NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2013

(With Independent Auditors' Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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KPMG LLP
Suite 1900
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Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (primary government) and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 opinions on these financial statements based on our audit. We did not audit the financial statements of Norfolk Community College Campus Corporation, NRHA Mission College I, L.P., and Hampton Roads Ventures, L.L.C. Norfolk Community College Campus Corporation, a discretely presented component unit, represents 100% of the assets and revenues of the aggregate discretely presented component units while NRHA Mission College I, L.P. and Hampton Roads Ventures, L.L.C., together represent approximately 10% and 5% of the total assets and operating revenues, respectively, of the primary government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the NRHA Mission College I, L.P., Norfolk Community College Campus Corporation, and Hampton Roads Ventures, L.L.C., is based on the reports of the other auditors. We conducted our audit 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 opinions.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority as of June 30, 2013, and the changes in fund net position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 (p) to the financial statements, in 2013 the Authority adopted several new accounting standards issued by the Governmental Accounting Standards Board.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis and the schedules of funding progress* on pages 4-19 and pages 49 and 50 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information listed as supplementary information in the accompanying table of contents, has 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.

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
February 14, 2014

Introduction

The Norfolk Redevelopment and Housing Authority (the Authority or NRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment, and revitalization programs within the City of Norfolk, Virginia (the City). The City created the Authority in 1940 under the provisions of the United States Housing Act of 1937. Under Title 36 of the Code of Virginia, the Authority has the power to acquire, lease, and improve property; to acquire via eminent domain; to make loans or grants; to investigate and determine whether an area is blighted; and to carry out a redevelopment plan in cooperation with the local government.

The management of the Authority provides this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. Please read it in conjunction with the basic financial statements, which begin on page 20.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and other supplementary information. The basic financial statements are composed of two components: 1) the basic financial statements and 2) the notes to basic financial statements. The other supplementary information included in the financial section of the report presents required information as well as some information that is not required yet considered areas of interest to readers of the report.

While included in the basic financial statements, the financial results of the discretely presented component unit are not addressed in this discussion and analysis.

Financial Highlights for 2013

The Authority's 2013 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $251.1 million and $39.5 million, respectively; thus, total fund net position was approximately $211.6 million at June 30, 2013.
- Total revenues (including capital contributions and grants) and expenses were approximately $90.3 million and $91.9 million, respectively; thus, fund net position decreased by approximately $1.6 million during the fiscal year.
- Revenues are derived from various sources with approximately 6.7% from City funding and 56.1% received either directly or indirectly (through the City) from the U.S. Department of Housing and Urban Development (HUD). Rental revenues account for an additional 21.7% of total revenue; including 10.3% from Authority-owned federally assisted housing rental; 11.1% from Authority-owned nonassisted affordable housing rental units and 0.3% from a variety of other commercial or residential customers. The 15.1% remaining revenue balance is derived from miscellaneous fees for services, other government grants, or nonoperating sources (i.e., investment income, and donations from the City).
- Debt reductions totaled $1.1 million related to scheduled payments.

- Cash flows provided by operating activities was approximately $2.4 million. The net decrease in cash and cash equivalents for the year was approximately $0.6 million, the $2.4 million net increase in cash from operating activities was reduced by $3.0 million from capital and related financing activities.
- Component units NRHA Mission College I, L.P. and Hampton Roads Ventures, L.L.C. have December 31 year-ends and their December 31, 2012 balances are blended into the Authority's June 30, 2013 report. All other blended component units have December 31 year-ends; however, as they are directly managed by NRHA, the balances for these blended component units included in the Authority's June 30, 2013 report are as of and for the year ended June 30, 2013.

Authority Financial Statements

The Authority's mission focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low and moderate income households, assisting in the revitalization of neighborhoods, and redevelopment of commercial and industrial areas in the City. As of June 30, 2013, the Authority owned over 4,400 residential units that are owned and leased to low-income families and individuals. Another 300 units, while not owned, were governed and partially funded through the Authority's contract with HUD. In addition, housing assistance was being paid to over 2,700 households under the Federal Housing Choice Voucher program for privately owned existing housing.

In view of this mission, the Authority's financial reporting objective focuses on the financial activities of the Authority as a whole.

Basic Financial Statements

The Authority is presenting its 2013 management's discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of fund net position; the statement of revenues, expenses, and changes in fund net position; and the statement of cash flows.

The statement of fund net position (similar to a balance sheet) reports all financial and capital assets of the Authority and is presented in a format where assets and deferred outflows of resources equal liabilities, deferred inflows of resources and plus fund net position. Over time, increases or decreases in fund net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund net position is broken down into the following three categories.

- *Net investment in capital assets* consists of all capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted fund net position* consists of assets that are restricted by constraints placed on the assets by external parties, such as creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted fund net position* consists of fund net position that do not meet the definition of net investment in capital assets, or restricted fund net position.

The statement of revenues, expenses, and changes in fund net position (similar to an income statement) includes operating revenues, such as tenant revenue; operating expenses, such as administrative, utilities, maintenance, and depreciation; and non-operating revenues and expenses, such as investment income, interest expense, and capital distributions. The statement's focus is the change in fund net position during the fiscal year being reported upon.

Finally, a statement of cash flows is included, which discloses net cash flows from operating activities, capital and related financing activities, investing activities, and noncapital financing activities.

In addition to the three financial statements, notes to the basic financial statements are also presented with the basic financial statements which provide additional information that is essential for a full understanding of the financial information presented in the Authority's basic financial statements.

The basic financial statements utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. This means all changes in fund net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will have actual cash flows in future fiscal periods (e.g., uncollected rent and earned but unused vacation leave).

These financial statements represent the financial results of over 40 programs and activities that are administered by the Authority. Most of these programs are financed by grants from HUD, rents, and other user charges resulting from operations of subsidized and unsubsidized housing, by development and financing fees, and by investment income and loan proceeds. The Authority also administers housing and community development activities for which funding is controlled at the City level.

Financial Analysis

The Authority's basic financial statements are presented as a single enterprise fund. The enterprise fund accounts for the Authority's operations of property development and management concerns similar to private sector counterparts.

(Continued)

Condensed Financial Information

The following table (Table 1) reflects the condensed statement of fund net position compared with the prior year. Total assets and liabilities of the Authority were approximately $251.1 million and $39.5 million, respectively; thus, total fund net position was approximately $211.6 million at June 30, 2013. The Authority did not have any deferred outflows of resources or deferred inflows of resources that are required to be reported separately from assets and liabilities on the balance sheet as of June 30, 2013 as a result of the Authority's implementation of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Table 1

Condensed Summary of Fund Net Position

June 30, 2013 and 2012

(In millions)

Description		2013	2012	Change	Percentage change
Current assets:					
Cash and investments	$	41.5	42.5	(1.0)	(2)%
Restricted cash		8.9	8.9	—	—
Assets held for sale		11.4	12.6	(1.2)	(10)
Noncurrent assets:					
Capital assets, net		145.6	146.4	(0.8)	(1)
Other current and noncurrent assets		43.7	40.8	2.9	7
Total assets	$	251.1	251.2	(0.1)	—%
Current liabilities	$	8.1	7.5	0.6	8%
Noncurrent liabilities		31.4	30.6	0.8	3
Total liabilities	$	39.5	38.1	1.4	4%
Fund net position:					
Net investment in capital assets	$	129.4	129.9	(0.5)	—%
Restricted		17.9	19.2	(1.3)	(7)
Unrestricted		64.3	64.0	0.3	—
Total fund net position	$	211.6	213.1	(1.5)	(1)%

Of the Authority's $251.1 million in assets, $145.6 million or 58% is invested in capital assets, net of accumulated depreciation, $50.4 million or 20% is cash and investments ($41.5 million cash and investments plus $8.9 million restricted cash), $11.4 million or 5% is invested in assets held for sale, and $43.7 million or 17% is other current and noncurrent assets, of which $15.5 million or 6% is receivables due in 40 years (starting in 2042) related to the Broad Creek Renaissance (BCR) mixed finance project, $11.0 million or 4% is receivables of the rehabilitation revolving loan fund (RLF), and $5.8 million or 2% represents funds due to the Authority from government entities to fund program and administrative cost expensed in the current financial statements.

Cash decreased slightly - $1.0 million or 2% – since last fiscal year (from $51.4 million to $50.4 million). Of the $50.4 million June 30, 2013 balance and the $1 million decrease from the prior year, $3.8 million and $0.9 million, respectively, relates to the December 31, 2012 balances for two of the Authority's legally separate entities (Hampton Roads Ventures and NRHA Mission College I), which are presented as blended component units in this report.

Of the $39.5 million of liabilities, $8.1 million or 21% is current liabilities, which will require payment within 12 months of the reported fiscal year-end and $31.4 million or 79% is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities increased $0.6 million or 8% since last fiscal year ($8.1 million in fiscal year 2013 compared to $7.5 million in fiscal year 2012) mainly due to the retirement of debt in fiscal year 2013. The noncurrent liabilities increased by $0.8 million or 3% ($31.4 million in fiscal year 2013 compared to $30.6 million in fiscal year 2012) largely due to pay off of debt activity and a new construction loan on the Monroe building.

A breakout of the $39.5 million in liabilities is as follows:

- $16.3 million or 41% is long-term debt;
- $12 million or 30% is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $11 million RLF outstanding receivable balance noted above offsets this liability; and
- $11.2 million or 28% balance consists of various obligations of the Authority including tenant escrow deposit accounts ($1.0 million), vested compensated absences ($1.5 million), payments due to third parties for services ($1.8 million), and payments due back to other governmental entities ($0.8 million).

The fund net position balance of $211.6 million is the difference between the $251.1 million in assets and the $39.5 million in liabilities. Ideally, the breakout of the fund net position balance allows financial statement users to identify resources that are available to finance the activities, programs, or projects with which they are most concerned, whether it is making debt service payments, supplementing mission critical, yet underfunded programs, or beginning a new service or expanding an existing one.

Referring back to Table 1, the Authority's fund net position decreased $1.5 million or less than 1%. This decrease consists of the following:

Fund net position net investment in capital assets – the largest part of the net position balance – decreased by $0.5 million or less than 1%. The decrease results from changes in two components, a $0.8 million decrease in capital assets, which went from $146.4 million as of June 30, 2012 to $145.6 million as of June 30, 2013 and a $0.3 million increase in the debt related to the capital assets, which went from $16 million to $16.3 million.

Restricted fund net position – the part of fund net position that has constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by 7% or $1.3 million. The decrease was a result of a reduction of $1.2 million (from $12.6 million to $11.4 million) in the restricted net asset balance for property held for resale.

Unrestricted fund net position – the part of fund net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – changed from $64 million at June 30, 2012 to $64.3 million at June 30, 2013, an increase of $0.3 million or less than 1%. Observations on the unrestricted net asset balance is as follows:

- While presented in the aggregate in the financial statements, the unrestricted fund net position includes over 20 distinct programs, each controlled by the terms of its own program contract; specific program eligibility rules apply when considering the use of unrestricted net asset balances – consisting of the net of cash in the bank, receivables net of allowances, and other assets less all other liabilities not previously applied.
- The unrestricted fund net position of the Authority includes notes and interest receivable related to the Hope VI BCR tax credit project totaling $15.5 million and $9.7 million, respectively, which is due after 40 years, beginning in 2042.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for unused employee vacation and sick days. The balance for unused employee vacation and sick days at both June 30, 2013 and 2012 was $1.5 million and $1.4 million, respectively, and is included in the unrestricted fund net position. The Authority will need to include this amount in future years' budgets as they come due.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for Postretirement Healthcare Benefit Plan, which is offered at the Authority's discretion. The liability at June 30, 2013 and 2012 was $1.9 million and $1.5 million, respectively, and is included in unrestricted fund net position. The Authority will need to include these amounts in future years' budgets as they come due.

Revenues, Expenses, and Changes in Fund Net Position

The results of the Authority's operations are reported in the statement of revenues, expenses, and changes in fund net position. In 2013, the Authority realized a decrease in fund net position of $1.5 million. Table 2 below presents a condensed summary from the Authority's statement of revenues, expenses, and changes in fund net position.

Table 2

Condensed Summary of Revenues, Expenses and Changes in Fund Net Position

Years ended June 30, 2013 and 2012

(In millions)

Description	2013	2012	Change	Percentage change
Total operating revenues	$ 82.5	85.2	(2.7)	(3)%
Total operating expenses	90.5	87.2	3.3	4
Operating loss	(8.0)	(2.0)	(6.0)	(300)
Total nonoperating revenues	1.4	1.1	0.3	27
Total nonoperating expenses	(1.3)	(2.8)	1.5	(54)
Total nonoperating revenue (expense)	0.1	(1.7)	1.8	(106)
Loss before capital grants and contributions	(7.9)	(3.7)	(4.2)	(114)
Governmental capital grants	3.1	5.4	(2.3)	(43)
Capital contributions from/to limited partners	—	0.4	(0.4)	(100)
Donated revenue - nonfinancial resources	3.3	—	3.3	100
Change in fund net position	(1.5)	2.1	(3.6)	171
Total fund net position – beginning	213.1	211.0	2.1	1
Total fund net position – ending	$ 211.6	213.1	(1.5)	(1)%

Fund net position decreased $8.0 million from operating activities and increased $0.1 million from nonoperating activities, resulting in a $7.9 million decrease in fund net position before recognizing the receipt of grant revenue for capital expenditures and donated revenue of nonfinancial resources. These decreases were offset by capital revenues totaling $6.4 million – governmental capital grants ($3.1 million) and donated revenue - nonfinancial resources ($3.3 million) – resulting in a $1.5 million decrease in fund net position.

(Continued)

The following sections discuss revenues and expenses separately.

Revenues

Table 3 provides a comparison of the Authority's operating and nonoperating revenues for 2013 and 2012 and shows that total revenues, gains, and capital contributions decreased 2% or $1.8 million ($90.3 million compared to $92.1 million).

Table 3

Summary Comparison of Operating and Nonoperating Revenues

Years ended June 30, 2013 and 2012

(In millions)

Description		2013	2012	Change	Percentage change
Operating revenues:					
Tenant revenue – rents and other	$	19.6	19.3	0.3	2%
Operating grants and subsidies		54.0	58.6	(4.6)	(8)
Other revenue, net		8.9	7.3	1.6	22
Total operating revenues		82.5	85.2	(2.7)	(3)
Nonoperating revenues:					
Interest and investment revenue		1.4	1.1	0.3	27
Capital grants		3.1	5.4	(2.3)	(43)
Capital contributions to limited partners		—	0.4	(0.4)	(100)
Donated revenue - nonfinancial resources		3.3	—	3.3	100
Total revenues	$	90.3	92.1	(1.8)	(2)%

The $1.8 million (2%) decrease in total revenues is primarily attributable to a $4.6 million decrease (from $58.6 million to $54 million) in operating grants and subsidies, and a $2.3 million decrease (from $5.4 million to $3.1 million) in capital grants.

These decreases were offset by an increase in donated revenue – nonfinancial resources of $3.3 million (from $0 to $3.3 million) and an increase of $1.6 million (from $7.3 million to $8.9 million) in other revenue.

To better understand changes in revenues, a comparison by source (provider) of revenues and a presentation of the trend of each source is considered helpful. Revenues were derived from various providers with approximately:

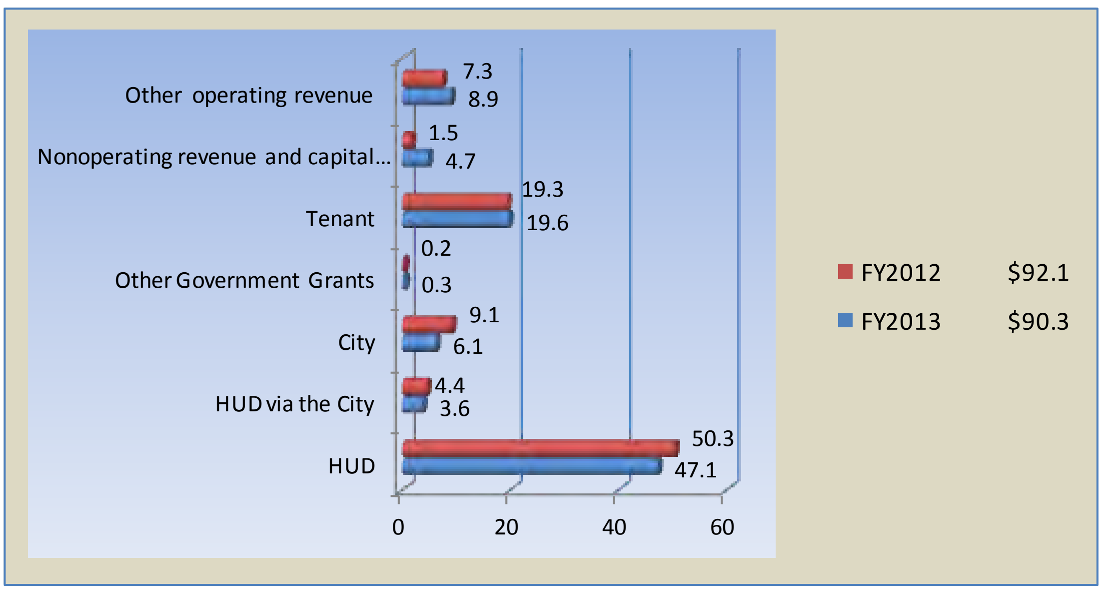
- 6.8%, or $6.1 million, from City government funding;
- 56.1%, or $50.7 million, received either directly ($47.1 million) or indirectly ($3.6 million through the City – 4% in addition to the previous 6.7%) from HUD;

- 21.7%, or $19.6 million, of total revenue received from tenant rental payments;
  - 10.3%, or $9.3 million, was from over 3,300 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace;
  - 11.1%, or $10 million, was from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and
  - 0.3%, or $0.3 million, in tenant revenue was from a variety of other commercial or residential customers.
- 15.1%, or $13.6 million, is derived from miscellaneous fees for services (i.e., fees from bond (issuance fees) or nonoperating sources (i.e., investment income, donated revenue- nonfinancial resources, and distributions to partners); and
- 0.3%, or $0.3 million, is from various other government grants.

Revenue Source Comparison

Years ended June 30, 2013 and 2012

(In millions)



The graph above depicts sources of Authority's revenue by funding providers and allows the reader to review changes in the level of funding from the Authority's primary funding providers, HUD and the City. The most significant change in revenue by provider was a $4 million decrease in funding received directly or indirectly from HUD, (from $54.7 million to $50.7 million). City local funding also decreased from $9.1 million to $6.1 million or $3.0 million, primarily resulting from an increase in prior year funding received from the City for the payoff of debt. Rental income increased slightly by $0.3 million year over year. Discussion of the significant changes that contributed to the $1.8 million decrease in revenue is as follows.

- The largest decrease in revenue was a $4.6 million decrease in operating grants and subsidies (from $58.6 million to $54 million). The major causes were a decrease in funding for Special City Projects of $3.1 million (from $9.2 million to $6.1 million); a decrease in the Capital Fund program of $1 million (from ($3.5 million to $2.5 million); a decrease in the Federal Housing program of $0.6 (from $15.8 million to $15.2 million); a decrease in the Community Development program of $0.9 million (from $3.2 million to $2.3 million). The decreases were offset by an increase in the Housing Choice Voucher program of $1 million (from $24.1 million to $25.1 million).
- The Authority also experienced an additional decrease of $2.3 million in funding for capital grants. The major causes were a decrease of $1.1 million in the American Recovery and Reinvestment Act (ARRA) program funding. The Authority completed the program in March, 2012. In addition, a decrease of $1.2 million (from $4.3 million to $3.1 million) occurred in the Capital Fund program.
- These decreases to revenue were partially offset by the following increases:
  - Tenant revenue increased by $0.3 million.
  - Donated revenue-nonfinancial resources (consisting of land and building) were received from the City for $3.3 million.
  - The other component that increased non-operating income was an increase of $0.3 million in interest and investment revenue (from $1.1 million to $1.4 million).
  - Other revenues increased by $1.2 million (from $7.7 million to $8.9 million)

Expenses

Table 4 provides a comparison of the Authority's operating and nonoperating expenses for 2013 and 2012 and shows that total expenses, losses, and distributions increased 2% or $1.8 million ($91.8 million compared to $90.0 million).

Table 4

Summary Comparison of Operating and Nonoperating Expenses

Years ended June 30, 2013 and 2012

(In millions)

Description	2013	2012	Change	Percentage change
Operating expenses:				
Administrative	$ 15.4	15.6	(0.2)	(1)%
Housing assistance payments (HAP)	24.3	24.7	(0.4)	(2)
Extraordinary maintenance	8.7	5.1	3.6	71
Maintenance – routine	10.7	10.7	—	—
Depreciation and amortization	9.2	9.1	0.1	1
Utilities	9.6	9.6	—	—
General	8.6	7.7	0.9	12
Tenant services	2.6	2.8	(0.2)	(7)
Loss on disposal of assets held for sale	—	0.4	(0.4)	(100)
Protective services	1.4	1.5	(0.1)	(7)
Total operating expenses	90.5	87.2	3.3	4
Nonoperating expenses:				
Interest expense	1.0	1.1	(0.1)	(9)
Loss on disposal of fixed assets	0.3	1.7	(1.4)	(82)
Total nonoperating expenses	1.3	2.8	(1.5)	(54)
Total expenses	$ 91.8	90.0	1.8	2%

The most significant increases in expenses were a $3.6 million increase in extraordinary maintenance (from $5.1 million to $8.7 million); and a $0.9 million increase in general expenses (from $7.7 million to $8.6 million).

There was a $0.1 million increase in depreciation and amortization expenses (from $9.1 million to $9.2 million).

These increases were partially offset by decreases in: HAP expense decreased $0.4 million (from $24.7 million to $24.3 million) and administrative expense decreased $0.2 million (from $15.6 million to $15.4 million); tenant services decreased $0.2 million (from $2.8 million to $2.6 million); and protective services expense decreased $0.1 million (from $1.5 million to $1.4 million).

(Continued)

Capital Assets

The Authority's capital assets as of June 30, 2013 included land, buildings, improvements, construction in progress, and equipment totaling $145.6 million (net of depreciation). A breakdown of the Authority's capital assets is shown in Table 5 below.

Table 5

Composition of Capital Assets

June 30, 2013 and 2012

(In millions)

Description		2013	2012	Change	Percentage change
Nondepreciable assets:					
Land	$	25.8	23.1	2.7	12%
Construction in progress		4.6	10.0	(5.4)	(54)
Other capital assets:					
Buildings and building improvements		187.0	178.6	8.4	5
Improvements other than buildings		72.0	69.6	2.4	3
Equipment		9.0	9.4	(0.4)	(4)
Accumulated depreciation		(152.8)	(144.3)	(8.5)	6
Total	$	145.6	146.4	(0.8)	(1)%

72% of the Authority's capital assets or $105.5 million are associated with the assisted public housing units available for lease to low and moderate income residents or construction of communities for mixed income residents that include those eligible for public housing. Another 21%, or $31.2 million, is invested in Authority-owned, non-assisted, multifamily, affordable housing units.

The book value of net capital assets decreased $0.8 million during the current year ($145.6 million in 2013 compared to $146.4 million in 2012). Table 6 details the components of the change.

Table 6

Change in Capital Assets

Year ended June 30, 2013

(In millions)

		Nondepreciable capital assets	**Depreciable capital assets**	**Total**
July 1, 2012 beginning balance, net	$	33.1	113.3	146.4
Transfers		(8.5)	8.5	—
Purchases		5.9	2.8	8.7
Depreciation		—	(9.1)	(9.1)
Retirements, net		—	(0.4)	(0.4)
June 30, 2013 ending balance, net	$	30.5	115.1	145.6

Major capital asset events during the current fiscal year include the following:

- Construction in progress totaling $8.5 million, primarily capital improvements in our public housing communities, was completed and placed in service.
- Purchases for the year totaled $8.7 million.
- $3.1 million was expended to make improvements in each of our public housing communities including the following:
  - $208,205 for development at Moton Circle for Replacement Housing and demolition.
  - $109,671 for basketball court improvements at Grandy Village, LLP.
  - $166,697 for handicap access modifications and site access improvements at Young Terrace Apartments.
  - $614,034 for site improvements at Bobbitt Apartments.
  - $1,021,389 for interior improvements and window replacement at Sykes Apartments.
  - $204,225 for interior improvements at Franklin Arms Apartments.
  - $114,347 for site improvements at North Wellington.
  - $214,000 for interior improvements at Scattered sites.
  - $136,115 for site improvements at Grandy Village.
  - $268,329 for exterior door replacement at Diggs Town Apartments.
- $105,676 for roofing replacement and HVAC improvements at Oakmont North.

(Continued)

- $135,457 was invested in equipment used by our Central Maintenance Shops including 1 truck and 1 van, 6 mowers, and a vehicle lift.
- Approximately $446,000 of purchases had not been paid at June 30, 2013 and, therefore, is included in accounts payable at year-end.
- $3.3 million was donated to NRHA from the City for the land and building structure known as the Monroe Building.
- Retirements of $0.4 million, net, related to the flattening of the Moton site, as well as the sale of routine equipment replacement.
- $1.6 million for construction in progress of the Monroe Building.

Long-Term Debt

The Authority's June 30, 2013 statement of fund net position reflects total debt outstanding of $16.3 million (excluding vested compensated absences). Of this amount, $1.1 million of debt for the Granby Office building is backed by the full faith and credit of the Authority. The remainder of the Authority's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), secured by the associated project property or debt backed by other governmental entities.

A summary of the Authority's outstanding debt is presented in Table 7.

Table 7

Change in Long-Term Debt Summary

Year ended June 30, 2013

Description	Amounts payable at July 1, 2012	Additions	Retirements and reductions	Amounts payable at June 30, 2013	Future debt service commitment
Granby Office Building	$ 1,267,184	—	179,639	1,087,545	The Authority
Park Terrace	584,023	—	101,220	482,803	Project revenue
Oakmont North	2,445,000	—	215,000	2,230,000	Revenue bond
Merrimack Landing	1,218,957	—	583,409	635,548	Revenue bond
Grandy Village	5,915	—	5,915	—	Project revenue
Mission College I	10,421,664	—	67,496	10,354,168	Project revenue
Monroe Renovation	—	1,490,468	—	1,490,468	Project revenue
Total bank financing	$ 15,942,743	1,490,468	1,152,679	16,280,532	

Observations of outstanding debt balances are as follows:

- Debt reductions totaling $1.1 million, related to scheduled payments.
- The Authority has outstanding debt to third parties of $10.4 million for Mission College I.

Other Economic Factors and Next Year's Budget

Economic Factors

NRHA continues to face uncertainties about the subsidized funding levels for its assisted housing programs. Some uncertainties have an immediate impact; others will be felt over the next couple of years.

Like all federal agencies, the Authority is facing the looming impact of Sequestration; on January 1, 2013, automatic across-the-board funding cuts went into effect. The cuts in the first year are approximately $100 billion government-wide and they continue for another nine years. 60% of the Sequestration cuts come from nondefense programs and amounts to funding cuts of over 8% (on top of cuts already made and highlighted below) to NRHA federally funded programs – Public Housing, Capital Fund Program, Housing Choice Voucher HAP funding, Housing Choice Voucher Admin Funding, CDBG program, and Home program (70% of the Authority's funding). This projection assumes Congress and the Administration do not come up with an agreement to fix the problem between now and January 2014.

For calendar year 2013, the administration is funding public housing authorities at 82% of their eligibility under HUD's Public Housing program's operating formula. In 2012 and 2011, the funding level was 95% and 100% of funding eligibility; prior to 2010, agencies had not received full operating funding since 2002. The dollar amounts funded for this program have steadily decreased ($14.1 million in CY 2013, $16.3 million in CY 2012, and $15.4 million in CY2011) even though the cost of operations continues to rise. The rental income that complements the funding of this program has been flat over this time period.

The Capital Fund Program, which addresses the capital needs of the public housing units, has experienced a steady decline and the last year of funding represented the lowest level of funding in program history – $5.5 million in CY 2011, $4.9 million in CY 2012, and $4.7 million in CY 2013. We expect this trend to continue.

The Housing Choice Voucher (HCV) program has provided adequate funding to cover housing assistance payments to participants each year until CY2013; for 2013, HUD has required the use of reserves to cover the projected cost of these payments and systematically reduced new funding to ensure these reserves were used as well as the reduction of service level.

The administrative funding for the administration of HCV program has been on a drastic decline for 4 years – 95% of eligible funding was provided in CY 2010, 92.03% of eligible funding was provided in CY 2011, 82% of eligible funding was provided in CY 2012, and 69% of eligible funding is being provided in CY2013.

To date, no appropriation level has been communicated for calendar year 2014; thus, NRHA has no final information on funding for the next 18 months.

Based on HUD's discussions about future funding levels, the Authority is anticipating, at best: a continuation of the current drastic reductions in funding levels in our public housing program subsidy, administrative funding for the housing choice voucher programs, and the capital fund program funding level. To survive the upcoming year and the impact of sequestration, the Authority has committed to the use of $4 million in reserves to meet operational needs. Also a phase II restructuring initiative is underway to optimize forces for the anticipated permanent changes in funding provision.

NRHA's neighborhood development programs rely heavily on federal grant funding provided through a subrecipient relationship with the City. The economic recession at the federal, state, and local levels continues to be impacted by declining revenues and increases in cost of doing business. As recipients of those funding sources, NRHA faces the same challenges in declining revenues. Also, recent trends in grant funds being diverted to public service agencies for community initiatives have resulted in further reductions of grants contracted to NRHA. Federal appropriation for CDBG is lower than it's ever been since program inception in 1975. In fiscal year 2014, the City's entitlement was $4.0 million, NRHA's contract is 62.8% or $2.5 million; in fiscal year 2013, the City's entitlement was $3.9 million, NRHA's contract was 66.7% or $2.6 million; in fiscal year 2012 the City's entitlement was $4.7 million, NRHA's contract was 70.2% or $3.3 million and in fiscal year 2011, the City's entitlement was $5.6 million, NRHA's contract was 70% or $3.9 million.

The City's local funding to NRHA through their general revenue bond issuance is reaching their cap, which impacts their ability to fund projects throughout the City.

For fiscal year 2015, NRHA has applied for $4.8 million in federal grants through the City's application process for CDBG ($3.9 million) and HOME ($0.9 million) funds. We do not anticipate maintaining the fiscal year 2014 funding levels for neighborhood programs. Other grants are being pursued to offset any revenues that may not materialize.

Other economic factors that may have an impact on spending or meeting objectives now and in the future are: new construction slowdown, housing price declines, and more restrictive lending practices by banks and other financial institutions. Also, changes in eminent domain laws will continue to affect how we acquire property.

These challenges in funding our programs will be monitored closely to determine the precise impact on NRHA and its operations. We will continue to make appropriate adjustments and to be innovative in searching out new funding sources and new partners to achieve our mission. Approximately 70% of the Authority's revenues come from federal, state, or city governments. The Authority's 2014 operating and capital budget is $90.2 million, representing an increase of 1% from the previous fiscal year.

Contacting Authority Management

This financial report is designed to provide the citizens of the City, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Chief Financial Officer, Norfolk Redevelopment and Housing Authority, 201 Granby Street, Norfolk, Virginia 23510 or visit our Website at www.nrha.norfolk.va.us.

BASIC FINANCIAL STATEMENTS

Exhibit A

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Fund Net Position

June 30, 2013

Assets		**Primary government**	**Component unit**	**Total**
Current assets:				
Cash and cash equivalents (note 2)	$	36,516,574	2,206	36,518,780
Cash with fiscal agents (note 2)		4,948,533	—	4,948,533
Restricted cash and cash equivalents (note 2)		8,927,720	229,120	9,156,840
Receivables:				
Due from HUD		748,978	—	748,978
Due from City of Norfolk		4,112,009	—	4,112,009
Tenants rent, net		164,384	—	164,384
Notes, net (note 3)		124,430	1,650,000	1,774,430
Interest		9,078	167,894	176,972
Other, net		362,757	—	362,757
Total receivables, net		5,521,636	1,817,894	7,339,530
Inventories, net		987,298	—	987,298
Assets held for sale, restricted		11,373,186	—	11,373,186
Prepaid expenses and other assets		334,015	—	334,015
Total current assets		68,608,962	2,049,220	70,658,182
Noncurrent assets:				
Capital assets:				
Land		25,799,115	—	25,799,115
Buildings, improvements, and equipment		267,958,231	—	267,958,231
Construction in progress		4,628,703	—	4,628,703
Less accumulated depreciation		(152,804,013)	—	(152,804,013)
Capital assets, net (note 4)		145,582,036	—	145,582,036
Notes receivable, net (note 3)		26,947,697	6,210,000	33,157,697
Other noncurrent assets		9,918,488	60,575	9,979,063
Total noncurrent assets		182,448,221	6,270,575	188,718,796
Total assets	$	251,057,183	8,319,795	259,376,978
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	1,815,589	13,000	1,828,589
Accrued salaries and benefits		19,713	—	19,713
Accrued compensated absences (note 12)		134,445	—	134,445
Due to HUD and the City of Norfolk		834,114	—	834,114
Tenant security deposits		960,047	—	960,047
Unearned revenue		610,247	45,000	655,247
Bonds, notes, and loans payable (note 5)		1,247,697	1,650,000	2,897,697
Other current liabilities		2,503,399	68,184	2,571,583
Total current liabilities		8,125,251	1,776,184	9,901,435
Noncurrent liabilities:				
Bonds, notes, and loans payable (note 5)		15,032,835	6,295,590	21,328,425
Accrued compensated absences (note 12)		1,334,956	—	1,334,956
Noncurrent liabilities – other		15,008,047	—	15,008,047
Total noncurrent liabilities		31,375,838	6,295,590	37,671,428
Total liabilities		39,501,089	8,071,774	47,572,863
Fund net position:				
Net investment in capital assets		129,415,638	—	129,415,638
Restricted fund net position		17,820,477	229,120	18,049,597
Unrestricted fund net position		64,319,979	18,901	64,338,880
Total fund net position		211,556,094	248,021	211,804,115
Total liabilities and fund net position	$	251,057,183	8,319,795	259,376,978

See accompanying notes to basic financial statements.

Exhibit B

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended June 30, 2013

		Primary government	Component unit	Total
Operating revenues:				
Tenant revenue	$	19,625,406	—	19,625,406
Government operating grants		53,909,028	—	53,909,028
Other revenue, net		8,910,968	74,304	8,985,272
Total operating revenues		82,445,402	74,304	82,519,706
Operating expenses:				
Administrative		15,371,039	29,037	15,400,076
Tenant services		2,607,106	—	2,607,106
Utilities		9,588,596	—	9,588,596
Maintenance		10,667,249	—	10,667,249
Protective services		1,445,266	—	1,445,266
General		8,601,255	—	8,601,255
Extraordinary maintenance		8,711,296	—	8,711,296
Housing assistance payments (HAP)		24,270,291	—	24,270,291
Depreciation and amortization		9,187,893	25,055	9,212,948
Loss on disposal of assets held for sale		74,438	—	74,438
Total operating expenses		90,524,429	54,092	90,578,521
Operating income (loss)		(8,079,027)	20,212	(8,058,815)
Nonoperating revenues (expenses):				
Interest and investment revenue		1,402,218	403,123	1,805,341
Loss on disposal of fixed assets (note 4)		(262,429)	—	(262,429)
Interest expense		(1,035,341)	(430,334)	(1,465,675)
Total nonoperating revenue (expense), net		104,448	(27,211)	77,237
Loss before capital grants and capital contributions from limited partners		(7,974,579)	(6,999)	(7,981,578)
Government capital grants		3,100,576	—	3,100,576
Capital contributions from/to limited partners		(37,619)	—	(37,619)
Donated revenue - nonfinancial resources		3,335,000	—	3,335,000
Change in fund net position		(1,576,622)	(6,999)	(1,583,621)
Total fund net position – beginning		213,132,716	255,020	213,387,736
Total fund net position – ending	$	211,556,094	248,021	211,804,115

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2013

Cash flows from operating activities:	
Cash receipts from customers	$ 17,992,009
Cash receipts from operating grants	53,641,603
Other operating cash receipts	9,866,447
Cash payments to employees for services	(20,916,790)
Cash payments to suppliers of goods and services	(25,233,403)
Other operating cash payments	(8,711,296)
Cash payments to landlords – HAP	(24,270,291)
Net cash provided by operating activities	2,368,279
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	87,637
Proceeds from issuance of debt	1,490,468
Purchases of capital assets	(5,129,759)
Capital grants received	3,013,418
Principal payments on debt	(1,174,273)
Interest payments on debt	(1,303,493)
Net cash used in capital and related financing activities	(3,016,002)
Cash flows from investing activities:	
Sales of investments	397,753
Purchases of investments	(14,264)
Issuance of notes receivable	(821,920)
Principal receipts on notes receivable	448,922
Interest received	73,459
Capital contributions to limited partners	(37,619)
Net cash provided by investing activities	46,331
Net decrease in cash and cash equivalents	(601,392)
Cash and cash equivalents at beginning of year	50,994,219
Cash and cash equivalents at end of year	$ 50,392,827
Reconciliation to statement of fund net position of primary government:	
Current unrestricted cash and cash equivalents	$ 36,516,574
Current cash with fiscal agents	4,948,533
Restricted cash and cash equivalents	8,927,720
Cash and cash equivalents	$ 50,392,827

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2013

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(8,079,027)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		9,187,893
Bad debt expense		513,911
Loss on disposal of assets held for sale		74,438
Changes in assets and liabilities:		
Change in receivables due from HUD		69,661
Change in receivables due from City of Norfolk and other governments		(531,762)
Change in receivables from tenants rent, net		(221,771)
Change in receivables from other, net		(291,402)
Change in inventories, net		(44,327)
Change in assets held for sale		1,182,092
Change in prepaid expenses and other assets		206,785
Change in other noncurrent assets		(368,966)
Change in accounts payable		16,058
Change in accrued salaries and benefits		16,931
Change in accrued compensated absences		35,276
Change in due to the City of Norfolk and other governments		143,625
Change in tenant security deposits		12,662
Change in unearned revenue		91,707
Change in other current and noncurrent liabilities		354,495
Net cash provided by operating activities	$	2,368,279

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI Program in the amount of $328,061.

The Authority had a decrease of $45,195 in accounts payable and a net increase of $225,442 in other current liabilities related to the purchases of capital assets.

During 2013, the City donated land and building with a fair value of $3,335,000 to the Authority.

See accompanying notes to basic financial statements.

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statement

June 30, 2013

(1) Summary of Significant Accounting Policies

The Norfolk Redevelopment and Housing Authority (the Authority or NRHA) was created by the City of Norfolk (the City), a related organization, on July 30, 1940 under the provisions of the United States Housing Act of 1937. As a chartered political subdivision of the Commonwealth of Virginia, the Authority provides subsidized public housing and administers redevelopment and conservation projects within the City in accordance with state and federal legislation. The seven-member board of commissioners (the Board) is appointed by Norfolk's City Council for staggered four-year terms. The Board, in turn, elects a chairman and appoints an executive director to administer the affairs of the Authority.

The Authority's operations and relationship with the federal government are governed by contracts allowing the Authority to construct, own, and operate public housing facilities, as well as make housing assistance payments (HAP) for eligible individuals and families. The Board authorizes these contracts with the U.S. Department of Housing and Urban Development (HUD) pursuant to the latter agency's regulations and statutory authorizations.

The accompanying financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as specified by the Governmental Accounting Standards Board (GASB). The Authority's significant accounting policies are described below.

(a) The Financial Reporting Entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's governing board and: a) it is able to impose its will on that organization; or b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may also be financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

Component Units

The accompanying financial statements present the Authority and its component units, Mission College Apartments, L.P. (MCA), NRHA Mission College I, L.P. (MC1), Norfolk Community College Campus Corporation (NCCCC), Norfolk One, L.P. (NOLP), Hampton Roads Ventures, L.L.C. (HRV), NRHA Arts Education, L.P., (AELP) and NRHA Grandy Village, L.P. (GVLP). The financial data of the component units is included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

NCCCC is a discretely presented component unit. Discretely presented component units are entities that are legally separate from the Authority, but for which the Authority is financially accountable, or whose relationships with the Authority are such that exclusion would cause the Authority's basic financial statements to be misleading or incomplete. The component unit is reported in a separate column in the financial statements to emphasize that they are legally separate from the Authority. NCCCC has a December 31 year-end.

NCCCC, a nonstock corporation, was organized for charitable and educational purposes, including developing and maintaining a public educational facility. The Authority appoints the members of NCCCC and guarantees the payment of certain revenue bonds. Separate audited financial statements are available for NCCCC.

The financial information of NOLP, MCA, MC1, GVLP, and HRV is blended with the primary government's financial information. A blended component unit is so closely related to the primary government that its funds appear as if they are integral parts of the primary government. Generally, a reader of financial statements cannot distinguish between a fund of the primary government and a blended component unit without studying the notes to basic financial statements. These five component units have a December 31 year-end.

MCA, a Virginia limited partnership, was formed to develop and operate a low-income housing project located in Norfolk, Virginia. On December 31, 2006, the Authority purchased the 99% limited partnership interest from an unrelated third party and assigned its previously existing 1% general partnership interest to HRVI. HRVI is the only general partner in the partnership. NRHA owns a 99.9999% interest in HRVI and, therefore, is responsible for all business decisions of MCA. Additionally, per the partnership agreement, the Authority is required to fund all deficits of MCA, when necessary. Separate audited financial statements are not available from MCA. On December 28, 2007, MCA sold 100% of its capital assets to MC1.

MC1, a Virginia limited partnership, was formed to acquire, redevelop, and operate a low-income housing project located in Norfolk, Virginia. NRHA Mission College 1, LLC is a 0.01% general partner, Hudson Mission College, LLC is a 99.98% limited partner, and Hudson SLP, LLC is a 0.01% special limited partner. NRHA Mission College 1, LLC is the only general partner in the partnership. The Authority owns a 79% interest in NRHA Mission College 1, LLC and is, therefore, responsible for all business decisions. On December 28, 2007, MCI purchased 100% of the capital assets of MCA.

NOLP, a Virginia limited partnership, was formed to develop and operate a low-income public housing complex for the elderly, which is located in Norfolk, Virginia. The Authority is the sole general partner in the partnership. The Authority is also the managing agent for the partnership. NOLP is an intricate part of the daily operation of the Authority; as the two entities share personnel for daily operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD under a single annual contributions contract (ACC). The Authority is not only responsible for all day-to-day business decisions of NOLP, but is also responsible for funding any operating deficits via an operating loan that will not bear interest and is nonrecourse to the other partners. Fees to the Authority are limited to reimbursement for actual costs incurred for the management of the complex, unless there is an operating surplus in which case the Authority will receive an oversight fee. Any excess subsidy given to NOLP must be returned to the Authority.

HRV, a Virginia limited liability company, was formed on May 1, 2003. HRV is a qualified community development entity that holds new market tax credit allocation authority to be used for investment in qualified active low-income community businesses. The Authority has a 99.9999% membership interest, and Community Development Corporation (CDC) has a 0.0001% interest.

GVLP, a Virginia limited partnership, was formed March 13, 2007 to acquire, construct, revitalize, and operate a low-income public housing complex, which is located in the City. NRHA Grandy Village 1, LLC is the sole general partner in the partnership. NRHA has a 79% ownership interest in NRHA Grandy Village 1, LLC and is, therefore, responsible for all business decisions. The Authority is also the managing agent for the partnership. GVLP is an intricate part of the daily operation of the Authority; as the two entities share personnel for daily operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD under a single ACC. The Authority is not only responsible for all day-to-day business decisions of GVLP, but is also responsible for funding any operating deficits via an operating loan that will not bear interest and is nonrecourse to the other partners.

AELP, a Virginia limited partnership, was formed June 13, 2012, to acquire, renovate, and operate the historic Monroe Building located in Norfolk, Virginia. NRHA Monroe GP, LLC is the sole .01% general partner in the partnership. The Authority is a 99.99% initial limited partner, as well as the managing agent for the partnership.

(b) Basis of Accounting and Measurement Focus

The Authority's basic financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statement of fund net position. The Authority's statement of revenues, expenses, and changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in fund net position.

The statement of fund net position and revenues, expenses, and changes in fund net position of the Authority is presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are rental revenue, charges for services, and intergovernmental operating grants. Operating expenses for the Authority include the cost of services, administrative expenses, HAP, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(c) Revenue Recognition

Tenant revenues are recognized as rentals become due. Rental payments received in advance, if any, are reported as unearned revenue until earned.

The Authority has entered into ACC's with HUD to develop, manage, and own public housing projects and to administer the federal Section 8 housing programs, whereby monthly HAP are made to landlords on behalf of eligible lower income tenants.

Except as discussed in the following paragraph, intergovernmental revenues are recognized in the period in which all grant requirements are satisfied, which is typically when the Authority has expended the funds on allowable costs. Grant funds received in advance of satisfying all requirements are recorded as unearned revenue.

Revenues from the HUD Housing Choice Voucher (HCV) program and HAP are recognized based on the current year's budget appropriation from HUD, rather than the methodology discussed in the above paragraph, in accordance with HUD requirements.

(d) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

Cash equivalents and investments are stated at fair value. Investments are held in certificates of deposit, U.S. government securities, commercial paper, and repurchase agreements, as authorized by the Code of Virginia, Sections 2.2-4501 through 2.2-4512. The Authority's investments in U.S. government securities and commercial paper are valued at amortized cost as they have maturity dates of less than one year. All of the Authority's other investments are short-term in nature such that cost and fair value are the same. Securities are held in safekeeping by the respective financial institutions. Repurchase agreements are collateralized by securities at market value sufficient to cover the face values of the investments.

For purposes of the accompanying statement of cash flows, all highly liquid investments and certificates of deposit with original maturities of three months or less from date of purchase are considered to be cash equivalents.

A portion of cash that is held by agents of the Authority is reported separately as cash with fiscal agents. There are no restrictions on the use of these funds.

(e) Inventories

Inventories of the Authority are valued at average cost. This inventory consists of expendable materials and supplies. The cost is expensed when the materials and supplies are used (consumption method of accounting).

(f) Restricted Cash and Cash Equivalents

A certain portion of cash and cash equivalents is reported in a separate restricted asset account on the accompanying statement of fund net position because the use of these amounts is governed by revenue bond indenture provisions or a regulatory agreement.

(g) Assets Held for Sale and Extraordinary Maintenance

Assets held for sale are stated at acquisition cost plus improvements, but not in excess of net realizable value. Properties that the Authority intends to donate to the City or others are stated at a net realizable value of $0, as the Authority does not expect to recover any of the cost of the property. Proceeds received from sales of these properties are required to be remitted to either the City or the federal government and, with the approval of the grantors, can be reprogrammed by the Authority or be used to reduce outstanding indebtedness. Consequently, as a result of this restriction, fund net position associated with the above assets are considered restricted in the accompanying financial statements.

Extraordinary maintenance expenses include losses incurred to record assets held for sale at net realizable value and capital outlays with an acquisition cost less than $5,000.

(h) Capital Assets

Capital outlays are recorded as assets in the financial statements if the acquisition cost is greater than $5,000 and they have a useful life of two years or more. Capital outlays of the Authority are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are expensed when incurred. Amounts that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation of capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20 to 40 years
Equipment:	
Data processing equipment	3 to 5 years
Vehicles	3 to 7 years
Office furniture and equipment	3 to 5 years

(i) Bond Premiums, Discounts, and Issuance Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the terms of the related issues on a straight-line basis.

(j) Deferred Loss on Refunding

The Authority's deferred loss on refunding was charged to operations through the current fiscal year using the straight-line method.

(k) Compensated Absences

Employees earn annual vacation leave at a rate ranging from 12 days per year, up to a maximum of 24 days per year after 31 years of service. There is no requirement that annual vacation leave be taken, but the maximum permissible accumulation is 36 days. At termination, employees are paid for any accumulated annual vacation leave. Employees also earn annual sick leave at the rate of one day each month. Employees hired prior to December 31, 1997 with more than five years of service are paid for 30% of unused sick leave upon separation. The current and noncurrent portions of accumulated annual vacation leave and sick leave estimated to be paid upon separation are recorded in the Authority's basic financial statements.

(l) Income Taxes

As a political subdivision of the State of Virginia, the Authority is exempt from federal and state income taxes.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the carrying amount of assets held for sale, the carrying amount of capital assets, valuation of receivables, and obligations related to employee benefits. Actual results could differ from those estimates.

(n) Self-Insurance

The Authority participates in a self-insurance program with the City for commissioners' liability insurance. There are no limits set in this self-insurance program. All personal assets of the Board would be defended in civil actions arising from their duties. At June 30, 2013, there are no liabilities for unpaid claims.

(o) Other Postemployment Benefits

The Authority provides postretirement health and dental care benefits, in accordance with the federal COBRA law, which requires the Authority to extend access to healthcare benefits for 18 months after termination to any employee participating in the health and dental plan. The Authority has elected to provide access to healthcare for retirees until age 65 or until they are eligible for Medicare. There are 24 retirees participating at 100% of their own cost. The Authority's regular healthcare provider underwrites the retiree's policies. GAAP requires the plan sponsor to record the actuarial cost (net of employee and retiree contributions) of the plan as an expense in its financial statements and then accrue a liability to the extent actual contributions are less than this actuarial required contribution.

(p) New Accounting Standards Adopted

During the fiscal year ended June 30, 2013, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus – An amendment of GASB Statements No. 14 and 34*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-*

November 30, 1989 FASB and AICPA Pronouncements; and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Implementation of these statements had no material impact on the Authority's fiscal year 2013 financial statements.

(q) Revision

The Authority's basic financial statements were revised to remove the balance of notes payable to the Federal Financing Bank, for which payments of principal and interest were being made by HUD on behalf of the Authority. The notes were repaid in full by HUD in 2010, but the repayment was not recorded in the Authority's basic financial statements at that time. Total fund net position – ending for the primary government was previously reported as $207,807,674 as of June 30, 2012. The revision, which did not materially affect the basic financial statements, had the impact of increasing total fund net position – beginning for the primary government by $5,325,042 to $213,132,716 in the accompanying statement of revenues, expenses, and changes in fund net position.

(r) Net Position

Net position is categorized into three components as follows:

- *Net investments in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and is reduced by the outstanding balances of any bonds and notes payable or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component.
- *Restricted* – This component of net position consists of restrictions placed on net position as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and the unrestricted resources when they are needed.
- *Unrestricted* – This component consists of net position that does not meet the definition of "restricted" or "net investments in capital assets."

(2) Deposits and Investment

At June 30, 2013, the carrying value of the Authority's deposits with banks and savings institutions was $49,792,052 and the bank balance was $52,034,550, which was either covered by Federal Depository Insurance Corporation (FDIC), collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), or held in trust accounts. During 2013, there were no funds held in trust accounts with financial institutions that were not listed on the Virginia Department of the Treasury's listing of qualified depositories.

(a) Custodial Credit Risk

Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100% of deposits in excess of FDIC limits. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks and savings institutions) of the pool; therefore, these deposits are considered collateralized and as a result are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

In accordance with the Authority's investment policy, temporary cash surpluses are invested in repurchase agreements and certificates of deposit. The repurchase agreements are then fully collateralized by the U.S. government and government agency securities pledged in the Authority's name. The collateral would then be held by the pledging financial institution in its own name.

(b) Concentration of Credit Risk

The Code of Virginia has authorized the Authority to invest in certificates of deposit with national banks located within the Commonwealth of Virginia, obligations of the United States or its agencies, bankers' acceptances, repurchase agreements, and "prime quality" commercial paper.

(c) Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair value by investing operating funds in securities maturing in periods of up to one year, or a lesser period that coincides with expected disbursements. Investments of reserves not needed for operations are typically held to maturity.

A reconciliation of the carrying value of deposits as reported previously to amounts reported in the accompanying statement of fund net position for the primary government is as follows:

Deposits	$	49,792,052
Cash on hand		775
Letter of credit		600,000
	$	50,392,827

Per Exhibit A:		
Cash and cash equivalents	$	36,516,574
Cash with fiscal agents		4,948,533
Restricted cash and cash equivalents		8,927,720
	$	50,392,827

(d) Foreign Currency Risk

The Authority does not have any foreign investments.

(e) Component Unit

Norfolk Community College Campus Corporation

Credit Risk

Financial instruments that potentially subject NCCCC to credit risk consist principally of cash and bond escrow funds. NCCCC places its cash with high credit quality financial institutions and balances may, at times, exceed the FDIC-insured limits. At December 31, 2012, NCCCC had $2,206 in cash and $229,120 invested by the trustee in short-term money market instruments.

(Continued)

(3) Receivables

The only receivables not expected to be collected within one year are the notes receivable. A summary of notes receivable at June 30, 2013, with specific payment terms, is as follows:

1% promissory notes, due from Community Ventures Investors, L.L.C. Monthly installments of interest only. Principal is due in full by January 1, 2015. The purpose of the loan is for Community Ventures Investors, L.L.C. to purchase new market tax credits for the Attucks Theater. The principal balance is not expected is be paid, thus the note is fully reserved	$	5,688,000
Allowance for doubtful accounts		(5,688,000)
	$	—
Notes receivable – HOME:		
0% promissory notes receivable of the HOME program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	$	13,315,529
Allowance for doubtful accounts		(13,315,529)
	$	—
0% promissory notes receivable of the Hope VI program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	$	1,573,901
Allowance for doubtful accounts		(1,573,901)
	$	—

Promissory note receivable due from The Community Builders (TCB) Marshall Manor II LP. The funds were provided for the construction of 66 units of rental housing, of which 56 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2044.	$	3,885,753
Promissory note receivable due from TCB. The funds were provided for approved costs of the Marshall Manor II development. The note bears no interest, principal payments to be made from cash flow and/or net proceeds of TCB Marshall Manor II that TCB receives.		51,370
Promissory note receivable due from TCB Bowling Green II LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2044.		2,754,168
Promissory note receivable due from TCB Marshall Manor III LP. The funds were provided for the construction of 58 units of rental housing, of which 46 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2045.		2,470,485
Promissory note receivable due from TCB. The funds were provided for approved costs of the Marshall Manor III development. The note bears no interest, principal payments to be made from cash flow and/or net proceeds of TCB Marshall Manor III that TCB receives.		131,211
Promissory note receivable due from TCB Bowling Green III LP. The funds were provided for the construction of 45 units of rental housing, of which 35 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2045.		2,020,387

(Continued)

Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.	$	1,368,552
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.		1,531,494
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Total notes receivable – Hope VI		15,513,420
Working Fund - A 3.75% rate per annum promissory note due from local citizen in monthly installments of principal and interest. This loan is made to a local citizen to help purchase a home located in a targeted neighborhood. The note is secured by a deed of trust on certain real property.		46,890
Working Fund - 0% promissory notes receivable, due from a local citizen on a deferred basis to purchase a home located in a targeted neighborhood. The note is due when the signor vacates the residence or upon the homeowner's death. The note is secured by a deed of trust on certain real property.		65,000
EDA Revolving Loan – Fixed rate 5% promissory notes receivable due from local citizens in monthly installments of principal and interest. The loans are made to qualifying businesses for capital improvements. An allowance of doubtful accounts of $4,000 is recorded related to these notes.		153,466
Broad Creek – 0% promissory notes receivable, due from local citizens on a deferred basis to purchase homes located in a targeted neighborhood. The notes are secured by a deed of trust and are partially forgivable.		39,525
EOV Note Initiatives – 0% promissory note for the purchase of a residence. The note is due when the signor vacates the residence or upon the homeowner’s death. The note is secured by a deed of trust on certain real property.		195,000

Program Income – 0% to 8% fixed rate promissory notes receivable due from local citizens on a deferred basis, forgivable basis, or in monthly installments of principal and interest. Program income consists of gap financing, demo in lieu of acquisition, an ecumenical family shelter note, and other notes. Gap financing is issued to qualifying person(s) to provide second deeds of trust for down payments and closing costs. Demo in lieu of acquisition is issued to qualifying person(s) in which the Authority incurs the cost of demolition and takes a note to be paid at a future date. The ecumenical family shelter note is for the acquisition and renovation of a multiple family building, the "Dwelling Place." Other notes are issued to nonprofit agencies for land the Authority has "donated." The notes become payable if the use is no longer for "low to moderate income residential."	$	78,133
Rehabilitation Loans – 5% to 12% fixed rate promissory notes receivable, due from local citizens either on a deferred basis or in monthly installments of principal and interest. The loans are made to qualifying persons to make improvements to property located in certain redevelopment and rehabilitation areas as designated by the Authority and the City. The notes are secured by deeds of trust on the rehabilitation improvements made to the properties.		10,980,693
Total notes receivable		27,072,127
Less current portion		124,430
	$	26,947,697

Component Unit

NCCCC leases a facility to the State Board for Community Colleges for approximately $2,000,000 per year until December 31, 2015, and $750,000 thereafter until December 31, 2019. The $2,000,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of $1,650,000 and $350,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $7,860,000 equal to the debt described in note 5.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statement

June 30, 2013

(4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2013:

	Balance, July 1, 2012	Increases	Decreases	Balance, June 30, 2013
Capital assets not being depreciated:				
Land	$ 23,126,377	2,672,738	—	25,799,115
Construction in progress	9,983,363	4,327,309	(9,681,969)	4,628,703
Total capital assets not being depreciated	33,109,740	7,000,047	(9,681,969)	30,427,818
Other capital assets:				
Buildings and building improvements	178,590,499	24,797,852	(16,441,963)	186,946,388
Improvements other than buildings	69,630,452	12,946,550	(10,580,049)	71,996,953
Equipment	9,443,556	789,990	(1,218,656)	9,014,890
Total other capital assets	257,664,507	38,534,392	(28,240,668)	267,958,231
Less accumulated depreciation for:				
Buildings and building improvements	93,853,257	6,502,070	(113,191)	100,242,136
Improvements other than buildings	43,787,069	2,205,031	(18,126)	45,973,974
Equipment	6,704,772	431,952	(548,821)	6,587,903
Total accumulated depreciation	144,345,098	9,139,053	(680,138)	152,804,013
Other capital assets, net	113,319,409	29,395,339	(27,560,530)	115,154,218
	$ 146,429,149	36,395,386	(37,242,499)	145,582,036

The Authority has active construction projects as of June 30, 2013. Outstanding commitments related to construction in progress amounted to approximately $5.4 million at June 30, 2013.

The following is a reconciliation of depreciation expense per the statement of revenues, expenses, and changes in fund net position to the table above:

Depreciation and amortization expense	$ 9,187,893
Less amortization expense	(48,840)
Increase in accumulated depreciation	$ 9,139,053

(Continued)

(5) Debt

A summary of the Authority's debt activity for the fiscal year ended June 30, 2013 is presented below:

	Amounts payable at July 1, 2012	Additions	Retirements and reductions	Amounts payable at June 30, 2013	Amounts due within one year
Notes payable:					
Granby Street office building	$ 1,267,184	—	179,639	1,087,545	187,301
Grandy renovation	5,915	—	5,915	—	—
Park Terrace	584,023	—	101,220	482,803	110,686
NRHA Mission I	10,421,664	—	67,496	10,354,168	84,162
Monroe renovation	—	1,490,468	—	1,490,468	—
	12,278,786	1,490,468	354,270	13,414,984	382,149
Bonds payable:					
Multifamily revenue bonds – Oakmont North	2,445,000	—	215,000	2,230,000	230,000
Revenue bonds – Merrimack Landing	1,245,000	—	605,000	640,000	640,000
Less:					
Unamortized bond discount	(15,136)	—	(10,684)	(4,452)	(4,452)
Unamortized loss on refunding	(10,907)	—	(10,907)	—	—
	3,663,957	—	798,409	2,865,548	865,548
Total debt	$ 15,942,743	1,490,468	1,152,679	16,280,532	1,247,697

(Continued)

The following summarizes the Authority's long-term note and bond obligations at June 30, 2013:

Notes payable:		
Tax-exempt government bond for renovation to the 201 Granby Building. Repayment of yearly principal and interest of $232,588 due in monthly installments with interest at 4.388% through 2018. The debt is secured by the building and all equipment at 201 Granby Street.	$	1,087,545
Mortgage note insured by the Federal Housing Administration for a 260-unit apartment complex in Norfolk, Virginia bearing interest at the rate of 5.875%. Principal and interest are paid in monthly installments of $30,968.		10,354,168
Note payable to VHDA, due in monthly installments of $12,461, including interest at 8.974%, through April 2017. The note is secured by substantially all assets of the Park Terrace apartment project.		482,803
Construction loan for renovation to the Monroe Building, interest at the rate of 4.30% is based on the outstanding principal balance of the note. Expected term for the construction phase is 36 months. The loan is secured by a lien on the property and a security interest in the lease and rents of the property.		1,490,468
Total notes payable		13,414,984
Bonds payable:		
Tax-exempt variable rate multi-family rental housing revenue bonds Series 1999. Interest is payable monthly, principal payments are due annually on March 1 through 2021. These bonds are secured by a letter of credit with a local bank. The interest rate at June 30, 2013 was 0.1% and is reset weekly based on LIBOR.		2,230,000
Multifamily housing serial revenue refunding bonds issued February 1, 1997, interest from 4.1% to 5.5% payable semiannually. The bonds are secured by a lien on the property and a security interest in the leases and rents of the property. The bonds will be redeemed pursuant to the sinking fund provisions of the trust agreement between the Authority and the trustee, in increasing amounts each December 1 through 2013.		640,000
		2,870,000
Less:		
Unamortized bond discount		(4,452)
Total bonds payable		2,865,548
Total bonds and loans payable	$	16,280,532

(a) Future Maturities

Future maturities of the Authority's various debt obligations together with scheduled interest payments are as follows:

	Notes and loan payable		Bonds payable	
	Principal	Interest	Principal	Interest
Fiscal years ending June 30:				
2014	$ 382,149	775,482	870,000	19,600
2015	406,830	750,743	240,000	1,530
2016	433,197	733,314	255,000	1,275
2017	435,582	688,766	270,000	1,005
2018	333,696	674,144	285,000	950
2019 – 2023	547,557	2,620,781	950,000	240
2024 – 2026	9,385,505	3,569,404	—	—
	$ 11,924,516	9,812,634	2,870,000	24,600

The preceding schedule does not include the unamortized bond discount of $4,452, nor the Monroe Building construction loan of $1,490,468.

(b) Component Unit

The Authority issued Educational Facility Revenue bonds dated September 1, 1999 for the Tidewater Community College downtown campus project in the amount of $9,115,000. At December 31, 2012, $4,290,000 remained outstanding. Interest at rates from 4.3% to 5.5% is payable semiannually and principal payments are due annually in November.

The Authority issued Educational Facility Revenue Refunding bonds dated March 1, 2003 for the Tidewater Community College downtown campus project in the amount of $8,970,000. These bonds refunded a portion of the Educational Facility Revenue bonds dated May 1, 1995. At December 31, 2012, $3,570,000 remained outstanding. Interest at rates from 2.00% to 5.25% is payable semiannually and principal payments are due annually in November. Also included in bonds payable is $85,590 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2013 - $1,650,000; 2014 – $1,735,000; 2015 – $1,820,000; 2016 – $610,000; 2017 – $645,000; and 2018 through 2019 – $1,400,000.

(6) Pension Plan

(a) Plan Description

The Authority contributes to the Virginia Retirement System (VRS or the System), an agent multiple-employer defined-benefit pension plan administered by the VRS. All full-time, salaried permanent employees must participate in the VRS. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined-benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Nonhazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- 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. Nonhazardous duty members 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. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70%. The retirement multiplier for eligible political subdivision hazardous duty employees is 1.70% or 1.85% as elected by the employer. 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, 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.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. Effective July 2012 this 5.00% member contribution has been assumed by the employee. In addition, the employer is required to contribute the remaining amounts necessary to fund its participation in the System using the actuarial basis specified by statute and approved by the VRS board of trustees. The Authority's contribution rate for the fiscal year ended June 30, 2013 was 13.18% of annual covered payroll.

(c) Annual Pension Cost

For the fiscal year ended June 30, 2013, the Authority's annual pension cost of $1,841,216 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.50% per year COLA for Plan 1 members and 2.25% for Plan 2 members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis. The amortization period is 29 years (decreasing by one each year in subsequent valuations until reaching 20 years). The trend information for the Authority's employees is as follows:

	Three-year trend information		
	Annual pension cost (APC)	**Percentage of APC contributed**	**Net pension obligation**
Fiscal year ending:			
June 30, 2013	$ 1,841,216	100%	None
June 30, 2012	2,094,673	100	None
June 30, 2011	2,175,491	100	None

(d) Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 73.02% funded. The actuarial accrued liability for benefits was $94,889,312, and the actuarial value of assets was $69,286,782, resulting in an unfunded actuarial accrued liability (UAAL) of $25,602,530. The covered payroll (annual payroll of active employees covered by the plan) was $13,424,770, and the ratio of the UAAL to the covered payroll was 190.71%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

(7) Deferred Compensation Plan

The Authority offers all regular employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees or beneficiaries until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in an annuity contract for the participants. The contract is managed by ING Life Insurance and Annuity Company. The assets are not included in the accompanying basic financial statements as of June 30, 2013.

(8) Commitments and Contingencies

(a) Federal Award Programs

The Authority participates in a number of federal award programs. Although the Authority is being audited in accordance with the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the Authority believes such disallowances, if any, will not be significant.

(b) Litigation

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

(c) Letters of Credit

The Authority has eight outstanding letters of credit with a bank for $4,650,024. Monthly draws have been made against one of the letters of credit to pay interest on bonds issued by the bank. Those letters of credit are repaid from interest escrow accounts kept with the bank. No draws have been made against the other seven letters of credit.

(9) Conduit Debt

Periodically, the Authority has issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction and rehabilitation of industrial and commercial facilities and multifamily residential facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans.

Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2013, there were seven issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately $153,000,000.

(10) Related-Party Transactions

The Authority has entered into contracts with The Community Builders (TCB) and various limited partnership owner entities set up by TCB to construct, own, and operate six rental housing developments in the Broad Creek section of the City. The construction of the six developments is funded with Hope VI funds supplied by the Authority and low-income housing tax credits administered by the Virginia Housing and Development Authority.

(11) Other Postemployment Benefits (OPEB) Liability

(a) Plan Description

At its sole discretion, the Authority offers a Postretirement Healthcare Benefit Plan subject to eligibility. Under the plan, the Authority will offer retiree’s access to health insurance at the same cost as active employees up through age 65 or until the retiree is eligible for Medicare. To be eligible to participate, the retiree must terminate service with the Authority and be receiving service or disability retirement through the VRS. The dependents of a retiree shall be eligible for coverage to the same extent as for the dependents of active employees.

(b) Funding Policy

To receive healthcare benefits, the employee or surviving spouse/dependent must be making the required premium contribution on a timely basis. Retirees pay 100% of the required premiums. The cost of the benefits provided by the plan is currently being paid by the Authority on a pay-as-you-go basis.

(c) Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years, and is included in the Authority's statement of fund net position in noncurrent liabilities – other. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the healthcare benefit plan:

	Year ended June 30	
	2013	**2012**
ARC:		
Normal cost	$ 521,527	509,548
Adjustments to ARC	(73,255)	(73,255)
Interest	61,139	47,849
Total ARC	509,411	484,142
Contributions made	(164,000)	(151,885)
Increase in net OPEB obligation	345,411	332,257
Net OPEB obligation, beginning of year	1,528,482	1,196,225
Net OPEB obligation, end of year	$ 1,873,893	1,528,482

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011 through 2013 were as follows:

Year ended June 30	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2011	$ 474,488	23.1%	$ 1,196,225
2012	484,142	31.4	1,528,482
2013	509,411	32.2	1,873,893

(d) Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $4,307,315. The covered payroll (annual payroll of active employees covered by the plan) was $14,014,644, and the ratio of the UAAL to the covered payroll was 30.1% Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at July 1, 2011 included a 4% investment rate of return and an annual healthcare cost trend rate increase of 8% in 2012 and then grades down to 5% over 4 years. The Authority's UAAL is being amortized on a closed level dollar amount basis over a period of 28 years.

(12) Compensated Absences

Authority employees are entitled to certain compensated absences based on their accrued leave balance. Upon termination, employees may be paid their full vacation (leave) balance at their normal pay rate, employees hired prior to December 31, 1997 with more than five years of service are paid 30% of unused sick leave. As of June 30, 2013, the Authority accrued $1,469,401 for compensated absences.

	Balance, July 1, 2012	Additions	Deletions	Balance, June 30, 2013	Balance due within one year
Accrued compensated absences	$ 1,434,125	914,172	878,896	1,469,401	134,445

(13) Blended Component Units

Certain component units are blended with the primary government in the Authority's Basic Financial Statements. None of these component units are considered to be major and therefore the following condensed combining information is presented in aggregate of all blended component units.

Condensed Summary of Fund Net Position - Blended Component Units
June 30, 2013

Current assets	$	5,327,629
Capital assets		55,962,272
Other assets		5,763,119
Total assets	$	67,053,020
Current liabilities	$	1,374,710
Noncurrent liabilities		46,983,985
Total liabilities		48,358,695
Net investment in capital assets		13,595,083
Restricted		1,094,303
Unrestricted		4,004,939
Total fund net position		18,694,325
Total liabilities and fund net position	$	67,053,020

Exhibit D

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statement

June 30, 2013

Condensed Summary of Revenues, Expenses, and Changes in Fund Net Position - Blended Component Units June 30, 2013

Tenant revenue	$	3,644,081
Government operating grants		2,471,653
Other revenue, net		1,469,322
Total operating revenue		7,585,056
Administrative expense		1,970,277
Tenant services expense		122,676
Utilities expense		1,071,185
Maintenance expense		1,137,440
Protective services expense		155,377
General expense		1,685,452
Extraordinary maintenance expense		39,478
Depreciation and amortization expense		1,867,816
Total operating expenses		8,049,701
Operating loss		(464,645)
Total nonoperating expense		(1,756,148)
Contributions		3,520,458
Distributions to partners		(37,619)
Change in net position		1,262,046
Beginning net position		17,432,279
Ending net position	$	18,694,325

Condensed Summary of Cash Flows - Blended Component Units June 30, 2013

Net cash provided (used) by:		
Operating activities	$	1,294,183
Noncapital financing activities		(92,880)
Capital and related financing activities		(1,020,819)
Investing activities		(21,713)
Net decrease in cash and cash equivalents		158,771
Beginning cash and cash equivalent balances		5,688,927
Ending cash and cash equivalent balances	$	5,847,698

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Exhibit E-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis
Schedule of Funding Progress – VRS

Year ended June 30, 2013

(Unaudited)

Actuarial valuation date		Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded actuarial accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	$	72,651,349	92,644,897	19,993,548	78.42%	$	14,066,851	142.13%
June 30, 2011		72,126,884	93,055,684	20,928,800	77.51		14,270,980	146.65
June 30, 2012		69,286,782	94,889,312	25,602,530	73.02		13,424,770	190.71

Unaudited - see accompanying accountants' report.

Exhibit E-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis
Schedule of Funding Progress – Postretirement Healthcare Benefit Plan

Year ended June 30, 2013

(Unaudited)

Actuarial valuation date		Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded actuarial accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
July 1, 2009	$	—	4,124,354	4,124,354	—%	$	14,269,757	28.9%
July 1, 2011		—	4,032,158	4,032,158	—		14,014,644	28.8

Unaudited - see accompanying accountants' report.

Exhibit F-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Community Development Block Grant Fund Expenditures by Program Year

Year ended June 30, 2013

(Unaudited)

	Site clearance	Administration	Site improvement	Site acquisition	Site disposition	Rehabilitation	Relocation	Miscellaneous	Total
Community Development (CD) Block Grant Fund:									
Program year 2002	$ —	—	—	—	—	—	—	—	—
Program year 2003	—	—	—	—	—	—	—	—	—
Program year 2004	3,076	—	—	—	—	—	—	—	3,076
Program year 2005	—	—	—	—	—	—	—	—	—
Program year 2006	—	—	—	—	—	—	—	—	—
Program year 2007	—	—	—	—	—	—	—	—	—
Program year 2008	—	—	25,400	—	1,245	—	—	—	26,645
Program year 2009	—	—	105,431	—	459	—	—	—	105,890
Program year 2010	—	—	10,196	—	254	—	—	—	10,450
Program year 2011	—	—	17,314	—	—	252,364	—	—	269,678
Program year 2012	—	503,323	—	—	—	1,330,309	—	62,625	1,896,257
Total CD	$ 3,076	503,323	158,341	—	1,958	1,582,673	—	62,625	2,311,996
Reconciliation to operating expenses:									
Project costs incurred	$ 3,076	503,323	158,341	—	1,958	1,582,673	—	62,625	2,311,996
Project costs incurred – Neighborhood Stabilization Program (NSP)									6,628
Total CD and NSP									2,318,624
Land held for resale – CDBG									127,725
Land held for resale – NSP									157,064
Operating expenses									$ 2,603,413

Unaudited - see accompanying accountants' report.

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Urban Renewal Fund Expenditures by Project

Year ended June 30, 2013

(Unaudited)

	Atlantic City VA R-1	Downtown North VA R-8	Downtown South VA R-9	Rosemont VA R-25	Ghent Neighborhood Conservation VA R-43	Huntersville VA R-70	Total
Classification of expenditures:							
Administrative costs	$ 5,124	6,582,202	14,684	10,797	929,917	18,027	7,560,751
Legal services	26,512	418,867	66,185	27,170	9,023	2,229	549,986
Survey and planning	9,950	735,757	39,533	—	5,084	—	790,324
Acquisition expense	—	10,228	—	—	823	1,610	12,661
Operation of acquired property	(558,414)	(60,545)	(15,881)	(13,823)	7,373	(878)	(642,168)
Relocation costs	—	20,942	—	—	205,629	22,596	249,167
Site clearance	935	16,597	—	2,583	66,917	43,663	130,695
Project or site improvements	11,040	3,457,056	119,555	1,272,591	135,129	11,125	5,006,496
Project or site improvements/transfer to waterside	—	—	3,100,000	—	—	—	3,100,000
Disposal, lease, and retention costs	60,287	293,704	29,545	246,056	35,258	63,685	728,535
Other income, primarily interest	(79,361)	(7,111,044)	(16,771)	(81,839)	(67,794)	(26,270)	(7,383,079)
Real estate purchases	—	183,000	—	—	30,000	30,000	243,000
Rehabilitation	—	367,948	—	—	—	—	367,948
Net cumulative project costs at June 30, 2013	(523,927)	4,914,712	3,336,850	1,463,535	1,357,359	165,787	10,714,316
Net cumulative project costs at June 30, 2012	(526,204)	4,883,800	3,336,850	1,463,535	1,356,527	165,787	10,680,295
Net project costs incurred during year ended June 30, 2013	2,277	30,912	—	—	832	—	34,021
Revenue earned during year ended June 30, 2013	13,440	—	—	—	—	—	13,440
Gross project costs incurred during year ended June 30, 2013	$ 15,717	30,912	—	—	832	—	47,461

Unaudited - see accompanying accountants' report.

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Capital Fund Program Expenditures

Year ended June 30, 2013

(Unaudited)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Classification of expenditures:										
1406 Operations	$ —	—	—	8,240	—	1,200,000	1,200,000	209,991	400,000	3,018,231
1408 Management improvements	120,809	155,813	139,388	171,297	147,275	183,350	239,830	180,182	74,229	1,412,173
1410 Administration	510,444	674,998	573,446	613,923	559,004	592,675	647,696	553,247	490,385	5,215,818
1411 Audit	—	—	—			9,000	—	15,000	4,000	28,000
1430 Fees and costs	239,686	882,418	745,714	2,236,853	871,773	925,950	882,248	777,626	453,447	8,015,715
1440 Predevelopment costs	—	277,695	—	—	—	—	—	—	—	277,695
1450 Site improvements	230,178	246,471	347,580	1,151,455	2,813,540	722,591	654,945	477,950	—	6,644,710
1460 Dwelling structures	2,255,113	1,723,793	2,067,889	1,352,370	1,350,135	2,213,150	1,271,026	505,020	50,665	12,789,161
1465.1 Dwelling equipment – nonexpendable	167,565	202,280	—	160,174	75,241	177,000	297,860	285,538	145,046	1,510,704
1470 Nondwelling structures	—	639,147	556,366	—	—	137,984	—	6,286	—	1,339,783
1485 Demolition	—	—	—	99,235	—	—	1,083,545	—	—	1,182,780
1490 Replacement reserves*	3,343,069	772,911	—	—	—	—	—	—	—	4,115,980
1495 Relocation costs	—	—	—	—	—	325,059	—	—	3,595	328,654
1498 Development activity	—	1,661,636	1,677,736	350,486	639,570	—	—	—	—	4,329,428
Total capital fund expenditures	6,866,864	7,237,162	6,108,119	6,144,033	6,456,538	6,486,759	6,277,150	3,010,840	1,621,367	50,208,832
1460/1499 Replacement housing factor funds	359,885	6,440	—	—	—	—	200,000	—	—	566,325
Cumulative project costs at June 30, 2013	7,226,749	7,243,602	6,108,119	6,144,033	6,456,538	6,486,759	6,477,150	3,010,840	1,621,367	50,775,157
Cumulative project costs at June 30, 2012	7,226,749	7,243,602	6,108,119	6,144,033	6,456,538	6,425,554	4,311,983	1,277,472	3,814	45,197,864
Project costs incurred during year ended June 30, 2013	—	—	—	—	—	61,205	2,165,167	1,733,368	1,617,553	5,577,293
* Classification of expenditures – replacement reserves:										
1410 Administration	6,737	15,339	—	—	—	—	—	—	—	22,076
1430 Fees and costs	24,564	68,290	—	—	—	—	—	—	—	92,854
1450 Site improvements	1,172,180	8,558	—	—	—	—	—	—	—	1,180,738
1460 Dwelling structures	1,370,251	27,692	—	—	—	—	—	—	—	1,397,943
1470 Nondwelling structures	1,033,925	—	—	—	—	—	—	—	—	1,033,925
1495 Relocation costs	—	—	—	—	—	—	—	—	—	—
1498 Development activity	—	697,643	—	—	—	—	—	—	—	697,643
Cumulative project costs at June 30, 2013	3,607,657	817,522	—	—	—	—	—	—	—	4,425,179
Cumulative project costs at June 30, 2012	3,607,657	817,522								4,425,179
Project costs incurred during year ended June 30, 2013	—	—	—	—	—	—	—	—	—	—
Total project costs incurred during year ended June 30, 2013	—	—	—	—	—	61,205	2,165,167	1,733,368	1,617,553	5,577,293
Increase in capital assets (not including depreciation):										
Ending balance	78,340	—	6,473	8,370	234,054	3,263,111	2,495,444	1,042,270	56,809	7,184,871
Transfers to operations	5,472,117	2,200,356	4,113,736	3,954,337	4,180,961	119,428	1,074,075	—	—	21,115,010
Beginning balance	(5,550,457)	(2,200,356)	(4,120,209)	(3,962,707)	(4,415,015)	(3,342,200)	(1,480,937)	(127,423)	—	(25,199,304)
Increase (decrease) in capital assets	—	—	—	—	—	40,339	2,088,582	914,847	56,809	3,100,577
Management improvements and administration	—	—	—	—	—	20,866	76,585	818,521	1,560,744	2,476,716
Transfers to operations	—	—	—	—	—	—	(22,184)	(209,991)	(400,000)	(632,175)
Depreciation	6,031	—	325	424	11,703	163,606	18,290	9,857	49	210,285
Operating expenses	$ 6,031	—	325	424	11,703	184,472	72,691	618,387	1,160,793	2,054,826

* Replacement reserves expenditures

Unaudited - see accompanying accountants' report.

Exhibit F-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2013

(Unaudited)

		PROGRAM YEAR			
		RFS226A010 2011	**RPS101A010 2011**	**RFS081A011 2012**	**Total**
Classification of expenditures:					
1168 Program coordinator - Salaries	$	105,552	236,047	85,957	427,556
1168 Program coordinator - Fringe benefits		32,448	82,100	27,282	141,830
1268 Travel costs		—	2,397	—	2,397
1268 Training		—	1,304	—	1,304
1268 Program expenses		—	807	—	807
1868 Administrative costs		—	22,489	—	22,489
Cumulative project costs at June 30, 2013		138,000	345,144	113,239	596,383
Cumulative project costs at June 30, 2012		125,685	154,926	—	280,611
Project costs incurred during year ended June 30, 2013	$	12,315	190,218	113,239	315,772
Current year depreciation					556
Operating expenses					316,328

Unaudited - see accompanying accountants’ report.

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Urban Revitalization Program (Hope VI) Expenditures

Year ended June 30, 2013

(Unaudited)

		Program year 2000		Total
Classification of expenditures:				
Management improvements	$	5,189,369		5,189,369
Administration		4,392,544		4,392,544
Fees and costs		4,589,581		4,589,581
Site acquisition		68,475		68,475
Site improvement		1,125,692		1,125,692
Dwelling structures		14,660,223		14,660,223
Nondwelling equipment		25,000		25,000
Demolition		2,158,723		2,158,723
Relocation costs		1,537,747		1,537,747
Hope VI Section 8		2,059,099		2,059,099
Cumulative project costs at June 30, 2013		35,806,453		35,806,453
Cumulative project costs at June 30, 2012		35,596,233		35,596,233
Project costs incurred during year ended June 30, 2013	$	210,220		210,220
Reconciliation to operating expenses:				
Project costs incurred			$	210,220
Decrease in fixed assets:				
Ending balance	$	1,563,528		
Depreciation		325		
Beginning balance		(1,563,853)		
Decrease in fixed assets				—
Decrease in notes receivable:				
Ending balance		17,332,728		
Beginning balance		(17,332,728)		
Decrease in notes receivable				—
Accrued compensated absences				1,474
Depreciation				325
Total operating expenses			$	212,019

Unaudited - see accompanying accountants’ report.

Exhibit F-6

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ARRA – Capital Fund Recovery Grant Expenditures

Year ended June 30, 2013

(Unaudited)

	Program year 2009	Total
Classification of expenditures:		
1410 Administration	$ —	—
1430 Fees and costs	—	—
1450 Site improvements	—	—
1460 Dwelling structures	—	—
1485 Demolition	—	—
Cumulative project costs at June 30, 2013	—	—
Cumulative project costs at June 30, 2012	9,193,643	9,193,643
Project costs incurred during year ended June 30, 2013	$ (9,193,643)	(9,193,643)
Reconciliation to schedule of expenditures of federal awards:		
Project costs transferred during year ended June 30, 2013		$ (9,193,643)
Transfer to operations		9,193,643
Total expenditures of federal awards		$ —
Reconciliation to operating expenses:		
Project costs incurred during year ended June 30, 2013		$ (9,193,643)
Increase in fixed assets (not including depreciation):		
Ending balance		—
Beginning balance		(8,408,762)
Decrease in fixed assets		(8,408,762)
Administration		(784,881)
Transfer to Central Office Cost Center		784,881
Operating expenses		$ —

Unaudited - see accompanying accountants' report.

Exhibit F-7

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of FAIR Housing Assistance Program (FAIR) Expenditures

Year ended June 30, 2013

(Unaudited)

		Program year 2011	Total
Classification of expenditures:			
Salaries	$	35,301	35,301
Fringe benefits		14,699	14,699
Cumulative project costs at June 30, 2013		50,000	50,000
Cumulative project costs at June 30, 2012		15,199	15,199
Project costs incurred during year ended June 30, 2013	$	34,801	34,801

Unaudited - see accompanying accountants' report.

Exhibit F-8

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Choice Neighborhood Incentives (CNI) Expenditures

Year ended June 30, 2013

(Unaudited)

		Program year 2012	Total
Classification of expenditures:			
Salaries	$	33,016	33,016
Fringe benefits		10,471	10,471
Training and travel		16,785	16,785
Other admin		77,616	77,616
Tenant services		24,578	24,578
Cumulative project costs at June 30, 2013		162,466	162,466
Cumulative project costs at June 30, 2012		72,068	72,068
Project costs incurred during year ended June 30, 2013	$	90,398	90,398

Unaudited - see accompanying accountants' report.

Exhibit G-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Agency/program grant title	Pass-through agency	CFDA number		Expenditures
Department of Housing and Urban Development:				
Low-income housing:				
Local housing authority:				
Public Housing Program (contract P-5540):				
VA6-2 through VA6-12 and VA6-18 through VA6-22 and VA6-24 through VA6-32 annual subsidy		14.850	$	15,210,614
Section 8 Housing Assistance Payments Program:				
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4		14.871		25,678,488
New construction – Park Terrace Program (contract P-5512)	VHDA	14.182		335,187
Subtotal – Section 8 Housing Assistance Payments Program				26,013,675
Single Room Occupancy (SRO) Program: (VA36K401001)		14.249		348,307
Capital fund program:				
VA-36-P006-501 (2009)		14.872		61,205
VA-36-P006-501 (2010)		14.872		1,965,167
VA-36-R006-501 (2010)		14.872		200,000
VA-36-P006-501 (2011)		14.872		1,733,368
VA-36-P006-501 (2012)		14.872		1,617,553
Subtotal – Capital Fund Program				5,577,293
ARRA – Capital Fund Recovery Grant – (VA-36-S006-501-09)		14.855		—
Resident Opportunity and Supportive Services (ROSS) Program:				
VA006RFS226A010 (2011)		14.870		12,315
VA006RPS101A010 (2011)		14.870		190,218
VA006RFS081A011 (2012)		14.870		113,239
Subtotal – ROSS Program				315,772
Choice Neighborhood Initiative		14.889		90,398
Fair Housing Assistance program (FAIR)		14.419		34,801
Job Access Reverse Commute (JARC)	HRT	20.516		218,034
New Freedom Program	HRT	20.521		52,469
Community Development Block Grant:	City of Norfolk			
Program year 2004 (CDBG No. B08-MC-510016)		14.218		3,076
Program year 2008 (CDBG No. B08-MC-510016)		14.218		26,645
Program year 2009 (CDBG No. B08-MC-510016)		14.218		105,890
Program year 2010 (CDBG No. B08-MC-510016)		14.218		10,450
Program year 2011 (CDBG No. B08-MC-510016)		14.218		269,678
Program year 2012 (CDBG No. B08-MC-510016)		14.218		1,896,257
Neighborhood Stabilization Program:				
Program year 2009		14.218		6,628
Subtotal – Community Development Block Grant				2,318,624
Home Investment Partnerships:	City of Norfolk			
Program year 2006 (HOME No. M07-MC-510203)		14.239		117,878
Program year 2007 (HOME No. M07-MC-510203)		14.239		—
Program year 2008 (HOME No. M08-MC-510203)		14.239		—
Program year 2009 (HOME No. M08-MC-510203)		14.239		143,038
Program year 2010 (HOME No. M08-MC-510203)		14.239		828,857
Program year 2011 (HOME No. M08-MC-510203)		14.239		9,401
Program year 2012 (HOME No. M08-MC-510203)		14.239		100,280
Subtotal – Home Investment Partnerships				1,199,454
HomeNet		14.169		47,476
Urban Revitalization Program (HOPE VI) (VA-36-URD006-1100) (2000)		14.866		212,019
Total expenditures of federal awards			$	51,638,936

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

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SUPPLEMENTARY INFORMATION (UNAUDITED)

COMPLIANCE SECTION

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Basis of Presentation

The schedule of expenditures of federal awards (Exhibit G-1) presents the activity of all federal awards programs of the Authority and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Authority's reporting entity is defined in note 1 to the Authority's basic financial statements. The component units did not receive any federal awards. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

(2) Basis of Accounting

The schedule of expenditures of federal awards is presented using the full accrual basis of accounting, which is described in note 1 to the Authority's basic financial statements. Additionally, expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Amounts Provided to Subrecipients

Total amounts provided to subrecipients from the HOME Investment Partnerships program were as follows:

Plumb Line Ministries	$	14,187
Beacon Light Civic League		8,642
	$	22,829

(4) Loans Outstanding

The Authority had outstanding loans receivable of $13,315,529 under the Home Investment Partnerships program, $8,527,987 under the Community Development Block Grant program, $1,573,901 under the Urban Revitalization Program, and $409,960 under the Capital Fund program. Such amounts are not included in the Schedule.

(1) Summary of Auditors' Results

(a) The type of report issued on the basic financial statements: **Unmodified opinion**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No**
Material weaknesses: **Yes, finding 2013-003**

(c) Noncompliance that is material to the basic financial statements: **No**

(d) Significant deficiencies in internal control over major programs: **Yes, findings 2013-001 and 2013-002**
Material weaknesses: **No**

(e) The type of report issued on compliance for major programs: **Unmodified opinion**

(f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**

(g) Major programs: **Public Housing Program CFDA 14.850; Section 8 Housing Assistance Payments Program CFDA 14.871**

(h) Dollar threshold used to determine Type A programs: $2,263,989

(i) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2013-003

Material Weakness in Internal Control

Criteria – The Authority is required to maintain an effective system of internal controls over financial reporting.

Condition – During the audit of the Authority's financial statements it was determined that several loans taken in the Authority's name and paid by HUD to the Federal Financing Bank were retired in March 2010, however the retirements were not properly reflected in the Authority's financial statements until 2013.

Perspective – The nature of this unique situation, in which debt is paid by a third party and the Authority does not have control over retirement of debt indicates that this condition appears to be an isolated instance.

Cause and Effect – The Authority did not have adequate controls in place over the verification of payments made by HUD on the Authority's behalf.

Recommendation – We recommend that the Authority enhance its internal control over financial reporting.

Views of Management – Management agrees with this finding.

(Continued)

Authority management and fiscal staff are on guard for arrangements which indicate transactions are not processed by the Authority, yet are required to be included in the Authority's financial reporting. Fiscal staff is included in:

- teams assigned to review draft agreements with 3rd parties to ensure provisions address required documentation and information,
- implementation teams to ensure processes and administrative procedures are established that ensure the integrity of the Authority's financial reporting.

(3) Findings and Questioned Costs Relating to Federal Awards

Department of Housing and Urban Development

Public Housing Program CFDA 14.850

Finding 2013-001: Eligibility

Significant Deficiency in Internal Control

Criteria – In accordance with 24 CFR sections 5.230, 5.609 and 960.259, the Authority is required to verify eligibility for program participants at least annually.

Condition – In our sample of 40 families tested for eligibility, there were five families in which the eligibility determinations were not performed correctly. For one of these families, a lease agreement for the property was not present in the participant's file, for three other families, the income was not calculated correctly, and in another one family, the supporting documentation for a re-examination was not present.

Perspective – Five out of 40 families in our sample were lacking adequate documentation to support proper eligibility verification for program participants.

Cause and Effect – The Authority did not have adequate controls in place over the performance of eligibility determinations for the Public Housing Program.

Recommendation – We recommend that the Authority enhance its internal control surrounding the performance of eligibility determinations.

Views of Management – Management agrees with this finding.

A meeting was held with the Zone Managers, Property Managers and Administrative Staff on October 4, 2013 to discuss the audit findings and review NRHA policies and procedures. The file audit checklist is being revised and staff will be trained on the use of the checklist to ensure file accuracy and completion. Training was provided for all Property Managers and Administrative staff on November 15, 2013 on the NRHA lease and requirements. The Property Managers have been directed to review all tenant files to ensure accuracy and completion. In addition, Asset Zone Managers are conducting random file audits monthly at each community to ensure accuracy of recertifications and compliance with all HUD policies. The audit reports are submitted to the Director of Property Management for review and to establish training needs for staff. Additional training will be scheduled in January/February 2014 to review the rent and asset calculation policies with the Property Managers and Administrative Staff.

Section 8 Housing Choice Vouchers CFDA 14.817

Finding 2013-002: Eligibility

Significant Deficiency in Internal Control

Criteria – In accordance with 24 CFR sections 5.230, 5.609 and 982.516, the Authority is required to verify eligibility for program participants at least annually.

Condition – In our sample of 26 families tested for eligibility, there were four families in which the eligibility determinations were not performed correctly. For three families, the income was not calculated correctly, and in another one family, the lease agreement for the property was not present.

Perspective – Four out of 26 families in our sample were lacking adequate documentation to support proper eligibility verification for program participants.

Cause and effect – The Authority did not have adequate controls in place over the performance of eligibility determinations for Section 8 Housing Vouchers.

Recommendation – We recommend that the Authority enhance its internal control surrounding the performance of eligibility determinations.

Views of Management – Management agrees with this finding.

Effective September 9, 2013 all HCV staff received all day training on income calculation and common errors noted by NRHA's Compliance Specialist.

Additionally staff was trained on ways to avoid mistakes at work.

On November 1, 2013 training was provided to staff on audit findings. SOP additions were given to address the location of rent reasonableness certification to ensure it is not shredded.

On December 6, 2013 continued training on income verification and calculation was held.

Compliance Specialist is providing a monthly report to the Occupancy and HCV Manager of any files not corrected and the appropriate Manager will follow-up with staff to ensure all files are resubmitted to the Compliance Specialist timely.

In addition to the Compliance Specialist auditing files monthly; the two Lead HCV Case Management Specialist are auditing additional files of re-exams completed that were not randomly selected for audit by the Compliance Specialist.

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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority

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 the Norfolk Redevelopment and Housing Authority (the Authority), which comprise the statement of fund net position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2014. Our report includes a reference to other auditors who audited the financial statements of the Norfolk Community College Campus Corporation, NRHA Mission College I, L.P., and Hampton Roads Ventures, L.L.C., as described in our report on the Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also referenced the Authority's adoption of several new accounting standards issued by the Governmental Accounting Standards Board in 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-003 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

The Authority's Response to Finding

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

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
February 14, 2014

KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

Report on Compliance for Each Major Federal Program

We have audited Norfolk Redevelopment and Housing Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Norfolk Redevelopment and Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002, that we consider to be significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
February 14, 2014