementation. The schedule provides multiyear trend information about whether the actuarial values of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Method 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. Actuarial calculations reflect a long-term perspective.

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (discount rate). In FY 2014, CPS changed its OPEB policy to incorporate flat dollar employer contributions and those amounts will not be increased in the future. Therefore, no annual healthcare cost trend rates were used in the June 1, 2013 actuarial valuation. The Schools' unfunded actuarial accrued liabilities (UAAL) are being amortized as a level dollar amount on an open basis within a period of 30 years.

**Required Supplementary Information
Other Than Management's Discussion and Analysis
(Unaudited)**

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CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

General Fund

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:				
Intergovernmental:				
City of Chesapeake	\$ 177,417,342	177,417,342	178,345,206	927,864
Commonwealth of Virginia	208,058,710	208,091,828	207,399,456	(692,372)
Federal government	27,087,786	27,052,168	20,840,875	(6,211,293)
Charges for services	2,300,800	2,300,800	10,705,876	8,405,076
Interest	—	—	56,531	56,531
Miscellaneous	657,135	659,635	858,469	198,834
Total revenues	<u>415,521,773</u>	<u>415,521,773</u>	<u>418,206,413</u>	<u>2,684,640</u>
Expenditures:				
Education:				
Administration	7,895,946	8,277,859	8,354,515	76,656
Instruction	319,319,987	322,083,322	325,917,480	3,834,158
Attendance and health services	5,813,338	5,763,338	5,930,593	167,255
Pupil transportation	24,635,586	25,097,800	26,045,067	947,267
Operations and maintenance	41,629,596	41,010,609	41,884,001	873,392
School facilities services	488,280	449,380	438,493	(10,887)
School technology services	14,034,599	12,673,747	12,463,649	(210,098)
Capital Outlay	—	—	2,113,812	2,113,812
Total education	<u>413,817,332</u>	<u>415,356,055</u>	<u>423,147,610</u>	<u>7,791,555</u>
Debt service:				
Principal	1,751,604	1,751,604	1,751,604	—
Interest	300,780	300,780	300,780	—
Total debt service	<u>2,052,384</u>	<u>2,052,384</u>	<u>2,052,384</u>	<u>—</u>
Payment to primary government – return of interest income	<u>—</u>	<u>—</u>	<u>56,531</u>	<u>56,531</u>
Total expenditures	<u>415,869,716</u>	<u>417,408,439</u>	<u>425,256,525</u>	<u>7,848,086</u>
Total revenues over (under) expenditures	<u>\$ (347,943)</u>	<u>(1,886,666)</u>	<u>(7,050,112)</u>	<u>(5,163,446)</u>
Other financing sources (uses):				
Proceeds from capital leases			<u>2,113,812</u>	
Total other financing uses			<u>2,113,812</u>	
Total revenues over (under) expenditures and other financing sources			(4,936,300)	
Fund balance at beginning of year			27,847,133	
Increase in reserve for inventory			<u>81,716</u>	
Fund balance at end of year			<u>\$ 22,992,549</u>	

See accompanying note to required supplementary information and independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Schools' Food Services Fund

**Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual**

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:				
Intergovernmental:				
Commonwealth of Virginia	\$ 152,000	152,000	265,897	113,897
Federal government	7,260,000	7,260,000	7,382,533	122,533
Charges for services	4,550,000	4,550,000	3,986,731	(563,269)
Interest	10,000	10,000	11,112	1,112
Miscellaneous	25,000	25,000	34,303	9,303
Total revenues	<u>11,997,000</u>	<u>11,997,000</u>	<u>11,680,576</u>	<u>(316,424)</u>
Expenditures:				
Operating costs:				
Purchases for resale	4,660,000	4,460,000	3,858,209	(601,791)
Food service salaries and fringe benefits	6,949,625	6,949,625	6,301,727	(647,898)
General and administrative	1,080,400	1,280,400	1,197,601	(82,799)
Other repairs and supplies	313,000	318,000	163,682	(154,318)
Capital outlay	10,000	5,000	14,875	9,875
Other expenditures	14,250	14,250	10,056	(4,194)
Total expenditures	<u>13,027,275</u>	<u>13,027,275</u>	<u>11,546,150</u>	<u>(1,481,125)</u>
Revenues over (under) expenditures	\$ <u>(1,030,275)</u>	<u>(1,030,275)</u>	134,426	<u>1,164,701</u>
Fund balance at beginning of year			3,072,475	
Decrease in reserve for inventory			<u>45,039</u>	
Fund balance at end of year			<u>\$ 3,251,940</u>	

See accompanying note to required supplementary information and independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

School Textbook Fund

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:				
Intergovernmental:				
City of Chesapeake	\$ —	—	—	—
Interest	35,000	35,000	10,517	(24,483)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>12,724</u>	<u>7,724</u>
Total revenues	<u>40,000</u>	<u>40,000</u>	<u>23,241</u>	<u>(16,759)</u>
Expenditures:				
Instruction:				
Textbooks	5,899,883	5,899,883	3,693,939	(2,205,944)
Expendable workbooks	<u>10,000</u>	<u>10,000</u>	<u>639,601</u>	<u>629,601</u>
Total expenditures	<u>5,909,883</u>	<u>5,909,883</u>	<u>4,333,540</u>	<u>(1,576,343)</u>
Other financing source -				
Transfer from General Fund	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Revenues and other financing source over (under) expenditures	<u>\$ (5,869,883)</u>	<u>(5,869,883)</u>	<u>(4,310,299)</u>	<u>1,559,584</u>
Fund balance at beginning of year			<u>8,329,723</u>	
Fund balance at end of year			<u>\$ 4,019,424</u>	

See accompanying note to required supplementary information and independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)
Schedule of Funding Progress (unaudited)
Year Ended June 30, 2014

Schools' nonprofessional employees:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	\$ 64,305,904	87,595,888	23,289,984	73.4%	20,766,822	112.2%
June 30, 2012	62,016,430	88,437,402	26,420,972	70.1%	20,446,608	129.2%
June 30, 2011	62,210,606	85,712,381	23,501,775	72.6%	20,528,970	114.5%
June 30, 2010	60,621,268	82,740,524	22,119,256	73.3%	20,517,369	107.8%
June 30, 2009	59,853,949	75,675,711	15,821,762	79.1%	20,917,830	75.6%
June 30, 2008	58,067,113	71,507,633	13,440,520	81.2%	20,744,338	64.8%
June 30, 2007	52,011,985	66,405,313	14,393,328	78.3%	19,713,778	73.0%
June 30, 2006	45,136,547	59,266,035	14,129,488	76.2%	18,602,631	76.0%
June 30, 2005	42,007,930	56,541,645	14,533,715	74.3%	17,437,108	83.3%
June 30, 2004	40,517,147	48,237,485	7,720,338	84.0%	16,322,205	47.3%

See accompanying independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS
 (Component Unit of the City of Chesapeake, Virginia)
 Schedule of Funding Progress - Other Post Employment Benefits (unaudited)
 Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
July 1, 2013	\$ 9,427,243	143,710,654	134,283,411 `	6.56%	\$ 237,598,942	56.52%
July 1, 2012	\$ 8,547,297	362,045,590	353,498,293 `	2.36%	\$ 231,925,031	152.42%
July 1, 2011	\$ 8,657,970	550,012,749	541,354,779 `	1.57%	\$ 228,512,576	236.90%
July 1, 2010	\$ 5,511,531	500,493,509	494,981,978 `	1.10%	\$ 231,297,764	214.00%
July 1, 2009	\$ 421,925	511,308,762	510,886,837 `	0.08%	\$ 243,345,531	209.94%
July 1, 2008	\$ —	552,551,956	552,551,956	0.00%	\$ 234,879,180	235.25%
July 1, 2007	\$ —	341,903,028	341,903,028	0.00%	\$ 211,208,943	161.88%

The City and Schools implemented GASB Statement Nos. 43 and 45 for the fiscal year ended June 30, 2008. Going forward, the schedule will eventually provide additional multiyear trend information.

See accompanying independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Employer Contributions - Other Post Employment Benefits (unaudited)

Year Ended June 30, 2014

<u>Fiscal Year Ended June 30:</u>	<u>Annual Required Contribution</u>	<u>Actual Amount Contributed in Dollars</u>	<u>Actual Amount Contributed in Percent</u>
2014	\$ 12,216,794	7,753,753	63.47%
2013	\$ 37,604,581	7,222,623	19.21%
2012	\$ 56,943,414	6,624,530	11.63%
2011	\$ 59,569,434	8,048,372	13.51%
2010	\$ 63,233,129	10,700,540	16.92%
2009	\$ 69,969,792	5,787,049	8.27%
2008	\$ 44,939,118	4,051,938	9.02%

The Schools implemented GASB Statement Nos. 43 for the fiscal year ended June 30, 2008. Going forward, the schedule will eventually provide additional multiyear trend information.

See accompanying independent auditors' report.

CHESAPEAKE PUBLIC SCHOOLS
(Component Unit of the City of Chesapeake, Virginia)

Note to Required Supplementary Information
Year Ended June 30, 2014

Budgetary Data

The budgetary data reflected in the required supplementary information was established by Chesapeake Public Schools (CPS) using the following procedures:

- (a) CPS submits to the City Council a proposed operating budget for the General and Special Revenue Funds for the forthcoming fiscal year.
- (b) The budget is legally enacted through passage of an ordinance by the City Council. The School Board then allocates the budget to the various functions.
- (c) The School Board and Superintendent are authorized to make transfers between functions and budgetary line items, respectively. However, revisions that alter the total expenditures of CPS' operating budget must be approved by the City Council. The legal level of budgetary control for the General Fund and Special Revenue Funds is the fund level or the level at which management cannot make transfers or incur expenditures in excess of appropriations without the approval of the School Board. However, management control is exercised over the budget at the individual revenue and expenditure budgetary line item level.

The General Fund and the Special Revenue Funds have legally adopted annual budgets. The budgets are adopted on a budgetary basis which differs from accounting principles generally accepted in the United States of America (GAAP) because revenues and expenditures of \$836,377 resulting from donations of food commodities from the United States Department of Agriculture to Schools' Food Services Fund are not recognized for budgetary purposes.

Appropriations with outstanding commitments or encumbrances are reappropriated in the following year.

The Capital Projects Fund budget is adopted on a project basis by the City Council upon the School Board's recommendation. Any unexpended funds at project completion are returned to the City.

**Report of Independent Auditor 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***

The Members of the School Board
Chesapeake Public Schools
City of Chesapeake, Virginia

We have audited, 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 *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Chesapeake ("School Board") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements, and have issued our report thereon dated March 26, 2015. Our report includes a reference to other auditors who audited the financial statements of the Activity Funds of the Chesapeake Public Schools (the "Activity Funds"), as described in our report on the School Board's financial statements. The financial statements of the Activity Funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School Board'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 the School Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control over financial reporting.

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; and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 *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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over financial reporting described in the accompany schedule of findings and management's response as item 2014-001 to be a material weakness.

Compliance and Other Matters

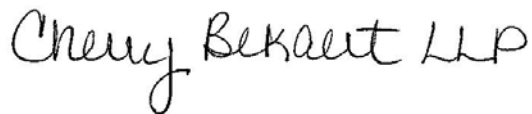
As part of obtaining reasonable assurance about whether the School Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

School Board's Response to Finding

The School Board's response to the finding identified in our audit is described in the accompanying schedule of findings and management response. The School Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School Board'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 School Board's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive, flowing style.

Chesapeake, Virginia
March 26, 2015

CHESAPEAKE PUBLIC SCHOOLS
Schedule of Findings and Management Response
Year Ended June 30, 2014

Finding 2014-001

Criteria

Liabilities for accounts payable should include all expenses for goods and services incurred during the reporting period.

Condition

For the year ended June 30, 2014, the School Board did not include all liabilities for accounts payable incurred during the reporting period.

Cause

The School Board inadvertently did not record a payable for construction expenses incurred during the year ended June 30, 2014.

Effect

Accounts payable and expenses/expenditures for the construction fund were understated by \$488,306.

Recommendation

We recommend the School Board carefully review invoices received subsequent to year end to assure all payables for goods or services incurred during the reporting period are included in the financial statements.

Management Response

We agree with this recommendation and will enhance procedures and controls to strengthen the unrecorded liabilities process and properly account for annual accruals after year end.