CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2017 and 2016

(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, 2017 and 2016 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, 2017 and 2016, 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, 2017 and 2016

- Toll revenues during fiscal year 2017 (FY2017) were $56,704,636 and were 1.4% more than fiscal year 2016 (FY2016) toll revenues. During FY2017, 3,990,200 total revenue vehicles crossed the District's facility. This represents a 2.1% increase in vehicular traffic over FY2016. The slightly disproportional increase in vehicular traffic compared to toll revenues in FY2017 is due to the mix in traffic growth as the growth in discounted fare classes for commuters and 24-hour round-trips outpaced the growth in nondiscounted fare classes, heavy trucks and buses. 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.
- Other revenues in FY2017 totaled $1,253,763, which is an increase of 3.7% over other revenues in FY2016. The increase in other revenues is due to programmed increases in lease income from the various tenants at the District's Little Creek property and the transition to a new lease for a portion of that same property to the Chesapeake Tunnel Joint Venture. Other revenues in FY2016 totaled $1,208,465, which is an increase of 1.7% over other revenues in FY2015. The increase in other revenues is also due to programmed increases in lease income from the various tenants at the District's Little Creek property and the sale of surplus equipment.
- Operating expenses in FY2017, before District facility expenses, totaled $13,887,166, which is an increase in operating expenses of $304,834 from FY2016. 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 FY2017, before District facility expenses, were 4.9% less than the legally adopted budget for FY2017 operating expenses, before District facility expenses. 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.
- Total net position at June 30, 2017 was $654,724,120, a 1.6% increase over total net position at June 30, 2016. Total net position at June 30, 2016 was $644,283,067, a 5.5% increase over total net position at June 30, 2015.

Significant 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 in the fall of 2017. Total construction of the parallel tunnel is expected to take approximately five years.

The District had previously incurred its General Resolution Revenue Bonds, Series 1998, Series 2010A and Series 2011A (collectively, the Prior Bonds) under its General Revenue Bond Resolution, adopted by the Commission on November 21, 1991, as amended and supplemented (the 1991 Resolution). To finance the costs of the Parallel Thimble Shoal Tunnel Project (the Project), the Commission determined that the Prior Bonds would be redeemed or defeased and the 1991 Resolution would be terminated so that a new general bond resolution could be issued. The District redeemed the Series 2010A and Series 2011A Bonds and terminated the interest rate swap associated therewith on November 1, 2016. Concurrently with the issuance of the Series 2016 Bonds on November 10, 2016, the District contributed additional monies from the General Fund in combination with funds released from the 1991 Resolution to fund the defeasance of the Series 1998 bonds, which are noncallable.

On October 24, 2016, the Commission adopted and approved a new General Revenue Bond Resolution (the 2016 Resolution) along with three Supplemental Resolutions authorizing the issuance of $321,515,000 First Tier General Resolution Revenue Bonds, Series 2016 (the Series 2016 Bonds), a loan from the United States Department of Transportation under the TIFIA program (the TIFIA Loan) in the amount of up to $338,528,672, plus capitalized interest and a loan from the Virginia Transportation Infrastructure Bank (the VTIB Loan) in the amount of up to $50,000,000, plus capitalized interest.

The Series 2016 Bonds are term bonds maturing from July 1, 2041 through July 1, 2055 with coupon interest rates ranging from 4.0% to 5.0%. The proceeds from the Series 2016 Bonds, along with the proceeds of the TIFIA Loan and VTIB Loan and cash contributed by the District will be utilized to finance the development and construction of the Project. The remaining portion of the proceeds from the Series 2016 Bonds will be utilized to (i) pay capitalized interest on a portion of the Series 2016 Bonds through July 1, 2021, (ii) to obtain a municipal bond debt service reserve insurance policy for the Series 2016 Bonds, and (iii) to pay the related issuance expenses, including bond insurance premiums.

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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, 2017, net position was $654,724,120, a 1.6% increase over net position at June 30, 2016. As of June 30, 2016, net position was $644,283,067, a 5.5% increase over net position at June 30, 2015. Total assets and deferred outflows of resources increased 41.9% to $1,066,466,699 and total liabilities and deferred inflows of resources increased 283.1% to $411,742,579 during FY2017. 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. 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, 2017, 2016, and 2015

Assets and deferred outflows of resources		2017	2016	2015
Current assets	$	69,270,163	176,690,022	60,801,246
Restricted assets		324,594,703	20,104,519	20,694,033
Noncurrent investments		113,108,758	92,895,290	185,574,022
Derivative investment		—	338,910	1,164,318
Long-term note receivable		23,648	83,519	124,381
Capital assets		554,751,897	450,667,599	446,269,279
Bond insurance costs, net		2,857,086	66,985	75,321
Deferred outflows of resources		1,860,444	10,902,047	13,002,794
Total assets and deferred outflows of resources	$	1,066,466,699	751,748,891	727,705,394

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Table A-1

Summary of Net Position as of June 30, 2017, 2016, and 2015

Liabilities and deferred inflows of resources		**2017**	**2016**	**2015**
Current liabilities	$	32,231,431	12,843,423	13,737,157
Long-term debt, net of current portion, and imputed borrowing payable		361,285,777	75,547,638	84,203,792
Derivative liability		—	1,578,406	1,572,117
Net pension liability		12,591,061	11,302,411	10,423,027
Other long-term liabilities		5,367,423	5,367,423	5,367,423
Deferred inflows of resources		266,887	826,523	1,885,710
Total liabilities and deferred inflows of resources	$	411,742,579	107,465,824	117,189,226

Net position		**2017**	**2016**	**2015**
Net investment in capital assets	$	427,027,701	373,992,255	363,343,433
Restricted for debt service		65,835,138	20,088,077	20,692,548
Unrestricted		161,861,281	250,202,735	226,480,187
Total net position	$	654,724,120	644,283,067	610,516,168

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 and cash and investments restricted for payment of construction of the Thimble Shoal parallel tunnel. Noncurrent investments 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, construction in progress for the Project 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 qualified for hedge accounting, the unamortized portion of differences between expected and actual pension plan experience, the unamortized portion of differences between expected earnings and actual earnings on pension plan investments and employer contributions to the pension plan that occurred after the measurement date of the actuarial report.

Current liabilities include accounts payable and accrued expenses, 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 qualified for hedge accounting in 2016. 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 (OPEB) obligation 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 and the unamortized portion of differences between expected and actual pension plan experience.

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 also utilized for current and future construction projects.

Net position restricted for debt service is current debt service due on July 1, 2017, 2016, and 2015, if applicable, and the debt service reserve assets restricted by bond covenants. Net position restricted for forfeited property represents assets lawfully seized by the District's police and restricted for expenditures in accordance with the Virginia Department of Criminal Justice regulations.

Changes in Net Position

Net position increased $10,441,053 during FY2017. Net position increased $33,766,899 during FY2016. The total operating revenues for FY2017 were $57,958,399, 1.4% over FY2016 operating revenues, which were $57,143,608, and 5.1% over FY2015 operating revenues, which were $54,354,513. The total operating expenses in FY2017, before District facility charges, were $13,887,166, an increase of 2.2% from FY2016. The

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total operating expenses in FY2016, before District facility charges, were $13,582,332, an increase of 2.1% from FY2015. 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 FY2017, FY2016, and FY2015

Operating revenues	**2017**	**2016**	**2015**
Toll revenues	$ 56,704,636	55,935,143	53,166,142
Other revenues	1,253,763	1,208,465	1,188,371
Total operating revenues	57,958,399	57,143,608	54,354,513
Operating expenses			
Operating expenses, before District facility expenses	13,887,166	13,582,332	13,301,451
District facility expenses	5,300,792	7,468,117	10,982,789
Total operating expenses	19,187,958	21,050,449	24,284,240
Operating income	38,770,441	36,093,159	30,070,273
Net nonoperating expenses	(28,329,388)	(2,326,260)	(4,430,798)
Increase in net position	10,441,053	33,766,899	25,639,475
Total net position, beginning of fiscal year	644,283,067	610,516,168	596,430,952
Prior period adjustment of net position	—	—	(11,554,259)
Total net position, end of fiscal year	$ 654,724,120	644,283,067	610,516,168

There are many variables that affect the District's vehicular traffic and resulting revenues. In evaluating FY2017 traffic compared to FY2016, 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 FY2017, except for August, March and May, represented a new record for traffic volume and toll revenues.

Comparison of Toll Revenues and Vehicular Traffic during FY2017, FY2016 and FY2015

	2017	**2016**	**2015**	**Percentage change 2017 vs. 2016**	**Percentage change 2016 vs. 2015**
Toll revenues	$ 56,704,636	55,935,143	53,166,142	1.4 %	5.2 %
Vehicular traffic:					
Cars and light trucks	3,617,653	3,545,318	3,311,956	2.0	7.0
Heavy trucks	357,267	346,635	337,897	3.1	2.6
Busses	15,280	14,970	14,367	2.1	4.2
Total vehicles	3,990,200	3,906,923	3,664,220	2.1	6.6

Operating expenses, before District facility charges, for FY2017 increased 2.2% from FY2016 expenses and were 4.9% less than the budgeted expenses. The FY2017 increase in operating expenses can be attributed to an increase in pension costs and consulting engineering expenses with an offsetting reduction in employee health insurance costs. Operating expenses, before the District facility charges, for FY2016 increased 2.1% from FY2015 expenses and were 8.2% less than the budgeted expenses.

Facility expenses for FY2017 decreased 29.0% when compared to FY2016. Facility expenses for FY2016 decreased 32.0% when compared to FY2015. 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 FY2017 total $28,329,388, primarily due to early debt defeasance from FY2016. This $26,003,128 increase in nonoperating expenses was a result of five substantial changes from FY2016 to FY2017. The five main factors were an increase in bond interest expense of $3,679,901, an increase in the loss in the fair value of investments of $3,033,007, one-time charges related to the Project financing for bond issuance costs of $2,407,564 and $18,323,103 for a loss on early debt defeasance, offset by an increase in interest income on investments of $1,435,409. 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 OPEB expense of $1,088,317, offset by a decrease in interest income on investments of $553,716. The changes from year to year in OPEB 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, 2017, the District has $554,751,897 invested in capital assets, net of accumulated depreciation. Capital assets include bridge and tunnel assets, capitalized interest and financing expenses, construction in progress on the Project 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 sitewide utilities are classified as bridge and tunnel assets. Capitalized interest and financing expenses are the amounts that were 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.

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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 position.
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 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 basic 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 FY2017, FY2016 and FY2015, 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 FY2015 to FY2016 and then declined slightly in FY2017. The tunnels are the only bridge and tunnel asset that falls below the condition level specified in the Chesapeake Bay Bridge and Tunnel Commission's preservation policy. The tunnels have an overall condition level of 7; however, Jacobs Engineering, Inc. assigned some components of the tunnels, which includes the ventilation buildings, a condition level of 6. Extraordinary reserve maintenance projects are planned to address the maintenance requirements for all of these components.

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	2015	2016	2017
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	2015	2016	2017
Approach roads	100%	100%	100%
Fisherman Island Causeway	100	100	100
Tunnels	94	96	77
Portal islands	94	90	90
Toll plaza infrastructure	100	100	100
Sitewide utilities	92	97	97

Preservation expenses for FY2017 totaled $3,121,221 and were 41.0% less than FY2016 preservation expenses. Preservation expenses for FY2016 totaled $5,288,066 and were 42.5% less than FY2015 preservation expenses. Preservation expenses for FY2017 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 South Toll Plaza building, and tunnel lighting replacement.

The budgeted preservation expenses for FY2018 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	$	50,000
Parallel crossing bridges		63,216
Original trestles		1,486,283
Parallel crossing trestles		878,713
Approach roads		—
Fisherman Island causeway		—
Tunnels		4,307,404
Portal islands		25,000
Toll plaza infrastructure		204,047
Sitewide utilities		240,000
	$	7,254,663

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 $1,271,948 and $1,173,973 for FY2017 and FY2016, respectively, for nonbridge-tunnel assets that are classified as miscellaneous capital assets on the statements of net position. For FY2017, net capital asset purchases in the amount of $408,373 were added to miscellaneous capital assets. For FY2016, net capital asset purchases in the amount of $1,409,361 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.

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Insurance expenses increased 2.8% to $862,809 in FY2017 from $839,690 in FY2016. The insurance market has remained competitive after several years of minimal events. The District was again able to secure a new multi-year program starting April 1, 2017 via a combination of ACE American Insurance Company and XL Insurance America that offers favorable rates through March 31, 2020.

Long-Term Debt (Bonds Payable)

The District had previously incurred its Prior Bonds under its 2016 Resolution, adopted by the Commission on November 21, 1991, as amended and supplemented (the 1991 Resolution). To finance the costs of the Project, the Commission determined that the Prior Bonds would be redeemed or defeased and the 1991 Resolution would be terminated so that a new general bond resolution could be issued. The District redeemed the Series 2010A and Series 2011A bonds in the amounts of $30,000,000 and $5,850,000, respectively, and terminated the interest rate swap associated therewith on November 1, 2016. Concurrently with the issuance of the Series 2016 Bonds on November 10, 2016, the District contributed additional money from the General Fund in combination with funds released from the 1991 Resolution to fund the defeasance of the outstanding amount of $44,405,000 for the Series 1998 Bonds, which are noncallable.

On October 24, 2016, the Commission adopted and approved the 2016 Resolution along with three Supplemental Resolutions authorizing the issuance of $321,515,000 First Tier General Resolution Revenue Bonds, Series 2016 (the Series 2016 Bonds), a loan from the TIFIA Loan in the amount of up to $338,528,672, plus capitalized interest and a loan from the VTIB Loan in the amount of up to $50,000,000, plus capitalized interest.

The amount of outstanding bonds payable that mature between July 1, 2041 and July 1, 2055 is $361,285,777, net of unamortized bond premium of $39,770,777. All of the bonds payable are backed by the pledge of toll revenues. The underlying credit rating on the Series 2016 Bonds is Baa2 and BBB by Moody's Investors Service and S&P Global Ratings, respectively. The TIFIA Loan is also rated Baa2 and BBB by Moody's Investors Service and S&P Global Ratings, respectively. The VTIB Loan is unrated.

As of June 30, 2017, the District's outstanding debt portfolio is entirely composed of fixed-rate bonds.

The Commission is required to maintain its General Resolution Toll Rate Covenant Ratio, as defined, at a level not less than 150% of the principal and interest requirement of all First Tier Bonds then outstanding; not less than 125% of the principal and interest requirement of all First and Second Tier Bonds then outstanding; not less than 115% of the principal and interest requirement of all First, Second and Subordinate Tier Bonds then outstanding; and 100% of all required deposits under the resolution. For FY2017, the toll rate covenant ratio for First Tier Bonds was 967% and the toll rate covenant ratio for all required deposits was 418%. There were no Second Tier or Subordinate Tier bonds outstanding as of June 30, 2017.

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 Deputy Executive Director - 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements for the years then ended 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, 2017 and 2016, 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.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 10, the Schedule of Pension Contributions on page 44, the Schedule of the Changes in Net Pension Liability and Related Ratios on page 45, the Schedule of Funding Progress on page 46, and the Modified Approach for Infrastructure Reporting – Capital Asset Activity information on pages 47 through 51 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 25, 2017 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 solely 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 the effectiveness of the District's 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 25, 2017

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows of Resources	2017	2016
Current assets:		
Cash (note 3)	$ 1,283,771	823,178
Investments (notes 3 and 10)	65,630,515	174,070,418
Accounts receivable and accrued interest receivable, net	1,691,693	1,205,703
Prepaid expenses and other assets	629,546	559,136
Note receivable	34,638	31,587
Total current assets	69,270,163	176,690,022
Restricted assets:		
Cash (note 3)	11,836	170,609
Investments (notes 3 and 10)	324,216,508	19,926,025
Accrued interest receivable	366,359	7,885
Total restricted assets	324,594,703	20,104,519
Investments (notes 3 and 10)	113,108,758	92,895,290
Long-term note receivable	23,648	83,519
Derivative investment (notes 5 and 10)	—	338,910
Capital assets (note 4):		
Bridge and tunnel facilities, including capitalized interest	423,933,330	423,933,330
Construction in progress – Thimble Shoal Parallel Tunnel	119,541,297	14,672,141
Miscellaneous capital assets, net of accumulated depreciation	11,277,270	12,062,128
Total capital assets	554,751,897	450,667,599
Bond insurance costs, net of accumulated amortization	2,857,086	66,985
Deferred outflow of resources:		
Derivative liability (note 5)	—	1,578,406
Loss on debt refunding	—	8,090,439
Differences between expected and actual pension experience (note 6)	86,299	132,948
Pension contributions (note 6)	964,226	1,100,254
Pension investment experience (note 6)	809,919	—
Total deferred outflows of resources	1,860,444	10,902,047
Total assets and deferred outflows of resources	$ 1,066,466,699	751,748,891
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$ 23,555,235	2,852,187
Current portion of long-term debt (note 5)	—	7,700,000
Accrued interest	7,912,875	1,585,130
Unearned revenue	763,321	706,106
Total current liabilities	32,231,431	12,843,423
Long-term liabilities:		
Long-term debt, net of current portion (note 5)	361,285,777	73,783,615
Imputed borrowing payable (note 5)	—	1,764,023
Derivative liability (note 5)	—	1,578,406
Net pension liability (note 6)	12,591,061	11,302,411
Other long-term liabilities (note 9)	5,367,423	5,367,423
Total long-term liabilities	379,244,261	93,795,878
Deferred inflows of resources:		
Pension investment experience (note 6)	—	826,523
Differences between expected and actual pension experience (note 6)	266,887	—
Total deferred inflows of resources	266,887	826,523
Total liabilities and deferred inflows of resources	411,742,579	107,465,824
Commitments and contingencies (notes 8 and 11)		
Net position:		
Net investment in capital assets	427,027,701	373,992,255
Restricted for debt service	65,835,138	20,088,077
Unrestricted	161,861,281	250,202,735
Total net position	654,724,120	644,283,067
Total liabilities and net position	$ 1,066,466,699	751,748,891

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, 2017 and 2016

		2017	2016
Operating revenues (note 5):			
Tolls	$	56,704,636	55,935,143
Other		1,253,763	1,208,465
Total operating revenues		57,958,399	57,143,608
Operating expenses:			
Administration		299,465	412,573
Finance		725,391	726,679
Operations		4,290,938	4,204,239
Maintenance and tunnel operations		3,688,653	3,647,082
General		3,376,182	3,218,485
Consultants		725,787	541,127
Utilities		780,750	832,147
Total operating expenses before District facility expenses		13,887,166	13,582,332
District facility expenses:			
Insurance		862,809	839,690
Depreciation (note 4)		1,271,948	1,173,973
Bridge and tunnel preservation (note 4)		3,121,221	5,288,066
Other		44,814	166,388
Total District facility expenses		5,300,792	7,468,117
Total operating and district facility expenses		19,187,958	21,050,449
Operating income		38,770,441	36,093,159
Nonoperating revenues (expenses):			
Change in fair value of investments (note 3)		(4,092,674)	(1,059,667)
Interest income		5,172,268	3,736,859
Interest expense		(8,685,063)	(5,005,162)
Bond issuance costs		(2,407,564)	—
Loss on early debt defeasance		(18,323,103)	—
Other expenses, net		6,748	1,710
Total nonoperating expenses, net		(28,329,388)	(2,326,260)
Increase in net position		10,441,053	33,766,899
Total net position, beginning of year		644,283,067	610,516,168
Total net position, end of year	$	654,724,120	644,283,067

See accompanying notes to basic financial statements.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Toll collections from customers	$	56,168,222	55,476,613
Scrip sales		430,160	424,220
Leasing revenue		1,261,906	1,183,925
Payments to employees for services and employee benefits		(12,015,209)	(11,604,042)
Payments to suppliers and consultants		(5,943,006)	(8,555,364)
Other		14,347	(137,592)
Net cash provided by operating activities		39,916,420	36,787,760
Cash flows from investing activities:			
Purchases of investments		(1,299,388,526)	(356,943,814)
Interest income		4,888,160	3,932,637
Sales and maturities of investments		1,080,483,777	333,963,732
Net cash used in investing activities		(214,016,589)	(19,047,445)
Cash flows from capital and related financing activities:			
Capitalized expenditures		(82,383,545)	(6,216,721)
Forfeited assets		(4,694)	14,941
Bond proceeds		362,309,613	—
Interest rate exchange agreement termination		(2,553,000)	—
Bond issuance costs		(2,580,648)	—
Bond insurance costs		(2,931,948)	—
Bond defeasance		(12,890,086)	—
Debt principal repayments		(80,255,000)	(7,450,000)
Interest paid		(4,308,703)	(4,189,361)
Net cash provided by (used in) capital and related financing activities		174,401,989	(17,841,141)
Net increase (decrease) in cash		301,820	(100,826)
Cash, beginning of year		993,787	1,094,613
Cash, end of year	$	1,295,607	993,787
Cash and restricted cash are presented in the accompanying statements of net assets as follows:			
Cash	$	1,283,771	823,178
Restricted cash		11,836	170,609
	$	1,295,607	993,787
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	38,770,441	36,093,159
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		1,271,948	1,173,973
(Increase) decrease in operating assets:			
Accounts receivable		(503,536)	(127,926)
Prepaid expenses and other assets		(70,410)	(2,523)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses		288,990	(29,009)
Net pension liability		101,772	(262,444)
Unearned revenue		57,215	(57,470)
Net cash provided by operating activities	$	39,916,420	36,787,760

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 $267,274 and $2,045,100 in 2017 and 2016, respectively.

The District incurred noncash capital expenditures related to construction in progress – Thimble Shoal Parallel Tunnel in the amount of $20,648,339 and $85,903 that are included in accounts payable as of June 30, 2017 and 2016, 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 is ongoing and will consist of construction of an additional two-lane tunnel under Thimble Shoal Channel. In the future, Stage 3 will complete the parallel crossing with construction of an additional two-lane tunnel under Chesapeake Channel.

(Continued)

(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, 2017 and 2016, the District had net position restricted for debt service of $65,835,138 and $20,088,077, 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, EZ Pass fees and medical and educational toll discounts. Revenues are recognized when earned.

(g) Pensions

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.

(h) New Accounting Pronouncement

During FY2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of GASB Statement No. 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The District incurred such a transaction on November 10, 2016 with the early defeasance of the General Resolution Series 1998 Bonds. GASB Statement No. 86 has a required effective date for periods beginning after June 15, 2017. Earlier application is encouraged. The District has elected to implement the GASB Statement No. 86 early due to a lack of other existing guidance. More information regarding the defeasance transaction can be found in note 5.

(3) Cash Deposits and Investments

(a) Deposits

The carrying value of the District's deposits (unrestricted and restricted) was $1,295,607 and $993,787 at June 30, 2017 and 2016, respectively. The bank balance of these deposits was $1,163,451 and $1,178,704 at June 30, 2017 and 2016, 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, 2017	Standard & Poor's Credit Rating						
Investment type	**AAA**	**AA+**	**AA**	**AA-**	**A-1+**	**A-1**	**Total**
U.S. Treasuries	$ —	203,412,245	—	—	—	—	203,412,245
U.S. Agencies	—	46,879,673	—	—	—	—	46,879,673
Federal Agency							
Mortgage-Backed	—	43,602,314	—	—	—	—	43,602,314
Supra-National Agency	1,335,510	—	—	—	—	—	1,335,510
State and Local Government	6,852,817	—	—	—	—	—	6,852,817
Certificate of Deposit	—	—	—	8,740,285	—	—	8,740,285
Corporate Notes	2,133,686	13,375,432	2,801,922	11,264,573	2,986,661	14,468,154	47,030,428
Total	$ 10,322,013	307,269,664	2,801,922	20,004,858	2,986,661	14,468,154	357,853,272

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

(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, 2017 and 2016, the District's portfolio was invested as follows:

Investment type		2017 Fair value	Percentage of portfolio		2016 Fair value	Percentage of portfolio
U.S. Treasuries	$	203,412,245	40.44 %	$	42,690,925	14.88 %
U.S. Agencies		46,879,673	9.32		153,493,179	53.50
Federal Agency Mortgage-Backed		43,602,314	8.67		5,823,665	2.03
Supra-National Agency		1,335,510	0.27		1,346,066	0.47
State and Local Government		6,852,817	1.36		7,014,791	2.45
Certificate of Deposit		8,740,285	1.74		8,519,008	2.97
Money Market Funds		145,102,509	28.85		19,947,015	6.95
Corporate Notes		47,030,428	9.35		48,057,084	16.75
	$	502,955,781	100.00 %	$	286,891,733	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 Funds are limited to investments with maturities that are consistent with the next interest or principal payment date. 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, 2017, 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	$ 203,412,245	164,878,139	19,471,165	19,062,941	—
U.S. Agencies	46,879,673	2,988,747	42,222,189	1,668,737	—
Federal Agency Mortgage-Backed	43,602,314	—	40,918,048	2,684,266	—
Supra-National Agency	1,335,510	1,335,510	—	—	—
State and Local Government	6,852,817	6,852,817	—	—	—
Certificates of Deposit	8,740,285	5,000,470	3,739,815	—	—
Money Market Funds	145,102,509	—	—	—	145,102,509
Corporate Notes	47,030,428	35,901,722	11,128,706	—	—
Total	$ 502,955,781	216,957,405	117,479,923	23,415,944	145,102,509

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

(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, 2017 and 2016 is calculated as follows:

		2017	2016
Fair value of investments at end of year	$	502,955,781	286,891,733
Add:			
Proceeds from sales and maturities during the year		1,080,483,778	333,963,732
Change in fair value of derivative instrument		(1,251,974)	(825,408)
Less:			
Cost of investments purchased during the year		(1,299,388,526)	(356,943,814)
Fair value of investments at beginning of year		(286,891,733)	(264,145,910)
Change in fair value of investments	$	(4,092,674)	(1,059,667)

(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.

(Continued)

Capital assets at June 30, 2017 and 2016 comprise the following:

	2017	2016
Bridge and tunnel assets	$ 383,051,582	383,051,582
Capitalized interest and finance expenses	43,812,646	41,438,528
Construction in progress – Parallel Thimble Shoal Tunnel	116,610,399	14,115,361
Miscellaneous capital assets	23,735,721	23,327,348
	567,210,348	461,932,819
Less accumulated depreciation	12,458,451	11,265,220
Total	$ 554,751,897	450,667,599

The following is a summary of the changes in capital assets for the year ended June 30, 2017:

	Capital asset balance, June 30, 2016	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2017
Nondepreciable assets:					
Bridge and tunnel assets	$ 383,051,582	—	—	—	383,051,582
Construction in progress	14,115,361	102,495,038	—	—	116,610,399
Capitalized interest and finance expenses	41,438,528	2,374,118	—	—	43,812,646
	438,605,471	104,869,156	—	—	543,474,627
Depreciable assets:					
Miscellaneous capital assets	23,327,348	487,090	(78,717)	—	23,735,721
Less accumulated depreciation	(11,265,220)	—	78,717	(1,271,948)	(12,458,451)
	12,062,128	487,090	—	(1,271,948)	11,277,270
Total capital assets, net	$ 450,667,599	105,356,246	—	(1,271,948)	554,751,897

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	3,484,098	—	—	14,115,361
Capitalized interest and finance expenses	40,881,748	556,780	—	—	41,438,528
	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

(5) General Resolution Revenue Bonds

The principal amounts of bonds outstanding, net of unamortized premium and bond discount, including the underwriters' discount at June 30, 2017 and 2016, are as follows:

	2017	2016
1998 General Resolution Refunding Bonds	$ —	45,633,615
2010A General Resolution Refunding Bonds	—	30,000,000
2011A General Resolution Refunding Bonds	—	5,850,000
2016 General Resolution Revenue Bonds	361,285,777	—
	$ 361,285,777	81,483,615

(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	2016 General resolution revenue bonds
Face value of bonds	$	44,405,000	30,000,000	46,650,000	321,515,000
Bond premium		3,942,954	—	—	40,794,613
Net proceeds to the district	$	48,347,954	30,000,000	46,650,000	362,309,613

The District had previously incurred its General Resolution Refunding Bonds, Series 1998, Series 2010A and Series 2011A (collectively, the “Prior Bonds) under its General Revenue Bond Resolution, adopted by the Commission on November 21, 1991, as amended and supplemented (the 1991 Resolution). In July 2016, the Commission awarded a contract to Chesapeake Tunnel Joint Venture to design and build the Project and to finance the costs of the Project, the Commission determined that the Prior Bonds would be redeemed or defeased and the 1991 Resolution would be terminated so that a new general bond resolution could be issued. The District redeemed the Series 2010A and Series 2011A Bonds in the amounts of $30,000,000 and $5,850,000, respectively, and terminated the interest rate swap associated therewith on November 1, 2016. Concurrently with the issuance of the Series 2016 Bonds, the District contributed additional moneys in combination with funds released from the 1991 Resolution to fund the defeasance of the Series 1998 Bonds, which are noncallable, on November 10, 2016.

On October 24, 2016, the Commission adopted and approved a new General Revenue Bond Resolution (the 2016 Resolution) along with three Supplemental Resolutions authorizing the issuance of $321,515,000 First Tier General Resolution Revenue Bonds, Series 2016 (the Series 2016 Bonds), a loan from the United States Department of Transportation under the TIFIA program (the TIFIA Loan) in the amount of up to $338,528,672, plus capitalized interest and a loan from the Virginia Transportation Infrastructure Bank (the VTIB Loan) in the amount of up to $50,000,000, plus capitalized interest.

The Series 2016 Bonds are term bonds maturing from July 1, 2041 through July 1, 2055 with coupon interest rate ranging from 4.0% to 5.0%. The proceeds from the Series 2016 Bonds, along with the proceeds of the TIFIA Loan and VTIB Loan and cash contributed by the District will be utilized to finance the development and construction of the Project. The remaining portion of the proceeds from the Series 2016 Bonds will be utilized to (i) pay capitalized interest on a portion of the Series 2016 Bonds to and including July 1, 2021, (ii) to obtain a municipal bond debt service reserve surety policy for the Series 2016 Bonds, and (iii) to pay the related issuance expenses, including bond insurance premiums. Amortization of original issue premium and deferred costs of insurance related to the Series 2016 Bonds was $948,974 for the year ended June 30, 2017.

The Series 2016 Bonds are subject to optional redemption prior to maturity by the District on or after July 1, 2026, in whole or in part, at par plus accrued interest. The Series 2016 Bonds are subject to mandatory sinking fund redemption, in part, prior to maturity on July 1 of each year starting in 2035.

The 2041 Term Bond and the 2055 Term Bond are insured by Assured Guaranty Municipal Corporation. The Series 2016 Bonds Debt Service Reserve Fund Requirement of $24,774,566 is secured by a debt service reserve fund policy also issued by Assured Guaranty Municipal Corporation.

The TIFIA Loan and the VTIB Loan are issued on the Subordinate Lein of the 2016 Resolution and bear interest rates of 2.88% and 2.90%, respectively. The loans do not incur interest until drawn which is anticipated to start in March 2018. Both loans have first semi-annual interest repayments commencing January 1, 2021 and first annual principal repayments commencing on July 1, 2025. Final repayment on both loans is July 1, 2054.

The underlying credit rating on the Series 2016 Bonds is Baa2 and BBB by Moody's Investors Service and S&P Global Ratings, respectively. The TIFIA Loan is also rated Baa2 and BBB by Moody's Investors Service and S&P Global Ratings, respectively. The VTIB Loan is unrated.

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 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, 2017 and 2016 was as follows:

	Balance, June 30, 2016	Bond proceeds	Amortization of costs, premiums, discounts, and deferred losses, net	Bond payments	Balance, June 30, 2017	Amounts due within one year
1998 General Resolution Refunding Bonds	$ 45,633,615	—	(1,228,615)	(44,405,000)	—	—
2010A General Resolution Refunding Bonds	30,000,000	—	—	(30,000,000)	—	—
2011A General Resolution Refunding Bonds	5,850,000	—	—	(5,850,000)	—	—
2016 First Tier General Resolution Revenue Bonds	—	362,309,613	(1,023,836)	—	361,285,777	—
	$ 81,483,615	362,309,613	(2,252,451)	(80,255,000)	361,285,777	—

		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

Maturities of bond principal and interest to be paid in subsequent fiscal years for all bonds outstanding at June 30, 2017 were as follows:

Fiscal year		General resolution revenue bonds principal	General resolution revenue bonds interest
2018	$	—	7,912,875
2019		—	7,912,875
2020		—	7,912,875
2021		—	7,912,875
2022		—	7,912,875
2023–2055		321,515,000	370,891,550
	$	321,515,000	410,455,925

Total principal balance herein is different from that on pages 25 or 27 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 year ended June 30, 2016, the District identified two outstanding interest rate exchange agreements (i.e., interest rate swaps) that qualified as derivative instruments under GAAP. The 2004 Fixed Rate Swap was a “pay fixed, receive variable” interest rate swap that 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 of its’ variable rate debt. 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. The 2006 Constant Maturity Swap was a “pay-variable, receive-variable” interest rate swap that was entered into as an investment derivative instrument with the expectation that over time the variable receipt based on the long term rate of 10-year LIBOR would more than offset the short term rate paid to bondholders of the variable rate debt.

On November 1, 2016, the variable rate debt (the Series 2010A and Series 2011A Bonds) associated with the two interest rate swaps was redeemed and both swaps were terminated. The termination payment made to Deutsche Bank AG was $2,553,000. The net loss on swap termination recognized by the District as a component of investment losses was $1,251,974 during FY2017.

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

(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.

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, 2016. A copy of the report may be obtained on the VRS Web site at http://www.varetire.org/pdf/publications/2016-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, 2015 and 2014 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	Number	
	2015	**2014**
Inactive members or their beneficiaries currently receiving benefits	107	108
Inactive members:		
Vested inactive members	9	8
Non-vested inactive members	16	18
Inactive members active elsewhere in VRS	27	26
Total inactive members	52	52
Active members	147	148
Total covered employees	306	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 the entire 5% was paid by the employee during FY2017.

The District's actuarially required contribution rates were 12.46% and 13.87% of covered employee compensation for the years ended June 30, 2017 and 2016, respectively. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and 2014. These rates, when combined with employee contributions, were 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 $964,226 and $1,100,254 for the years ended June 30, 2017 and 2016, respectively.

(d) Net Pension Liability

The District's net pension liability as of June 30, 2017 and 2016 was measured as of June 30, 2016 and 2015, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015 and 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016 and 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, 2015 and 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, 2016 and 2015.

Inflation	2.5%
Salary increases, including inflation	3.5%–5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*
Cost-of-living adjustments	2.25%–2.50%

* 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%

(Continued)

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, 2015 and 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 as of June 30, 2017 and 2016 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, 2015	$ 42,766,624	31,464,213	11,302,411
Changes for the year:			
Service cost	652,414	—	652,414
Interest	2,911,959	—	2,911,959
Difference between expected and actual experience	(362,546)	—	(362,546)
Contributions – employer	—	1,032,877	(1,032,877)
Contributions – employee	—	370,994	(370,994)
Net investment income	—	529,283	(529,283)
Benefit payments, including refunds of employee contributions	(2,334,410)	(2,334,410)	—
Administrative expense	—	(19,750)	19,750
Other changes	—	(227)	227
Net changes	867,417	(421,233)	1,288,650
Balances at June 30, 2016	$ 43,634,041	31,042,980	12,591,061

		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 as of June 30, 2017 and 2016 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				
as of June 30, 2017	$	18,179,633	12,591,061	7,924,119
as of June 30, 2016		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 years ended June 30, 2017 and 2016, the District recognized pension expense of $998,621 and $708,626, respectively. At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 86,299	266,887
Net difference between projected and actual earnings on plan investments	809,919	—
Employer contributions subsequent to the measurement date	964,226	—
Total	$ 1,860,444	266,887

	June 30, 2016	
	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 $964,226 and $1,100,254 reported as deferred outflows of resources as of June 30, 2017 and 2016, respectively, related to pensions, will be recognized as a reduction of the Net Pension Liability in the years ended June 30, 2018 amd 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase (decrease) to pension expense as follows:

Year ended June 30:	2017	2016
2017	$ —	$ (277,838)
2018	(45,508)	(277,838)
2019	(52,509)	(284,839)
2020	399,360	146,940
2021	327,988	—
2022	—	—
Thereafter	—	—
	$ 629,331	$ (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 $180,010 and $184,745 to employees' 401(a) accounts in 2017 and 2016, respectively.

The defined contribution component of the Hybrid Retirement Plan provides the Hybrid 401(a) Cash Match Plan. The District's employees participating as Hybrid Retirement 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 $18,462 and $10,962 to Hybrid Retirement Plan employees' 401(a) accounts in 2017 and 2016, respectively.

(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 for medical and dental benefits 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 month for each complete year of salaried service. 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 Annual required contribution (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, 2017 is the sum of the District's total estimated ARC for fiscal year 2017 less the estimated amount of OPEB financed by the District on a pay-as-you-go basis in fiscal year 2017.

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, 2017 and 2016 net OPEB obligation (without amortizing the UAAL)

	2017	2016
ARC	$ 5,726,358	5,634,231
Interest on net OPEB obligation	136,247	134,186
Adjustment to ARC	(5,783,835)	(5,698,227)
	78,770	70,190
Pay-as-you-go annual employer contribution	(78,770)	(70,190)
Net OPEB obligation, beginning of year	5,367,423	5,367,423
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, 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
June 30, 2017	78,770	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.

(Continued)

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

- U.S. Treasuries, U.S. agencies, and supranationals: 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 (NAV) per share of those funds.

The District has the following recurring fair value measurements as of June 30, 2017:

		Fair value measurements using		
	Fair value 2017	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	$ 203,412,245	—	203,412,245	—
Supra-national agency	1,335,510	—	1,335,510	—
U.S. agencies	46,879,673	—	46,879,673	—
Federal agency mortgage-backed	43,602,314	—	43,602,314	—
State and local government	6,852,817	—	6,852,817	—
Certificate of deposit	8,740,285	—	8,740,285	—
Corporate notes	47,030,428	—	47,030,428	—
Total investments by fair value level	357,853,272	—	357,853,272	—
Investments measured at the NAV:				
Money market funds	145,102,509			
Total investments measured at the NAV	145,102,509			
Total investments measured at fair value	$ 502,955,781			

The District had the following recurring fair value measurements for the fiscal year ended June 30, 2016:

		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)
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 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			
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, 2017

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)
2017	$ 950,993	950,993	—	7,786,589	12.2%
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, 2017

		2016	2015	2014
Total pension liability:				
Service cost	$	652,414	653,142	632,909
Interest		2,911,959	2,810,342	2,711,152
Difference between expected and actual performance		(362,546)	179,597	—
Benefit payments, including refunds of employee contributions		(2,334,410)	(2,048,389)	(1,805,740)
Net change in total pension liability		867,417	1,594,692	1,538,321
Total pension liability – beginning		42,766,624	41,171,932	39,633,611
Total pension liability – ending (a)		43,634,041	42,766,624	41,171,932
Plan fiduciary net position:				
Contributions – employer		1,032,877	1,021,377	944,598
Contributions – employee		370,994	368,079	362,177
Net investment income		529,283	1,393,970	4,231,610
Benefit payments, including refunds of employee contributions		(2,334,410)	(2,048,389)	(1,805,740)
Administrative expense		(19,750)	(19,436)	(23,013)
Other		(227)	(293)	223
Net change in plan fiduciary net position		(421,233)	715,308	3,709,855
Plan fiduciary net position – beginning		31,464,213	30,748,905	27,039,050
Plan fiduciary net position – ending (b)		31,042,980	31,464,213	30,748,905
District's net pension liability – ending (a)-(b)	$	12,591,061	11,302,411	10,423,027
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)		71.14%	73.57%	74.68%
Covered-employee payroll (c)	$	7,538,996	7,378,844	7,240,101
District's net pension liability as a percentage of covered-employee payroll ((a)-(b))/(c)		167.01%	153.17%	143.96%

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Funding Progress (Unaudited)

June 30, 2017

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, 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
June 30, 2016 (estimated)		—	5,449,882	5,449,882	—	8,263,807	65.9

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2017

The following is a summary of the changes in capital assets for the year ended June 30, 2017:

	Capital asset balance, June 30, 2016	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2017
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 Causeway	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
Sitewide 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	14,115,361	102,495,038	—	—	116,610,399
Capitalized interest and finance expenses	41,438,528	2,374,118	—	—	43,812,646
Miscellaneous capital assets:					
Land	5,232,907	—	—	—	5,232,907
Buildings	5,791,512	165,718	—	—	5,957,230
Fleet vehicles and equipment	12,302,929	321,372	(78,717)	—	12,545,584
Total miscellaneous capital assets	23,327,348	487,090	(78,717)	—	23,735,721
Less accumulated depreciation:					
Buildings	(2,735,129)	—	—	(160,533)	(2,895,662)
Fleet vehicles and equipment	(8,530,091)	—	78,717	(1,111,415)	(9,562,789)
Total accumulated depreciation	(11,265,220)	—	78,717	(1,271,948)	(12,458,451)
Total capital assets, net	$ 450,667,599	105,356,246	—	(1,271,948)	554,751,897

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2017

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.

	2013	2014	2015	2016	2017
Bridge and tunnel assets:					
Original bridges	$ 2,493,623	829,085	3,510	281,510	84,800
Parallel crossing bridges	1,361,321	828,349	71,677	222,189	220,117
Original trestles	148,616	422,527	717,892	5,221,721	3,034,282
Parallel crossing trestles	893,729	633,153	352,269	89,536	303,172
Approach roads	—	—	40,365	40,365	—
Fisherman Island Causeway	—	—	15,795	15,795	—
Tunnels	2,552,014	7,856,457	9,293,385	4,506,147	1,795,435
Portal islands	87,198	68,779	—	7,500	35,000
Toll plaza infrastructure	617,000	99,500	43,000	250,000	778,050
Sitewide utilities	2,073,999	14,999,609	8,847,255	134,500	51,500
	$ 10,227,500	25,737,459	19,385,148	10,769,263	6,302,356

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

	2013	2014	2015	2016	2017
Bridge and tunnel assets:					
Original bridges	$ 3,929,986	666,774	2,383	72,093	140,594
Parallel crossing bridges	3,712,206	170,828	52,135	87,622	—
Original trestles	328,633	264,650	405,768	829,426	1,462,596
Parallel crossing trestles	1,256,742	307,998	138,911	47,609	290,020
Approach roads	13,516	—	27,399	—	—
Fisherman Island Causeway	—	—	10,721	—	—
Tunnels	426,390	3,150,162	4,324,085	3,970,261	592,744
Portal islands	45,855	54,805	—	7,485	30,879
Toll plaza infrastructure	417,405	69,197	20,138	202,325	511,806
Sitewide utilities	50,789	9,843,064	4,222,511	71,245	92,582
	$ 10,181,522	14,527,478	9,204,051	5,288,066	3,121,221

Unaudited – See accompanying independent auditors' report.

The budgeted preservation expenses for FY2018 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	$	50,000
Parallel crossing bridges		63,216
Original trestles		1,486,283
Parallel crossing trestles		878,713
Approach roads		—
Fisherman Island Causeway		—
Tunnels		4,307,404
Portal Islands		25,000
Toll plaza infrastructure		204,047
Sitewide utilities		240,000
	$	7,254,663

U.S. 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 an MRP condition level of “good” or better.

Unaudited – See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2017

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 tunnels are the only bridge and tunnel asset that falls below the condition level specified in the Chesapeake Bay Bridge and Tunnel Commission's preservation policy. The tunnels have an overall condition level of 7; however, Jacobs Engineering, Inc. assigned some components of the tunnels, which includes the ventilation buildings, a condition level of 6. Extraordinary reserve maintenance projects are planned to address the maintenance requirements for all of these components.

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	2015	2016	2017
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, 2017

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

Bridge and tunnel assets	2015	2016	2017
Approach roads	100%	100%	100%
Fisherman Island Causeway	100	100	100
Tunnels	94	96	77
Portal islands	94	90	90
Toll plaza infrastructure	100	100	100
Site-wide utilities	92	97	97

Unaudited – See accompanying independent auditors’ report.

SUPPLEMENTARY SECTION

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Budgetary Comparison Schedule (Unaudited)

Year ended June 30, 2017

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 504 of its General Revenue Bond Resolution adopted October 24, 2016, 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	$ 316,990	299,465	(17,525)	(5.53)%
Finance	762,000	725,391	(36,609)	(4.80)
Operations	4,332,100	4,290,938	(41,162)	(0.95)
Maintenance and tunnel operations	3,879,985	3,688,653	(191,332)	(4.93)
General	3,735,200	3,376,182	(359,018)	(9.61)
Consultants	683,800	725,787	41,987	6.14
Utilities	897,000	780,750	(116,250)	(12.96)
Total operating expenses before district facility expenses	$ 14,607,075	13,887,166	(719,909)	(4.9)%

The District's General Revenue Bond Resolution dated October 24, 2016 requires a ratio of 1.50x of net revenues available for debt service to the principal and interest requirements for such fiscal year on account of all First Tier Bonds then outstanding. This ratio is 9.67x for fiscal year 2017.

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Insurance Policies (Unaudited)

Year ended June 30, 2017

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, 2017	*
Boiler and machinery	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	10,000,000	June 30, 2017	*
Bridge floater (bridges, tunnels, trestles, and loss of revenue)	ACE American Insurance Company & XL Insurance America/Aon Risk Solutions	225,000,000	March 31, 2018	
Crime (theft, disappearance, and employee dishonesty)	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	700,000	June 30, 2017	*
General liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	1,000,000	June 30, 2017	*
Cyber liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	1,000,000	June 30, 2017	*
No fault property damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	10,000	June 30, 2017	*
Property direct damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	55,974,076	June 30, 2017	*
Excess liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	5,000,000	June 30, 2017	*
Wharfinger’s liability	Atlantic Specialty Insurance/Brown & Brown Flagship Group LTD	4,000,000	September 30, 2017	
Workers’ compensation	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	Statutory	June 30, 2017	*
Line of Duty Act	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs	Statutory	June 30, 2017	*

* The District has renewed these policies for fiscal year 2018.

See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Comparative Traffic and Revenue Statistics (Unaudited)

Years ended June 30, 2017 and 2016

	2017		2016		Increase (decrease)	
	Vehicles	**Revenue**	**Vehicles**	**Revenue**	**Vehicles**	**Revenue**
Vehicle classifications:						
Cars and light trucks	3,617,653	$ 44,892,096	3,545,318	$ 44,197,112	72,335	$ 694,984
Heavy trucks	357,267	12,498,732	346,635	12,162,203	10,632	336,529
Buses	15,280	455,216	14,970	443,290	310	11,926
	3,990,200	57,846,044	3,906,923	56,802,605	83,277	1,043,439
Nonrevenue	83,145	—	98,105	—	(14,960)	—
	4,073,345	$ 57,846,044	4,005,028	$ 56,802,605	68,317	$ 1,043,439

See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2017

Unrestricted investments at fair market value as of June 30, 2017 consist of the following:

Description	Coupon rate	Maturity date	Market value
2016 General Resolution Revenue Fund:			
Money Rate Savings Account	Variable	Not fixed	$ 3,787,193
			3,787,193
2016 General Resolution Operations & Maintenance Reserve Fund:			
U.S. Treasury Notes	1.000%	1/18/17	3,642,146
Money Rate Savings Account	Variable	Not fixed	138,034
			3,780,180
General Resolution Reserve Maintenance Fund:			
Federal Home Loan Bank Discount Notes	Discount	11/1/17	2,988,747
Credit Agricole Commercial Paper	Discount	11/1/17	1,493,207
JP Morgan Securities Commercial Paper	Discount	11/1/17	1,493,454
PFM Funds Prime Institutional	Variable	Not fixed	151
Money Rate Savings Account	Variable	Not fixed	5,516,431
			11,491,990
General Resolution General Fund:			
US Bank NA Cincinnati Callable CD	1.375	9/11/17	5,000,470
Bank of Montreal Chicago Commercial Paper	Discount	9/15/17	3,739,766
Canadian Imperial Holding Commercial Paper	Discount	10/13/17	3,736,384
Cooperative Rabobank UA Commercial Paper	Discount	10/23/17	3,266,713
Chevron Corporation Global Notes	1.104	12/5/17	1,044,392
General Electric Co. Notes	5.250	12/6/17	4,777,179
Bank of Tokyo NY Commercial Paper	Discount	12/19/17	3,725,291
Toyota Motor Credit Corp. Notes	1.450	1/12/18	580,341
Berkshire Hathaway Global Notes	1.550	2/9/18	2,452,300
Chevron Corporation Notes	1.365	3/2/18	1,249,680
Exxon Mobil Corporation	1.305	3/6/18	5,496,667
Microsoft Gorp. Global Notes	1.000	5/1/18	1,221,367
Apple Inc. Global Notes	1.000	5/3/18	1,275,360
Berkshire Hathaway Notes	1.300	5/15/18	349,621
Virginia State Taxable Build America Bonds	2.750	6/1/18	6,852,817
International Bank of Recon & Dev Global	1.000	6/15/18	1,335,510
Toyota Motor Credit Corp. Notes	1.550	7/13/18	2,093,645
3M Company Corporate Note	1.375	8/7/18	499,652
Svenska Handelsbanken NY LT CD	1.890	1/10/19	3,739,815
Federal Home Loan Bank Notes	1.375	3/18/19	1,299,431
Federal Home Loan Bank Notes	1.375	3/18/19	3,798,336
Federal Home Loan Bank Agency	1.375	5/28/19	1,268,641
Federal Home Loan Bank Agency	1.375	5/28/19	2,507,314
Freddie Mac Global Notes	1.750	5/30/19	5,033,700
Freddie Mac Global Notes	1.750	5/30/19	2,224,895
U.S. Treasury Notes	1.500	5/31/19	2,510,579
Federal National Mortgage Assn.	1.750	6/20/19	2,415,758
Federal Home Loan Mortgage Corp. Notes	0.875	7/19/19	6,244,684
Freddie Mac Global Notes	1.250	8/1/19	2,290,818
Federal Home Loan Bank	0.875	8/5/19	4,938,885
U.S. Treasury Notes	1.000	9/30/19	1,738,684
Freddie Mac Global Notes	1.250	10/2/19	2,983,497
Fannie Mae Global Notes	1.000	10/24/19	7,021,339
FNMA Benchmark Note	1.750	11/26/19	2,011,086
Freddie Mac Global Notes	1.500	1/17/20	1,848,446
Freddie Mac Agency Notes	1.500	1/17/20	4,995,800
IBM Corporation Notes	1.900	1/27/20	3,651,007
U.S. Treasury Notes	1.850	2/6/20	912,319
Apple Inc. Bonds	1.900	2/7/20	2,952,398
Federal National Mortgage Assn.	1.500	2/28/20	1,984,784

(Continued)

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2017

Unrestricted investments at fair market value as of June 30, 2017 consist of the following:

Description	Coupon rate	Maturity date		Market value
Federal National Mortgage Assn.	1.500	2/28/20	$	8,278,246
Toyota Motor Credit Corp.	1.950	4/17/20		1,019,685
Federal Home Loan Mortgage Corp. Notes	1.375	4/20/20		1,983,199
Federal Home Loan Mortgage Corp. Notes	1.375	4/20/20		8,946,765
Federal Home Loan Mortgage Corp. Notes	1.375	4/20/20		2,186,987
Federal Home Loan Mortgage Corp. Notes	1.375	4/20/20		4,339,181
Federal Home Loan Mortgage Corp. Notes	1.375	4/20/20		2,982,255
Federal National Mortgage Assn.	1.500	6/22/20		1,556,187
U.S. Treasury Notes	1.375	9/30/20		4,431,861
U.S. Treasury Notes	1.750	12/31/20		2,065,875
Federal Home Loan Mortgage Corp. Notes	6.000	6/1/21		102,127
Federal National Mortgage Assn.	5.500	11/1/21		108,404
Federal Home Loan Mortgage Corp. Notes	5.500	2/1/22		118,972
Fannie Mae Pool	3.000	6/1/22		510,296
Federal Home Loan Mortgage Corp. Notes	6.000	7/1/22		45,966
GNMA Pool #5276	3.000	1/1/27		719,976
GNMA Pool #794283	3.500	3/1/27		419,184
GNMA Pool #MA0007	3.000	4/1/27		1,169,638
Fannie Mae Pool #1084	3.500	6/1/32		1,158,442
Money Rate Savings Account	Variable	Not fixed		467,293
Total unrestricted investments				159,679,910
				178,739,273

(Continued)

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2017

Restricted investments at fair market value as of June 30, 2017 consist of the following:

Description	Coupon rate	Maturity date		Market value
Restricted investments related to General Resolution Bonds:				
Interest Account Series 2016:				
Money Rate Savings Account	Variable	Not fixed	$	7,912,875
Capitalized Interest Account Series 2016:				
U.S. Treasury Notes	1.000%	12/31/17		3,717,087
U.S. Treasury Notes	2.375	6/30/18		3,774,102
U.S. Treasury Notes	1.375	12/31/18		3,776,476
U.S. Treasury Notes	1.625	6/30/19		3,821,944
U.S. Treasury Notes	1.625	12/31/19		3,849,381
U.S. Treasury Notes	1.625	6/30/20		3,871,795
U.S. Treasury Notes	1.750	12/31/20		3,911,123
U.S. Treasury Notes	1.125	6/30/21		4,782,287
BB&T Trust Deposit	Variable	Not fixed		171,419
				31,675,614
Parallel Thimble Shoal Tunnel Project Fund:				
U.S. Treasury Notes	1.875	9/30/17		30,182,720
U.S. Treasury Notes	0.750	10/31/17		30,250,475
U.S. Treasury Notes	2.250	11/30/17		30,202,096
U.S. Treasury Notes	1.000	12/31/17		30,226,314
U.S. Treasury Notes	0.875	1/31/18		30,207,015
U.S. Treasury Notes	0.750	2/28/18		6,450,286
Virginia State Non-Arbitrage Program – LGIP	Variable	Not fixed		95,238,340
BB&T Trust Deposit	Variable	Not fixed		5,625,451
				258,382,697
Restricted investments related to TIFIA Loan:				
Debt Service Reserve Fund:				
BB&T Trust Deposit	Variable	Not fixed		22,859,490
Restricted investments related to VTIB Loan:				
Debt Service Reserve Fund:				
BB&T Trust Deposit	Variable	Not fixed		3,385,832
Total restricted investments				324,216,508
Total all investments			$	502,955,781

See accompanying independent auditors' report.

KPMG LLP
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440 Monticello Avenue
Norfolk, VA 23510

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 financial statements of Chesapeake Bay Bridge and Tunnel District (the District), which comprise the statement of net position as of June 30, 2017, 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 financial statements, and have issued our report thereon dated October 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 25, 2017