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

Financial Statements

Fiscal Year Ended June 30, 2016

(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

FINANCIAL SECTION

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Honorable 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 Chesapeake Public Schools (the "School Board"), a component unit of the City of Chesapeake, Virginia, as of and for the year ended June 30, 2016, 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 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. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Activity Funds were not audited in accordance with *Government Auditing Standards*.

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, 2016, 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.

Emphasis of Matter

Restatement

As described in Note 9 to the financial statements, the School Board restated beginning net position for governmental activities to correct an overstatement of construction in progress and net position invested in capital assets. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 Management's Discussion and Analysis 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 Statement 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 April 26, 2017, on our consideration of the School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
April 26, 2017

Basic Financial Statements

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CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Statement of Net Position – Governmental Activities

June 30, 2016

Assets and Deferred Outflows of Resources

Assets:		
Cash and temporary investments (note 2)	$	41,420,899
Receivables		1,779,828
Due from Federal government		19,848,989
Due from Commonwealth of Virginia		12,038,625
Prepaid interest		113,577
Inventory		2,590,453
Restricted cash and temporary investments (note 2)		25,721,596
Capital assets, net (notes 3, 4 and 9)		233,374,680
Total assets	$	336,888,647
Deferred Outflows of Resources:		
Employer pension contributions subsequent to measurement date (note 5)	$	32,847,696
Change in proportion and differences between employer pension contributions and proportionate share of pension contributions (note 5)		133,000
Total deferred outflows of resources	$	32,980,696
Total assets and deferred outflows of resources	$	369,869,343

Liabilities, Deferred Inflows, and Net Position

Liabilities:		
Accounts payable to vendors	$	3,434,736
Accrued payroll		38,831,134
Claims payable (note 7)		6,947,128
Noncurrent liabilities (note 4):		
Due within one year		3,037,837
Due in more than one year		36,134,178
Net OPEB obligation (notes 4 and 8)		281,100,674
Net pension liability (notes 4 and 5)		387,087,000
Total liabilities	$	756,572,687
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on pension plan investments (note 5)	$	24,486,000
Differences between expected and actual experience (note 5)		5,109,000
Total deferred inflows of resources	$	29,595,000
Net position (deficit):		
Net investment in capital assets	$	228,139,141
Restricted for capital projects		23,976,510
Restricted for other purposes		22,356,010
Unrestricted deficit		(690,770,005)
Total net position (deficit)	$	(416,298,344)
Total liabilities, deferred inflows of resources and net position	$	369,869,343

See accompanying notes to basic financial statements.

Exhibit II

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

Statement of Activities – Governmental Activities

Year Ended June 30, 2016

Functions/Programs		Expenses	Program revenues: Charges for Services	Program revenues: Operating Grants and Contributions	Program revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:						
Administration	$	8,591,858	300,616	—	—	(8,291,242)
Instruction		325,780,343	11,074,087	78,663,835	1,163,712	(234,878,709)
Attendance and health services		5,835,153	225,292	533,170	—	(5,076,691)
Pupil transportation		27,833,559	1,071,604	—	—	(26,761,955)
Operations and maintenance		41,458,820	2,245,690	—	—	(39,213,130)
School facilities services		450,862	20,186	—	—	(430,676)
School technology services		13,498,039	334,049	—	—	(13,163,990)
Food services		11,905,198	3,726,848	9,110,518	—	932,168
Interest on long-term liabilities		170,562	—	—	—	(170,562)
Payment to Primary Government for returning interest income		235,270	—	—	—	(235,270)
Total	$	435,759,664	18,998,372	88,307,523	1,163,712	(327,290,057)
General revenues:						
Interest						262,926
Grants and contributions not restricted to specific programs						154,989,654
Payment from Primary Government						200,669,966
Miscellaneous						950,105
Total						356,872,651
Change in net position (deficit)						29,582,594
Net position (deficit) at beginning of year, as restated (note 9)						(445,880,938)
Net position (deficit) at end of year						$ (416,298,344)

See accompanying notes to basic financial statements.

Exhibit III

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Balance Sheet – Governmental Funds

June 30, 2016

Assets		**General**	**Schools' Food Services**	**School Textbook**	**Capital Projects**	**Total Governmental Funds**
Assets:						
Cash and temporary investments	$	34,209,328	3,143,264	4,068,307	—	41,420,899
Receivables		1,767,767	9,922	2,139	—	1,779,828
Due from Federal government		18,380,706	1,468,283	—	—	19,848,989
Due from Commonwealth of Virginia		12,038,625	—	—	—	12,038,625
Inventory		2,161,499	428,954	—	—	2,590,453
Restricted cash and temporary investments (note 2)		—	—	—	25,721,596	25,721,596
Total assets	$	68,557,925	5,050,423	4,070,446	25,721,596	103,400,390
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities:						
Accounts payable and accrued expenses	$	39,984,226	496,808	39,750	1,745,086	42,265,870
Claims payable		6,947,128	—	—	—	6,947,128
Total liabilities		46,931,354	496,808	39,750	1,745,086	49,212,998
Deferred inflows of resources:						
Unavailable revenues - sales taxes		4,254,453	—	—	—	4,254,453
Unavailable revenues due to timing-federal		—	—	—	—	—
Total deferred inflows of resources		4,254,453	—	—	—	4,254,453
Fund balances:						
Nonspendable:						
Inventory		2,161,499	428,954	—	—	2,590,453
Restricted:						
Capital Projects		—	—	—	23,976,510	23,976,510
Food services		—	4,124,661	—	—	4,124,661
School textbook		—	—	4,030,696	—	4,030,696
Future health, dental, workers' compensation		12,189,716	—	—	—	12,189,716
Technology		546,319	—	—	—	546,319
Instruction		1,464,618	—	—	—	1,464,618
Assigned to:						
Instruction		1,009,966	—	—	—	1,009,966
Total fund balances		17,372,118	4,553,615	4,030,696	23,976,510	49,932,939
Total liabilities, deferred inflows of resources and fund balances	$	68,557,925	5,050,423	4,070,446	25,721,596	

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.		233,374,680
Long-term liabilities are not reported as liabilities in the governmental funds		(39,172,015)
Net OPEB liabilities are not reported as liabilities in the governmental funds		(281,100,674)
Net pension liability and deferred outflows and inflows are not reported in the governmental funds		(383,701,304)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due		113,577
Assets are not available to pay current period expenditures and, therefore, are reported as unavailable in the governmental funds.		4,254,453
Net position (deficit) of governmental activities	$	(416,298,344)

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, 2016

	General	Schools' Food Services	School Textbook	Capital Projects	Total Governmental Funds
Revenues:					
Intergovernmental:					
From City of Chesapeake	$ 180,523,491	—	—	—	180,523,491
From Commonwealth of Virginia	215,600,822	284,984	—	—	215,885,806
From Federal government	19,337,957	8,210,132	—	—	27,548,089
Donated commodities from Federal government	—	900,386	—	—	900,386
Total intergovernmental	415,462,270	9,395,502	—	—	424,857,772
Charges for services	15,271,524	3,726,848	—	—	18,998,372
Interest	168,153	22,345	5,311	67,117	262,926
Miscellaneous	1,005,805	11,738	11,125	—	1,028,668
Total revenues	431,907,752	13,156,433	16,436	67,117	445,147,738
Expenditures:					
Education:					
Administration	8,939,820	—	—	—	8,939,820
Instruction	331,514,396	—	737,986	—	332,252,382
Attendance and health services	6,118,749	—	—	—	6,118,749
Pupil transportation	26,999,670	—	—	—	26,999,670
Operations and maintenance	42,619,339	—	—	—	42,619,339
School facilities services	471,698	—	—	—	471,698
School technology services	13,661,799	—	—	—	13,661,799
Total education	430,325,471	—	737,986	—	431,063,457
Food services	—	12,213,313	—	—	12,213,313
Debt service	2,046,116	—	—	—	2,046,116
Payment to Primary Government – return of interest income	168,153	—	—	67,117	235,270
Capital outlay	—	—	—	12,491,024	12,491,024
Total expenditures	432,539,740	12,213,313	737,986	12,558,141	458,049,180
Excess (deficiency) of revenues over expenditures	(631,988)	943,120	(721,550)	(12,491,024)	(12,901,442)
Other financing sources (uses):					
Payment from Primary Government for capital outlay and textbooks	—	—	1,387,000	18,759,475	20,146,475
Total other financing sources (uses)	—	—	1,387,000	— 18,759,475	20,146,475
Net change in fund balances	(631,988)	943,120	665,450	6,268,451	7,245,033
Fund balances at beginning of year	17,736,788	3,620,698	3,365,246	17,708,059	
Increase in reserve for inventory	267,318	(10,203)	—	—	
Fund balances at end of year	$ 17,372,118	4,553,615	4,030,696	23,976,510	

continued

Exhibit IV

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, 2016

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)	$	7,245,033
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.		2,004,974
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.		(583,061)
Repayment of debt principal is an expenditure in the governmental funds, but does not affect the statement of activities.		1,818,060
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.		57,494
Because some sales taxes and revenues will not be received for several months after the fiscal year ends, they are reported as unavailable revenue in the governmental funds.		126,608
Change in reserve for inventory from governmental funds is included in expenses in the Statement of Activities.		257,115
Changes in net OPEB obligation are reported only in the statement of activities.		(1,921,021)
Changes in net pension liability are reported only in the statement of activities.		9,939,623
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 amount used exceeded the liabilities incurred by $10,061,468 and self insurance amount paid exceeded claims incurred by $576,301.		10,637,769
Change in net position of governmental activities	$	29,582,594

See accompanying notes to basic financial statements.

Exhibit V

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2016

		Schools' OPEB Trust Fund	Agency Fund
Assets			
Assets:			
Cash and temporary investments (note 2)	$	—	5,072,915
Investments, at fair value			
Mutual funds		2,786,002	—
Total assets	$	2,786,002	5,072,915
Liabilities and Net Position			
Liabilities:			
Due to students	$	—	5,072,915
Total liabilities		—	5,072,915
Net position:			
Net Position restricted for Other Postemployment Benefits		2,786,002	—
Total net position		2,786,002	—
Total liabilities and net position	$	2,786,002	5,072,915

See accompanying notes to basic financial statements.

Exhibit V-A

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Year Ended June 30, 2016

		Schools' OPEB Trust Fund
Additions		
Contributions:		
Employer contributions	$	6,100,004
Plan member contributions		3,400,675
Total contributions		9,500,679
Net investment income:		
Interest and dividends		—
Total investment income		—
Total additions	$	9,500,679
Deductions		
Benefits	$	18,600,679
Administrative expenses		18,538
Total deductions		18,619,217
Change in net position		(9,118,538)
Net position at beginning of year		11,904,540
Net position at end of year	$	2,786,002

See accompanying notes to basic financial statements.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Notes to Basic Financial Statements

June 30, 2016

(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 (GAAP), 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.

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, deferred inflows of resources, 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 does 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.

(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.

(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 the 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 acquisition 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, 2016, the City holds capital assets related to school property with a net book value of $231,687,738.

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

(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 has two items, arising from the pension, which qualifies for reporting in this category. Accordingly, the items, deferred outflows related to the pension, are reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position 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 three items, which qualify for reporting in this category. One arises under the modified accrual basis of accounting. The others arise from accounting for pension costs. Accordingly, the item, unavailable revenue, is reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from sales taxes and federal sources. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The other items, deferred inflows related to the pension, are reported in the Statement of Net Position.

(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.

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 nonspendable, 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 and deferred outflows of resources, liabilities and deferred inflows of resources 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 (Deficit) - 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.

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, deferred outflows of resources, liabilities, deferred inflows of resources 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 $67,142,495 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 the Federal Deposit Insurance Corporation (FDIC) depository insurance. The carrying value of pooled deposits, as of June 30, 2016, is $177,740,068, including petty cash of $43,460 and cash in the special welfare fiduciary fund of $8,685. Cash of $520,509 is being held by the Commonwealth of Virginia.

(b) City Investments

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, bankers' 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.

Fair Value Measurements:

The Pool categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. These principals recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

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

Notes to Basic Financial Statements

June 30, 2016

Investments of the City by Fair Value Level and Amortized cost are shown below:

Investments by Fair Value Level (Market Approach)	**6/30/2016 (Market Value)**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Debt Securities:				
U.S Treasury Note	$ 6,007,080	$ 6,007,080	$ -	$ -
Federal Agency Coupon Securities	47,013,613	-	47,013,613	-
Federal Agency Disc-Amortizing	11,803,680	-	11,803,680	-
Corporate Notes	16,070,590	-	16,070,590	-
Taxable Municipal Bonds	1,511,680	-	1,511,680	-
Certificates of Deposit	67,690,733	-	67,690,733	-
Commercial Paper Disc-Amortizing	95,163,148	-	95,163,148	-
Total Debt Securities (a)	245,260,525	6,007,080	239,253,444	-
Equity Securities	-	-	-	-
Venture Capital Investments	-	-	-	-
Total Equity Securities (b)	-	-	-	-
Total Investments by fair value level (a+b)	**245,260,525**	**6,007,080**	**76,399,563**	**162,853,881**
<u>Investments measured at Amortized Cost (Book Value)</u>	**Amortized cost/Book value**			
Money Market Fund	106,743,920	106,743,920	-	-
U.S Treasury Note	9,997,284	9,997,284	-	-
U.S Treasury Bill	2,990,100	2,990,100	-	-
Federal Agency Coupon Securities	74,253,759	-	74,253,759	-
Federal Agency Disc-Amortizing	5,959,650	-	5,959,650	-
Taxable Municipal Bonds	2,419,699	-	2,419,699	-
Non-Taxable Municipal Bonds	770,000	-	770,000	-
Total Investments at amortized cost	**203,134,411**	**119,731,303**	**83,403,108**	**-**
Total Pool and Directed Investments	**$ 448,394,936**	**$ 125,738,383**	**$ 159,802,671**	**$ 162,853,881**

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 within this footnote are the specifically identified investment ratings as of June 30, 2016.

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, 2016, the City was holding certificates of deposit in TowneBank of $65,000,000 which represented 12.85% and in Monarch Bank of $2,690,733 which represented 0.53% of the City's total investments. The City held no other 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	$ 177,740,068
State set-aside fund	520,509
Restricted deposits	1,000,000
Investments	505,669,796
Other component units	1,603,132
Total City deposits and investments	$ 686,533,505

(c) ***Cash and Investments of Agency Fund***

As of June 30, 2016, the cash and investments of the Agency Fund are as follows:

Investment Type	(Book Value)
Demand Deposit Checking Accounts	$ 2,125,227
Local Government Investment Pool	2,947,688
	$ 5,072,915

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

Notes to Basic Financial Statements

June 30, 2016

(3) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance* July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land and land improvements	$ 17,277,065	-	-	17,277,065
Construction in progress	11,779,418	12,491,024	11,786,567	12,483,875
Total capital assets not being depreciated	29,056,483	12,491,024	11,786,567	29,760,940
Other capital assets:				
Buildings	198,269,550	3,205,891	-	201,475,441
Building improvements	5,604,230	-	-	5,604,230
Furniture and equipment	64,627,705	6,912,651	3,551,061	67,989,295
Textbooks	12,610,786	737,986	2,727,949	10,620,823
Total other capital assets	281,112,271	10,856,528	6,279,010	285,689,789
Less accumulated depreciation for:				
Buildings	20,477,271	3,877,754	-	24,355,025
Building improvements	3,867,186	158,528	-	4,025,714
Furniture and equipment	48,455,629	2,997,575	2,968,000	48,485,204
Textbooks	5,415,901	2,522,154	2,727,949	5,210,106
Total accumulated depreciation	78,215,987	9,556,011	5,695,949	82,076,049
Other capital assets, net	202,896,284	1,300,517	583,061	203,613,740
Totals	$ 231,952,767	13,791,541	12,369,628	233,374,680

*Restated – see Note 9

Depreciation expense was charged to governmental functions for the year ended June 30, 2016 as follows:

Instruction	$ 7,471,272
Administration	47,300
Pupil transportation	1,672,397
Operations and maintenance	65,652
School technology services	292,499
Food services	6,891
Total governmental activities' depreciation expense	$ 9,556,011

At June 30, 2016, the Schools had contractual commitments of approximately $6.4 million for work remaining to be performed under capital projects.

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for CPS for the year ended June 30, 2016 follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due in One Year
Compensated absences	$ 40,613,119	-	(10,061,468)	30,551,651	1,625,674
Net OPEB obligation	279,179,653	8,021,025	(6,100,004)	281,100,674	-
Net pension liability	371,949,000	44,733,000	(29,595,000)	387,087,000	-
Claims payable	3,961,126	671,294	(1,247,595)	3,384,825	-
Equipment capital leases	7,053,599	-	(1,818,060)	5,235,539	1,412,163
	$ 702,756,497	53,425,319	(48,822,127)	707,359,689	3,037,837

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, 2016, $18,101,604 of equipment financed under capital leases is included in the accompanying Statement of Net Position. The amortization charge of $1,468,730 is included in depreciation expense. Accumulated amortization on these assets at June 30, 2016 is $13,086,563.

The present value of future minimum capital lease payments as of June 30, 2016 is as follows:

Fiscal years:	
2017	$ 1,570,024
2018	1,371,658
2019	662,026
2020	662,026
2021	662,026
2022 - 2023	750,497
Total minimum lease payments	5,678,257
Less amounts representing interest	442,718
Present value of minimum capital lease payments	$ 5,235,539

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

(5) Retirement Plans

Virginia Retirement System

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Professional and Nonprofessional Retirement Plans and the additions to/deductions from the VRS Professional and Nonprofessional Retirement Plans net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent professional employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan, a cost-sharing multiple-employer defined benefit plan, upon employment. All full-time, salaried permanent non-professional employees (non-teacher) are automatically covered by the VRS Retirement Plan, an agent multiple-employer defined benefit plan. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Within the VRS Plans, the System administers three different benefit structures for CPS employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.	**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.	**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")

		• 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. • 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.
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. **Hybrid Opt-In Election** VRS 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. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.	**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. **Hybrid Opt-In Election** Eligible 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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • School division employees • 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. 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.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions elected to phase in the required 5% member contribution but 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.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** 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.
Creditable Service 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 is one of the factors used to determine their	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component</u>:** 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 purchased or additional creditable service the

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.		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. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
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. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** 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. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

		Members are always 100% vested in the contributions that they make. 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. • 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. Distribution is not required by law until age 70½.
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. 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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** 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.

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who 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. **Defined Contribution Component:** Not applicable.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

		<u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%. **<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. 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.	**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%. **<u>Eligibility</u>:** Same as Plan 1. **<u>Exceptions to COLA Effective Dates</u>:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component</u>:** Same as Plan 2. **<u>Defined Contribution Component</u>:** Not applicable. **<u>Eligibility</u>:** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates</u>:** Same as Plan 1 and Plan 2.

<table>
<tr>
<td><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:
• 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 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 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.

Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td>
<td>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.

Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td>
<td>Disability Coverage
Employees of 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.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</td>
</tr>
</table>

<table>
<tr>
<td>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 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.</td>
<td>Purchase of Prior Service

Same as Plan 1.</td>
<td>Purchase of Prior Service

<u>Defined Benefit Component</u>:

Same as Plan 1, with the following exceptions:
* Hybrid Retirement Plan members are ineligible for ported service.
* The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
* Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

<u>Defined Contribution Component</u>:

Not applicable.</td>
</tr>
</table>

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following Nonprofessional employees (non-teacher) were covered by the benefit terms of the pension plan:

		Number
Inactive members of their beneficiaries currently receiving benefits		636
Inactive members not currently receiving benefits:		
Vested inactive members	91	
Non-vested inactive members	283	
Inactive members active elsewhere in VRS	143	
Total inactive members currently not receiving benefits		517
Active Members		1054
Total covered employees		2207

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Professional Plan (Teacher Retirement Plan) was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the school division were $30,557,558 and $31,725,142 for the years ended June 30, 2016 and June 30, 2015, respectively.

In addition, for the Nonprofessional (non-teacher) employees, CPS' contractually required contribution rate for the year ended June 30, 2016 was 10.86% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $2,290,138 and $2,321,931 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

At June 30, 2016, the school division reported a net pension liability of $371,035,000 for its proportionate share of the net pension liability of the Teacher Retirement Plan (Professional). The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The school division's proportion of the net pension liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 2.94792% as compared to 2.96080% at June 30, 2014.

In addition, CPS' net pension liability for the Nonprofessional (non-teacher) Retirement Plan was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. At June 30, 2016, the school division reported a liability of $16,052,000 for the Nonprofessional (non-teacher) Retirement Plan.

Pension Expense

For the year ended June 30, 2016, the school division recognized pension expense of $27,230,000 for the Teacher Retirement Plan (Professional). Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

In addition, for the year ended June 30, 2016, CPS recognized pension expense of $1,311,000 for the Nonprofessional (non-teacher) Retirement Plan.

Deferred Outflows/Inflows of Resources

At June 30, 2016, for the Teacher Retirement Plan (Professional), CPS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 5,109,000
Net difference between projected and actual earnings on pension plan investments	-	22,722,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	133,000	-
Employer contributions subsequent to the measurement date	30,557,558	-
Total	**$ 30,690,558**	**$ 27,831,000**

$30,557,558 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	Deferred Amounts
2016	$ (10,004,000)
2017	$ (10,004,000)
2018	$ (10,004,000)
2019	$ 3,004,000
2020	$ (690,000)

In addition, at June 30, 2016, for the Nonprofessional (non-teacher) Retirement Plan, CPS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 1,764,000
Employer contributions subsequent to the measurement date	2,290,138	-
Total	**$ 2,290,138**	**$ 1,764,000**

$2,290,138 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

June 30	Amounts
2016	$ (697,000)
2017	$ (697,000)
2018	$ (742,000)
2019	$ 372,000
2020	$ -

Actuarial Assumptions

Professional (Teacher) Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.95%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

Nonprofessional (non-teacher) Retirement Plan

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation *

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14 % of deaths are assumed to be service related

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Expected Rate of Return	Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents CPS' proportionate share of the net pension liability for the Professional (Teacher) Retirement Plan using the discount rate of 7.00%, as well as what CPS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Decrease (6.00%)	**Discount Rate Rate (7.00%)**	**Increase (8.00%)**
School division's proportionate shareof the VRS Teacher Employee Retirement Plan Net Pension Liability	$542,975,000	$371,035,000	$229,493,000

In addition, the following presents the net pension liability for the Nonprofessional (non-teacher) Retirement Plan using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Decrease (6.00%)	**Discount Rate Rate (7.00%)**	**Increase (8.00%)**
Political Subdivision's Net Pension Liability	$ 27,602,000	$ 16,052,000	$ 6,368,000

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

Notes to Basic Financial Statements

June 30, 2016

Changes in Net Pension Liability – Nonprofessional (non-teacher) Retirement Plan

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at June 30, 2014	$ 91,147,244	$ 77,002,477	$ 14,144,767
Changes for the year:			
Servce cost	2,148,602	-	2,148,602
Interest	6,232,246	-	6,232,246
Differences between expected and actual experience	366,267	-	366,267
Contributions - employer	-	2,321,495	(2,321,495)
Contributions - employee	-	1,063,283	(1,063,283)
Net investment income	-	3,503,699	(3,503,699)
Benefit payments, including refunds of employee contributions	(4,230,322)	(4,230,322)	-
Administrative expenses	-	(48,093)	48,093
Other changes	-	(743)	743
Net changes	4,516,793	2,609,319	1,907,474
Balances at June 30, 2015	$ 95,664,037	$ 79,611,796	$ 16,052,241

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(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.

(c) Encumbrances

CPS has outstanding purchase orders representing goods or services not received as of June 30, 2016. These amounts are encumbrances of fiscal year 2015-2016 budgeted funds and are not reflected in the accompanying financial statements. The encumbrances are as follows:

Fund	Amount
General	$ 2,474,584
Schools' Food Services	-
School Textbook	433,969
Capital Projects	6,447,206
Total Encumbrances	$ 9,355,759

(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 an $800,000 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, 2016 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, 2016, 2015 and 2014 were as follows:

	Balance July 1	Claims and Changes in Estimates	Claim Payments	Balance June 30
Worker's Compensation Claims				
2015 - 2016	$ 3,961,126	671,294	1,247,595	3,384,825
2014 - 2015	4,643,853	383,620	1,066,347	3,961,126
2013 - 2014	5,347,612	239,675	943,434	4,643,853
Medical Claims				
2015 - 2016	$ 6,410,507	67,300,122	66,763,501	6,947,128
2014 - 2015	6,122,389	61,355,492	61,067,374	6,410,507
2013 - 2014	5,434,077	62,386,076	61,697,764	6,122,389

(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, 2014, consisted of 5,288 active service participants and 1,374 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 2016, the Schools contributed $6,100,004 to the plan to pay for current premiums (64% of total premiums). Plan members receiving benefits contributed $3,400,675, or 36% 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 GAAP 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, 2016

For the year ended June 30, 2016, the Schools' annual OPEB cost and net OPEB obligation were as follows:

Annual required contribution	$ 12,377,878
Interest on net OPEB obligation	11,167,186
Adjustment to annual required contribution	(15,524,039)
Annual OPEB cost	8,021,025
Less employer contributions made	(6,100,004)
Increase in net OPEB obligation	1,921,021
Net OPEB obligation at June 30, 2015	279,179,653
Net OPEB obligation at June 30, 2016	$ 281,100,674

The Schools' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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, 2016	$ 8,021,025	6,100,004	76.1%	281,100,674
June 30, 2015	7,676,633	6,637,601	86.5%	279,179,653
June 30, 2014	7,878,097	7,753,753	98.4%	278,140,621

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.

Funded Status and Funding Progress

Based on the most recent actuarial valuation dated July 1, 2015, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 145,505,736
Less actuarial value of plan assets	11,904,540
Unfunded actuarial accrued liability (UAAL)	$ 133,601,196
Funded ratio (actuarial value of plan assets/AAL)	8.2%
Covered payroll	$ 239,436,096
UAAL as a percentage of covered payroll	55.8%

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, 2016, the ninth year after 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, 2014 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 July 1, 2014 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.

(9) Restatement of Net Position

CPS restated beginning of the year net position to correct an overstatement of construction in progress and net position invested in capital assets at June 30, 2015.

As a result, net position for the fiscal year ended June 30, 2015 has been restated. The restatement of prior period net position, as previously reported for the fiscal year ended June 30, 2015, decreased net position by $4,702,967, as follows (for Governmental Activities):

Net Position as previously reported, June 30, 2015	$(441,177,971)
Restatement for prior year constuction in progress overstatement	(4,702,967)
Net Position as restated, June 30, 2015	$(445,880,938)

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, 2016

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues:				
Intergovernmental:				
City of Chesapeake	$ 181,835,000	181,835,000	180,523,491	(1,311,509)
Commonwealth of Virginia	214,764,573	214,801,339	215,600,822	799,483
Federal government	29,346,538	29,317,576	19,337,957	(9,979,619)
Charges for services	2,260,800	2,260,800	15,271,524	13,010,724
Interest	—	—	168,153	168,153
Miscellaneous	667,135	659,331	1,005,805	346,474
Total revenues	428,874,046	428,874,046	431,907,752	3,033,706
Expenditures:				
Education:				
Administration	8,383,351	8,609,222	8,939,820	330,598
Instruction	329,093,770	332,505,806	331,514,396	(991,410)
Attendance and health services	6,079,976	5,875,829	6,118,749	242,920
Pupil transportation	25,032,137	25,877,239	26,999,670	1,122,431
Operations and maintenance	42,928,155	41,834,240	42,619,339	785,099
School facilities services	466,449	466,449	471,698	5,249
School technology services	14,914,092	13,630,060	13,661,799	31,739
Total education	426,897,930	428,798,845	430,325,471	1,526,626
Debt service:				
Principal	1,818,060	1,818,060	1,818,060	—
Interest	228,056	228,056	228,056	—
Total debt service	2,046,116	2,046,116	2,046,116	—
Payment to Primary Government – return of interest income	—	—	168,153	168,153
Total expenditures	428,944,046	430,844,961	432,539,740	1,694,779
Total revenues over (under) expenditures	$ (70,000)	(1,970,915)	(631,988)	1,338,927
Other financing sources (uses):				
Proceeds from capital leases			—	
Total other financing sources (uses)			—	
Total revenues over (under) expenditures and other financing sources			(631,988)	
Fund balance at beginning of year			17,736,788	
Increase in reserve for inventory			267,318	
Fund balance at end of year			$ 17,372,118	

See accompanying note to required supplementary information and report of independent auditor.

Exhibit VIII

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, 2016

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues:				
Intergovernmental:				
Commonwealth of Virginia	$ 150,000	150,000	284,984	134,984
Federal government	8,048,346	8,048,346	8,210,132	161,786
Charges for services	4,510,000	4,510,000	3,726,848	(783,152)
Interest	13,500	13,500	22,345	8,845
Miscellaneous	60,275	60,275	11,738	(48,537)
Total revenues	12,782,121	12,782,121	12,256,047	(526,074)
Expenditures:				
Operating costs:				
Purchases for resale	4,128,000	4,073,000	3,390,752	(682,248)
Food service salaries and fringe benefits	6,937,093	6,937,093	6,178,433	(758,660)
General and administrative	1,512,947	1,562,947	1,526,226	(36,721)
Other repairs and supplies	219,250	246,225	192,096	(54,129)
Capital outlay	94,000	94,000	15,354	(78,646)
Other expenditures	19,610	19,610	10,066	(9,544)
Total expenditures	12,910,900	12,932,875	11,312,927	(1,619,948)
Revenues over (under) expenditures	$ (128,779)	(150,754)	943,120	1,093,874
Fund balance at beginning of year			3,620,698	
Decrease in reserve for inventory			(10,203)	
Fund balance at end of year			$ 4,553,615	

See accompanying note to required supplementary information and report of independent auditor.

Exhibit IX

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, 2016

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues:				
Intergovernmental:				
City of Chesapeake	$ —	—	—	—
Interest	40,000	40,000	5,311	(34,689)
Miscellaneous	—	—	11,125	11,125
Total revenues	40,000	40,000	16,436	(23,564)
Expenditures:				
Instruction:				
Textbooks	1,612,824	2,964,174	410,702	(2,553,472)
Expendable workbooks	906,134	906,134	327,284	(578,850)
Total expenditures	2,518,958	3,870,308	737,986	(3,132,322)
Other financing source -				
Transfer from Primary Government	1,387,000	1,387,000	1,387,000	—
Revenues and other financing source over (under) expenditures	$ (1,091,958)	(2,443,308)	665,450	3,108,758
Fund balance at beginning of year			3,365,246	
Fund balance at end of year			$ 4,030,696	

See accompanying note to required supplementary information and report of independent auditor.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Changes in the Employer's Net Pension

Liability and Related Ratios

Year Ended June 30, 2016

Schools Nonprofessional Employees:		**2015**		**2014**
Total pension liability				
Service cost	$	2,148,602	$	2,157,963
Interest		6,232,246		5,971,479
Change of benefit terms		-		-
Difference between expected and actual experience		366,267		-
Change in assumption		-		-
Benefit payments, including refunds of employee contributions		(4,230,322)		(4,578,086)
Net change in total pension liability - beginning		4,516,793		3,551,356
Total pension liability - beginning		91,147,244		87,595,888
Total pension liability - ending (a)	$	95,664,037	$	91,147,244
Plan fiduciary net position				
Contributions - employer	$	2,321,495	$	2,399,609
Contributions - employee		1,063,283		1,057,299
Not investment income		3,503,699		10,545,595
Benefit payments, including refunds of employee contributions		(4,230,322)		(4,578,086)
Administrative expense		(48,093)		(57,298)
Other		(743)		556
Net change in plan fiduciary net position - beginning		2,609,319		9,367,675
Plan fiduciary net position - beginning		77,002,477		67,634,802
Plan fiduciary net position - ending (b)	$	79,611,796	$	77,002,477
CPS' net pension liability - ending (a) - (b)	$	16,052,241	$	14,144,767
Plan fiduciary net position as a percentage of total pension liability		83.22%		84.48%
Covered-employee payroll	$	23,066,755	$	22,808,112
CPS' net pension liability as a percentage of covered-employee payroll		69.59%		62.02%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

See accompanying note to required supplementary information and report of independent auditor.

Exhibit XI

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Employer's Share of Net Pension Liability

VRS Teacher Retirement Plan

Year Ended June 30, 2016 *

Schools Professional Employees:	**2016**	**2015**
Employer's Proportion of the Net Pension Liability (Asset)	2.94792%	2.96080%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 371,035,000	$ 357,804,000
Employer's Covered-Employee Payroll	$ 236,110,273	$ 233,462,806
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	157.14%	153.26%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.88%	70.88%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

See accompanying note to required supplementary information and report of independent auditor.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Employer's Contributions

Year Ended June 30, 2016

Schools' Professional Employees:

Date		Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2016	$	30,557,558	30,557,558	—	236,403,654	12.9%
2015		31,725,142	31,725,142	—	236,110,273	13.4%
2014		25,246,663	25,246,663	—	233,462,806	10.8%

Schedule is intended to show information for 10 years. Since 2016 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

See accompanying note to required supplementary information and report of independent auditor.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Employer's Contributions

Year Ended June 30, 2016

Schools' Nonprofessional Employees:

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2016	$ 2,290,138	2,290,138	—	23,095,417	9.9%
2015	2,321,931	2,321,931	—	23,066,755	10.1%
2014	2,399,609	2,399,609	—	22,808,112	10.5%

Schedule is intended to show information for 10 years. Since 2016 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

See accompanying note to required supplementary information and report of independent auditor.

Exhibit XIV

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Funding Progress - Other Postemployment Benefits (unaudited)

Year Ended June 30, 2016

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, 2015	$ 11,904,540	$ 145,505,736	$ 133,601,196	8.18%	$ 239,436,096	55.80%
July 1, 2014	11,658,005	142,117,300	130,459,295	8.20%	240,652,174	54.21%
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.

See accompanying report of independent auditor.

CHESAPEAKE PUBLIC SCHOOLS

(Component Unit of the City of Chesapeake, Virginia)

Schedule of Employer's Contributions - Other Postemployment Benefits (unaudited)

Year Ended June 30, 2016

Fiscal Year Ended June 30	Annual Required Contribution	Actual Amount Contributed in Dollars	Actual Amount Contributed in Percent
2016	$ 12,377,878	$ 6,100,004	49.28%
2015	12,017,270	6,637,601	55.23%
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 No. 43 for the fiscal year ended June 30, 2008.

See accompanying report of independent auditor.

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

Note to Required Supplementary Information
Year Ended June 30, 2016

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 $900,386 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.

Pension Plans – Teachers

Changes of benefit terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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

Note to Required Supplementary Information
Year Ended June 30, 2016

Pension Plans – Nonprofessional Employees

Changes of benefit terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Cherry Bekaert LLP
CPAs & Advisors

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 Honorable 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, 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 Chesapeake Public Schools (the “School Board”), as of and for the year ended June 30, 2016, 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 April 26, 2017. Our report recognizes that the School Board restated beginning net position of its governmental activities. Our report includes a reference to other auditors who audited the financial statements of the Activity Funds of 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control over financial reporting described in the accompanying schedule of finding and management response as item 2016-001 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* or the *Specifications for Audit of Counties, Cities, and Towns*.

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 finding 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.

Cherry Bekaert LLP

Virginia Beach, Virginia
April 26, 2017

Chesapeake Public Schools

(Component Unit of the City of Chesapeake, Virginia

Schedule of Finding and Management Response

Year Ended June 30, 2016

Finding 2016-001

Criteria

Financial statements should be fairly and accurately presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

For the year ended June 30, 2016, the School Board restated the governmental activities' beginning net position to correct an overstatement of construction in progress and net position invested in capital assets.

Cause

The School Board's Finance Department did not timely and adequately review the detail schedules of additions and deletions for construction in progress.

Effect

The School Board's 2015 financial statements were not fairly stated in all material respects in accordance with GAAP.

Recommendation

We recommend the School Board's Finance Department adequately and timely review all financial reporting detail schedules.

Management Response

Management agrees with this finding and is making every effort to review financial reports in a timely manner.