CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Basic Financial Statements and Management's Discussion and Analysis, Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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Overview of the Financial Statements

The Chesapeake Bay Bridge and Tunnel District's (the District) annual financial report for the fiscal years ended June 30, 2016 and 2015 provides long-term and short-term information about the District's overall financial status. The financial Section of this report consists of four parts: management's discussion and analysis; basic financial statements, including notes to the basic financial statements; required supplementary information; and other supplementary information. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities. The basic financial statements are the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended. The notes to the basic financial statements consist of information that is essential to a user's understanding of the basic financial statements. The basic financial statements are followed by required supplementary information and other supplementary information that provide the information augmenting the basic financial statements.

As it is considered a special-purpose government engaged only in business-type activities, the District follows enterprise fund reporting; accordingly, the basic financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of nonbridge-tunnel infrastructure assets is recognized in the statements of revenues, expenses, and changes in net position. All assets and deferred outflows of resources and liabilities and deferred inflows of resources resulting from the operation of the District are included in the statements of net position.

Financial Highlights for Fiscal Years ended June 30, 2016 and 2015

- Toll revenues during fiscal year 2016 (FY2016) were $55,935,143 and were 5.2% more than fiscal year 2015 (FY2015) toll revenues. During FY2016, 3,906,923 total revenue vehicles crossed the District's facility. This represents a 6.6% increase in vehicular traffic over FY2015. The slightly disproportional increase in vehicular traffic compared to toll revenues in FY2016 is due to the mix in traffic growth as the growth in cars and light trucks traffic outpaced the growth in heavy trucks and buses. Toll revenues during fiscal year 2015 (FY2015) were $53,166,142 and were 10.7% more than fiscal year 2014 (FY2014) toll revenues. During FY2015, 3,664,220 total revenue vehicles crossed the District's facility. This represents a 3.2% increase in vehicular traffic over FY2014. The increase in toll revenues compared to vehicular traffic in FY2014 was due to a toll rate increase of approximately 10% implemented in January 2014.
- Other revenues in FY2016 totaled $1,208,465, which is an increase of 1.7% over other revenues in FY2015. The increase in other revenue is due to programmed increases in lease income from the various tenants at the District's Little Creek property and the sale of surplus equipment. Other revenues in FY2015 totaled $1,188,371, which was a decrease of 0.4% over other revenues in FY2014. The decrease in other revenue was due to a decline in income of $17,976 derived from the sale of surplus equipment.
- Operating expenses in FY2016, before District facility expenses, totaled $13,582,332, which is an increase in operating expenses of $280,881 from FY2015. Operating expenses in FY2015, before District facility expenses, totaled $13,301,451, which was a decrease in operating expenses of $843,894 from FY2014.
- Operating expenses in FY2016, before District facility expenses, were 8.2% less than the legally adopted budget for FY2016 operating expenses, before District facility expenses. Operating expenses in FY2015, before District facility expenses, were 8.9% less than the legally adopted budget for FY2015 operating expenses, before District facility expenses.

- Total net position at June 30, 2016 was $644,283,067, a 5.5% increase over total net position at June 30, 2015. Total net position at June 30, 2015 was $610,516,168, a 2.4% increase over total net position at June 30, 2015.

Upcoming Events for Fiscal Year 2017

On July 15, 2016, the District received revised technical and price proposals from all three teams involved in the procurement for a contract to design and construct a new parallel tunnel at the Thimble Shoal Channel. Based on the lowest price proposal of $755,987,318, the Commission awarded a contract to Chesapeake Tunnel JV, a joint venture of Dragados USA, Inc. and Schiavone Construction Company LLC, on July 27, 2016. Chesapeake Tunnel JV proposed a bored tunnel construction methodology and will begin construction on Island No. 1 in the Fall of 2017. Total construction of the parallel tunnel is expected to take approximately five years.

Financial Analysis

Net Position

Net position is the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. As of June 30, 2016, net position was $644,283,067, a 5.5% increase over net position at June 30, 2015. As of June 30, 2015, net position was $610,516,168, a 2.4% increase over net position at June 30, 2014. Total assets and deferred outflows of resources increased 3.3% to $751,748,891 and total liabilities and deferred inflows of resources decreased 8.3% to $107,465,824 during FY2016. Total assets and deferred outflows of resources increased 2.3% to $727,705,394 and total liabilities and deferred inflows of resources increased 1.9% to $117,189,226 during FY2015. The net position and increase in net position are indicators of the District's financial health. Table A-1 is a summary of the net position:

Table A-1

Summary of Net Position as of June 30, 2016, 2015, and 2014

Assets and Deferred Outflows of Resources	2016	2015	2014
Current assets	$ 176,690,022	60,801,246	51,978,832
Restricted assets	20,104,519	20,694,033	20,619,030
Noncurrent investments	92,895,290	185,574,022	183,137,155
Derivative investment	338,910	1,164,318	1,818,424
Long-term note receivable	83,519	124,381	184,104
Capital assets	450,667,599	446,269,279	439,112,265
Bond insurance costs, net	66,985	75,321	83,657
Deferred outflows of resources	10,902,047	13,002,794	14,489,957
Total assets and deferred outflows of resources	$ 751,748,891	727,705,394	711,423,424

Table A-1

Summary of Net Position as of June 30, 2016, 2015, and 2014

Liabilities and Deferred Inflows of Resources		**2016**	**2015**	**2014**
Current liabilities	$	12,843,423	13,737,157	15,918,453
Long-term debt, net of current portion, and imputed borrowing payable		75,547,638	84,203,792	92,774,750
Derivative liability		1,578,406	1,572,117	2,020,163
Net pension liability		11,302,411	10,423,027	—
Other long-term liabilities		5,367,423	5,367,423	4,279,106
Deferred inflows of resources		826,523	1,885,710	—
Total liabilities and deferred inflows of resources	$	107,465,824	117,189,226	114,992,472
Net Position				
Net investment in capital assets	$	373,992,255	363,343,433	350,087,841
Restricted for debt service		20,088,077	20,692,548	20,611,553
Unrestricted		250,202,735	226,480,187	225,731,558
Total net position	$	644,283,067	610,516,168	596,430,952

Current assets include unrestricted cash and investments that mature in less than 12 months and receivables due in less than 12 months. Restricted assets include cash and investments restricted for current debt service and debt service reserves as required by revenue bond covenants. Noncurrent assets are unrestricted investments that mature in more than 12 months. Long-term receivables are receivables due in more than 12 months. Capital assets are the bridge and tunnel infrastructure assets, capitalized interest and financing expenses during construction periods, and other capital assets, such as land, buildings, fleet vehicles, and equipment, net of depreciation. Bond insurance costs are the unamortized costs associated with revenue bonds issued by the District. Deferred outflows of resources include losses on debt refunding, an offset to the derivative liability created by derivative instruments that qualify for hedge accounting, the unamortized portion of differences between expected and actual pension plan experience and employer contributions to the pension plan that occurred after the measurement date of the actuarial report.

Current liabilities include accounts payable, unearned revenue, bond principal that is due within 12 months, and bond interest due within 12 months. Long-term debt, net of current portion, is the principal amount of bonds payable that will mature after 12 months, net of unamortized discounts or premiums and imputed borrowing payable related to terminations of hedge accounting. Derivative liability represents the negative fair market valuation of derivative instruments that currently qualify for hedge accounting. Net pension liability represents the amount by which the District’s total pension liability exceeds the pension plan’s net position available for paying benefits. Other postemployment benefits obligation (OPEB) represents the amount by which the District’s total OPEB liability exceeds the OPEB plan’s net position available for paying retiree health insurance benefits. Deferred inflows of resources are the unamortized portion of differences between the expected earnings and the actual earnings on pension plan investments.

Unrestricted net position contains the revenue fund, reserve maintenance fund, and general fund net position. The reserve maintenance fund and general fund are expended to preserve the capital assets by planned and unplanned extraordinary maintenance projects. The general fund will be utilized for future construction projects. In May 2011, the Commission adopted financial capacity models that approved parallel tunnel construction commencement in fiscal year 2021. The Commission approved a resolution at its May 2013 meeting to accelerate the construction of Thimble Shoal Parallel Tunnel as soon as financially practicable in order to take advantage of the current low interest rate environment and a softened construction market. In August 2013, the Commission approved a toll rate schedule increase that will increase unrestricted net position invested in the District’s General Resolution General Fund and will also enhance the future bonding capacity of the District to issue revenue bonds for parallel tunnel construction. The new toll rate schedule was effective on January 1, 2014.

Net position restricted for debt service is current debt service due on July 1, 2016, 2015, and 2014 and the debt service reserve assets restricted by bond covenants. Net position restricted for forfeited property represents assets lawfully seized by District police and restricted for expenditures in accordance with the Virginia Department of Criminal Justice regulations.

Changes in Net Position

Net position increased $33,766,899 during FY2016. Net position increased $14,085,216 during FY2015. The total operating revenues for FY2016 were $57,143,608, 5.1% over FY2015 operating revenues, which were $54,354,513, and 10.4% over FY2014 operating revenues, which were $49,225,622. The total operating expenses in FY2016, before District facility charges, were $13,582,332, an increase of 2.1% from FY2015.

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The total operating expenses in FY2015, before District facility charges, were $13,301,451 a decrease of 6.0% from FY2014. Table A-2 is a summary of the changes in net position.

Table A-2

Summary of Statements of Revenues, Expenses, and Changes in Net Position during FY2016, FY2015, and FY2014

Operating Revenues	**2016**	**2015**	**2014**
Toll revenues	$ 55,935,143	53,166,142	48,032,232
Other revenues	1,208,465	1,188,371	1,193,390
Total operating revenues	57,143,608	54,354,513	49,225,622
Operating Expenses			
Operating expenses, before District facility expenses	13,582,332	13,301,451	14,145,345
District facility expenses	7,468,117	10,982,789	16,739,180
Total operating expenses	21,050,449	24,284,240	30,884,525
Operating income	36,093,159	30,070,273	18,341,097
Net nonoperating expenses	(2,326,260)	(4,430,798)	(2,236,755)
Increase in net position	33,766,899	25,639,475	16,104,342
Total net position, beginning of fiscal year	610,516,168	596,430,952	580,326,610
Prior period adjustment of net position	—	(11,554,259)	—
Total net position, end of fiscal year	$ 644,283,067	610,516,168	596,430,952

FY2016 toll revenues increased 5.2% from FY2015 toll revenues. FY2015 toll revenues increased 10.7% from FY2014 toll revenues. Total vehicular traffic in FY2016 increased 6.6% compared to vehicular traffic in FY2015. In FY2016, cars and light truck traffic increased 7.0%, heavy truck traffic increased 2.6%, and bus traffic increased 4.2%. Total vehicular traffic in FY2015 increased 3.2% compared to vehicular traffic in FY2014. In FY2015, cars and light truck traffic increased 3.2%, heavy truck traffic increased 3.1%, and bus traffic increased 3.3%. Total vehicular traffic in FY2014 increased 1.8% compared to vehicular traffic in FY2013. There are many variables that affect the District's vehicular traffic and resulting revenues. In evaluating FY2016 traffic compared to FY2015, the continuation of low fuel prices, the overall improvement in the economy and a lack of severe weather events worked together to increase the overall results. Every month of FY2016, except for October, represented a new record for traffic volume and toll revenues. Operating expenses, before District facility charges, for FY2016 increased 2.1% from FY2015 expenses and were 8.2% less than the budgeted expenses. Operating expenses, before District facility charges, for FY2015 decreased 6.0% from FY2014 expenses and were 8.9% less than the budgeted expenses. The FY2016 increase in operating expenses can be primarily attributed to small increases in employee benefits expense

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related to health insurance costs and also by an increase in the amount of pension costs recognized under the reporting methods adopted in FY2015 due to GASB Statement No. 68.

Facility expenses for FY2016 decreased 32.0% when compared to FY2015. Facility expenses for FY2015 decreased 34.4% when compared to FY2014. District facility expenses primarily include preservation expenses for bridge and tunnel assets. Preservation expenses are predominantly large complex repairs and renovations that may take more than one year to complete. Depending on the nature of the preservation projects, the amount of preservation expense can vary greatly from year to year. Preservation of bridge and tunnel assets has been, and continues to be, a primary goal of the Commission. Refer to the Capital Asset section for more information regarding preservation expenses.

Net nonoperating expenses in FY2016 total $2,326,260, representing a 47.5% decrease in net expense from FY2015. This $2,104,538 decrease in nonoperating expenses was a result of four substantial changes from FY2015 to FY2016. The four main factors were a decrease in bond interest expense of $762,719, a decrease in the loss in the fair value of investments of $800,647, a decrease in other postemployment benefits expense of $1,088,317, offset by a decrease in interest income on investments of $553,716. Net nonoperating expenses in FY2015 total $4,430,798. There was a $2,194,043 decrease in nonoperating expenses from FY2014 to FY2015. The three main factors were an increase in other postemployment benefits expense of $1,088,317, a decrease in interest income on investments of $481,237, and an increase in bond interest expense of $612,236. The changes from year to year in other postemployment benefits expense (OPEB) is due to the District's decision to accrue the entire amount of OPEB liability and to true-up that accrued liability every five years.

The change in fair value of investments is inversely related to the overall change in interest rates. The District invests its assets with the purpose of holding investments until maturity unless there is an infrequent need to liquidate a portion for cash management purposes. Therefore, the change in fair value is considered to be a "book entry" gain or loss and not a cash value or maturity gain or loss.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the District has $450,667,599 invested in capital assets, net of accumulated depreciation. Capital assets include bridge and tunnel assets, capitalized interest and financing expenses, and miscellaneous capital assets. The bridges, trestles, approach roads, Fisherman Island Causeway, tunnels, portal islands with all attached improvements, toll plaza infrastructure and the rest area facility, and site-wide utilities are classified as bridge and tunnel assets. Capitalized interest and financing expenses is the amount that was funded from the 1960 revenue bond issue to pay debt service and associated costs of the bonds during construction until the opening of the Chesapeake Bay Bridge and Tunnel in 1964. Other capital assets include all other capitalized assets such as land, buildings, fleet vehicles, and equipment.

In accordance with U.S. generally accepted accounting principles (GAAP), the District has elected to utilize the modified approach to infrastructure reporting on both bridge and tunnel assets and capitalized interest and financing expenses. Rather than reporting depreciation on any bridge and tunnel assets or capitalized interest, the District reports, as preservation expense, the costs incurred for maintaining bridge and tunnel assets in generally good condition on the statements of revenues, expenses, and changes in net assets. GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that governmental entities that utilize the modified approach for

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infrastructure reporting must have their governing board set a policy for the condition levels at which modified approach assets will be maintained. The Commission's policy is to maintain 90% of its bridge and tunnel assets at a maintenance-rating program (MRP) condition level of "good" or better. GASB also requires that the condition levels for the current and prior two fiscal years be disclosed in the notes to the financial statements.

The modified approach to infrastructure reporting highlights the District's proactive maintenance efforts by disclosing the results of the annual condition level assessments performed by the District's consulting engineers at Jacobs Engineering, Inc. The District's utilization of the modified approach for infrastructure reporting makes it an industry leader within the Commonwealth of Virginia.

Jacobs Engineering, Inc. has inspected the bridge and tunnel assets and has determined that in FY2016, FY2015 and FY2014, the overall infrastructure condition level is "good" (Level 7) or better. As shown in the table below, the facility's infrastructure condition level improved or remained at essentially the same level across all assets classes from FY2014 to FY2016.

The following two tables detail the condition level of bridge and tunnel assets for the last three years and they derive percentages in different ways. Trestles and bridges that have an MRP *numeric* condition level are described as a percentage of lane miles. All other bridge and tunnel assets that have an MRP *numeric* condition level are described as a percentage of that specific bridge and tunnel asset.

Percentage of lane miles at an MRP condition Level 7 or better

Bridge and tunnel assets	2014	2015	2016
Original bridges	100%	100%	100%
Parallel crossing bridges	100	100	100
Original trestles	100	100	100
Parallel crossing trestles	100	100	100

Percentage of capital assets at an MRP condition Level 7 or better

Bridge and tunnel assets	2014	2015	2016
Approach roads	100%	100%	100%
Fisherman Island Causeway	100	100	100
Tunnels	84	94	96
Portal islands	91	94	90
Toll plaza infrastructure	100	100	100
Sitewide utilities	80	92	97

Preservation expenses for FY2016 totaled $5,288,066 and were 42.5% less than FY2015 preservation expenses. Preservation expenses for FY2015 totaled $9,204,051 and were 36.6% less than FY2014 preservation expenses. Preservation expenses for FY2016 included the underwater inspection of the facility, the inspection and painting of the tunnel ventilation system, the girder repair project, a roof repair project at the North Toll Plaza building, and the repair of the fender system located at Fisherman Inlet bridge.

The budgeted preservation expenses for FY2017 are summarized by asset cluster in the table that follows. During a given fiscal year, there may be no preservation expenses budgeted for one or more of the classifications of bridge and tunnel assets. This is an indication that the District assesses that there is no need for preservation work on this classification of bridge and tunnel assets to be able to maintain it at a "good" condition level or better.

Bridge and tunnel assets:		
Original bridges	$	84,800
Parallel crossing bridges		220,117
Original trestles		3,034,282
Parallel crossing trestles		303,172
Approach roads		—
Fisherman Island causeway		—
Tunnels		1,795,435
Portal islands		35,000
Toll plaza infrastructure		778,050
Sitewide utilities		51,500
	$	6,302,356

The District has elected to continue to use the traditional approach or depreciation method for miscellaneous capital assets, such as buildings, fleet vehicles, and equipment that are depreciable. Depreciation expense was $1,173,973 and $892,823 for FY2016 and FY2015, respectively, for nonbridge-tunnel assets that are classified as miscellaneous capital assets on the statements of net position. For FY2016, net capital asset purchases in the amount of $1,409,361 were added to miscellaneous capital assets. For FY2015, net capital asset purchases in the amount of $1,192,894 were added to miscellaneous capital assets. Under the District's capitalization policy, computer additions and replacements are not capitalized but are expensed due to their short-term useful life.

Insurance expenses increased 10.0% to $839,690 in FY2016 from $763,455 in FY2015. The insurance market has remained competitive after several years of minimal events. The District was also able to secure a new multi-year program starting April 1, 2014 via a combination of ACE American Insurance Company and XL Insurance America that offers favorable rates through March 31, 2017.

Long-Term Debt (Bonds Payable)

Bonds payable in the principal amount of $7,700,000 mature during FY2017 compared to the maturity of $7,450,000 of bonds during FY2016. The amount of outstanding bonds payable that mature between June 30, 2017 and July 1, 2025 is $73,783,615, net of unamortized bond discounts and premium of $1,228,615. All of the bonds payable are backed by the pledge of toll revenues. On September 16, 2016, Fitch Ratings affirmed the rating on the District's general resolution revenue bonds at "A-."

As of June 30, 2016, the District's outstanding debt portfolio has a ratio of 45% variable rate bonds and 55% fixed-rate bonds. An interest rate exchange agreement synthetically fixes the rate of interest on all of the variable rate bonds.

The Commission is required to maintain its General Resolution Toll Rate Covenant Ratio at a level not less than 120%. The General Resolution Toll Rate Covenant Ratio increased from 349% for FY2014 to 397% for FY2015 and then increased to 418% for FY2016.

Contacting the District's Financial Management

This financial report is designed to provide the bondholders, customers, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, address your request to the Executive Director or the District Deputy Director of Finance and Operations, 32386 Lankford Highway, Cape Charles, Virginia 23310.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Chairman and Members
Chesapeake Bay Bridge and Tunnel Commission:

Report on the Financial Statements

We have audited the accompanying financial statements of the Chesapeake Bay Bridge and Tunnel District (the District), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chesapeake Bay Bridge and Tunnel District as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the basic financial statements, in fiscal year 2015, the District adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 9, Schedule of the Pension Contributions on page 50, Schedule of the Changes in Net Pension Liability and Related Ratios on page 51, the Schedules of Funding Progress on page 52, and the Modified Approach for Infrastructure Reporting – Capital Asset Activity information on pages 53 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Budgetary Comparison Schedule, the Schedule of Insurance Policies, the Schedule of Comparative Traffic and Revenue Statistics, and the Schedule of Investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Introductory Section, the Budgetary Comparison Schedule, the Schedule of Insurance Policies, and the Schedule of Comparative Traffic and Revenue Statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
October 26, 2016

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Net Position

June 30, 2016 and 2015

Assets and Deferred Outflows of Resources	**2016**	**2015**
Current assets:		
Cash (note 3)	$ 823,178	1,076,497
Investments (notes 3 and 10)	174,070,418	57,932,868
Accounts receivable and accrued interest receivable, net	1,205,703	1,205,670
Prepaid expenses and other assets	559,136	556,613
Note receivable	31,587	29,598
Total current assets	176,690,022	60,801,246
Restricted assets:		
Cash (note 3)	170,609	18,116
Investments (notes 3 and 10)	19,926,025	20,639,020
Accrued interest receivable	7,885	36,897
Total restricted assets	20,104,519	20,694,033
Investments (notes 3 and 10)	92,895,290	185,574,022
Long-term note receivable	83,519	124,381
Derivative investment (notes 5 and 10)	338,910	1,164,318
Capital assets (note 4):		
Bridge and tunnel facilities, including capitalized interest	423,933,330	423,933,330
Construction in progress – Thimble Shoal Parallel Tunnel	14,672,141	10,631,263
Miscellaneous capital assets, net of accumulated depreciation	12,062,128	11,704,686
Total capital assets	450,667,599	446,269,279
Bond insurance costs, net of accumulated amortization	66,985	75,321
Deferred outflow of resources:		
Derivative liability (note 5)	1,578,406	1,572,117
Loss on debt refunding	8,090,439	10,280,116
Differences between expected and actual pension experience	132,948	—
Pension contributions (note 6)	1,100,254	1,150,561
Total deferred outflows of resources	10,902,047	13,002,794
Total assets and deferred outflows of resources	$ 751,748,891	727,705,394
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,852,187	3,896,089
Current portion of long-term debt (note 5)	7,700,000	7,450,000
Accrued interest	1,585,130	1,627,492
Unearned revenue	706,106	763,576
Total current liabilities	12,843,423	13,737,157
Long-term liabilities:		
Long-term debt, net of current portion (note 5)	73,783,615	81,636,529
Imputed borrowing payable (note 5)	1,764,023	2,567,263
Derivative liability (note 5)	1,578,406	1,572,117
Net pension liability (note 6)	11,302,411	10,423,027
Other long-term liabilities (note 9)	5,367,423	5,367,423
Total long-term liabilities	93,795,878	101,566,359
Deferred inflows of resources:		
Pension investment experience (note 6)	826,523	1,885,710
Total liabilities and deferred inflows of resources	107,465,824	117,189,226
Commitments and contingencies (notes 8 and 11)		
Net position:		
Net investment in capital assets	373,992,255	363,343,433
Restricted for debt service	20,088,077	20,692,548
Unrestricted	250,202,735	226,480,187
Total net position	644,283,067	610,516,168
Total liabilities and net position	$ 751,748,891	727,705,394

See accompanying notes to basic financial statements.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

		2016	2015
Operating revenues (note 5):			
Tolls	$	55,935,143	53,166,142
Other		1,208,465	1,188,371
Total operating revenues		57,143,608	54,354,513
Operating expenses:			
Administration		412,573	394,525
Finance		726,679	744,614
Operations		4,204,239	4,186,899
Maintenance and tunnel operations		3,647,082	3,593,439
General		3,218,485	2,942,281
Consultants		541,127	512,453
Utilities		832,147	927,240
Total operating expenses before district facility expenses		13,582,332	13,301,451
District facility expenses:			
Insurance		839,690	763,455
Depreciation (note 4)		1,173,973	892,823
Bridge and tunnel preservation (note 4)		5,288,066	9,204,051
Other		166,388	122,460
Total district facility expenses		7,468,117	10,982,789
Total operating and district facility expenses		21,050,449	24,284,240
Operating income		36,093,159	30,070,273
Nonoperating revenues (expenses):			
Change in fair value of investments (note 3)		(1,059,667)	(1,860,314)
Interest income		3,736,859	4,290,575
Interest expense		(5,005,162)	(5,767,881)
Other postemployment benefits (note 9)		—	(1,088,317)
Other expenses, net		1,710	(4,861)
Total nonoperating expenses, net		(2,326,260)	(4,430,798)
Increase in net position		33,766,899	25,639,475
Total net position, beginning of year		610,516,168	596,430,952
Prior year adjustment of net position (note 2)		—	(11,554,259)
Total net position, end of year	$	644,283,067	610,516,168

See accompanying notes to basic financial statements.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Toll collections from customers	$	55,476,613	53,070,468
Scrip sales		424,220	395,737
Leasing revenue		1,183,925	1,203,449
Payments to employees for services and employee benefits		(11,604,042)	(11,463,464)
Payments to suppliers and consultants		(8,555,364)	(13,627,720)
Other		(137,592)	(76,501)
Net cash provided by operating activities		36,787,760	29,501,969
Cash flows from investing activities:			
Purchases of investments		(356,943,814)	(351,587,031)
Interest income		3,932,637	4,286,635
Sales and maturities of investments		333,963,732	338,705,050
Net cash used in investing activities		(19,047,445)	(8,595,346)
Cash flows from capital and related financing activities:			
Capitalized expenditures		(6,216,721)	(8,842,637)
Forfeited assets		14,941	(5,997)
Debt principal repayments		(7,450,000)	(7,150,000)
Interest paid		(4,189,361)	(5,012,178)
Net cash used in capital and related financing activities		(17,841,141)	(21,010,812)
Net decrease in cash		(100,826)	(104,189)
Cash, beginning of year		1,094,613	1,198,802
Cash, end of year	$	993,787	1,094,613
Cash and restricted cash are presented in the accompanying statements of net assets as follows:			
Cash	$	823,178	1,076,497
Restricted cash		170,609	18,116
	$	993,787	1,094,613
Reconciliation of operating income to net cash provided by operating activities:			
Operating income		36,093,159	30,070,273
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		1,173,973	892,823
Increase (decrease) in operating assets:			
Accounts receivable		(127,926)	387,380
Prepaid expenses and other assets		(2,523)	(86,417)
Decrease in operating liabilities:			
Accounts payable and accrued expenses		(29,009)	(1,244,022)
Net pension liability		(262,444)	(491,787)
Unearned revenue		(57,470)	(26,281)
Net cash provided by operating activities	$	36,787,760	29,501,969

Supplemental disclosure of noncash capital and related financing activities:

The District incurred noncash expenses including the amortization of bond discounts and premiums, amortization of the deferred loss and bond insurance costs that totaled $2,045,100 in both 2016 and 2015.

The District incurred noncash capital expenditures related to construction in progress – Thimble Shoal Parallel Tunnel in the amount of $85,903 and $1,115,919 that are included in accounts payable as of June 30, 2016 and 2015, respectively.

See accompanying notes to basic financial statements.

(1) Organization and Summary of Operations

The Chesapeake Bay Bridge and Tunnel District (the District) was created as a political subdivision of the Commonwealth of Virginia by Chapter 693 of the Acts of Virginia of 1954. Chapter 693 was subsequently amended by the following Chapters of the Acts of Virginia: Chapters 462 and 714 of the 1956 Session, Chapter 24 of the 1959 Extra Session, Chapters 228 and 605 of the 1962 Session, Chapter 348 of the 1964 Session, Chapter 203 of the 1990 Session, Chapter 548 of the 1998 Session, Chapters 238 and 705 of the 2000 Session, and Chapters 270 and 297 of the 2005 Session, (collectively, the Acts). All such Acts have been codified into Title 33.2 Code of Virginia, Chapter 22. The District comprises the area, all within the Commonwealth of Virginia, in Accomack and Northampton Counties, the Cities of Virginia Beach, Hampton, Newport News, Chesapeake, Norfolk, and Portsmouth, and the area of the Chesapeake Bay between these subdivisions.

By the Acts, the Chesapeake Bay Bridge and Tunnel Commission (the Commission) was created as the governing body of the District. These Acts authorized the Commission to acquire, establish, construct, maintain, repair, and operate a project comprising public ferry service over and across the waters between any two points within the boundaries of the District, where such public ferry services would form a connecting link in the system of state highways.

Under the Acts, the Commission was also authorized to establish, construct, maintain, repair, and operate a bridge or tunnel or a bridge and tunnel project from any point within the boundaries of the District to a point in the County of Northampton, including such approaches and approach highways as the Commission deemed necessary to facilitate the flow of traffic in the vicinity of such project or to connect such project with the highway system or other facilities in the state.

The Chesapeake Bay Bridge and Tunnel (the Bridge-Tunnel) is a 20-mile, four-lane trestle and bridge and two-lane tunnel crossing at the mouth of the Chesapeake Bay between the City of Virginia Beach and Northampton County on the Eastern Shore of Virginia. The Bridge-Tunnel consists principally of low-level trestles, four bridges, two tunnels, approach highways, and an earth-fill causeway. The Bridge-Tunnel is designated as part of U.S. Route 13, the main north-south highway on Virginia’s Eastern Shore and the only direct link between Virginia’s Eastern Shore and the metropolitan area of south Hampton Roads, Virginia.

The District sold a revenue bond issue of $200,000,000 (1960 Bonds) under a Trust Indenture dated July 1, 1960, and constructed the two-lane bridge and tunnel project. The project was opened to traffic on April 15, 1964. The Commission discontinued ferry service following the opening of the two-lane bridge and tunnel project.

On April 15, 1964, the Bridge-Tunnel opened as a two-lane facility. A three-staged parallel crossing project began in 1995. Stage 1 of this project was completed in April 1999. This stage included construction of parallel trestles, bridges, roadways, and rehabilitation of the original two-lane facility. Stage 2 will consist of construction of an additional two-lane tunnel under Thimble Shoal Channel. Stage 3 will complete the parallel crossing with construction of an additional two-lane tunnel under Chesapeake Channel.

In March 1991, the District sold $30,400,000 in revenue bonds (1991 Revenue Bonds) under the Revenue Bond Resolution. The funds provided by these bonds were appropriated for in-depth traffic, environmental and financial studies, and the development of specifications and plans for the proposed construction of a parallel crossing, which would expand the existing bridges and trestles from two lanes to four lanes.

In November 1991, the District sold $113,345,000 in revenue bonds (1991 General Resolution Revenue Bonds) under the General Revenue Bond Resolution to defease the $106,488,000 outstanding 1960 Bonds by a current refunding. The 1960 Bonds were called for early redemption on January 1, 1992, at a redemption price of 101% of the principal amount plus accrued interest. The 1991 General Resolution Revenue Bonds were two-term bonds: one-term bond maturing on July 1, 2022, par value $66,345,000, coupon rate of 6.375% (Series 1991 Bond, 2022 Term); and the second term bond maturing on July 1, 2025, par value $47,000,000, coupon rate of 5.75% (Series 1991 Bond, 2025 Term).

In May 1995, the District sold an additional $42,450,000 in revenue bonds (1995 Revenue Bonds) under the Revenue Bond Resolution and an additional $60,250,000 in revenue bonds (1995 General Resolution Revenue Bonds) under the General Revenue Bond Resolution. Proceeds from the 1995 bond offering were used to finance part of the cost of construction of a portion of a parallel crossing (1995 Crossing Project) as well as fund certain improvements to the existing bridge and tunnel (1995 Improvement Project).

In February 1996, the District advance refunded the Series 1991 Bond, 2022 Term by the issuance of $74,125,000 General Resolution Revenue Bonds, Refunding Series 1996 (1996 General Resolution Refunding Bonds). The 1996 General Resolution Refunding Bonds are a combination of serial and term bonds. A portion of the proceeds from the 1996 General Resolution Refunding Bonds along with cash contributed by the District were placed in escrow to pay for debt service interest, retirement of the Series 1991 Bond, 2022 Term, and redemption premium at the earliest date of redemption, July 1, 2001. The remaining portion of the proceeds from the 1996 General Resolution Refunding Bonds paid the related cost of issuance expenses, including bond insurance premiums.

The District recorded a deferred loss on the advance refunding in the amount of $8,558,275. The deferred loss according to U.S. generally accepted accounting principles (GAAP) is the difference between the amount required to retire the refunded debt and the book value of the refunded debt. The deferred loss is the difference between the net carrying amount and the reacquisition price of the Series 1991 Bond, 2022 Term. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 1996 General Resolution Refunding Bonds. The advance refunding of the Series 1991 Bond, 2022 Term will produce a debt service savings over the 26-year life of the 1996 General Resolution Refunding Bonds of approximately $6,531,000, which had a net present value of approximately $3,577,000.

In October 1998, the District advance refunded the Series 1991 Bond, 2025 Term by the issuance of $44,405,000 General Resolution Revenue Bonds, Refunding Series 1998 (1998 General Resolution Refunding Bonds). The 1998 General Resolution Refunding Bonds are term bonds maturing in the years 2024 through 2026 with a coupon interest rate of 5.50%. A portion of the proceeds from the 1998 General Resolution Refunding Bonds along with cash contributed by the District were placed in escrow to pay for debt service interest, retirement of the Series 1991 Bond, 2025 Term, and redemption premium at the earliest date of redemption, July 1, 2001. The remaining portion of the proceeds from the 1998 General Resolution Refunding Bonds paid the related issuance expenses, including bond insurance premiums.

(Continued)

The District recorded a deferred loss on the advance refunding in the amount of $7,431,844, representing the difference between the net carrying value amount and the reacquisition price of the Series 1991 Bond, 2025 Term. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 1998 General Resolution Refunding Bonds. The advance refunding of the Series 1991 Bond, 2025 Term will produce a debt service savings over the 27-year life of the 1998 General Resolution Refunding Bonds of approximately $8,275,000, which had a net present value of approximately $3,504,000.

The outstanding maturities of the 1995 Revenue Bonds and a portion of the outstanding maturities of the 1995 General Resolution Revenue Bonds, due 2007, 2008, and 2009 (collectively, the 2001 Refunded Bonds) were advance refunded by the District on December 5, 2001 by the issuance of two refunding series of bonds. The District issued $30,390,000 Revenue Bonds, Refunding Series 2001 (2001 Revenue Refunding Bonds), and $22,835,000 General Resolution Revenue Bonds, Refunding Series 2001 (2001 General Resolution Refunding Bonds) (collectively, the 2001 Refunding Bonds). The 2001 Refunding Bonds are serial bonds maturing 2002 through 2010 with coupon interest rates ranging from 3.00% to 5.00%. A portion of the proceeds from the 2001 Refunding Bonds, along with cash contributed by the District, was placed in escrow to pay for debt service interest and principal of the 2001 Refunded Bonds and redemption premium at the earliest date of redemption, July 1, 2005. The remaining portion of the proceeds from the 2001 Refunding Bonds paid the related cost of issuance expenses, including a portion of bond insurance premiums.

The District recorded a deferred loss on the advance refunding in the amount of $4,777,425, representing the difference between the net carrying amount and the reacquisition price of the 2001 Refunded Bonds. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 2001 Refunding Bonds. The advance refunding of the 2001 Refunded Bonds will produce a debt service savings over the eight-year life of the 2001 Refunding Bonds of approximately $937,000, which had a net present value of approximately $802,000.

On May 13, 2004, all of the outstanding 1996 Refunding Bonds, except for the 2005 maturities, were advance refunded by the District with the issuance of $76,650,000 par of auction rate certificates (the 2004A ARCs). The 2004A ARCs bore variable rates of interest that reset every 35 days via a Dutch auction through Deutsche Bank. The District entered into a synthetic fixed rate swap agreement with UBS AG, a counterparty, whereby the District paid UBS AG a fixed rate of interest set at 3.501%, and in return, UBS paid the District a variable rate of interest at 67% of LIBOR, which was structured to closely mirror the 35-day 2004A ARCs rate payments incurred by the District. The proceeds from the 2004A ARCs issue, along with cash contributed by the District, were placed in an escrow account to be invested until July 1, 2005, the call date of the 1996 Refunded Bonds. The 2004A ARCs mature between 2011 and 2021.

The District recorded a deferred loss in the amount of $13,966,084 in 2004. The amount required to retire the refunded debt is the net proceeds of the 2004A ARCs together with the cash contributed by the District to the escrow account. The book value of the refunded debt is the par value of the refunded 1996 Refunding Bonds less unamortized original issue discount, underwriter’s discount, and bond issuance costs. This advance refunding resulted in a debt service savings over the 18-year life of the 2004A ARCs of approximately $16,250,000. This debt service savings has a net present value of approximately $5,560,000.

At the June 13, 2006 Commission meeting, the Commission passed a board resolution authorizing the District to convert the outstanding 2004A ARCs from a 35-day auction period to a 7-day auction period. Notice of the conversion was provided to all the appropriate parties in July 2006 and the conversion was effective on the next possible reset date of July 20, 2006. At the same Commission meeting, the Commission authorized the District to enter into a new Constant Maturity Swap agreement (the 2006 CMS Swap) with UBS AG, a counterparty, whereby the District paid UBS AG a variable rate of interest at 67% of one-month LIBOR, and in return, UBS AG paid the District a variable rate of interest at 67% of the 10-year LIBOR swap rate. This transaction, taken in conjunction with the synthetic fixed rate swap agreement entered into on May 13, 2004, has the net effect of converting the District's current swap receipt from 67% of one-month LIBOR to 67% of the 10-year LIBOR swap rate. The new 2006 CMS Swap agreement was executed on June 20, 2006 with a forward start date of January 12, 2007.

XL Capital Assurance, Inc. provided the bond insurance for the variable rate 2004A ARCs. On January 24, 2008 Fitch Ratings, and on February 7, 2008 Moody's Investors Service, downgraded the claims paying ability of XL Capital Assurance Inc. from AAA to A (Watch Negative) and from Aaa to A3 (Negative Outlook), respectively. The insured ratings on the District's 2004A ARCs were likewise downgraded. These actions caused the Commission to aggressively pursue a current refunding of the outstanding 2004A ARCs. On March 24, 2008, all of the outstanding 2004A ARCs were advance refunded through the issuance of $76,650,000 par of variable rate demand obligations (the 2008A VRDOs) with a direct pay Branch Banking and Trust Company (BB&T) letter of credit. The 2008A VRDOs bore variable rates of interest that reset weekly through a remarketing process conducted by BB&T Capital Markets. The 2008A VRDOs maintained the same maturity schedule as the 2004A ARCs between 2011 and 2021. The unamortized portion of deferred municipal bond insurance costs related to the 2004A ARCs was $582,367 and was expensed in March 2008. All other deferred issuance costs related to the 2004A ARCs and the 2008A VRDOs continued to be amortized over the term of the 2008A VRDOs. The two interest rate exchange agreements that the District had with UBS AG remained in effect.

Due to the credit rating downgrades of XL Capital, the District's swap insurer, the District was required by UBS, the swap counterparty, to post collateral for the negative termination value of the two existing swap transactions in January 2009. Collateralized securities are classified as restricted investments on the District's statements of net position, and the District retains all investment earnings.

On December 31, 2010, the District issued $30,000,000 General Resolution Revenue Bonds, Refunding Series 2010A (the 2010A Bonds) to provide funds to refund a portion of the outstanding 2008A VRDOs. The 2010A Bonds are variable rate bonds that reset monthly at 68% of one-month LIBOR plus a fixed spread. The 2010A Bonds were issued as bank qualified bonds pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986 and were privately placed with BB&T. The 2010A Bonds will maintain the same maturity schedule between 2017 and 2021 as the refunded 2008A VRDOs. The District recorded a deferred loss on refunding in the amount of $9,800,685 in FY2011. The amount required to retire the refunded debt is the net proceeds of the 2010A Bonds. The book value of the refunded debt is the par value of the refunded 2008 VRDOs less unamortized deferred loss, underwriter's discount, bond issuance costs, and a portion of the negative termination value of the 2004 Fixed Rate Swap.

On March 17, 2011, the District issued $46,650,000 General Resolution Revenue Bonds, Refunding Series 2011A (the 2011A Bonds) to provide the necessary funds to refund the remaining portion of outstanding 2008A VRDOs. These nonbank qualified bonds are also variable rate bonds that reset monthly at 78% of one-month LIBOR plus a fixed spread. The 2011A Bonds were placed privately with

BB&T and will maintain the same maturity schedule between 2011 and 2017 as the remaining portion of the refunded 2008A VRDOs. The District recorded a deferred loss on refunding in the amount of $6,074,055 in FY2011. The amount required to retire the refunded debt is the net proceeds of the 2011A Bonds. The book value of the refunded debt is the par value of the refunded 2008 VRDOs less unamortized deferred loss, underwriter's discount, bond issuance costs, and a portion of the negative termination value of the 2004 Fixed Rate Swap.

The District continues to maintain the two outstanding interest rate swaps to synthetically fix the interest rate paid on the District's outstanding variable rate debt. These transactions were originally entered into with UBS AG in 2004 and 2006 when UBS AG was an active swap counterparty and underwriter of municipal debt. UBS AG is no longer an active participant in the municipal debt and swap markets. The District and its swap advisor, Public Financial Management, issued a Request for Qualification (RFQ) in late March 2011 to identify a new swap counterparty to accept the transfer of the existing swaps from UBS and to execute a partial termination of the 2006 CMS Swap. At a special called meeting on April 5, 2011, the Commission approved a series resolution authorizing the novation and restructuring of the existing swaps to Jefferies Funding, LLC with Deutsche Bank AG acting as their credit support provider. On April 21, 2011, the swaps were successfully novated and the 2006 CMS Swap was amended so that the receipt of 67% of the 10-year LIBOR swap rate was temporarily terminated through May 30, 2014 in exchange for a new fixed rate receipt of 1.564% to be paid on the same schedule every 35 days beginning on May 6, 2011.

On May 29, 2013, the District received notice from Jefferies Funding, LLC that they were invoking their right of Optional Assignment to assign both interest rate exchange agreements to the Credit Support Provider, Deutsche Bank AG, effective on May 31, 2013.

With the temporary termination of the 2006 CMS Swap set to expire on May 30, 2014, the District evaluated the current market conditions and their impact on the current and future cash flows of the 2006 CMS Swap. With the yield curve remaining steep from a historical perspective, the Commission approved a resolution authorizing District staff to pursue another temporary termination of the 2006 CMS Swap through June 3, 2016. The restructuring of the 2006 CMS Swap was completed on May 29, 2014. Taken in conjunction with the 2004 Fixed Rate Swap, the District's synthetic fixed rate payment was effectively reduced from 3.501% to 2.189% until June 3, 2016.

The Revenue Bonds issued under the Revenue Bond Resolution hold senior status to the General Resolution Revenue Bonds issued under the General Revenue Bond Resolution, and all revenues of the District are first directed under the Revenue Bond Resolution.

(2) Summary of Significant Accounting Policies

The District is accounted for under the economic resources measurement focus and the accrual basis of accounting as a special-purpose government engaged in business-type activities, which follows enterprise fund reporting. Special-purpose governments engaged in business-type activities are used to account for the ongoing activities that are financed and operated similar to those often found in the private sector. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the District's ongoing operations. Operating revenues include revenue from toll collection, recognized when travelers cross the bridge and tunnel, and lease income. Operating expenses include District facility and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The statements of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the residual net position of the District. Deferred outflows of resources are defined as a consumption of net position by the District that is applicable to a future reporting period. Similarly, deferred inflows of resources are defined as an acquisition of net position by the District that is applicable to a future reporting period.

(a) Cash and Investments

Cash includes cash on hand and various checking accounts.

In accordance with GAAP, the District reports its investment securities at fair market value. Fair market value is determined as of the statements of net position date. The fair value is based on either quotations obtained from national security exchanges or on the basis of quotations provided by a pricing service, which uses information with respect to transactions on bonds, quotations from bond dealers, market transactions in comparable securities, and various relationships between securities.

(b) Restricted Assets

In accordance with applicable covenants of certain bond issues, cash, investments, and accrued interest receivables have been appropriately restricted. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

(c) Capital Assets

The bridge and tunnel assets are stated at cost and include capitalized interest. No provision for depreciation or obsolescence of the Bridge-Tunnel facilities is provided as the District has adopted the modified approach to account for these assets. Nonbridge and tunnel assets are being depreciated over their estimated useful lives of 3 years up to 50 years.

(d) Restricted Net Position

Restricted net position, as defined by GAAP, is reported when constraints are placed on the use of assets either externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislations. At June 30, 2016 and 2015, the District had net position restricted for debt service of $20,088,077 and $20,692,548, respectively.

(e) Management's Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows and liabilities and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Revenue Recognition

Toll revenues represent the tolls collected, net of any deductions such as credit card fees and EZ Pass fees. Revenues are recognized when earned.

(g) Pensions

In FY 2015, the District adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring 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 District's Retirement Plan and the additions to/deductions from the District's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (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.

Due to limitations on the information available from the VRS for the prior fiscal year, it was determined to be impractical for the District to restate the FY 2014 financial statements. As such, the cumulative effect of applying GASB Statement No. 68 is being reported as a prior period adjustment reducing the beginning balance of net position for FY 2015 by $11,554,259.

(h) New Accounting Pronouncement

In FY2016, the District adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

This statement requires the District to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. More information regarding the fair value of District investments can be found in note 10.

(3) Cash Deposits and Investments

(a) Deposits

The carrying value of the District's deposits (unrestricted and restricted) was $993,787 and $1,094,613 at June 30, 2016 and 2015, respectively. The bank balance of these deposits was

(Continued)

$1,178,704 and $1,070,379 at June 30, 2016 and 2015, respectively. The entire bank balance was covered for both fiscal years by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (VSPD Act). In accordance with the VSPD Act, the District's depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the District's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it, and reimburse the District up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the VSPD Act and for notifying local governments of compliance by banks.

(b) Investments

The District is authorized to invest in obligations of the United States or agencies thereof; obligations of any state or territory of the United States and any political subdivision thereof; obligations permitted by the laws of the Commonwealth of Virginia; repurchase agreements with respect to the foregoing obligations; certificates of deposit, time deposits, or interest in money market portfolios issued by any bank, banking association, savings and loan association, or trust company insured by the FDIC or Federal Savings and Loan Insurance Corporation; commercial paper, shares in one or more open-ended investment funds provided that the funds are registered under the State Securities Act or the Federal Investment Company Act; bankers' acceptances; and units representing beneficial interests in investment pools created pursuant to the Government Non-Arbitrage Investment Act of the Commonwealth of Virginia.

(c) Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state statute, the policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, Fitch Investors Service, and Duff and Phelps. Corporate notes, negotiable certificates of deposit, and bank deposit, notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

The District's investment securities using the Standard & Poor's credit quality ratings scale are presented below:

As of June 30, 2016	Standard & Poor's Credit Rating						
Investment type		AAA	AA+	AA-	A-1+	A-1	Total
U.S. Treasuries	$	—	42,690,925	—	—	—	42,690,925
U.S. Agencies		—	153,493,179	—	—	—	153,493,179
Federal Agency							
Mortgage-Backed		—	5,823,665	—	—	—	5,823,665
Supra-National Agency		1,346,066	—	—	—	—	1,346,066
State and Local Government		7,014,791	—	—	—	—	7,014,791
Certificate of Deposit		—	—	5,016,740	3,502,268	—	8,519,008
Corporate Notes		1,229,883	21,029,423	22,362,262	—	3,435,516	48,057,084
Total	$	9,590,740	223,037,192	27,379,002	3,502,268	3,435,516	266,944,718

As of June 30, 2015 Investment type		Standard & Poor's Credit Rating AAA	AA+	AA	AA-	A-1+	A-1	Total
U.S. Treasuries	$	—	52,992,629	—	—	—	—	52,992,629
U.S. Agencies		—	101,108,502	—	—	—	—	101,108,502
Federal Agency Mortgage-Backed		—	7,322,089	—	—	—	—	7,322,089
Supra-National Agency		1,338,215	—	—	—	—	—	1,338,215
State and Local Government		7,068,082	—	—	—	—	—	7,068,082
Certificate of Deposit		—	—	—	4,997,210	3,502,135	—	8,499,345
Corporate Notes		11,781,218	9,301,962	22,995,153	17,612,885	—	4,722,415	66,413,633
Total	$	20,187,515	170,725,182	22,995,153	22,610,095	3,502,135	4,722,415	244,742,495

(d) Concentration of Credit Risk

The District's investment policy establishes guidelines on portfolio composition by investment type in order to control concentration of credit risk. As of June 30, 2016 and 2015, the District's portfolio was invested as follows:

Investment type		2016 Fair value	Percentage of portfolio		2015 Fair value	Percentage of portfolio
U.S. Treasuries	$	42,690,925	14.88%	$	52,992,630	20.06%
U.S. Agencies		153,493,179	53.50		101,108,502	38.28
Federal Agency Mortgage-Backed		5,823,665	2.03		7,322,088	2.77
Supra-National Agency		1,346,066	0.47		1,338,215	0.50
State and Local Government		7,014,791	2.45		7,068,082	2.68
Certificate of Deposit		8,519,008	2.97		8,499,345	3.22
Money Market Funds		19,947,015	6.95		19,403,415	7.35
Corporate Notes		48,057,084	16.75		66,413,633	25.14
	$	286,891,733	100.00%	$	264,145,910	100.00%

(e) Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits the investment of funds as a means of limiting exposure to fair value losses. Investments in the General Resolution Debt Service Reserve Fund are limited to investments with maturities less than five years. Investments in the General Resolution Reserve Maintenance Fund are limited to investments with maturities less than three years. Investments in the General Resolution General Fund are limited to investments with maturities that are consistent with the schedule of planning, development, and construction of parallel tunnels that would complete the parallel crossing. Investments are selected based on the current perception of the direction of interest rates with a greater emphasis on yield and a lesser emphasis on liquidity.

Proceeds from the sale of bonds issued by the District are invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term of securities purchased.

As of June 30, 2016, the District had the following investments and maturities:

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 to 3 years**	**Greater than 3 years**	**Not fixed**
U.S. Treasuries	$ 42,690,925	25,187,624	8,352,990	9,150,311	—
U.S. Agencies	153,493,179	126,473,579	18,147,127	8,872,473	—
Federal Agency Mortgage-Backed	5,823,665	—	—	5,823,665	—
Supra-National Agency	1,346,066	—	1,346,066	—	—
State and Local Government	7,014,791	—	7,014,791	—	—
Certificates of Deposit	8,519,008	3,502,268	5,016,740	—	—
Money Market Funds	19,947,015	—	—	—	19,947,015
Corporate Notes	48,057,084	12,870,240	35,186,844	—	—
Total	$ 286,891,733	168,033,711	75,064,558	23,846,449	19,947,015

As of June 30, 2015, the District had the following investments and maturities:

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 to 3 years**	**Greater than 3 years**	**Not fixed**
U.S. Treasuries	$ 52,992,629	7,914,460	21,572,509	23,505,660	—
U.S. Agencies	101,108,502	14,501,903	75,479,180	11,127,419	—
Federal Agency Mortgage-Backed	7,322,088	—	—	7,322,088	—
Supra-National Agency	1,338,215	—	1,338,215	—	—
State and Local Government	7,068,082	—	7,068,082	—	—
Certificates of Deposit	8,499,345	—	8,499,345	—	—
Money Market Funds	19,403,415	—	—	—	19,403,415
Corporate Notes	66,413,634	25,175,010	41,238,624	—	—
Total	$ 264,145,910	47,591,373	155,195,955	41,955,167	19,403,415

(f) Summary of Changes in Fair Value of Investments

The calculation of realized gains and losses is independent of the calculation of the change in fair value (including purchases and sales) that occurred during the year. The change in fair value of investments for the years ended June 30, 2016 and 2015 is calculated as follows:

		2016	2015
Fair value of investments at end of year	$	286,891,733	264,145,910
Add:			
Proceeds from sales and maturities during the year		333,963,732	338,705,050
Change in fair value of derivative instrument		(825,408)	(654,106)
Less:			
Cost of investments purchased during the year		(356,943,814)	(351,587,031)
Fair value of investments at beginning of year		(264,145,910)	(252,470,137)
Change in fair value of investments	$	(1,059,667)	(1,860,314)

(4) Capital Assets

Capital assets include bridge and tunnel assets, capitalized interest and financing expenses, and other capital assets. The bridges, trestles, approach roads, Fisherman Island Causeway, tunnels, portal islands with all attached improvements, toll plaza infrastructure and the rest area facility, and site-wide utilities are classified as bridge and tunnel assets. Capitalized interest and financing expenses include the amount of money that was funded from the 1960 Bonds issued for debt service and associated costs of the bonds during construction until the opening of the Bridge-Tunnel in 1964. Miscellaneous capital assets include all other assets that the District has capitalized such as land, buildings, fleet vehicles, and equipment.

The District utilizes the modified approach to infrastructure reporting on bridge and tunnel assets and capitalized interest and financing expenses. In lieu of reporting depreciation on bridge and tunnel assets, the costs incurred for maintaining bridge and tunnel assets at the condition level that is specified by Commission policy are reported as preservation expenses on the accompanying statements of revenues, expenses, and changes in net position.

The District has elected to continue to use the traditional approach or depreciation method for buildings, fleet vehicles, and equipment that are depreciable, as stipulated in the District’s Capital Asset Policy.

Capital assets at June 30, 2016 and 2015 comprise the following:

	2016	2015
Bridge and tunnel assets	$ 383,051,582	383,051,582
Capitalized interest and finance expenses	40,881,748	40,881,748
Construction in progress – Parallel Thimble Shoal Tunnel	14,672,141	10,631,263
Miscellaneous capital assets	23,327,348	21,917,987
	461,932,819	456,482,580
Less accumulated depreciation	11,265,220	10,213,301
Total	$ 450,667,599	446,269,279

The following is a summary of the change in capital assets for the year ended June 30, 2016:

	Capital asset balance, June 30, 2015	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2016
Nondepreciable assets:					
Bridge and tunnel assets	$ 383,051,582	—	—	—	383,051,582
Construction in progress	10,631,263	4,040,878	—	—	14,672,141
Capitalized interest and finance expenses	40,881,748	—	—	—	40,881,748
	434,564,593	4,040,878	—	—	438,605,471
Depreciable assets:					
Miscellaneous capital assets	21,917,987	1,531,415	(122,054)	—	23,327,348
Less accumulated depreciation	(10,213,301)	—	122,054	(1,173,973)	(11,265,220)
	11,704,686	1,531,415	—	(1,173,973)	12,062,128
Total capital assets, net	$ 446,269,279	5,572,293	—	(1,173,973)	450,667,599

The following is a summary of the change in capital assets for the year ended June 30, 2015:

	Capital asset balance, June 30, 2014	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2015
Nondepreciable assets:					
Bridge and tunnel assets	$ 383,051,582	—	—	—	383,051,582
Construction in progress	4,045,043	6,586,220	—	—	10,631,263
Capitalized interest and finance expenses	40,881,748	—	—	—	40,881,748
	427,978,373	6,586,220	—	—	434,564,593
Depreciable assets:					
Miscellaneous capital assets	20,725,093	1,463,617	(270,723)	—	21,917,987
Less accumulated depreciation	(9,591,201)	—	270,723	(892,823)	(10,213,301)
	11,133,892	1,463,617	—	(892,823)	11,704,686
Total capital assets, net	$ 439,112,265	8,049,837	—	(892,823)	446,269,279

(5) Revenue Bonds and General Resolution Revenue Bonds

The principal amounts of bonds outstanding, net of unamortized premium and bond discount, including the underwriters’ discount at June 30, 2016 and 2015, are as follows:

	2016	2015
1998 General Resolution Refunding Bonds	$ 45,633,615	45,786,529
2010A General Resolution Refunding Bonds	30,000,000	30,000,000
2011A General Resolution Refunding Bonds	5,850,000	13,300,000
	$ 81,483,615	89,086,529

(a) General Resolution Revenue Bonds

The General Resolution Revenue Bonds were issued as follows:

		1998 General resolution refunding bonds	2010A General resolution refunding bonds	2011A General resolution refunding bonds
Face value of bonds	$	44,405,000	30,000,000	46,650,000
Bond premium		3,942,954	—	—
Net proceeds to the district	$	48,347,954	30,000,000	46,650,000

The 1998 General Resolution Refunding Bonds are term bonds maturing from July 1, 2023 through July 1, 2025 with a coupon interest rate of 5.50%. A portion of the proceeds from the 1998 General Resolution Refunding Bonds, along with cash contributed by the District, was placed in escrow to pay for debt service interest, retirement of the Series 1991 Bond, 2025 Term, and redemption premium at the earliest date of redemption, July 1, 2001. The remaining portion of the proceeds from the 1998 General Resolution Refunding Bonds paid the related issuance expenses, including bond insurance premiums. Amortization of original issue premium and underwriters' discount related to the 1998 General Resolution Refunding Bonds was $152,914 for the year ended June 30, 2016.

The 2010A General Resolution Refunding Bonds are variable rate bank qualified bonds issued as a single bond without coupon notes. The 2010A Bonds were privately placed with BB&T. The variable rates of interest reset monthly at 68% of one-month LIBOR plus a fixed spread. The proceeds from the 2010A Bonds were used to redeem a portion of the 2008A VRDOs on January 3, 2011. The 2010A Bonds maintain the same maturity schedule as the refunded 2008A VRDOs between 2017 and 2021. The interest rate exchange agreement that the District had with UBS AG to synthetically fix the rate of interest on the 2008A VRDO's remained in effect to synthetically fix the rate of interest on the 2010A Bonds.

The 2011A General Resolution Refunding Bonds are variable rate nonbank qualified bonds issued as a single bond without coupon notes. The 2011A Bonds were privately placed with BB&T. The variable rates of interest reset monthly at 78% of one-month LIBOR plus a fixed spread. The proceeds from the 2011A Bonds were used to redeem the remaining portion of the 2008A VRDOs on March 17, 2011. The 2011A Bonds maintain the same maturity schedule as the refunded 2008A VRDOs between 2011 and 2017. The interest rate exchange agreement that the District had with UBS AG to synthetically fix the rate of interest on the 2008A VRDO's remained in effect to synthetically fix the rate of interest on the 2011A Bonds.

The bond premiums for General Resolution Revenue Bonds are being accreted using the straight-line method, which is not materially different from using the effective-interest method, over the period the bonds will be outstanding.

Tolls and other revenues derived from the operation of the Bridge-Tunnel are pledged as security for the Revenue Bonds and General Resolution Revenue Bonds. The General Revenue Bond Resolution includes covenants such as minimum toll rate covenant ratios and minimum debt service reserve requirements.

Bond activity for the years ended June 30, 2016 and 2015 was as follows:

	Balance, June 30, 2015	Bond proceeds	Amortization of costs, premiums, discounts, and deferred losses, net	Bond payments	Balance, June 30, 2016	Amounts due within one year
1998 General Resolution Refunding Bonds	$ 45,786,529	—	(152,914)	—	45,633,615	—
2010A General Resolution Refunding Bonds	30,000,000	—	—	—	30,000,000	1,850,000
2011A General Resolution Refunding Bonds	13,300,000	—	—	(7,450,000)	5,850,000	5,850,000
	$ 89,086,529	—	(152,914)	(7,450,000)	81,483,615	7,700,000

	Balance, June 30, 2014	Bond proceeds	Amortization of costs, premiums, discounts, and deferred losses, net	Bond payments	Balance, June 30, 2015	Amounts due within one year
1998 General Resolution Refunding Bonds	$ 45,939,442	—	(152,913)	—	45,786,529	—
2010A General Resolution Refunding Bonds	30,000,000	—	—	—	30,000,000	—
2011A General Resolution Refunding Bonds	20,450,000	—	—	(7,150,000)	13,300,000	7,450,000
	$ 96,389,442	—	(152,913)	(7,150,000)	89,086,529	7,450,000

Maturities of bond principal and interest to be paid in subsequent fiscal years for all bonds outstanding at June 30, 2016 were as follows:

Fiscal year		General resolution revenue bonds principal	General resolution revenue bonds interest
2017	$	7,700,000	3,691,394
2018		8,000,000	3,409,914
2019		8,275,000	3,145,313
2020		8,625,000	2,842,083
2021		3,250,000	2,545,628
2022–2026		44,405,000	8,634,866
	$	80,255,000	24,269,198

Total principal balance herein is different from that on pages 30 or 32 because it represents the bond principal excluding amortization of bond discount and premium.

(b) Derivative Instruments

The District accounts for and reports its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 requires that the fair value of financial arrangements called “derivatives” or “derivative instruments” be reported in the financial statements of state and local governments. A derivative is a complex financial arrangement that is typically entered into with a private sector financial firm in an effort to hedge (or reduce) a specific financial risk. The fair value of a derivative as of the end of the fiscal year is reported in the statements of net position. The annual changes in the fair value of an effective derivative are required to be deferred and reported as Deferred Inflows or Deferred Outflows of Resources. As long as a derivative effectively hedges an identified risk of rising or falling cash flows or fair values, its annual fair value changes are deferred until the hedged transaction ends or the derivative ceases to be effective. If the hedged transaction terminates prior to its expected conclusion or if it ceases to be effective, then the accumulated gains or losses, if any, are reported as investment income or loss. Derivative instruments that are entered into primarily for the purpose of obtaining income, which do not meet the criteria of a hedging derivative instrument or that cease to be an effective hedge, are deemed to be investment derivative instruments for which the changes in fair value of investment derivative instruments are reported as investment income or loss through the statement of revenues, expenses, and changes in net position.

For the fiscal years ended June 30, 2016 and 2015, the District has identified two outstanding interest rate exchange agreements (i.e., interest rate swaps) that qualify as derivative instruments under GAAP.

In May 2004, the District issued $76,650,000 par of auction rate certificates (the 2004A ARCs) that bore variable rates of interest that originally reset every 35 days via a Dutch auction. Simultaneously, the District entered into a synthetic fixed rate swap agreement (the 2004 Fixed Rate Swap) with a notional amount of $76,650,000 with UBS AG. Under the terms of the agreement, the District paid UBS AG a fixed rate of interest set at 3.501%, and in return, UBS paid the District a variable rate of interest at 67% of one-month LIBOR, which was structured to closely mirror the 35-day 2004A ARCs payments incurred by the District. The 2004 "pay-fixed, receive variable" interest rate swap was entered into as a cash flow hedging derivative instrument with the objective of hedging the District's exposure to change in the overall cash flows. The objective of the overall transaction was to lower the District's borrowing costs by achieving a lower interest rate than could have been obtained by issuing fixed-rate debt.

In July 2006, the District entered into a new forward starting Constant Maturity Swap agreement (the 2006 CMS Swap) with UBS AG with a notional amount of $76,650,000. Under the terms of the 2006 agreement, the District paid UBS AG a variable rate of interest at 67% of one-month LIBOR, and in return, UBS AG paid the District a variable rate of interest at 67% of the 10-year LIBOR swap rate less 0.325%. This transaction, taken in conjunction with the synthetic fixed rate swap agreement entered into on May 13, 2004, had the net effect of converting the District's previous swap receipt from 67% of one-month LIBOR to 67% of the 10-year LIBOR swap rate less 0.325%.

The 2006 CMS Swap was entered into as an investment derivative instrument with the expectation that over time the variable receipt based on a long-term rate would more than offset the short-term rate paid to the 2004A annual required contribution (ARC) bondholders.

Subsequent to the 2004 and 2006 transactions, all of the outstanding 2004A ARCs were redeemed through mandatory optional tender on March 24, 2008 as part of a conversion to variable rate demand obligations.

The 2008A VRDOs were variable rate demand obligations backed by a direct pay letter of credit from BB&T. The variable rates of interest reset every 7 days via a remarketing process conducted by BB&T Capital Markets. The 2008A VRDOs maintained the same maturity schedule as the 2004A ARCs between 2011 and 2021. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2008 VRDOs.

On December 31, 2010, the District issued $30,000,000 General Resolution Revenue Bonds, Refunding Series 2010A, to provide funds for a current refunding of a portion of the outstanding 2008A VRDOs that were called for redemption on January 3, 2011. The 2010A Bonds are also variable rate bonds that reset monthly at 68% of one-month LIBOR plus a fixed spread. The 2010A Bonds maintained the same maturity schedule between 2017 and 2021 as the refunded 2008A VRDOs. In accordance with GAAP, the partial refunding of the hedged debt (the 2008A VRDOs) was considered a termination event that resulted in the termination of hedge accounting for the 2004 Fixed Rate Swap. When the termination event is a current refunding that results in the defeasance of the hedged debt, the balance of any deferral account associated with the hedging derivative instrument is included as part of the deferred loss on the refunding of the bonds. This approach is applied regardless of whether the hedging derivative instrument is terminated. Prior to the refunding, the negative termination value of the 2004 Fixed Rate Swap was recorded as a derivative liability and a deferred outflow of resources on the statements of net position. On the redemption date of January 3, 2011, the portion of the 2004 Fixed Rate Swap that applied to the refunded bonds had a negative termination value of $3,262,841. This amount was recorded as imputed borrowing payable and included as part of the deferred loss on refunding, and will be amortized over the life of the 2010A Bonds. The unamortized imputed borrowing payable was $1,460,876 and $1,853,951 at June 30, 2016 and 2015, respectively. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2010A Bonds and a new hedging derivative instrument was created for accounting purposes.

On March 17, 2011, the District issued $46,650,000 General Resolution Revenue Bonds, Refunding Series 2011A, to provide funds for a current refunding of the remaining portion of the outstanding 2008A VRDOs. The 2011A Bonds are also variable rate bonds that reset monthly at 78% of one-month LIBOR plus a fixed spread. The 2011A Bonds maintained the same maturity schedule between 2011 and 2017 as the refunded 2008A VRDOs. As with the 2010A Bonds, a current refunding that resulted in the defeasance of the hedged debt required a termination of hedge accounting for the portion of the 2004 Fixed Rate Swap that applied to the remaining 2008A VRDOs. Prior to the refunding, the negative termination value of the 2004 Fixed Rate Swap was recorded as a derivative liability and a deferred outflow of resources on the statements of net position. On the redemption date of March 17, 2011, the portion of the 2004 Fixed Rate Swap that applied to the refunded bonds had a negative termination value of $3,741,140. This amount was recorded as imputed borrowing payable and included as part of the deferred loss on refunding, and will be amortized over the life of the 2011A Bonds. The unamortized imputed borrowing payable was $303,147 and $713,312 at June 30, 2016 and 2015, respectively. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2011A Bonds and a new hedging derivative instrument was created for accounting purposes.

The two interest rate exchange agreements entered into with UBS AG in 2004 and 2006 were executed when UBS AG was an active swap counterparty and underwriter of municipal debt. UBS AG is no longer an active participant in the municipal debt and swap markets. The District and its swap advisor, Public Financial Management, issued a RFQ in late March 2011 to identify a new swap counterparty to accept the transfer of the existing interest rate swaps (also referred to as novation) from UBS and to execute a partial termination of the 2006 CMS Swap. At a special called meeting on April 5, 2011, the Commission approved a series resolution authorizing the novation and restructuring of both interest rate swaps to Jefferies Funding, LLC with Deutsche Bank AG acting as their credit support provider. On April 21, 2011, the swaps were successfully novated and the 2006 CMS Swap was amended so that the receipt of 67% of the 10-year LIBOR swap rate was temporarily terminated through May 30, 2014 in exchange for a new fixed rate receipt of 1.564% to be paid on the same schedule every 35 days beginning on May 6, 2011. The restructuring of the 2006 CMS Swap, when considered in conjunction with the 2004 Fixed Rate Swap, effectively reduced the District's synthetic fixed rate payment from 3.501% to 1.937% until May 30, 2014.

In accordance with GAAP, the novation of the 2004 Fixed Rate Swap from UBS AG to Jefferies Funding, LLC constituted a termination event of the hedging derivative instruments created for accounting purposes by the bond refundings on January 3, 2011 and March 17, 2011. The termination event required the District to cease hedge accounting on the 2004 Fixed Rate Swap again and resulted in the immediate recognition of the deferred outflows of resources as a component of investment income. As of April 21, 2011, the 2004 Fixed Rate Swap had a negative termination value of $53,240 that was recorded as a derivative liability and a deferred outflow of resources on the statement of net position. After the execution of the novation, the balance of the deferred outflow of resources was recognized as a loss in investment income and a new hedging relationship was created for accounting purposes between the 2004 Fixed Rate Swap and the 2010A and 2011A Bonds.

On May 29, 2013, the District received notice from Jefferies Funding, LLC that they were invoking their right of Optional Assignment to assign both interest rate exchange agreements to the Credit Support Provider, Deutsche Bank AG, effective on May 31, 2013.

Prior to the resumption of variable cash flows under the 2006 CMS Swap, the Commission approved another temporary termination of the swap at its May 13, 2014 meeting. On May 29, 2014, the District amended the 2006 CMS Swap to continue the temporary termination of the receipt of 67% of the 10-year LIBOR swap rate in exchange for a new fixed rate receipt of 1.312% to be paid on the same schedule every 35 days beginning on July 4, 2014. The restructuring of the 2006 CMS Swap, when considered in conjunction with the 2004 Fixed Rate Swap, effectively reduced the District's synthetic fixed rate payment from 3.501% to 2.189% until June 3, 2016.

Both of the District's derivative instruments expose the District to potential risks that could give rise to financial loss. These risks include credit risk, basis risk, interest rate risk, rollover risk, and termination risk. The District has attempted to mitigate the risks associated with an interest rate swap transaction. These risks and associated mitigation strategies are described below:

Credit Risk – The District is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related credit risk, it is the District's policy to require a counterparty collateral posting provision in the terms of its derivative instruments. If Deutsche Bank AG's credit rating, which is currently BBB+/A-/A3 (S&P/Fitch/Moody's), declines below A-/A-/A3 (S&P/Fitch/Moody's), the swap terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements).

Under the terms of the two swap agreements, the District can be required to post collateral for the negative termination value of the two existing swap transactions. As of June 30, 2016, the District had posted U.S. Treasury Notes with a market value of $3,026,961 as collateral for the combined negative termination value of the two swap transactions, which was approximately $3,222,872 including accrued interest of $712,812 payable on July 1, 2016. The collateralized securities are classified as Restricted Investments on the District's statements of net position.

Basis Risk – The District is exposed to basis risk on the 2006 CMS Swap as the variable swap receipt is based on a percentage of a long-term (10-year) LIBOR and the variable swap payment is based on a short-term (one-month) LIBOR. On average and over time, receiving a longer term CMS rate should generate positive net swap cash flows to the District. If the yield curve slope (difference between short-term and long-term rates) retains its normal positive slope or steepens, the 2006 CMS Swap's cash flow and market termination value will increase. Conversely, if the yield curve slope flattens or becomes inverted (short-term rates exceed long-term rates), the 2006 CMS Swap's cash flow and market termination value will decrease or become negative. After conducting a sensitivity analysis of potential basis risk associated with the 2006 CMS Swap, the District determined that the expected benefit outweighed the potential basis risk.

Interest Rate Risk – The District is exposed to interest rate risk on its interest rate swaps. On the 2004 pay-fixed, receive variable interest rate swap, as the LIBOR index decreases, the District's overall net cash payments on the swap increase.

Rollover Risk – Rollover risk was mitigated by structuring the swap variable rate payments so that it was coterminous with the same amortization schedule as the refunded 2004A ARCs, the refunded 2008A VRDOs, the 2010A Bonds, and the 2011A Bonds. The combined maturity schedule for the outstanding 2010A and 2011A Bonds and both outstanding swaps began on June 10, 2011 and continues until a final maturity on May 28, 2021. The District would also be exposed to rollover risk on derivative instruments that involuntarily terminate prior to the maturity of the 2010A and 2011A Bonds. The risk of involuntary termination due to default is mitigated by the District's strong financial position.

Termination Risk – The District and Deutsche Bank AG may terminate a derivative instrument if the other party fails to perform under the terms of the agreement. Additionally, the District has the option of a voluntary termination; conversely, Deutsche Bank AG does not have this option. If the District had voluntarily terminated the swaps on June 30, 2016, the termination payment to Deutsche Bank AG on the 2004 Fixed Rate Swap would have been $3,561,782. The termination receipt on the 2006 CMS Swap would have been $338,910 from Deutsche Bank AG netting to a total payment of $3,222,872.

The valuations provided below are derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

The carrying balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in carrying balances of such derivative instruments for the year then ended, as reported in the FY2016 financial statements are as follows:

	Changes in carrying value		Carrying value		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflows	$ 6,289	Long-term liability	$ (1,578,406)	35,850,000
Investment derivative instruments:					
Constant maturity swap	Investment loss	$ (825,408)	Derivative Investment	$ 338,910	35,850,000

The carrying balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in carrying balances of such derivative instruments for the year then ended, as reported in the FY2015 financial statements are as follows:

	Changes in carrying value			Carrying value			
	Classification		**Amount**	**Classification**		**Amount**	**Notional**
Cash flow hedges:							
Pay-fixed interest rate swap	Deferred outflows	$	448,046	Long-term liability	$	(1,572,117)	43,300,000
Investment derivative instruments:							
Constant maturity swap	Investment loss	$	(654,106)	Derivative Investment	$	1,164,318	43,300,000

As of June 30, 2016, aggregate debt service requirements of the District's hedged 2010A and 2011A variable rate debt and net receipts/payments on associated hedging derivative instruments are shown in the table below. These amounts assume that current interest rates on variable rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable rate bonds and net receipts/payments on the hedging derivative instruments will vary.

		Principal	Interest	Hedging derivative instruments, net	Total
Fiscal years ending June 30:					
2017	$	7,700,000	457,493	1,136,883	9,294,376
2018		8,000,000	356,765	880,678	9,237,443
2019		8,275,000	259,154	639,870	9,174,024
2020		8,625,000	147,451	363,866	9,136,317
2021		3,250,000	38,149	94,194	3,382,343
	$	35,850,000	1,259,012	3,115,491	40,224,503

(6) Pension Plan

(a) Plan Description

The District contributes to the Virginia Retirement System (VRS), an agent and cost sharing multiple-employer public employee retirement system, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. All full-time, salaried permanent employees of the District are automatically covered by VRS Retirement Plan upon employment. Members earn one month of service credit for each month they are employed and for which they and the District pay 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.

Benefit provisions and all other requirements are established by state statute. VRS administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as defined below:

- VRS Plan 1 is a defined benefit plan. Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. 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 an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit.
- VRS Plan 2 is a defined benefit plan. Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. 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 an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available to Plan 2 members as early as age 60 with at least five years of service credit.
- The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Members hired on or after January 1, 2014 are eligible for the Hybrid Plan. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit payment payable from the defined contribution plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. Employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available to Hybrid Retirement Plan members as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. The retirement multiplier for District employees is 1.7% for Plan 1 members, 1.65% for Plan 2 members, and 1.0% for Hybrid Plan members. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option, or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

(Continued)

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical trend information for the VRS system may be found in the VRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. A copy of the report may be obtained on the VRS Web site at http://www.varetire.org/pdf/publications/2015-annual-report.pdf or by writing to the Chief Financial Officer of the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

(b) Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	108
Inactive members:	
Vested inactive members	8
Non-vested inactive members	18
Inactive members active elsewhere in VRS	26
Total inactive members	52
Active members	148
Total covered employees	308

(c) 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 options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all of the 5.00% member contribution were assumed by the District. 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 5.00% 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. For District employees hired prior to July 1, 2012, the 5% member contribution was allocated so that 1% was paid by the District and 4% was paid by the employee during FY2016. Such amounts paid by the employer in FY2016 amounted to $65,845.

The District's actuarially required contribution rate for the year ended June 30, 2016 was 13.87% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District, including the employer-paid member contributions, were $1,100,254 and $1,150,561 for the years ended June 30, 2016 and 2015, respectively.

(d) Net Pension Liability

The District's net pension liability 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.

(e) Actuarial Assumptions

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	3.50%–5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*
Cost-of-living adjustments	2.25%–2.5%

* 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 GASB 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

Largest 10 – Non-LEOS:

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

All Others (Non 10 Largest) – Non-LEOS:

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:

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

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

(f) 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	Arithmetic long-term expected rate of return	Weighted average long-term 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%.

(g) 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 System 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 employer for the Political Subdivision 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, participating employers 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.

(h) Changes in Net Pension Liability

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a) – (b)**
Balances at June 30, 2014	$	41,171,932	30,748,905	10,423,027
Changes for the year:				
Service cost		653,142	—	653,142
Interest		2,810,342	—	2,810,342
Difference between expected and actual experience		179,597	—	179,597
Contributions – employer		—	1,021,377	(1,021,377)
Contributions – employee		—	368,079	(368,079)
Net investment income		—	1,393,970	(1,393,970)
Benefit payments, including refunds of employee contributions		(2,048,389)	(2,048,389)	—
Administrative expense		—	(19,436)	19,436
Other changes		—	(293)	293
Net changes		1,594,692	715,308	879,384
Balances at June 30, 2015	$	42,766,624	31,464,213	11,302,411

(i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision 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:

	1% decrease (6.00%)	Current discount rate (7.00%)	1% increase (8.00%)
District's net pension liability	$ 16,839,369	11,302,411	6,687,925

(j) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the District recognized pension expense of $708,626. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 132,948	—
Net difference between projected and actual earnings on plan investments	—	826,523
Employer contributions subsequent to the measurement date	1,100,254	—
Total	$ 1,233,202	826,523

The District's contributions subsequent to the measurement date of $1,100,254 reported as deferred outflows of resources related to pensions 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:

Year ended June 30:		
2017	$	(277,838)
2018		(277,838)
2019		(284,839)
2020		146,940
2021		—
Thereafter		—
	$	(693,575)

(7) Deferred Compensation

Effective July 1, 1999, the District established a Deferred Compensation Plan (DCP) in accordance with Internal Revenue Code Section 457 (IRC-457) that is administered by the VRS. Employees may voluntarily elect to participate in the DCP and may defer a portion of their compensation until future years. The deferred compensation is not available to employees until after termination, retirement, death, or unforeseen financial emergency, as defined in IRC-457.

Salaried employees who elect to participate in the DCP can receive an employer cash match up to a maximum of $100 per pay period. An hourly employee of the District may defer compensation, but does not receive a cash match. The employer cash match is contributed to a separate Internal Revenue Service Section 401(a) account. The District contributed approximately $184,745 and $187,586 to employees' 401(a) accounts in 2016 and 2015, respectively.

The defined contribution component of the Hybrid Retirement Plan provides the Hybrid 401(a) Cash Match Plan. District employees participating as Hybrid Plan members contribute a mandatory 1% of their creditable compensation each month to their 401(a) plan account. The District also contributes a mandatory 1% as well as matching contributions on any voluntary contributions a member makes. The District contributed $10,962 to Hybrid Plan employees' 401(a) accounts in 2016.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. The District purchases insurance for specific types of coverage, including property, loss of revenue, liability, auto, crime, workers' compensation, and public officials. Claims settlements and judgments not covered by insurance are covered by operating resources. The amount of insurance settlements did not exceed insurance coverage for any of the past three years. Claims expenses and liabilities are reported when it is probable that a loss has occurred not otherwise covered by insurance and the amount of the loss can be reasonably estimated.

Effective July 1, 2013, the District changed the health insurance plans offered to employees and retirees through Optima Health and Delta Dental from fully insured plans to self insured plans. Stop loss coverage for aggregate and individual claims is utilized to protect the District from the potential effects of catastrophic medical claims.

(9) Other Postemployment Benefit Plan (OPEB)

Historically, although the District's retiree health insurance program has been funded on a "pay-as-you-go" basis, GAAP requires that the District accrue the cost of the retiree health insurance program during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability (UAAL) in order to accurately account for the total future cost of postemployment benefits and the financial impact on the District.

The District provides OPEB for its employees through a single employer defined-benefit plan (the Plan). The Plan was established and may be amended by the Commission. The Plan provides healthcare insurance for eligible retirees and their spouses through the District's group health insurance plans, which cover both active and retired members. Plan benefits vest for employees after a minimum of 10 years of salaried service with the District, after obtaining age 50 and after receiving a retirement benefit under the provisions of the VRS. Retirees with less than 20 years of continuous, salaried service with the District are ineligible for a health insurance credit and are, therefore, responsible for their entire health insurance premium. Retirees with more than 20 years of continuous, salaried service with the District receive a credit of $8.50 per complete year of salaried service per month. Length of service means the total length of service credited by the VRS for calculating the retiree's pension benefits from VRS. All credits cease upon the retiree's death. Spouses may continue coverage under the plan after the death of the retiree.

As of July 1, 2015, the date of the latest actuarial valuation, 60 retirees and current or surviving spouses were receiving OPEB under the Plan and 149 active employees are eligible to receive future benefits under the Plan.

The Commission establishes employer contribution rates for the plan participants and determines how the plan will be funded as part of the budgetary process each year. The Commission has elected to continue to fund the healthcare benefits for retirees on a "pay-as-you-go" basis.

The annual OPEB cost (AOC) is an amount that is charged as an expense to the District's statements of revenues, expenses, and changes in net position. The AOC consists of the ARC plus an adjustment that is necessary if there is a cumulative difference between prior years' ARCs and the amount actually funded by the District. The ARC is the sum of the cost of benefits earned during the fiscal year (the Normal Cost) plus the amortization of the UAAL. The UAAL is typically amortized over a period not to exceed thirty (30) years. The fiscal year ended June 30, 2009 was the initial year of adoption for recording in accordance with GAAP for the District. In that year, the District elected to exceed the requirements of GAAP by not amortizing the UAAL over the allowable 30-year period and instead accrued the entire amount of the UAAL in the first year of implementation, which will be adjusted periodically as a component of the net OPEB obligation (NOO) recorded on the District's financial statements. The District's estimated NOO for the fiscal year ended June 30, 2016 is the sum of the District's total estimated ARC for fiscal year 2016 less the estimated amount of OPEB financed by the District on a pay-as-you-go basis in fiscal year 2016.

The following table shows the components of the District's AOC for the year, the amount actually contributed to the Plan and the changes in the District's NOO for healthcare benefits without amortizing the UAAL:

Projections of June 30, 2016 and 2015 net OPEB obligation (without amortizing the UAAL)

		2016	2015
Annual required contribution (ARC)	$	5,634,231	5,561,527
Interest on net OPEB obligation		134,186	211,344
Adjustment to ARC		(5,698,227)	(4,645,560)
		70,190	1,127,311
Pay-as-you-go annual employer contribution		(70,190)	(38,994)
Net OPEB obligation, beginning of year		5,367,423	4,279,106
Net OPEB obligation, end of year	$	5,367,423	5,367,423

The District's AOC, the percentage of AOC contributed to the Plan, and the NOO for the years ended June 30 were as follows:

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2013	$	105,049	100.0%	4,279,106
June 30, 2014		112,877	100.0	4,279,106
June 30, 2015		1,127,311	3.5	5,367,423
June 30, 2016		70,190	100.0	5,367,423

As of July 1, 2015, the most recent valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was $5,363,712 and the actuarial value of assets was $0, resulting in an UAAL of $5,363,712. For the fiscal year ended June 30, 2015 the covered payroll was $8,168,480, and the ratio of the UAAL to the covered payroll was 65.7%.

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 the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revisions 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 trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

For the most recent actuarial valuation on July 1, 2015, the entry age normal cost method was used. The actuarial assumptions include a 2.50% discount rate, which is based on the expected long-term investment returns of the District's general fund investments, and an annual healthcare cost trend of 7.25% in FY2017 gradually reducing to 3.53% over 58 years. In the actuarial valuation report, the UAAL is being amortized as a level percentage of payroll over a period of 30 years on an open basis. However, the District elected to accrue the entire UAAL in FY2009, the first year of implementation for financial statement reporting purposes.

(10) Fair Value Measurements

The District utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The District determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantively the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identified assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The level in the fair value hierarchy within which a fair value measurement, in its entirety falls in, is based on the lowest level input that is significant to the fair value measurement in its entirety.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

All of the District's investments in debt securities are in one of the four categories below and therefore the entire portfolio of debt securities is Level 2.

Debt securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Supra-Nationals: quoted prices for similar securities in the market are used to draw appropriate correlations;
- Corporate Notes and Municipal Bonds: relevant trade data, benchmark quotes and surveys of the dealer community are incorporated into the evaluation process;
- Certificates of Deposit: matrix pricing based on various market makers and dealers;
- Federal Agency Mortgage-Backed: solicited prices from market buy and sell side sources, including primary and secondary dealers, portfolio managers and research analysts are used.

The fair value of investments in money market funds is based on the published net asset values per share of those funds.

The District has the following recurring fair value measurements as of June 30, 2016:

	Fair value 2016	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
U.S. Treasuries	$ 42,690,925	—	42,690,925	—
Supra-national agency	1,346,066	—	1,346,066	—
U.S. agencies	153,493,179	—	153,493,179	—
Federal agency mortgage-backed	5,823,665	—	5,823,665	—
State and local government	7,014,791	—	7,014,791	—
Certificate of deposit	8,519,008	—	8,519,008	—
Corporate notes	48,057,084	—	48,057,084	—
Total investments by fair value level	266,944,718	—	266,944,718	—
Investments measured at the net asset value (NAV):				
Money market funds	19,947,015			
Total investments measured at the NAV	19,947,015			
Total investments measured at fair value	$ 286,891,733			

		Fair value measurements using		
	Fair value 2016	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Investment derivate instrument	$ 338,910	—	338,910	—
Hedged derivate instrument				
Deferred outflow of resources – derivative liability	$ 1,578,406	—	1,578,406	—
Derivative liability	(1,578,406)	—	(1,578,406)	—

(11) Commitments and Contingencies

The District is involved in various claims and legal actions that arose in previous years during the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's statements of net position and statements of revenues, expenses, and changes in net position.

REQUIRED SUPPLEMENTARY INFORMATION

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Pension Contributions (Unaudited)

June 30, 2016

For the fiscal year ended June 30		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 percentage of covered employee payroll (5)
2016	$	1,035,305	1,035,305	—	7,538,996	13.7%
2015		1,024,089	1,024,089	—	7,378,844	13.9%

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)

June 30, 2016

		2015	2014
Total pension liability:			
Service cost	$	653,142	632,909
Interest		2,810,342	2,711,152
Difference between expected and actual performance		179,597	—
Benefit payments, including refunds of employee contributions		(2,048,389)	(1,805,740)
Net change in total pension liability		1,594,692	1,538,321
Total pension liability – beginning		41,171,932	39,633,611
Total pension liability – ending (a)		42,766,624	41,171,932
Plan fiduciary net position:			
Contributions – employer		1,021,377	944,598
Contributions – employee		368,079	362,177
Net investment income		1,393,970	4,231,610
Benefit payments, including refunds of employee contributions		(2,048,389)	(1,805,740)
Administrative expense		(19,436)	(23,013)
Other		(293)	223
Net change in plan fiduciary net position		715,308	3,709,855
Plan fiduciary net position – beginning		30,748,905	27,039,050
Plan fiduciary net position – ending (b)		31,464,213	30,748,905
District’s net pension liability – ending (a)-(b)	$	11,302,411	10,423,027
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)		73.57%	74.68%
Covered-employee payroll (c)	$	7,378,844	7,240,101
District’s net pension liability as a percentage of covered-employee payroll ((a)-(b))/(c)		153.17%	143.96%

Unaudited – See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedules of Funding Progress (Unaudited)

June 30, 2016

Schedule of Funding Progress – OPEB

The amounts shown below are a standardized disclosure measure of the present value of OPEB benefits estimated to be payable in the future as a result of employee service to date:

Actuarial valuation date	(1) Actuarial value of assets	(2) Actuarial accrued liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded ratio (1)/(2)	(5) Annual covered payroll	(6) UAAL as a percentage of covered payroll (3)/(5)
June 30, 2010 (estimated)	$ —	3,734,165	3,734,165	—%	$ 7,251,389	51.5%
June 30, 2011	—	4,458,037	4,458,037	—	7,478,530	59.6
June 30, 2012 (estimated)	—	4,615,783	4,615,783	—	7,753,416	59.5
June 30, 2013	—	5,053,351	5,053,351	—	7,921,852	63.8
June 30, 2014 (estimated)	—	5,218,363	5,218,363	—	8,170,150	63.9
June 30, 2015	—	5,367,423	5,367,423	—	8,168,480	65.7

Unaudited – See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Modified Approach for Infrastructure Reporting – Capital Asset Activity (Unaudited)

June 30, 2016

The following is a summary of the changes in capital assets for the year ended June 30, 2016:

	Capital asset balance, June 30, 2015	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2016
Bridge and tunnel assets:					
Original bridges	$ 8,474,789	—	—	—	8,474,789
Parallel crossing bridges	50,721,759	—	—	—	50,721,759
Original trestles	31,562,850	—	—	—	31,562,850
Parallel crossing trestles	117,324,020	—	—	—	117,324,020
Approach roads	11,269,645	—	—	—	11,269,645
Fisherman Island Causew ay	8,722,510	—	—	—	8,722,510
Tunnels	60,182,509	—	—	—	60,182,509
Portal islands	54,258,291	—	—	—	54,258,291
Toll plaza infrastructure	6,069,397	—	—	—	6,069,397
Sitew ide utilities	34,465,812				34,465,812
Total bridge and tunnel assets	383,051,582	—	—	—	383,051,582
Construction in progress – Parallel Thimble Shoal Tunnel	10,631,263	4,040,878	—	—	14,672,141
Capitalized interest and finance expenses	40,881,748	—	—	—	40,881,748
Miscellaneous capital assets:					
Land	5,232,907	—	—	—	5,232,907
Buildings	5,367,758	423,754	—	—	5,791,512
Fleet vehicles and equipment	11,317,322	1,107,661	(122,054)	—	12,302,929
Total miscellaneous capital assets	21,917,987	1,531,415	(122,054)	—	23,327,348
Less accumulated depreciation:					
Buildings	(2,601,845)	—	—	(133,284)	(2,735,129)
Fleet vehicles and equipment	(7,611,456)	—	122,054	(1,040,689)	(8,530,091)
Total accumulated depreciation	(10,213,301)	—	122,054	(1,173,973)	(11,265,220)
Total capital assets, net	$ 446,269,279	5,572,293	—	(1,173,973)	450,667,599

Unaudited – See accompanying independent auditors' report.

(Continued)

The table below summarizes by asset clusters the budgeted preservation expenses to bridge and tunnel assets for the last five fiscal years, as referenced in the Chesapeake Bay Bridge and Tunnel District's (the District) annually updated six-year reserve maintenance plan. The six-year reserve maintenance plan is a planning tool that includes extraordinary maintenance projects to maintain the bridge and tunnel assets at a condition level of "generally good" or better. Extraordinary maintenance projects include many complex, multi-year contracts. The timing of actual project payments can vary from fiscal year to fiscal year due to the complexity of the projects. Each fiscal year's budgeted preservation expenses include the budget for projects that actually commenced during that respective fiscal year.

		2012	2013	2014	2015	2016
Bridge and tunnel assets:						
Original bridges	$	4,255,207	2,493,623	829,085	3,510	281,510
Parallel crossing bridges		1,022,480	1,361,321	828,349	71,677	222,189
Original trestles		5,097,799	148,616	422,527	717,892	5,221,721
Parallel crossing trestles		791,700	893,729	633,153	352,269	89,536
Approach roads		570,000	—	—	40,365	40,365
Fisherman Island Causeway		466,364	—	—	15,795	15,795
Tunnels		982,559	2,552,014	7,856,457	9,293,385	4,506,147
Portal islands		65,882	87,198	68,779	—	7,500
Toll plaza infrastructure		18,500	617,000	99,500	43,000	250,000
Sitewide utilities		1,375,554	2,073,999	14,999,609	8,847,255	134,500
	$	14,646,045	10,227,500	25,737,459	19,385,148	10,769,263

The table below summarizes by asset cluster the actual preservation expenses to bridge and tunnel assets for the last five fiscal years:

		2012	2013	2014	2015	2016
Bridge and tunnel assets:						
Original bridges	$	2,637,377	3,929,986	666,774	2,383	72,093
Parallel crossing bridges		27,326	3,712,206	170,828	52,135	87,622
Original trestles		7,303,547	328,633	264,650	405,768	829,426
Parallel crossing trestles		348,046	1,256,742	307,998	138,911	47,609
Approach roads		163,003	13,516	—	27,399	—
Fisherman Island Causeway		122,685	—	—	10,721	—
Tunnels		1,702,395	426,390	3,150,162	4,324,085	3,970,261
Portal islands		19,217	45,855	54,805	—	7,485
Toll plaza infrastructure		17,794	417,405	69,197	20,138	202,325
Sitewide utilities		250,123	50,789	9,843,064	4,222,511	71,245
	$	12,591,513	10,181,522	14,527,478	9,204,051	5,288,066

Unaudited – See accompanying independent auditors' report.

The budgeted preservation expenses for FY2017 are summarized by asset cluster in the table below. During a given fiscal year, there may be no preservation expenses budgeted for one or more of the classifications of bridge and tunnel assets. This is an indication that the District assesses that there is no need for preservation work on this classification of bridge and tunnel assets to be able to maintain it at a condition level of "generally good" or better.

Bridge and tunnel assets:	
Original bridges	$ 84,800
Parallel crossing bridges	220,117
Original trestles	3,034,282
Parallel crossing trestles	303,172
Approach roads	—
Fisherman Island Causeway	—
Tunnels	1,795,435
Portal Islands	35,000
Toll plaza infrastructure	778,050
Site-wide utilities	51,500
	$ 6,302,356

Unaudited – See accompanying independent auditors' report.

U.S. generally accepted accounting principles (GAAP) requires that governmental entities that utilize the modified approach for infrastructure reporting must have their governing board set a policy for the condition levels at which modified approach assets will be maintained. GAAP also requires that a third party perform condition level assessments of the modified approach assets annually and that the condition levels for the current and prior two fiscal years be disclosed in the notes to the financial statements.

The Commission's preservation policy is to maintain 90% of the bridge and tunnel assets at a maintenance rating program (MRP) condition level of "good" or better.

Jacob's Engineering, Inc., the District's consulting engineer, has inspected the District's bridge and tunnel assets. Jacob's Engineering, Inc. determines the MRP condition level for the bridge and tunnel assets as a *numeric scaled rating*. The *numeric scaled rating* is based on a condition index utilized by the Virginia Department of Transportation whereby 0 is a failed condition level and 9 is an excellent condition level. The table below defines the *numeric scaled ratings* assigned by Jacob's Engineering, Inc.:

MRP Numeric code scale

Numeric code	Narrative code	Definition
9	Excellent	Component has been recently put in service or remains in new condition
8	Very Good	No problems noted, potential exists for minor preventative maintenance
7	Good	Potential exists for minor maintenance
6	Satisfactory	Potential exists for major maintenance
5	Fair	Potential exists for minor repair or rehabilitation
4	Poor	Potential exists for major repair or rehabilitation
3	Serious	Major repair or rehabilitation required immediately
2	Critical	The need for repair or rehabilitation is urgent
1	Imminent Failure	Component is out of service; study feasibility for repair or rehabilitation
0	Failed	Component is out of service and beyond repair, replacement required

The following two tables derive percentages in different ways. Trestles and bridges that have an MRP *numeric* condition level are described as a percentage of lane miles. All other bridge and tunnel assets that have an MRP *numeric* condition level are described as a percentage of that specific bridge and tunnel asset.

The following tables detail the MRP condition level of bridge and tunnel assets for the last three years:

Percentage of land miles at an MRP condition Level 7 or better

Bridge and tunnel assets	2014	2015	2016
Original bridges	100%	100%	100%
Parallel crossing bridges	100	100	100
Original trestles	100	100	100
Parallel crossing trestles	100	100	100

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Modified Approach for Infrastructure Reporting – Capital Asset Activity (Unaudited)

June 30, 2016

Percentage of capital assets at an MRP condition Level 7 or better			
Bridge and tunnel assets	**2014**	**2015**	**2016**
Approach roads	100%	100%	100%
Fisherman Island Causeway	100	100	100
Tunnels	84	94	96
Portal islands	91	94	90
Toll plaza infrastructure	100	100	100
Site-wide utilities	80	92	97

Unaudited – See accompanying independent auditors' report.

SUPPLEMENTARY SECTION

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Budgetary Comparison Schedule (Unaudited)

Year ended June 30, 2016

Budgetary Accounting and Control

The Chesapeake Bay Bridge and Tunnel Commission (the Commission) prepares a preliminary fiscal year budget before April 20 for the ensuing fiscal year, which begins on July 1. This budget is required to be adopted before June 1 of each year. The Commission covenants, in accordance with Section 505 of its Revenue Bond Resolution adopted February 12, 1991, that the expenses budgeted in any fiscal year will not exceed the amounts that are reasonable and necessary to maintain, repair, and operate the facility in accordance with the provisions of its enabling legislation. No provision is made in the budget for noncash items, such as depreciation.

The Commission does not adopt a revenue budget.

		Budgeted amount	Actual amount	Variance over (under)	Percentage variance
Operating expenses before district facility expenses:					
Administration	$	418,250	412,573	(5,677)	(1.36)%
Finance		735,225	726,679	(8,546)	(1.16)
Operations		4,267,300	4,204,239	(63,061)	(1.48)
Maintenance and tunnel operations		3,900,425	3,647,082	(253,343)	(6.50)
General		3,829,400	3,218,485	(610,915)	(15.95)
Consultants		712,155	541,127	(171,028)	(24.02)
Utilities		934,800	832,147	(102,653)	(10.98)
Total operating expenses before district facility expenses	$	14,797,555	13,582,332	(1,215,223)	(8.2)%

The Chesapeake Bay Bridge and Tunnel District's (the District) Revenue Bond Resolution dated February 12, 1991 requires a ratio of 3.00 of net revenues to maximum principal and interest requirement for any future bond year on account of all Revenue Bonds outstanding. As of June 30, 2016, the District had no Revenue Bonds outstanding under the Resolution. The District's General Revenue Bond Resolution dated November 21, 1991 requires a ratio of 1.20 of net revenues available for debt service to the fiscal year 2016 General Revenue Bond principal and interest requirement less investment income ratio. This ratio is 4.18 for fiscal year 2016.

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Insurance Policies (Unaudited)

Year ended June 30, 2016

Type	Insurer/agent	Amount of coverage	Expiration date	
Automobile liability and physical damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	$ 1,000,000	June 30, 2016	*
Boiler and machinery	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	10,000,000	June 30, 2016	*
Bridge floater (bridges, tunnels, trestles, and loss of revenue)	ACE American Insurance Company & XL Insurance America/Aon Risk Solutions	225,000,000	March 31, 2017	
Crime (theft, disappearance, and employee dishonesty)	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	700,000	June 30, 2016	*
General liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	1,000,000	June 30, 2016	*
No fault property damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	10,000	June 30, 2016	*
Property direct damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	54,304,339	June 30, 2016	*
Excess liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	5,000,000	June 30, 2016	*
Wharfinger's liability	Atlantic Specialty Insurance/Brown & Brown Flagship Group LTD	4,000,000	September 30, 2016	
Workers' compensation	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	Statutory	June 30, 2016	*
Line of Duty Act	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	Statutory	June 30, 2016	*

* The District has renewed these policies for fiscal year 2017.

See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Comparative Traffic and Revenue Statistics (Unaudited)

Years ended June 30, 2016 and 2015

	2016			2015			Increase (decrease)		
	Vehicles		Revenue	Vehicles		Revenue	Vehicles		Revenue
Vehicle classifications:									
Cars and light trucks	3,545,318	$	44,197,112	3,311,956	$	41,574,911	233,362	$	2,622,201
Heavy trucks	346,635		12,162,203	337,897		11,903,855	8,738		258,348
Buses	14,970		443,290	14,367		425,087	603		18,203
	3,906,923		56,802,605	3,664,220		53,903,853	242,703		2,898,752
Nonrevenue	98,105		—	89,369		—	8,736		—
	4,005,028	$	56,802,605	3,753,589	$	53,903,853	251,439	$	2,898,752

See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2016

Unrestricted investments at fair market value as of June 30, 2016 consist of the following:

Description	Coupon rate	Maturity date	Market value
1991 Revenue Bond Fund:			
U.S. Treasury Notes	0.500%	11/30/16	$ 2,385,283
Money Rate Savings Account	Variable	Not Fixed	4,612,536
			6,997,819
General Resolution Reserve Maintenance Fund:			
JP Morgan Comm Paper	Discount	9/13/16	2,686,422
Bank of Tokyo Mitsubishi Comm Paper	Discount	9/26/16	749,094
Freddie Mac Global Notes	1.000	6/29/17	1,862,546
PFM Funds Prime Institutional	Variable	Not Fixed	897,999
Money Rate Savings Account	Variable	Not Fixed	3,487,028
			9,683,089
General Resolution General Fund:			
US Treasury Notes	1.500	7/31/16	2,702,913
Federal Home Loan Bank Discount Note	Discount	8/2/16	57,362,953
Federal Home Loan Bank Discount Note	Discount	8/3/16	5,113,608
US Treasury Notes	4.875	8/15/16	1,578,985
Berkshire Hathaway Global Notes	0.950	8/15/16	2,185,765
Federal Home Loan Bank Discount Note	Discount	8/19/16	2,034,095
Federal Home Loan Bank Discount Note	Discount	8/19/16	2,998,666
Federal Home Loan Bank Discount Note	Discount	8/19/16	3,783,317
US Treasury Notes	1.000	8/31/16	5,456,311
Federal Home Loan Bank	Discount	9/14/16	1,833,584
Federal Home Loan Bank	Discount	9/15/16	9,592,464
Toyota Motor Credit Notes	2.000	9/15/16	1,879,547
US Treasury Notes	0.875	9/15/16	3,894,450
US Treasury Notes	0.875	9/15/16	4,505,148
Federal Home Loan Bank	Discount	9/19/16	4,526,195
Federal National Mortgage Assn.	1.250	9/28/16	2,905,745
Federal Home Loan Bank	0.500	9/28/16	3,716,434
Federal Home Loan Bank Notes	0.500	9/28/16	2,000,772
Toronto Dominion Bank NY CD	0.900	9/29/16	3,502,268
US Treasury Notes	1.000	9/30/16	345,557
Federal Farm Credit Bank	5.200	11/28/16	2,548,230
Federal Farm Credit Bank	5.125	1/23/17	4,585,071
Federal Home Loan Bank	0.500	1/27/17	3,259,830
Fannie Mae Global Notes	1.250	1/30/17	1,039,679
Fannie Mae Global Notes	1.250	1/30/17	5,318,939
US Treasury Notes	0.875	2/28/17	511,315
Freddie Mac Global Notes	1.000	3/8/17	2,538,296
FNMA Notes	1.125	4/27/17	1,632,196
FNMA Notes	1.125	4/27/17	1,792,904
Berkshire Hathaway Global Notes	1.600	5/15/17	1,255,327
Toyota Motor Credit Corporation Note	1.750	5/22/17	2,610,233
Federal Home Loan Bank Notes	0.625	5/30/17	2,160,998
US Treasury Notes	0.625	5/30/17	780,701
3M Company Global Notes	1.000	6/26/17	1,503,852
Federal Home Loan Bank Notes	0.750	8/28/17	1,196,918
US Treasury Notes	0.625	8/31/17	810,727
US Bank NA Cincinnati Callable CD	1.375	9/11/17	5,016,740
FNMA Notes	1.000	9/27/17	3,134,283
Fannie Mae Global Notes	0.875	10/26/17	1,404,875
Chevron Corporation	1.345	11/15/17	2,211,484
Chevron Corporation Global Notes	1.104	12/5/17	1,046,726

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2016

Unrestricted investments at fair market value as of June 30, 2016 consist of the following:

Description	Coupon rate	Maturity date	Market value
General Electric Co. Notes	5.250	12/6/17	$ 4,979,373
Fannie Mae Global Notes	0.875	12/20/17	943,321
Toyota Motor Credit Corporation Note	1.450	1/12/18	584,229
IBM Corporate Notes	1.125	2/6/18	5,523,672
Berkshire Hathaway Global Notes	1.550	2/9/18	2,478,437
Chevron Corporation Notes	1.365	2/24/18	1,256,865
Exxon Mobil Corporation	1.305	3/6/18	5,542,922
Federal Home Loan Mortgage Corp. Notes	0.750	4/9/18	1,006,158
Microsoft Corp. Global Notes	1.000	5/1/18	1,229,883
Apple Inc. Global Notes	1.000	5/3/18	2,230,476
Apple Inc. Global Notes	1.000	5/3/18	2,004,922
Berkshire Hathaway Notes	1.300	5/15/18	352,202
Virginia State Taxable Build America Bonds	2.750	6/1/18	7,014,791
International Bank of Recon & Dev Global	1.000	6/15/18	1,346,066
Toyota Motor Credit Corporation Note	1.550	7/13/18	2,110,089
3M Company Corporate Note	1.375	8/7/18	3,635,564
FNMA Benchmark Note	1.125	10/19/18	1,428,001
Fannie Mae Global Notes	1.625	11/27/18	3,916,636
US Treasury Notes	1.375	12/31/18	1,526,543
Freddie Mac Notes	1.750	5/30/19	2,933,504
Freddie Mac Notes	1.750	5/30/19	2,183,431
Freddie Mac Global Notes	1.250	8/1/19	2,328,216
US Treasury Notes	1.000	8/31/19	1,637,504
US Treasury Notes	1.750	9/30/19	2,712,290
US Treasury Notes	1.000	9/30/19	2,518,653
Freddie Mac Global Notes	1.250	10/2/19	3,035,625
US Treasury Notes	3.375	11/15/19	2,281,864
FNMA Benchmark Note	1.750	11/26/19	2,056,256
FNMA Benchmark Note	1.500	6/22/20	1,452,376
Federal Home Loan Mortgage Corp. Notes	6.000	6/1/21	157,570
Federal National Mortgage Assn.	5.500	11/1/21	177,592
Federal Home Loan Mortgage Corp. Notes	5.500	2/1/22	186,318
Fannie Mae Pool	3.000	6/1/22	743,656
Federal Home Loan Mortgage Corp. Notes	6.000	7/1/22	54,210
GNMA Pool #5276	3.000	1/1/27	969,439
GNMA Pool #794283	3.500	3/1/27	505,799
GNMA Pool #MA0007	3.000	4/1/27	1,557,250
Fannie Mae Pool #1084	3.500	6/1/32	1,471,832
Money Rate Savings Account	Variable	Not Fixed	3,933,164
Total unrestricted investments			250,284,800
			266,965,708

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2016

Restricted investments at fair market value as of June 30, 2016 consist of the following:

Description	Coupon rate	Maturity date		Market value
Restricted investments related to General Resolution Bonds:				
Interest Account Series 1998:				
Money Rate Savings Account	Variable	Not fixed	$	1,221,138
Interest Account Series 2010:				
Money Rate Savings Account	Variable	Not fixed		32,262
Interest Account Series 2011:				
Money Rate Savings Account	Variable	Not fixed		744,231
Principal Account Series 2011:				
Money Rate Savings Account	Variable	Not fixed		487,500
Collateral Posting Account Series 2010 and 2011:				
U.S. Treasury Notes	0.750%	6/30/17		3,026,961
Restricted investments related to General Resolution Bonds:				
Debt Service Fund – 1991:				
Federal National Mortgage Assn.	1.125	4/27/17		2,862,625
U.S. Treasury Notes	0.750	12/31/17		4,446,620
Money Rate Savings Account	Variable	Not fixed		3,245,673
				10,554,918
Restricted investments related to General Resolution Bonds:				
Debt Service Fund – 1995:				
Federal National Mortgage Assn.	1.125	4/27/17		1,004,430
U.S. Treasury Notes	0.750	12/31/17		1,569,100
Money Rate Savings Account	Variable	Not fixed		1,285,485
				3,859,015
Total restricted investments				19,926,025
Total all investments			$	286,891,733

See accompanying independent auditors' report.

KPMG LLP
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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Chairman and Members
Chesapeake Bay Bridge and Tunnel Commission:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Chesapeake Bay Bridge and Tunnel District (the District), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Norfolk, Virginia
October 26, 2016