KPMG

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2018 and 2017

(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, 2018 and 2017 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, 2018 and 2017, 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, 2018 and 2017

- Toll revenues during fiscal year 2018 (FY2018) were $56,297,673 and were 0.7% less than fiscal year 2017 (FY2017) toll revenues. During FY2018, 3,962,762 total revenue vehicles crossed the District's facility. This represents a 0.7% decrease in vehicular traffic over FY2017. 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.
- Other revenues in FY2018 totaled $1,344,550, which is an increase of 7.2% over other revenues in FY2017. The increase in other revenues is due to programmed increases in lease income in place for the full year FY2018 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 Chesapeake Tunnel Joint Venture (CTJV). 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 also due to programmed increases in lease income from the various tenants at the District's Little Creek property and a new lease for a portion of that property to CTJV.
- Operating expenses in FY2018, before District facility expenses, totaled $14,064,167, which is an increase in operating expenses of $177,001 from FY2017. 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 FY2018, before District facility expenses, were 6.51% less than the legally adopted budget for FY2018 operating expenses, before District facility expenses. 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.

- Total net position at June 30, 2018 was $690,242,629, a 5.4% increase over total net position at June 30, 2017. Total net position at June 30, 2017 was $654,724,120, a 1.6% increase over total net position at June 30, 2016.

Events for Fiscal Year 2018

In FY2018, the District adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 75 addresses accounting and financial reporting for other postemployment benefits (OPEB), like retiree health insurance, that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Due to limitations on the information available for the prior fiscal year, it was determined to be impractical for the District to restate the FY2017 financial statements. As such, the cumulative effect of applying GASB Statement No. 75 is being reported as a prior period adjustment increasing the beginning balance of net position for FY2018 by $338,262. The FY2017 financial statements presented herein for comparative purposes still reflect the requirements of GASB Statements No. 45 and No. 57.

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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, 2018, net position was $690,242,629, a 5.4% increase over net position at June 30, 2017. As of June 30, 2017, net position was $654,724,120, a 1.6% increase over net position at June 30, 2016. Total assets and deferred outflows of resources increased 3.2% to $1,101,032,141 and total liabilities and deferred inflows of resources decreased 0.2% to $410,789,512 during FY2018. 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. 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, 2018, 2017, and 2016

Assets and deferred outflows of resources		2018	2017	2016
Current assets	$	82,690,693	69,270,163	176,690,022
Restricted assets		191,943,452	324,594,703	20,104,519
Noncurrent investments		129,679,609	113,108,758	92,895,290
Derivative investment		—	—	338,910
Long-term note receivable		—	23,648	83,519
Capital assets		692,501,034	554,751,897	450,667,599
Bond insurance costs, net		2,744,793	2,857,086	66,985
Deferred outflows of resources		1,472,560	1,860,444	10,902,047
Total assets and deferred outflows of resources	$	1,101,032,141	1,066,466,699	751,748,891

TABLE A-1

Summary of Net Position as of June 30, 2018, 2017, and 2016

Liabilities and deferred inflows of resources		2018	2017	2016
Current liabilities	$	33,910,844	32,231,431	12,843,423
Long-term debt, net of current portion, and imputed borrowing payable		359,750,023	361,285,777	75,547,638
Derivative liability		—	—	1,578,406
Net pension liability		10,414,363	12,591,061	11,302,411
Other post employment benefit liability		5,148,033	5,367,423	5,367,423
Deferred inflows of resources		1,566,249	266,887	826,523
Total liabilities and deferred inflows of resources	$	410,789,512	411,742,579	107,465,824
Net position		**2018**	**2017**	**2016**
Net investment in capital assets	$	439,758,391	427,027,701	373,992,255
Restricted for debt service		57,666,561	65,835,138	20,088,077
Restricted for forfeited property		11,007	9,905	3,070
Unrestricted		192,806,670	161,851,376	250,199,655
Total net position	$	690,242,629	654,724,120	644,283,057

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 Parallel Thimble Shoal Tunnel Project (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, the unamortized portion of differences between expected and actual pension plan and OPEB plan experience, the unamortized portion of differences between expected earnings and actual earnings on pension plan investments and employer contributions to the pension plan and the OPEB plan that occurred after the measurement dates of the net pension liability and total OPEB liability.

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 District's total OPEB liability as the Commission has elected to fund the healthcare benefits for retirees on a "pay-as-you-go" basis. Deferred inflows of resources are the unamortized portion of differences between the expected earnings and the actual earnings on pension plan investments, the unamortized portion of changes in actuarial assumptions for pensions and OPEB 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, 2018, 2017, and 2016, 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 $35,518,509 during FY2018. Net position increased $10,441,053 during FY2017. The total operating revenues for FY2018 were $57,642,223, 0.5% under FY2017 operating revenues, which were $57,958,399, 1.4% over FY2016 operating revenues, which were $57,143,608. The total operating expenses in FY2018, before District facility charges, were $14,064,167, an increase of 1.3% from FY2017. The total operating expenses in FY2017, before District facility charges, were $13,887,166, an increase of 2.2% from FY2016. 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 FY2018, FY2017, and FY2016

Operating revenues		2018	2017	2016
Toll revenues	$	56,297,673	56,704,636	55,935,143
Other revenues		1,344,550	1,253,763	1,208,465
Total operating revenues		57,642,223	57,958,399	57,143,608
Operating expenses, before District facility expenses		14,064,167	13,887,166	13,582,332
District facility expenses		4,493,406	5,300,792	7,468,117
Total operating expenses		18,557,573	19,187,958	21,050,449
Operating income		39,084,650	38,770,441	36,093,159

(Continued)

Table A-2

Summary of Statements of Revenues, Expenses, and Changes in Net Position during FY2018, FY2017, and FY2016 (continued)

Operating revenues		2018	2017	2016
Net nonoperating expenses	$	(3,904,403)	(28,329,388)	(2,326,260)
Increase in net position		35,180,247	10,441,053	33,766,899
Total net position, beginning of fiscal year		654,724,120	644,283,067	610,516,168
Prior year adjustment of net position		338,262	—	—
Total net position, end of fiscal year	$	690,242,629	654,724,120	644,283,067

There are many variables that affect the District's vehicular traffic and resulting revenues. In evaluating FY2018 traffic compared to FY2017, the total traffic figure reflects a slight decrease in the overall results.

Comparison of Toll Revenues and Vehicular Traffic during FY2018, FY2017 and FY2016

					Percentage change	
		2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Toll revenues	$	56,297,673	56,704,636	55,935,143	(0.7)%	1.4 %
Vehicular traffic:						
Cars and light trucks	$	3,583,197	3,617,653	3,545,318	(1.0)	2.0
Heavy trucks		366,378	357,267	346,635	2.6	3.1
Busses		13,187	15,280	14,970	(13.7)	2.1
Total vehicles	$	3,962,762	3,990,200	3,906,923	(0.7)	2.1

Operating expenses, before District facility charges, for FY2018 increased 1.3% from FY2017 expenses and were 6.51% less than the budgeted expenses. The FY2018 increase in operating expenses can be attributed to an increases in salary costs and employee and retiree health insurance costs with an offsetting decrease in pension expense and consulting engineers' expense. Operating expenses, before the District facility charges, for FY2017 increased 2.2% from FY2016 expenses and were 4.9% less than the budgeted expenses.

Facility expenses for FY2018 decreased 15.2% when compared to FY2017. Facility expenses for FY2017 decreased 29.0% when compared to FY2016. 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 FY2018 total $3,904,403. This $24,424,985 decrease in nonoperating expenses was a result of four substantial changes from FY2017 to FY2018. In FY2017, the charges related to the Project financing for bond issuance costs of $2,407,564 and loss on early debt defeasance of $18,323,103 were a one time charge. Additionally there was a loss on asset disposal of $1,835,351 in FY2018 which reflects the Virginia Originals restaurant closure and demolition. These changes were offset by a decrease in interest expense of $3,021,935. The decrease in interest expense, despite an increase in outstanding debt, is related to capitalization of $8,739,161 versus $2,374,118 in prior year in interest charges as part of the cost of parallel tunnel construction project. Net nonoperating expenses in FY2017 total $28,329,388, primarily due to early debt defeasance in November 2016. 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 parallel tunnel 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.

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, 2018, the District has $692,501,034 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.

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 FY2018, FY2017 and FY2016, the overall infrastructure condition level is "good" (Level 7) or better. As shown in the table following, the facility's infrastructure condition level declined slightly from FY2016 to FY2017 and then rebounded slightly in FY2018. 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	2016	2017	2018
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	2016	2017	2018
Approach roads	100 %	100 %	100 %
Fisherman Island Causeway	100	100	100
Tunnels	96	77	87
Portal islands	90	90	90
Toll plaza infrastructure	100	100	96
Sitewide utilities	97	97	100

Preservation expenses for FY2018 totaled $2,337,137 and were 25.1% less than FY2017 preservation expenses. Preservation expenses for FY2017 totaled $3,121,221 and were 41.0% less than FY2016 preservation expenses. Preservation expenses for FY2018 included the underwater inspection of the facility, the girder repair project, the Chesapeake Tunnel invert slab repair project, tunnel lighting replacement and the replacement of hydropneumatic tanks, valves and domestic pumps in both tunnels.

(Continued)

The budgeted preservation expenses for FY2019 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	$	550,000
Parallel crossing bridges		500,000
Original trestles		3,336,982
Parallel crossing trestles		3,615,025
Approach roads		—
Fisherman Island causeway		—
Tunnels		3,712,470
Portal islands		—
Toll plaza infrastructure		82,080
Sitewide utilities		499,258
	$	12,295,815

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 $1,152,974 and $1,271,948 for FY2018 and FY2017, respectively, for nonbridge-tunnel assets that are classified as miscellaneous capital assets on the statements of net position. For FY2018, net capital asset purchases in the amount of $200,728 were added to miscellaneous capital assets. For FY2017, net capital asset purchases in the amount of $408,373 were added to miscellaneous capital assets. Under the District's capitalization policy, computer additions and replacements are not capitalized but are expensed due to their short-term useful life.

Insurance expenses increased 10.5% to $953,407 in FY2018 from $862,809 in FY2017. The insurance market has remained competitive after several years of minimal events. The District secured a 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 1991 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 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 were noncallable.

On October 24, 2016, the Commission adopted and approved the 2016 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 amount of outstanding bonds payable that mature between July 1, 2041 and July 1, 2055 is $359,750,023, net of unamortized bond premium of $38,235,023. 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, 2018, 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 FY2018, the toll rate covenant ratio for First Tier Bonds was 631% and the toll rate covenant ratio for all required deposits was 300%. There were no Second Tier or Subordinate Tier bonds outstanding as of June 30, 2018.

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.

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chesapeake Bay Bridge and Tunnel District as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the basic financial statements, in fiscal year 2018, the District adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 10, the Schedule of Pension Contributions on page 48, the Schedule of the Changes in Net Pension Liability and Related Ratios on page 49, the Schedule of the Changes in Net OPEB Liability and Related Ratios on page 50, the Schedule of Funding Progress – GASB 45 on page 51, and the Modified Approach for Infrastructure Reporting – Capital Asset Activity information on pages 52 through 56 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 29, 2018 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 29, 2018

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Net Position

June 30, 2018 and 2017

Assets and Deferred Outflows of Resources	**2018**	**2017**
Current assets:		
Cash (note 3)	$ 1,075,297	1,283,771
Investments (notes 3 and 10)	79,869,432	65,630,515
Accounts receivable and accrued interest receivable, net	1,115,593	1,691,693
Prepaid expenses and other assets	630,371	629,546
Note receivable	—	34,638
Total current assets	82,690,693	69,270,163
Restricted assets:		
Cash (note 3)	15,681	11,836
Investments (notes 3 and 10)	191,904,729	324,216,508
Accrued interest receivable	23,042	366,359
Total restricted assets	191,943,452	324,594,703
Investments (notes 3 and 10)	129,679,609	113,108,758
Long-term note receivable	—	23,648
Capital assets (note 4):		
Bridge and tunnel facilities	422,370,201	423,933,330
Construction in progress – Thimble Shoal Parallel Tunnel	259,643,883	119,541,297
Miscellaneous capital assets, net of accumulated depreciation	10,486,950	11,277,270
Total capital assets	692,501,034	554,751,897
Bond insurance costs, net of accumulated amortization	2,744,793	2,857,086
Deferred outflows of resources:		
Differences between expected and actual pension experience (note 6)	39,650	86,299
Differences between expected and actual OPEB experience (note 9)	246,608	—
OPEB contributions (note 9)	216,136	—
Pension contributions (note 6)	970,166	964,226
Pension investment experience (note 6)	—	809,919
Total deferred outflows of resources	1,472,560	1,860,444
Total assets and deferred outflows of resources	$ 1,101,032,141	1,066,466,699
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$ 25,221,263	23,555,235
Accrued interest	7,912,875	7,912,875
Unearned revenue	776,706	763,321
Total current liabilities	33,910,844	32,231,431
Long-term liabilities:		
Long-term debt (note 5)	359,750,023	361,285,777
Net pension liability (note 6)	10,414,363	12,591,061
Other postemployment benefit liability (note 9)	5,148,033	5,367,423
Total long-term liabilities	375,312,419	379,244,261
Deferred inflows of resources:		
Pension investment experience (note 6)	469,713	—
Change in pension assumptions (note 6)	453,204	—
Change in OPEB assumptions (note 9)	380,493	—
Differences between expected and actual pension experience (note 6)	262,839	266,887
Total deferred inflows of resources	1,566,249	266,887
Total liabilities and deferred inflows of resources	410,789,512	411,742,579
Commitments and contingencies (notes 8 and 11)		
Net position:		
Net investment in capital assets	439,758,391	427,027,701
Restricted for debt service	57,666,561	65,835,138
Restricted for forfeited property	11,007	9,905
Unrestricted	192,806,670	161,851,376
Total net position	690,242,629	654,724,120
Total liabilities, deferred inflows of resources, and net position	$ 1,101,032,141	1,066,466,699

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, 2018 and 2017

	2018	2017
Operating revenues (note 5):		
Tolls	$ 56,297,673	56,704,636
Other	1,344,550	1,253,763
Total operating revenues	57,642,223	57,958,399
Operating expenses:		
Administration	298,809	299,465
Finance	752,351	725,391
Operations	4,362,302	4,290,938
Maintenance and tunnel operations	3,857,902	3,688,653
General	3,485,466	3,376,182
Consultants	537,978	725,787
Utilities	769,359	780,750
Total operating expenses before District facility expenses	14,064,167	13,887,166
District facility expenses:		
Insurance	953,407	862,809
Depreciation (note 4)	1,152,974	1,271,948
Bridge and tunnel preservation (note 4)	2,337,137	3,121,221
Other	49,888	44,814
Total District facility expenses	4,493,406	5,300,792
Total operating and district facility expenses	18,557,573	19,187,958
Operating income	39,084,650	38,770,441
Nonoperating revenues (expenses):		
Change in fair value of investments (note 3)	(2,659,081)	(4,092,674)
Interest income	6,265,214	5,172,268
Interest expense	(5,663,128)	(8,685,063)
Bond issuance costs	—	(2,407,564)
Loss on early debt defeasance	—	(18,323,103)
Loss on asset disposal	(1,835,351)	—
Other expenses, net	(12,057)	6,748
Total nonoperating expenses, net	(3,904,403)	(28,329,388)
Increase in net position	35,180,247	10,441,053
Total net position, beginning of year	654,724,120	644,283,067
Prior year adjustment of net position (note 2)	338,262	—
Total net position, end of year	$ 690,242,629	654,724,120

See accompanying notes to basic financial statements.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Toll collections from customers	$	55,643,814	56,168,222
Scrip sales		444,465	430,160
Leasing revenue		1,412,831	1,261,906
Payments to employees for services and employee benefits		(11,750,135)	(12,015,209)
Payments to suppliers and consultants		(5,332,301)	(5,943,006)
Other		(38,739)	14,347
Net cash provided by operating activities		40,379,935	39,916,420
Cash flows from investing activities:			
Purchases of investments		(669,996,843)	(1,299,388,526)
Interest income		6,571,976	4,888,160
Sales and maturities of investments		768,839,773	1,080,483,777
Net cash provided by (used in) investing activities		105,414,906	(214,016,589)
Cash flows from capital and related financing activities:			
Capitalized expenditures		(130,164,406)	(82,383,545)
Forfeited assets		3,686	(4,694)
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)
TIFIA loan servicing fee		(13,000)	—
Interest paid		(15,825,750)	(4,308,703)
Net cash provided by (used in) capital and related financing activities		(145,999,470)	174,401,989
Net increase (decrease) in cash and restricted cash		(204,629)	301,820
Cash and restricted cash, beginning of year		1,295,607	993,787
Cash and restricted cash, end of year	$	1,090,978	1,295,607
Cash and restricted cash are presented in the accompanying statements of net assets as follows:			
Cash	$	1,075,297	1,283,771
Restricted cash		15,681	11,836
	$	1,090,978	1,295,607
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	39,084,650	38,770,441
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		1,152,974	1,271,948
(Increase) decrease in operating assets:			
Accounts receivable		398,719	(503,536)
Prepaid expenses and other assets		(825)	(70,410)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses		101,612	288,990
Pension liabilities		(407,201)	101,772
OPEB liabilities		36,621	—
Unearned revenue		13,385	57,215
Net cash provided by operating activities	$	40,379,935	39,916,420

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 $1,423,461 and $267,274 in 2018 and 2017, respectively.

The District incurred noncash capital expenditures related to construction in progress – Thimble Shoal Parallel Tunnel in the amount of $22,255,170 and $20,648,339 that are included in accounts payable as of June 30, 2018 and 2017, 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 generally accepted accounting principles (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 and construction in progress 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. All other assets excluding bridges and tunnel assets are being depreciated straight-line 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

(Continued)

legislations. At June 30, 2018 and 2017, the District had net position restricted for debt service of $57,666,561 and $65,835,138, 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

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. 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

In FY2018, the District adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75 addresses accounting and financial reporting for other postemployment benefits (OPEB), like retiree health insurance, that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Due to limitations on the information available for the prior fiscal year, it was determined to be impractical for the District to restate the FY2017 financial statements. As such, the cumulative effect of applying GASB Statement No. 75 is being reported as a prior period adjustment increasing the beginning balance of net position for FY2018 by $338,262 of which $213,142 represents deferred outflows of resources related to benefit payments/OPEB contributions made by the District in FY2017 that will be recognized as a reduction in total OPEB liability in FY2018 under GASB Statement No. 75.

The remaining adjustment of $125,120 is a result of a decrease in the total OPEB liability at June 30, 2017. The FY2017 financial statements presented herein for comparative purposes still reflect the requirements of GASB Statements No. 45 and No. 57.

(3) Cash Deposits and Investments

(a) Deposits

The carrying value of the District’s deposits (unrestricted and restricted) was $1,090,978 and $1,295,607 at June 30, 2018 and 2017, respectively. The bank balance of these deposits was $792,353 and $1,163,451 at June 30, 2018 and 2017, 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:

June 30, 2018 Investment type		Standard & Poor's credit rating AAA	AA+	AA	AA-	A-1+	A-1	A+	Total
U.S. Treasuries	$	—	58,520,356	—	—	—	—	—	58,520,356
U.S. agencies		—	114,169,764	—	—	15,719,854	—	—	129,889,618
Federal agency mortgage-backed		—	3,240,027	—	—	—	—	—	3,240,027
Supra-national agency		7,930,574	—	—	—	—	—	—	7,930,574
Certificates of deposit		—	—	—	9,009,082	—	—	—	9,009,082
Corporate notes		1,640,963	2,907,790	5,815,639	4,295,745	999,413	21,559,874	3,602,093	40,821,517
Total	$	9,571,537	178,837,937	5,815,639	13,304,827	16,719,267	21,559,874	3,602,093	249,411,174

June 30, 2017 Investment type		Standard & Poor's credit rating 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
Certificates 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

(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, 2018 and 2017, the District's portfolio was invested as follows:

Investment type		2018 Fair value	Percentage of portfolio		2017 Fair value	Percentage of portfolio
U.S. Treasuries	$	58,520,356	14.58 %	$	203,412,245	40.44 %
U.S. agencies		129,889,618	32.35		46,879,673	9.32
Federal agency mortgage-backed		3,240,027	0.81		43,602,314	8.67
Supra-national agency		7,930,574	1.98		1,335,510	0.27
State and local government		—	—		6,852,817	1.36
Certificates of deposit		9,009,082	2.24		8,740,285	1.74
Money market funds		152,042,596	37.87		145,102,509	28.85
Corporate notes		40,821,517	10.17		47,030,428	9.35
	$	401,453,770	100.00 %	$	502,955,781	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, 2018, 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	$ 58,520,356	14,244,619	39,538,662	4,737,075	—
U.S. agencies	129,889,618	46,025,063	83,864,555	—	—
Federal agency mortgage-backed	3,240,027	—	64,886	3,175,141	—
Supra-national agency	7,930,574	—	7,930,574	—	—
Certificates of deposit	9,009,082	3,733,714	5,275,368	—	—
Money market funds	152,042,596	—	—	—	152,042,596
Corporate notes	40,821,517	23,058,773	17,762,744	—	—
Total	$ 401,453,770	87,062,169	154,436,789	7,912,216	152,042,596

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

(f) Summary of Changes in Fair Value of Investments

The change in fair value of investments for the years ended June 30, 2018 and 2017 is calculated as follows:

		2018	2017
Fair value of investments at end of year	$	401,453,770	502,955,781
Add:			
Proceeds from sales and maturities during the year		768,839,773	1,080,483,778
Change in fair value of derivative instrument		—	(1,251,974)
Less:			
Cost of investments purchased during the year		(669,996,843)	(1,299,388,526)
Fair value of investments at beginning of year		(502,955,781)	(286,891,733)
Change in fair value of investments	$	(2,659,081)	(4,092,674)

(4) Capital Assets

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

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

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

Capital assets at June 30, 2018 and 2017 comprise the following:

	2018	2017
Bridge and tunnel assets	$ 381,488,453	383,051,582
Capitalized interest and finance expenses	52,822,375	44,083,214
Construction in progress – Parallel Thimble Shoal Tunnel	247,703,256	116,339,831
Miscellaneous capital assets	23,936,450	23,735,721
	705,950,534	567,210,348
Less accumulated depreciation	13,449,500	12,458,451
Total	$ 692,501,034	554,751,897

The following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Capital asset balance, June 30, 2017	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2018
Nondepreciable assets:					
Bridge and tunnel assets	$ 383,051,582	—	(1,563,129)	—	381,488,453
Construction in progress	116,339,831	131,363,425	—	—	247,703,256
Capitalized interest and finance expenses	44,083,214	8,739,161	—	—	52,822,375
	543,474,627	140,102,586	(1,563,129)	—	682,014,084
Depreciable assets:					
Miscellaneous capital assets	23,735,721	362,654	(161,925)	—	23,936,450
Less accumulated depreciation	(12,458,451)	—	161,925	(1,152,974)	(13,449,500)
	11,277,270	362,654	—	(1,152,974)	10,486,950
Total capital assets, net	$ 554,751,897	140,465,240	(1,563,129)	(1,152,974)	692,501,034

The following is a summary of the change 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	13,844,793	102,495,038	—	—	116,339,831
Capitalized interest and finance expenses	41,709,096	2,374,118	—	—	44,083,214
	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

(5) General Resolution Revenue Bonds

The principal amounts of bonds outstanding, net of unamortized premium at June 30, 2018 and 2017, are as follows:

	2018	2017
2016 General Resolution Revenue Bonds	$ 359,750,023	361,285,777

During the year ended June 30, 2017, the General Resolution Revenue Bonds were issued as follows:

	2016 General resolution revenue bonds
Face value of bonds	$ 321,515,000
Bond premium	40,794,613
Net proceeds to the district	$ 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 $1,423,461 for the year ended June 30, 2018.

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 occurred starting in August 2018. In August 2018, $9,048,806 and $1,336,490 was drawn on the TIFA and VTIB loans, respectively. 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.

(Continued)

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, 2018 and 2017 was as follows:

	Balance, June 30, 2017	Bond proceeds	Amortization of costs, premiums, discounts, and deferred losses, net	Bond payments	Balance, June 30, 2018	Amounts due within one year
2016 First Tier General Resolution Revenue Bonds	$ 361,285,777	—	(1,535,754)	—	359,750,023	—
	$ 361,285,777	—	(1,535,754)	—	359,750,023	—

	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	—

Maturities of bond principal and interest to be paid in subsequent fiscal years for all bonds outstanding at June 30, 2018 were as follows:

Fiscal year		General resolution revenue bonds principal	General resolution revenue bonds interest
2019	$	—	7,912,875
2020		—	7,912,875
2021		—	7,912,875
2022		—	15,825,750
2023		—	15,825,750
2024–2055		321,515,000	339,240,050
	$	321,515,000	394,630,175

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.

(6) Pension Plan

(a) Plan Description

All full-time, salaried permanent employees of the District are automatically covered by a VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and 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, 2017. A copy of the report may be obtained on the VRS Web site at https://www.varetire.org/pdf/publications/2017-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, 2017 and 2016 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	Number	
	2017	**2016**
Inactive members or their beneficiaries currently receiving benefits	121	115
Inactive members:		
Vested inactive members	12	10
Nonvested inactive members	21	16
Inactive members active elsewhere in VRS	26	25
Total inactive members	59	51
Active members	149	148
Total covered employees	329	314

(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 FY2018.

The District's actuarially required contribution rates were 12.46% of covered employee compensation for the years ended June 30, 2018 and 2017. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District, including the employer-paid member contributions, were $970,166 and $964,226 for the years ended June 30, 2018 and 2017, respectively.

(d) Net Pension Liability

The District's net pension liability as of June 30, 2018 and 2017 was measured as of June 30, 2017 and 2016, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016 and 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017 and 2016.

(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, 2016, 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, 2017.

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% 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-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Lowered rates
Salary scale	No change
Line of duty disability	Increase rate from 14% to 20%

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

Mortality rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Lowered rates
Salary scale	No change
Line of duty disability	Increase rate from 14% to 15%

(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
Public equity	40.00 %	4.54 %	1.82 %
Fixed income	15.00	0.69	0.10
Credit strategies	15.00	3.96	0.59
Real assets	15.00	5.76	0.86
Private equity	15.00	9.53	1.43
Total	100.00 %		4.80
Inflation			2.50
*Expected arithmetic nominal return			7.30 %

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.0%. 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, 2019, 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, 2019 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, 2016	$	43,634,041	31,042,980	12,591,061
Changes for the year:				
Service cost		640,081	—	640,081
Interest		2,980,890	—	2,980,890
Changes of assumptions		(627,513)	—	(627,513)
Difference between expected and actual experience		(126,846)	—	(126,846)
Contributions – employer		—	948,676	(948,676)
Contributions – employee		—	379,559	(379,559)
Net investment income		—	3,740,285	(3,740,285)
Benefit payments, including refunds of employee contributions		(2,099,800)	(2,099,800)	—
Administrative expense		—	(21,889)	21,889
Other changes		—	(3,321)	3,321
Net changes		766,812	2,943,510	(2,176,698)
Balances at June 30, 2017	$	44,400,853	33,986,490	10,414,363

		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

(Continued)

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

The following presents the net pension liability as of June 30, 2018 and 2017 of the political subdivision using the discount rate of 7.0%, 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, 2018	$	16,017,274	10,414,363	5,738,712
As of June 30, 2017		18,179,633	12,591,061	7,924,119

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

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $547,415 and $998,621, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		June 30, 2018	
		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	39,650	262,839
Changes of assumptions		—	453,204
Net difference between projected and actual earnings on plan investments		—	469,713
Employer contributions subsequent to the measurement date		970,166	—
Total	$	1,009,816	1,185,756

		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

(Continued)

The District's contributions subsequent to the measurement date of $970,166 and $964,226 reported as deferred outflows of resources as of June 30, 2018 and 2017, respectively, related to pensions, will be recognized as a reduction of the Net Pension Liability in the years ended June 30, 2019 and 2018. 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:

		2018
Year ended June 30:		
2019	$	(581,086)
2020		(129,217)
2021		(116,772)
2022		(319,031)
2023		—
Thereafter		—
	$	(1,146,106)

(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 $181,654 and $180,010 to employees' 401(a) accounts during the years ended June 30, 2018 and 2017, 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 $28,889 and $18,462 to Hybrid Retirement Plan employees' 401(a) accounts during the years ended June 30, 2018 and 2017, 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)

(a) Plan Description

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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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 premium 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 up to 40 years and a monthly premium credit of $340. 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.

In no event will the premium credit exceed the actual monthly health cost for Individual coverage. Spouses may be covered, but they must pay the full monthly rate for coverage. The only exception to these rules is for Medicare-eligible retirees who have earned a credit in excess of their plan cost. In this situation, credits earned in excess of the retiree-only cost can be used to pay for prescription drug coverage and for spousal coverage.

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.

Amounts paid by the District for OPEB during the year ended June 30, 2018 amounted to $216,136.

(b) Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	2017
Inactive members or their beneficiaries currently receiving benefits	72
Active members	157
Total covered employees and retired members	229

(c) Net OPEB Liability

The District's total OPEB liability of $5,148,033 was as of June 30, 2018, and was determined by an actuarial valuation based on a June 30, 2017 measurement date.

(d) Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method:	Entry Age Normal Cost Method; Level Percentage of Pay
Discount rate:	3.55%, based on yields for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The rate used in the current valuation is based on indices published by Bond Buyer and Fidelity for 20-year general obligation bonds as of June 30, 2017.

Healthcare cost trend rates: The medical trend assumptions used in the valuation were developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA model was released in December 2007. Version 2018_c was used for the 2017 valuation.

The following assumptions were used as input variables into the model:

Assumptions	Model input
Rate of Inflation	2.50 %
Rate of Growth in Real Income/GDP per Capita	1.00 %
Income Multiplier for Health Spending	1.00
Health Share of GDP Resistance Point	25 %
Year for Limiting Cost Growth to GDP Growth	2075

The SOA Long-Run Medical Cost Trend Model and its baseline projections are based on an econometric analysis of historical U.S. medical expenditures and the judgements of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of the SOA Project Oversight Group.

The following table shows the resulting medical cost trends used in the valuation:

	Medical trend
Year ending June 30:	
2018	5.50 %
2019	5.40
2020	5.30
2021	5.20
2022	5.09
2023	4.99
2024	4.88
2025	4.77
2026	4.67
2027–2048	4.56
2049–2074	4.48–3.59%
2075+	3.53

The actuarial assumptions used for employee decrements (e.g., mortality, turnover, retirement and disability) are based on the results of an experience study on behalf of the Virginia Retirement System for the four year period ending June 30, 2016. Specific assumptions are described more fully on pages 31–32.

Age difference and percentage married:	For active employees, male spouses were assumed to be two years older than females. 100% of active employees are assumed to be married at retirement. For retirees, actual spouse data was used so no assumptions regarding marital status or age of spouse were made.

Participation:

Retiree group	Assumed rate of participation
Nondisabled retirees	85 %
Disabled retirees	100
Spouses	40

(e) Changes in the Total OPEB Liability

		Total OPEB liability
Balance at June 30, 2016	$	5,242,303
Changes for the year:		
Service cost		132,336
Interest		146,368
Differences between expected and actual experience		294,400
Changes in assumptions or other inputs		(454,232)
Benefit payments		(213,142)
Net changes		(94,270)
Balance at June 30, 2017	$	5,148,033

(f) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability as of June 30, 2017 of the District using the discount rate of 3.55%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.55%) or one percentage point higher (4.55%) than the current rate:

		1% decrease (2.55%)	Current discount rate (3.55%)	1% increase (4.55%)
District's total OPEB liability as of June 30, 2017	$	5,764,078	5,148,033	4,623,905

(g) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability as of June 30, 2017 of the District as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

		1% decrease (4.5% decreasing to 2.53%)	Healthcare cost trend rates (5.5% decreasing to 3.53%)	1% increase (6.5% decreasing to 4.53%)
District's total OPEB liability as of June 30, 2017	$	4,978,081	5,148,033	5,346,444

(Continued)

(h) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $252,757. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2018	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 246,608	—
Changes of assumptions	—	380,493
Employer contributions subsequent to the measurement date	216,136	—
Total	$ 462,744	380,493

The District's contributions subsequent to the measurement date of $216,136 reported as deferred outflows of resources as of June 30, 2018, related to OPEB, will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an increase (decrease) to OPEB expense as follows:

	2018
Year ended June 30:	
2019	$ (25,947)
2020	(25,947)
2021	(25,947)
2022	(25,947)
2023	(25,947)
Thereafter	(4,150)
	$ (133,885)

(i) OPEB Liability for the Year ended June 30, 2017 (GASB 45)

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 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 net OPEB obligation (without amortizing the UAAL)

		2017
ARC	$	5,726,358
Interest on net OPEB obligation		136,247
Adjustment to ARC		(5,783,835)
		78,770
Pay-as-you-go annual employer contribution		(78,770)
Net OPEB obligation, beginning of year		5,367,423
Net OPEB obligation, end of year	$	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

(Continued)

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

(10) Fair Value Measurements

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

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

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

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

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

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

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

- U.S. Treasuries, U.S. agencies, and supranational: 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, 2018:

	Fair value 2018	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
U.S. Treasuries	$ 58,520,356	—	58,520,356	—
Supra-national agency	7,930,574	—	7,930,574	—
U.S. agencies	129,889,618	—	129,889,618	—
Federal agency mortgage-backed	3,240,027	—	3,240,027	—
Certificates of deposit	9,009,082	—	9,009,082	—
Corporate notes	40,821,517	—	40,821,517	—
Total investments by fair value level	249,411,174	$ —	249,411,174	—
Investments measured at the NAV:				
Money market funds	152,042,596			
Total investments measured at fair value	$ 401,453,770			

The District had 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	—
Certificates 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 fair value	$ 502,955,781			

(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, 2018

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)
2018	$ 972,590	972,590	—	8,020,486	12.1 %
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 the Changes in Net Pension Liability and Related Ratios (Unaudited)

June 30, 2018

		2017	2016	2015	2014
Total pension liability:					
Service cost	$	640,081	652,414	653,142	632,909
Interest		2,980,890	2,911,959	2,810,342	2,711,152
Changes of assumptions		(627,513)	—	—	—
Difference between expected and actual performance		(126,846)	(362,546)	179,597	—
Benefit payments, including refunds of employee contributions		(2,099,800)	(2,334,410)	(2,048,389)	(1,805,740)
Net change in total pension liability		766,812	867,417	1,594,692	1,538,321
Total pension liability – beginning		43,634,041	42,766,624	41,171,932	39,633,611
Total pension liability – ending (a)		44,400,853	43,634,041	42,766,624	41,171,932
Plan fiduciary net position:					
Contributions – employer		948,676	1,032,877	1,021,377	944,598
Contributions – employee		379,559	370,994	368,079	362,177
Net investment income		3,740,285	529,283	1,393,970	4,231,610
Benefit payments, including refunds of employee contributions		(2,099,800)	(2,334,410)	(2,048,389)	(1,805,740)
Administrative expense		(21,889)	(19,750)	(19,436)	(23,013)
Other		(3,321)	(227)	(293)	223
Net change in plan fiduciary net position		2,943,510	(421,233)	715,308	3,709,855
Plan fiduciary net position – beginning		31,042,980	31,464,213	30,748,905	27,039,050
Plan fiduciary net position – ending (b)		33,986,490	31,042,980	31,464,213	30,748,905
District's net pension liability – ending (a)-(b)	$	10,414,363	12,591,061	11,302,411	10,423,027
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)		76.54 %	71.14 %	73.57 %	74.68 %
Covered-employee payroll (c)	$	7,786,589	7,538,996	7,378,844	7,240,101
District's net pension liability as a percentage of covered-employee payroll ((a)-(b)/(c)		133.75 %	167.01 %	153.17 %	143.96 %

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2018

		2017
Total OPEB liability:		
Service cost	$	132,336
Interest		146,368
Differences between expected and actual experience		294,400
Changes in assumptions or other inputs		(454,232)
Benefit payments		(213,142)
Net change in total OPEB liability		(94,270)
Total OPEB liability – beginning		5,242,303
Total OPEB liability – ending (a)	$	5,148,033
Covered-employee payroll (b)	$	8,263,807
District’s total OPEB liability as a percentage of covered-employee payroll ((a)/(b))		62.30 %

Unaudited – See accompanying independent auditors’ report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Funding Progress – GASB 45 (Unaudited)

June 30, 2018

Schedule of Funding Progress – OPEB (GASB 45)

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, 2018

The following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Capital asset balance, June 30, 2017	Capital asset additions	Capital asset disposals	Capital asset depreciation	Capital asset balance, June 30, 2018
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	—	(1,563,129)	—	52,695,162
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	—	(1,563,129)	—	381,488,453
Construction in progress – Parallel Thimble Shoal Tunnel	116,339,831	131,363,425	—	—	247,703,256
Capitalized interest and finance expenses	44,083,214	8,739,161	—	—	52,822,375
Miscellaneous capital assets:					
Land	5,232,907	—	—	—	5,232,907
Buildings	5,957,230	26,730	—	—	5,983,960
Fleet vehicles and equipment	12,545,584	335,924	(161,925)	—	12,719,583
Total miscellaneous capital assets	23,735,721	362,654	(161,925)	—	23,936,450
Less accumulated depreciation:					
Buildings	(2,895,662)	—	—	(164,512)	(3,060,174)
Fleet vehicles and equipment	(9,562,789)	—	161,925	(988,462)	(10,389,326)
Total accumulated depreciation	(12,458,451)	—	161,925	(1,152,974)	(13,449,500)
Total capital assets, net	$ 554,751,897	140,465,240	(1,563,129)	(1,152,974)	692,501,034

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2018

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.

	2014	2015	2016	2017	2018
Bridge and tunnel assets:					
Original bridges	$ 829,085	3,510	281,510	84,800	50,000
Parallel crossing bridges	828,349	71,677	222,189	220,117	63,216
Original trestles	422,527	717,892	5,221,721	3,034,282	1,486,283
Parallel crossing trestles	633,153	352,269	89,536	303,172	878,713
Approach roads	—	40,365	40,365	—	—
Fisherman Island Causeway	—	15,795	15,795	—	—
Tunnels	7,856,457	9,293,385	4,506,147	1,795,435	4,307,404
Portal islands	68,779	—	7,500	35,000	25,000
Toll plaza infrastructure	99,500	43,000	250,000	778,050	204,047
Sitewide utilities	14,999,609	8,847,255	134,500	51,500	240,000
	$ 25,737,459	19,385,148	10,769,263	6,302,356	7,254,663

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

	2014	2015	2016	2017	2018
Bridge and tunnel assets:					
Original bridges	$ 666,774	2,383	72,093	140,594	73,358
Parallel crossing bridges	170,828	52,135	87,622	—	—
Original trestles	264,650	405,768	829,426	1,462,596	1,252,828
Parallel crossing trestles	307,998	138,911	47,609	290,020	384,886
Approach roads	—	27,399	—	—	—
Fisherman Island Causeway	—	10,721	—	—	—
Tunnels	3,150,162	4,324,085	3,970,261	592,744	527,581
Portal islands	54,805	—	7,485	30,879	22,988
Toll plaza infrastructure	69,197	20,138	202,325	511,806	55
Sitewide utilities	9,843,064	4,222,511	71,245	92,582	75,441
	$ 14,527,478	9,204,051	5,288,066	3,121,221	2,337,137

Unaudited – See accompanying independent auditors' report.

The budgeted preservation expenses for FY2019 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	$	550,000
Parallel crossing bridges		500,000
Original trestles		3,336,982
Parallel crossing trestles		3,615,025
Approach roads		—
Fisherman Island Causeway		—
Tunnels		3,712,470
Portal islands		—
Toll plaza infrastructure		82,080
Sitewide utilities		499,258
	$	12,295,815

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.

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 lane miles at an MRP condition Level 7 or better

Bridge and tunnel assets	2016	2017	2018
Original bridges	100 %	100 %	100 %
Parallel crossing bridges	100	100	100
Original trestles	100	100	100
Parallel crossing trestles	100	100	100

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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

June 30, 2018

Percentage of capital assets at an MRP condition Level 7 or better			
Bridge and tunnel assets	**2016**	**2017**	**2018**
Approach roads	100 %	100 %	100 %
Fisherman Island Causeway	100	100	100
Tunnels	96	77	87
Portal islands	90	90	90
Toll plaza infrastructure	100	100	96
Site-wide utilities	97	97	100

Unaudited – See accompanying independent auditors' report.

SUPPLEMENTARY SECTION

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Budgetary Comparison Schedule (Unaudited)

Year ended June 30, 2018

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	$	311,935	298,809	(13,126)	(4.21)%
Finance		793,550	752,351	(41,199)	(5.19)
Operations		4,459,850	4,362,302	(97,548)	(2.19)
Maintenance and tunnel operations		3,950,515	3,857,902	(92,613)	(2.34)
General		3,868,300	3,485,466	(382,834)	(9.90)
Consultants		767,000	537,978	(229,022)	(29.86)
Utilities		892,700	769,359	(123,341)	(13.82)
Total operating expenses before district facility expenses	$	15,043,850	14,064,167	(979,683)	(6.51)

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 6.31x for fiscal year 2018.

Unaudited – See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Insurance Policies (Unaudited)

Year ended June 30, 2018

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, 2018	*
Boiler and machinery	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		10,000,000	June 30, 2018	*
Bridge floater (bridges, tunnels, trestles, and loss of revenue)	ACE American Insurance Company & XL Insurance America/Aon Risk Solutions		225,000,000	March 31, 2019	
Crime (theft, disappearance, and employee dishonesty)	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		700,000	June 30, 2018	*
General liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		1,000,000	June 30, 2018	*
Cyber liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		2,000,000	June 30, 2018	*
No fault property damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		10,000	June 30, 2018	*
Property direct damage	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		25,000	June 30, 2018	*
Excess liability	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		10,000,000	June 30, 2018	*
Wharfinger's liability	Atlantic Specialty Insurance/Brown & Brown Flagship Group LTD		4,000,000	September 30, 2018	
Workers' compensation	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		Statutory	June 30, 2018	*
Line of Duty Act	Virginia Municipal Liability Pool/Virginia Municipal League Insurance Programs		Statutory	June 30, 2018	*

* The District has renewed these policies for fiscal year 2019.

See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Comparative Traffic and Revenue Statistics (Unaudited)

Years ended June 30, 2018 and 2017

	2018		2017		Increase (decrease)	
	Vehicles	**Revenue**	**Vehicles**	**Revenue**	**Vehicles**	**Revenue**
Vehicle classifications:						
Cars and light trucks	3,583,197	$ 44,304,563	3,617,653	$ 44,892,096	(34,456)	$ (587,533)
Heavy trucks	366,378	12,856,449	357,267	12,498,732	9,111	357,717
Buses	13,187	384,643	15,280	455,216	(2,093)	(70,573)
	3,962,762	57,545,655	3,990,200	57,846,044	(27,438)	(300,389)
Nonrevenue	93,626	—	83,145	—	10,481	—
	4,056,388	$ 57,545,655	4,073,345	$ 57,846,044	(16,957)	$ (300,389)

See accompanying independent auditors' report.

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2018

Unrestricted investments at fair market value as of June 30, 2018 consist of the following:

Description	Coupon rate	Maturity date		Market value
2016 General Resolution Revenue Fund:				
BB&T Trust Deposit	Variable	Not fixed	$	3,806,406
				3,806,406
2016 General Resolution Operations & Maintenance Reserve Fund:				
U.S. Treasury Notes	1.500 %	12/31/18		3,797,202
BB&T Trust Deposit	Variable	Not fixed		5,292
				3,802,494
General Resolution Reserve Maintenance Fund:				
Bank of Tokyo Mitsubishi Commercial Paper	Discount	07/10/18		999,409
ING Funding LLC Commercial Paper	Discount	07/03/18		2,899,371
BNP Paribas NY Branch Commercial Paper	Discount	07/25/18		2,196,843
Credit Agricole CIB NY Commercial Paper	Discount	09/04/18		1,991,982
U.S. Treasury Notes	0.750 %	09/30/18		677,930
U.S. Treasury Notes	0.750	02/15/19		3,022,361
BB&T Trust Deposit	Variable	Not fixed		5,544,682
				17,332,578
General Resolution General Fund:				
Toyota Motor Credit Corp. Notes	Discount	07/10/18		999,413
Federal Home Loan Bank Discount Note	Discount	07/20/18		144,848
JP Morgan Securities Commercial Paper	Discount	07/20/18		3,296,162
Credit Agricole CIB NY Commercial Paper	Discount	07/23/18		4,324,531
Federal Home Loan Bank Discount Note	Discount	07/24/18		354,558
Federal Home Loan Bank Discount Note	Discount	07/24/18		3,755,314
Federal Home Loan Bank Notes	Discount	07/25/18		1,198,446
Federal Home Loan Bank Discount Note	Discount	07/25/18		2,152,209
Federal Home Loan Bank Discount Note	Discount	07/25/18		1,233,401
American Honda Finance Commercial Paper	Discount	07/25/18		2,106,957
BNP Paribas NY Branch Commercial Paper	Discount	07/25/18		3,744,619
Federal Home Loan Bank Discount Note	Discount	07/25/18		6,881,078
3M Company Corporate Note	1.375 %	08/07/18		499,486
Svenska Handelsbanken NY LT CD	1.890	01/10/19		3,733,714
Federal Home Loan Bank Notes	1.375	03/18/19		1,291,680
Federal Home Loan Bank Notes	1.375	03/18/19		2,692,656
U.S. Treasury Notes	1.500	03/31/19		2,450,942
Federal Home Loan Bank Agency	1.375	05/28/19		1,258,763
Federal Home Loan Bank Agency	1.375	05/28/19		2,487,792
Freddie Mac Global Notes	1.750	05/30/19		4,972,145
Freddie Mac Global Notes	1.750	05/30/19		2,197,688
U.S. Treasury Notes	1.500	05/31/19		535,929
U.S. Treasury Notes	1.250	06/30/19		2,126,483

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2018

Unrestricted investments at fair market value as of June 30, 2018 consist of the following:

Description	Coupon rate	Maturity date		Market value
General Resolution General Fund:				
Federal National Mortgage Assn.	1.750 %	06/20/19	$	2,385,185
Federal Home Loan Mortgage Corp. Notes	0.875	07/19/19		6,220,163
Freddie Mac Global Notes	1.250	08/01/19		2,271,188
Federal Home Loan Bank	0.875	08/05/19		4,915,915
Freddie Mac Notes	1.375	08/15/19		1,941,990
U.S. Treasury Notes	1.000	09/30/19		1,724,219
Freddie Mac Global Notes	1.250	10/02/19		2,954,418
International Bank of Recon & Dev Global	1.875	10/07/19		1,660,829
Fannie Mae Global Notes	1.000	10/24/19		6,964,837
FNMA Benchmark Note	1.750	11/26/19		1,980,274
Freddie Mac Global Notes	1.500	01/17/20		1,820,938
Freddie Mac Agency Notes	1.500	01/17/20		4,921,455
IBM Corporation Notes	1.900	01/27/20		3,602,094
Microsoft Corp.	1.850	02/06/20		898,372
Apple Inc. Bonds	1.900	02/07/20		2,907,790
Nordea Bank CD	2.720	02/20/20		2,675,810
Federal National Mortgage Assn.	1.500	02/28/20		7,471,560
Toyota Motor Credit Corp.	1.950	04/17/20		1,002,453
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		1,953,534
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		8,812,935
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		2,154,273
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		4,274,274
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		2,937,645
Federal Home Loan Mortgage Corp. Notes	1.375	04/20/20		1,537,368
FNMA Notes	1.500	07/30/20		3,664,815
International Bank of Recon & Dev Global	1.561	09/12/20		3,271,628
Federal Home Loan Bank Notes	1.375	09/28/20		2,260,481
Proctor & Gamble Co. Corp. Notes	1.900	10/23/20		714,576
Swedbank New York CD	2.270	11/16/20		2,599,558
Johnson & Johnson Corp. Notes	1.950	11/10/20		742,590
Federal Home Loan Mortgage Corp. Notes	1.875	11/17/20		2,007,211
Walmart Stores Inc. Corp. Notes	1.900	12/15/20		3,331,102
U.S. Treasury Notes	1.750	12/31/20		1,107,091
Asian Development Bank Note	2.250	01/20/21		1,708,489
Berkshire Hathaway Inc.	2.200	03/15/21		2,484,537
African Development Bank Note	2.625	03/22/21		1,289,627
Toyota Motor Credit Corp. Notes	2.950	04/13/21		2,079,230
Federal Home Loan Mortgage Corp. Notes	6.000	06/01/21		64,886
U.S. Treasury Notes	1.125	06/30/21		5,511,151
U.S. Treasury Notes	1.125	06/30/21		3,210,054
U.S. Treasury Notes	1.125	06/30/21		3,310,518
U.S. Treasury Notes	1.125	06/30/21		2,679,032

(Continued)

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2018

Unrestricted investments at fair market value as of June 30, 2018 consist of the following:

Description	Coupon rate	Maturity date	Market value
General Resolution General Fund:			
U.S. Treasury Notes	1.125 %	07/01/21	$ 1,961,434
U.S. Treasury Notes	2.000	10/31/21	2,775,641
Federal National Mortgage Assn.	5.500	11/01/21	36,143
Federal Home Loan Mortgage Corp. Notes	5.500	02/01/22	78,536
Fannie Mae Pool	3.000	06/01/22	330,802
Federal Home Loan Mortgage Corp. Notes	6.000	07/01/22	37,395
GNMA Pool #5276	3.000	01/01/27	537,612
GNMA Pool #794283	3.500	03/01/27	326,037
GNMA Pool #MA0007	3.000	04/01/27	889,879
Fannie Mae Pool #1084	3.500	06/01/32	938,738
BB&T Trust Deposit	Variable	Not fixed	230,437
			184,607,563
Total unrestricted investments			209,549,041

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

Schedule of Investments

June 30, 2018

Restricted investments at fair market value as of June 30, 2018 consist of the following:

Description	Coupon rate	Maturity date	Market value
General Revenue Bond – VTIB Debt Service			
Reserve Fund:			
Fannie Mae Global Notes	1.625 %	11/27/18	$ 1,676,690
FNMA Benchmark Notes	1.875	12/18/20	1,648,987
BB&T Trust Deposit			17,613
			3,343,290
General Revenue Bond – TIFIA Debt Service			
Reserve Fund:			
Fannie Mae Global Notes	1.625 %	11/27/18	11,342,611
FNMA Benchmark Notes	1.875	12/18/20	11,150,294
BB&T Trust Deposit			78,905
			22,571,810
2016 Capitalized Interest Fund:			
U.S. Treasury Notes	1.375 %	12/31/18	3,760,254
U.S. Treasury Notes	1.625	06/30/19	3,777,205
U.S. Treasury Notes	1.625	12/31/19	3,787,362
U.S. Treasury Notes	1.625	06/30/20	3,796,307
U.S. Treasury Notes	1.750	12/31/20	3,820,935
U.S. Treasury Notes	1.125	06/30/21	4,688,305
BB&T Trust Deposit	Variable	Not fixed	4,141,612
			27,771,980
2016 Parallel Thimble Shoal Tunnel Project Fund:			
Local Government Investment Pool	Variable	Not fixed	134,186,558
BB&T Trust Deposit	Variable	Not fixed	74,653
			134,261,211
General Revenue Bond – Series 2016 Interest Fund:			
BB&T Trust Deposit	Variable	Not fixed	3,956,438
Total restricted investments			191,904,729
Total all investments			$ 401,453,770

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, 2018, 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 29, 2018 which included a paragraph emphasizing that in fiscal year 2018, the District adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 29, 2018