NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2016

(With Independent Auditors' Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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KPMG LLP
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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 aggregate discretely presented component units of the Norfolk Redevelopment and Housing Authority (the Authority), as of and for the year ended June 30, 2016, 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 NRHA Mission College I, L.P., Hampton Roads Ventures, L.L.C., NRHA Arts Education, L.P. or Norfolk Community College Campus Corporation. NRHA Mission College I, L.P. and Hampton Roads Ventures, L.L.C together represent ten percent, four percent, and five percent, respectively, of the assets, net position, and revenues of the primary government. NRHA Arts Education, L.P. and Norfolk Community College Campus Corporation together represent one hundred percent of the assets, net position, and revenues of the discreetly presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the primary government and discretely presented component units, is based solely 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. The financial statements of NRHA Mission College I, L.P., Hampton Roads Ventures, L.L.C. and NRHA Arts Education L.P were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 reports of the 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 aggregate discretely presented component units of the Norfolk Redevelopment and Housing Authority as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–22 and the Required Supplementary Information and Notes to Required Supplementary Information on pages 55–58 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 Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the information listed as supplementary information in the accompanying table of contents, are presented for purposes of additional analysis and are 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, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017 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
March 28, 2017

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 property 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, 2016. Please read it in conjunction with the basic financial statements, which begin on page 23.

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 units are not addressed in this discussion and analysis.

Financial Highlights for 2016

The Authority's 2016 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $254.3 million and $57.6 million, respectively; total deferred outflows of resources and deferred inflows of resources were approximately $1.9 million and $3.5 million, respectively. Thus, total fund net position was approximately $195.1 million at June 30, 2016.
- Total revenues (including interest, gains, grants, and capital contributions) and expenses (including interest expense) were approximately $96.7 million and $89.5 million, respectively; thus, fund net position increased by approximately $7.2 million during the fiscal year.
- Revenues are derived from various sources with approximately 11.7% from City funding and 55.8% 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 21.1% of total revenue; including 10.8% from Authority-owned federally assisted housing rental; 10.2% from Authority-owned nonassisted affordable housing rental units, and 0.1% from a variety of other commercial or residential customers. The 11.4% 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 $5.0 million made up of $1.2 million in scheduled payments and an additional principal payment of $3.8 million for the Partrea I L.P. note.

- Cash flows provided by operating activities were approximately $5.6 million. The net increase in cash and cash equivalents for the year was approximately $2.9 million, comprised of a $5.6 million net increase in cash from operating activities, a net decrease by $6.4 million from capital and related financing activities and a net increase of $3.7 million for all other 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, 2015 balances are blended into the Authority's June 30, 2016 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, 2016 report are as of and for the year ended June 30, 2016.

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, 2016, the Authority owned over 4400 residential units that are 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 approximately 2,800 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 2016 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 and deferred inflows of resources 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 does 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 nonoperating revenues and expenses, such as investment income, interest expense, and capital contributions/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, noncapital financing activities, and investing 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.

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 $254.3 million and $57.6 million, respectively; total deferred outflows of resources and inflows of resources were approximately $1.9 million and $3.5 million, respectively, thus, total fund net position was approximately $195.1 million at June 30, 2016.

Table 1

Condensed Summary of Fund Net Position

June 30, 2016 and 2015

(In millions)

Description		2016	2015	Change	Percentage change
Current assets:					
Cash and investments	$	50.9	48.8	2.1	4.3%
Restricted cash		7.2	6.4	0.8	12.5
Assets held for sale		9.2	10.6	(1.4)	(13.2)
Noncurrent assets:					
Capital assets, net		139.5	140.7	(1.2)	(0.9)
Other current and noncurrent assets		47.5	44.9	2.6	5.8
Total assets		254.3	251.4	2.9	1.2
Deferred outflows of resources		1.9	1.8	0.1	5.6
	$	256.2	253.2	3.0	1.2%
Current liabilities	$	8.6	7.1	1.5	21.1%
Noncurrent liabilities		49.0	53.2	(4.2)	(7.9)
Total liabilities		57.6	60.3	(2.7)	(4.5)
Deferred inflows of resources		3.5	5.0	(1.5)	(30.0)
Fund net position:					
Net investment in capital assets		127.6	127.8	(0.2)	(0.2)
Restricted		13.5	14.8	(1.3)	(8.8)
Unrestricted		54.0	45.3	8.7	19.2
Total fund net position		195.1	187.9	7.2	3.8
	$	256.2	253.2	3.0	1.2%

Of the Authority's $254.3 million in assets, $139.5 million or 54.9% is invested in capital assets, net of accumulated depreciation, $58.1 million or 22.8% is cash and investments ($50.9 million cash and investments plus $7.2 million restricted cash), $9.2 million or 3.6% is invested in assets held for sale, and $47.5 million or 18.7% is other current and noncurrent assets, of which $15.5 million or 6.1% is receivables due between 2044

(Continued)

and 2046, related to the Broad Creek Renaissance (BCR) mixed finance project, $12.5 million or 4.9% is receivables of the rehabilitation revolving loan fund (RLF), and $0.1 million represents funds due to the Authority from government entities to fund program and administrative cost expensed in the current financial statements.

Cash increased $2.9 million or 5.3% since last fiscal year (from $55.2 million to $58.1 million). Of the $58.1 million June 30, 2016 balance and the $2.9 million increase from the prior year, $6.9 million and $1.2 million, respectively, relates to the December 31, 2015 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 $57.6 million of liabilities, $8.6 million or 14.9% is current liabilities, which will require payment within 12 months of the reported fiscal year-end and $49.0 million or 85.1% is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities increased $1.5 million or 21.1% since last fiscal year ($8.6 million in fiscal year 2016 compared to $7.1 million in fiscal year 2015) mainly due to an increase in accrued liabilities in the Federal Housing and Capital Fund programs at the end of fiscal year 2016. The noncurrent liabilities decreased by $4.2 million or 7.9% ($49.0 million in fiscal year 2016 compared to $53.2 million in fiscal year 2015) largely due to the reduction of debt related to a large principal payment of $3.8 million in the Cottage Bridge project during fiscal year 2016.

A breakout of the $57.6 million in liabilities is as follows:

- $14.9 million or 25.9% is long-term debt;
- $13.7 million or 23.8% is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $12.5 million RLF outstanding receivable balance noted above offsets this liability;
- $15.6 million or 27.1% is the Virginia Retirement System (VRS) pension liability, and
- $13.4 million or 23.2% 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 ($1.3 million), and payments due back to other governmental entities ($0.7 million).

Deferred outflows of resources related to pensions totaled $1.9 million. This amount represents the Authority's contributions to the VRS pension plan subsequent to the measurement date. Deferred inflows of resources related to pensions totaled $3.5 million. This amount represents the difference between projected and actual earnings on pension plan investments.

The fund net position balance of $195.1 million is the difference between the $254.3 million in assets, minus $1.6 million net inflows/outflows of resources, and the $57.6 million in liabilities. 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.

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Referring back to Table 1, the Authority's fund net position increased $7.2 million or 3.8%. This increase consists of the following:

Net investment in capital assets – the largest part of the net position balance decreased by $0.2 million or 0.2%. The decrease results from changes in two components, a $1.2 million decrease in capital assets, which went from $140.7 million as of June 30, 2015 to $139.5 million as of June 30, 2016 and a $1.0 million decrease in the debt related to the capital assets, which went from $12.9 million to $11.9 million. Details of these changes are presented later in our discussion.

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 $1.3 million or 8.8%. The decrease was a result of a reduction of $1.4 million (from $10.6 million to $9.2 million) in the restricted net asset balance of the Special City Projects, CDBG, and East Ocean View programs, due to Assets Held for Sale that were transferred to the City. Also, a $0.2 million decrease in the Housing Choice Voucher program due to an increase in HAP expenses (from $0.5 million to $0.3 million). These decreases were partially offset by an increase in Cottage Bridge of $0.3 million due to deposits to the Operating and Replacement reserves. These restrictions are further detailed in the notes to the basic financial statements.

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 $45.3 million at June 30, 2015 to $54.0 million at June 30, 2016, an increase of $8.7 million or 19.2%. Observations on the unrestricted net asset balance are 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 $13.3 million, respectively, which is due beginning in 2042.
- The Authority does not include in its annual budget funding for unused employee vacation and sick days, funding for the unfunded portion of the Virginia Retirement System (VRS) pension liability, or funding for the Postretirement Healthcare Benefit plan. As of June 30, 2016 and 2015, the balance for unused employee vacation and sick days was $1.5 and $1.4 million respectively, the VRS liability was $15.6 and $15.8 million respectively, and the Postretirement Healthcare liability was $2.5 and $2.4 million respectively. The Authority will need to fund these amounts in future years above what is in the annual budget 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 2016, the Authority realized an increase in fund net position of $7.2 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, 2016 and 2015

(In millions)

Description	2016	2015	Change	Percentage change
Total operating revenues	$ 84.0	77.8	6.2	8.0%
Total operating expenses	88.6	84.9	3.7	4.4
Operating loss	(4.6)	(7.1)	2.5	35.2
Total nonoperating revenues	1.6	1.7	(0.1)	(5.9)
Total nonoperating expenses	(0.9)	(0.8)	(0.1)	12.5
Total nonoperating revenue	0.7	0.9	(0.2)	(22.2)
Loss before capital grants and contributions	(3.9)	(6.2)	2.3	37.1
Governmental capital grants	6.5	4.9	1.6	32.7
Capital contributions from (distributions to) limited partners	4.6	(0.1)	4.7	(4,700.0)
Change in fund net position	7.2	(1.4)	8.6	614.3
Total fund net position – beginning	187.9	209.0	(21.1)	(10.1)
Opening adjustment of net position	—	(19.7)	19.7	(100.0)
Total fund net position – ending	$ 195.1	187.9	7.2	3.8%

Fund net position decreased $4.6 million from operating activities and increased $0.7 million from nonoperating activities, resulting in a $3.9 million decrease in fund net position. These decreases were offset by capital revenues totaling $6.5 million in governmental capital grants. A further increase of $4.6 million resulted from contributions from limited partners – resulting in a $7.2 million total increase in fund net position. The following sections discuss revenues and expenses separately.

(Continued)

Revenues

Table 3 provides a comparison of the Authority's operating and nonoperating revenues for 2016 and 2015 and shows that total revenues, gains, and capital contributions increased $12.3 million or 14.6% ($96.7 million compared to $84.4 million).

Table 3

Summary Comparison of Operating and Nonoperating Revenues

Years ended June 30, 2016 and 2015

(In millions)

Description	2016	2015	Change	Percentage change
Operating revenues:				
Tenant revenue – rents and other	$ 20.4	20.3	0.1	0.5%
Operating grants and subsidies	59.1	55.0	4.1	7.5
Other revenue, net	4.5	2.5	2.0	80.0
Total operating revenues	84.0	77.8	6.2	8.0
Nonoperating revenues:				
Interest and investment revenue	1.6	1.7	(0.1)	(5.9)
Capital grants	6.5	4.9	1.6	32.7
Capital contributions from limited partners	4.6	—	4.6	100.0
Total revenues	$ 96.7	84.4	12.3	14.6%

The $12.3 million (14.6%) increase in total revenues is primarily attributable to $4.6 million capital contributions from limited partners, a $4.1 million increase (from $55.0 million to $59.1 million) in operating grants and revenues, a $2.0 million increase (from $2.5 million to $4.5 million) in other revenue, and a $1.6 million increase (from $4.9 million to $6.5 million) in capital grants.

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:

- 11.7%, or $11.3 million, from City government funding;
- 55.8%, or $54.0 million, received either directly from HUD ($51.1 million) or indirectly ($2.9 million through the City – 2.9%) from HUD;
- 21.1%, or $20.4 million, of total revenue received from tenant rental payments;
  - 10.8%, or $10.4 million, was from over 3,300 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace;

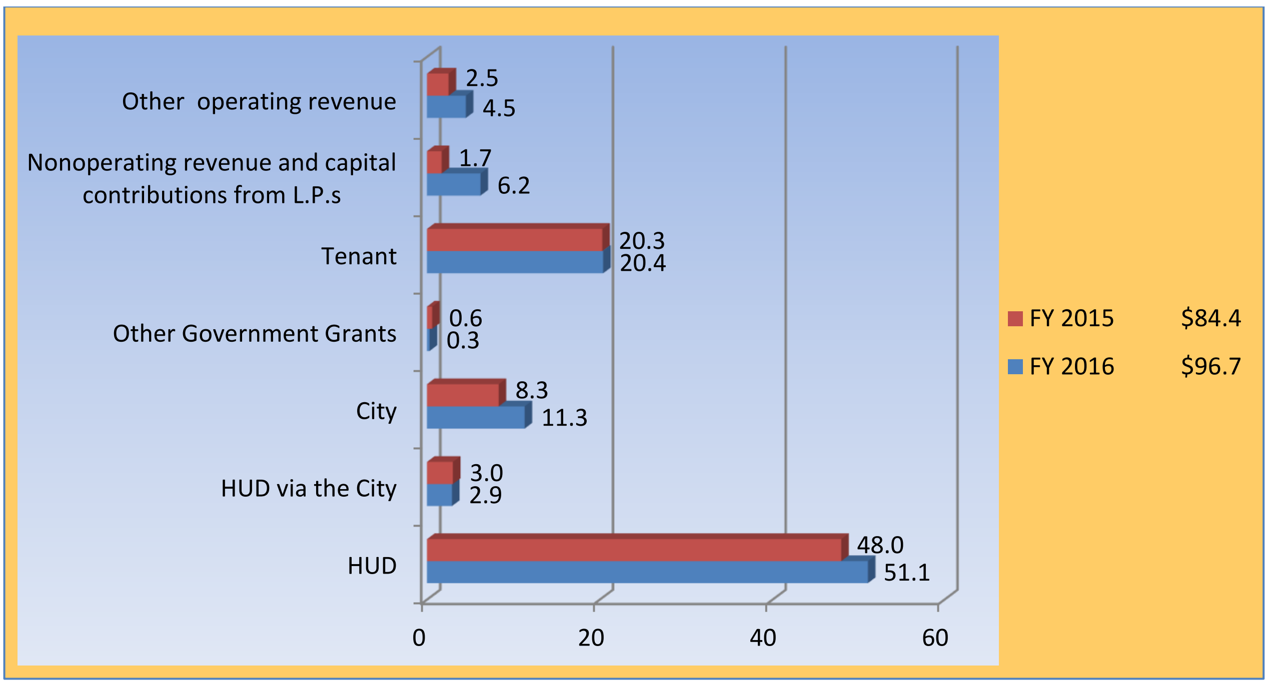
  - 10.2%, or $9.9 million, was from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and
  - 0.1% or $0.1 million, in tenant revenue was from a variety of other commercial or residential customers

- 11.1%, or $10.7 million, is derived from miscellaneous fees for services (i.e., fees and other income) and nonoperating sources (i.e., interest and investment income, and contributions from limited partners); and
- 0.3%, or $0.3 million, is from various other government grants.

Revenue Source Comparison

Years ended June 30, 2016 and 2015

(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 $3.1 million increase in HUD funding, (from $48.0 million to $51.1 million). City funding increased by $3.0 million, (from $8.3 million to $11.3 million). The largest increase in revenue occurred in Nonoperating revenue and capital contributions from L.P.s in the amount of $4.5 million (from $1.7 million to $6.2 million). Other operating revenue increased by $2.0 million, (from $2.5 million to

$4.5 million). Discussion of the significant changes that contributed to the total $12.3 million increase in revenue is as follows:

- The largest increase in revenue was capital contributions received from the Partrea, L.P. in the amount of $4.4 million. The money was used to pay down $3.8 million of debt, and the remaining $0.6 million was used to pay developer fees. There was also an increase in subsidies received directly from HUD of $3.1 million (from $48.0 million to $51.1 million). Of the $3.1 million increase, $1.5 million was from Government Capital Grant subsidy, $1.2 million was from Government Operating Grant subsidy, and $0.4 million was from FSS Grant subsidy. An increase in City grant revenue of $3.0 million (from $8.3 million to $11.3 million) consisted of a $5.0 million grant for the construction of the Main Hotel, as well as an offsetting decrease for $2.0 million related to a reduction in City grant revenue in the Special City Project. An additional increase in Other Operating Revenue of $2.0 million (from $2.5 million to $4.5 million) was from a $1.0 million deferred developer fee received in Housing Reinvention for Partrea LP and Monroe (AELP), a $0.7 million increase in management fees earned from subsidiary allocates in Hampton Roads Ventures, and a $0.3 million increase in other miscellaneous operating revenue.
- Other miscellaneous increases and decreases to revenue consisted of:
  - Other governmental grants decreased by $0.3 million.
  - HUD funding via the City decreased by $0.1 million.
  - Tenant revenue increased by $0.1 million.

Expenses

Table 4 provides a comparison of the Authority's operating and nonoperating expenses for 2016 and 2015 and shows that total expenses, losses, and distributions increased 4.3% or $3.7 million ($89.5 million compared to $85.8 million).

Table 4

Summary Comparison of Operating and Nonoperating Expenses

Years ended June 30, 2016 and 2015

(In millions)

Description	2016	2015	Change	Percentage change
Operating expenses:				
Administrative	$ 14.1	13.6	0.5	3.7%
Housing assistance payments (HAP)	24.3	24.4	(0.1)	(0.4)
Extraordinary maintenance	3.7	6.1	(2.4)	(39.3)
Maintenance – routine	11.0	11.4	(0.4)	(3.5)
Depreciation and amortization	9.1	8.7	0.4	4.6
Utilities	9.7	9.7	—	—
General	13.1	7.0	6.1	87.1
Tenant services	1.8	1.8	—	—
Protective services	1.3	1.1	0.2	18.2
Loss on disposal of assets held for sale	0.5	1.1	(0.6)	(54.5)
Total operating expenses	88.6	84.9	3.7	4.4
Nonoperating expenses:				
Interest expense	0.9	0.8	0.1	12.5
Capital distributions to limited partners	—	0.1	(0.1)	(100.0)
Total expenses	$ 89.5	85.8	3.7	4.3%

The most significant increase in expenses was a $6.1 million increase in general expenses (from $7.0 million to $13.1 million) due primarily to $5.0 million of expenses used to develop the Main Hotel. Additionally, there was a $1.1 million increase in general expenses due to an increase in loans made in the HOME program.

The most significant decrease in expenses was a $2.4 million decrease in extraordinary maintenance (from $6.1 million to $3.7 million) due primarily to a decrease in the Special City Projects site acquisitions.

Capital Assets

The Authority's capital assets as of June 30, 2016 included land, buildings, improvements, construction in progress, and equipment totaling $139.5 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, 2016 and 2015

(In millions)

Description	2016	2015	Change	Percentage change
Nondepreciable capital assets:				
Land	$ 24.8	24.8	—	—%
Construction in progress	10.9	8.5	2.4	28.2
Depreciable capital assets:				
Buildings and building improvements	195.9	192.6	3.3	1.7
Improvements other than buildings	77.1	75.4	1.7	2.3
Equipment	7.4	8.0	(0.6)	(7.5)
Accumulated depreciation	(176.6)	(168.6)	(8.0)	4.7
Total capital assets, net	$ 139.5	140.7	(1.2)	(0.9)%

77.1% of the Authority's net capital assets or $107.6 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 20.2%, or $28.2 million, is invested in Authority-owned, nonassisted, multifamily, affordable housing units.

The book value of net capital assets decreased $1.2 million during the current year ($139.5 million in 2016 compared to 140.7 million in 2015). Table 6 details the components of the change.

Table 6

Change in Capital Assets

Year ended June 30, 2016

(In millions)

		Nondepreciable capital assets	Depreciable capital assets	Total
July 1, 2015 beginning balance, net	$	33.3	107.4	140.7
Transfers		(3.8)	3.8	—
Purchases		6.2	1.7	7.9
Depreciation		—	(9.0)	(9.0)
Retirements, net		—	(0.1)	(0.1)
June 30, 2016 ending balance, net	$	35.7	103.8	139.5

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

- Construction in progress totaling $3.8 million, primarily capital improvements in our public housing communities, was completed and placed in service.
- Purchases for the year totaled $7.9 million, and consisted primarily of $6.6 million for Capital Fund improvements of public housing communities, and $1.0 million improvements of Blended Component units.
- $6.6 million was expended to make improvements in each of our public housing communities including the following:
  - $1,500,000 for building and site development at Broad Creek Phase V.
  - $196,321 for site and building improvements at Grandy Village Townhomes.
  - $1,947,121 for architect, engineering and electrical distribution improvements at Young Terrace Apartments.
  - $890,577 for architect, engineering, and electrical distribution improvements at Tidewater Gardens Apartments.
  - $619,623 for site and building access modifications, and engineering at Calvert Square Apartments.
  - $647,097 for architect, engineering, HVAC, building and site improvements at Partrea Apartments.
  - $74,499 for architect and engineering at Sykes Apartments.
  - $80,558 for architect and engineering (RAD) at Scattered sites.

   - $252,656 for architect and engineering, demolition and site improvements at Grandy Village.
   - $348,619 for architect, engineering, and electrical distribution at Diggs Town Apartments

- $295,162 was invested in equipment used by our Central Maintenance Shops including four trucks, two vans, one backhoe, and four mowers.
- $115,276 was invested in site and building improvements used by our Central Maintenance Operations.
- Approximately $579,660 of purchases had not been paid at June 30, 2016, and therefore, is included in accounts payable at year-end.

Long-Term Debt

The Authority's June 30, 2016 statement of fund net position reflects total debt outstanding of $15.4 million (excluding vested compensated absences). 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, 2016

Description	Amounts payable at June 30, 2015	Additions	Retirements and reductions	Amounts payable at June 30, 2016	Future debt service commitment
Granby Office Building	$ 696,592	—	696,592	—	The Authority
Park Terrace	251,078	—	132,358	118,720	Project revenue
Merrimack Landing	—	103,409	—	103,409	
Oakmont North	1,760,000	—	255,000	1,505,000	Revenue bond
Partrea I, LP – AHP Loan	926,782	—	—	926,782	Project revenue
Partrea I, LP – TowneBank Loan	5,858,428	632,676	3,841,104	2,650,000	Project revenue
Mission College I	10,200,401	—	85,070	10,115,331	Project revenue
Total bank financing	$ 19,693,281	736,085	5,010,124	15,419,242	

Observations of outstanding debt balances are as follows:

- Debt reductions totaling $5.0 million, related to scheduled payments of approximately $1.2 million and a principal reduction of $3.8 million to the Partrea I, LP loan with TowneBank.
- Debt additions totaling $0.7 million, related to an additional drawdown of $0.6 million on the Partrea I, LP, loan with TowneBank, as well $0.1 million for a new Merrimack Landing construction loan with TowneBank.

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 were approximately $100 billion government-wide and they continue for another eight years. Sequestration cuts of $60 billion or 60% come from nondefense programs and amounts to funding cuts of over 8.0% (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 (70.0% 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 when funding is determined.

For calendar year 2016, the Administration is funding public housing authorities at 90.2% of their eligibility under HUD's Public Housing program's operating formula.

PUBLIC HOUSING PROGRAM

In millions

Calendar year	Percentage of full eligibility awarded	Formula amount at 100%	Actual funded amount	Over (under) calculated funding	Change vs. Prior year
CY 2016	90.2%	$ 16,484,923	14,871,047	(1,613,876)	102,252
CY 2015	85.4	17,301,775	14,768,795	(2,532,980)	3,972
CY 2014	88.1	16,760,807	14,764,823	(1,995,984)	685,888
CY 2013	82.0	17,169,483	14,078,935	(3,090,548)	(1,899,093)
CY 2012	93.0	17,172,071	15,978,028	(1,194,043)	563,151
CY 2011	100.0	15,414,877	15,414,877	—	(1,026,637)
CY 2010	103.0	15,962,624	16,441,514	478,890	(160,053)
CY 2009	88.4	18,775,846	16,601,567	(2,174,279)	2,342,569
CY 2008	89.0	16,028,554	14,258,998	(1,769,556)	(133,438)
CY 2007	83.4	17,257,117	14,392,436	(2,864,681)	(247,518)
CY 2006	85.5	17,122,753	14,639,954	(2,482,799)	374,365

In 2015 and 2014, the funding level was 85.4% and 88.1% of funding eligibility; rarely do agencies receive full operating funding – calendar years 2011 (100.0%), 2010 (103.0%), and not depicted in chart, 2002 (100.0%). The dollar amounts funded for this program have been flat, ($14.9 million in CY2016, $14.8 million in CY2015, $14.8 million in CY 2014, and $14.1 million in CY 2013) 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 or flat funding level (until CY 2014), with CY 2013 funding representing 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.

CAPITAL FUND PROGRAM
In millions

Award year		Actual funded amount	Change vs. Prior year	
2016	$	6.4	0.2	
2015		6.2	0.1	
2014		6.1	1.4	
2013		4.7	(0.2)	
2012		4.9	(0.6)	
2011		5.5	(1.0)	
2010		6.5	—	
2009		6.5	—	Plus $9.2 ARRA
2008		6.5	0.4	
2007		6.1	—	
2006		6.1	(1.1)	

Although we saw an increase of funding in CY 2014, CY 2015 and CY 2016 to $6.1 million, $6.2 million, and $6.4 million, respectively, we expect the downward trend to resume in future years.

The Housing Choice Voucher (HCV) program has provided adequate funding to cover housing assistance payments to participants each year until CY 2013; for 2013, HUD 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. In CY 2016, HUD provided funding at a 99.58% proration factor based on the prior year's HAP expenses. In prior years, this amount was 101.25% (CY 2015), 99.7% (CY 2014), 98.5% (CY 2013), 89% (CY 2012), 100% (CY 2011), and 103% (CY 2010).

HOUSING CHOICE VOUCHER PROGRAM

Calendar year		HCV HAP Amount	Change vs. Prior year	HCV Adm. fee amount	Change vs. Prior year	Percentage of full eligibility awarded
CY2016	$	25,099,777	736,647	1,890,458	86,139	82.0
CY2015		24,363,130	(49,208)	1,804,319	(20,758)	76.5
CY2014		24,412,338	419,351	1,825,077	138,409	77.0
CY2013		23,992,987	2,228,230	1,686,668	(148,825)	69.0
CY2012		21,764,757	(91,043)	1,835,493	(10,150)	82.0
CY2011		21,855,800	598,016	1,845,643	29,252	92.0
CY2010		21,257,784	—	1,816,391	—	95.0

The funding of administrative fees for the administration of the HCV program tells a different story. While the funding remained nearly level for years, the percent of full eligibility awarded has been on a steady decrease – 95.0% of eligible funding was provided in CY 2010, 92.0% of eligible funding was provided in CY 2011, 82.0% of eligible funding was provided in CY 2012, and 69.0% of eligible funding was provided in CY 2013. Subsequent to CY 2013, the year sequestration impacted funding, the percentage of funding has increased, by not to the extent as in earlier years. Despite the decrease in the percentages of eligibility funding, actual funding amounts received from HUD have remained stable due to the increase of units leased over the years – units leased increased from 2,445 in CY 2010 to 2,926 in CY 2016.

In CY 2016, HUD provided 82% of eligible funding. To date, no appropriation level has been communicated for calendar year 2017; 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 fiscal year 2017 and the impact of sequestration, the Authority has committed to the use of $4.0 million in reserves to meet operational needs.

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. The following table shows the trends in NRHA's funding for Neighborhood Development Programs.

Neighborhood Development Programs
In millions

Fiscal year		City's Entitlement	NRHA's contract	NRHA's contract as a % of City's
2016	$	3.9	0.1	2.6%
2015		3.9	2.1	53.8
2014		4.0	2.5	62.5
2013		3.9	2.6	66.7
2012		4.7	3.3	70.2
2011		5.6	3.9	69.6

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 2017, NRHA has applied for $3.4 million in federal grants through the City's application process for CDBG ($2.6 million) and HOME ($0.8 million) funds. We do not anticipate maintaining the fiscal year 2016 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 70.0% of the Authority's revenues come from federal, state, or city governments. The Authority's 2017 operating and capital budget is $102.2 million, representing an increase of 23.0% from the previous fiscal year. This increase is related to additional capital investments, which will be financed using program reserves and new bank loan funding.

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, 555 East Main Street, Norfolk, Virginia 23510 or visit our Web site at www.nrha.norfolk.va.us.

BASIC FINANCIAL STATEMENTS

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Exhibit A

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Fund Net Position

June 30, 2016

Assets	**Primary government**	**Component unit NCCCC**	**Component unit AELP**	**Total**
Current assets:				
Cash and cash equivalents (note 2)	$ 46,937,476	5,686	65,710	47,008,872
Cash with fiscal agents (note 2)	3,953,057	—	—	3,953,057
Restricted cash and cash equivalents (note 2)	7,168,482	101,744	158,360	7,428,586
Receivables:				
Due from HUD	899,956	—	—	899,956
Due from City of Norfolk	1,694,458	—	—	1,694,458
Tenants rent, net	139,022	—	50,181	189,203
Notes, net (note 3)	38,594	610,000	—	648,594
Interest	7,545	59,846	—	67,391
Other, net	167,352	—	—	167,352
Total receivables, net	2,946,927	669,846	50,181	3,666,954
Inventories, net	518,862	—	—	518,862
Assets held for sale, restricted	9,203,705	—	—	9,203,705
Prepaid expenses and other assets	242,061	—	6,435	248,496
Total current assets	70,970,570	777,276	280,686	72,028,532
Noncurrent assets:				
Capital assets:				
Land	24,799,115	—	1,000,003	25,799,118
Buildings, improvements, and equipment	280,368,143	—	11,743,101	292,111,244
Construction in progress	10,924,103	—	—	10,924,103
Less accumulated depreciation	(176,630,614)	—	(613,402)	(177,244,016)
Capital assets, net (note 4)	139,460,747	—	12,129,702	151,590,449
Notes receivable, net (note 3)	30,018,460	2,045,000	—	32,063,460
Interest receivable	13,327,136	—	—	13,327,136
Other noncurrent assets	503,783	—	250,235	754,018
Total noncurrent assets	183,310,126	2,045,000	12,379,937	197,735,063
Total assets	254,280,696	2,822,276	12,660,623	269,763,595
Deferred Outflows of Resources				
Deferred pension contributions (note 6)	1,875,880	—	—	1,875,880
	$ 256,156,576	2,822,276	12,660,623	271,639,475
Liabilities				
Current liabilities:				
Accounts payable	$ 1,323,869	13,000	12,050	1,348,919
Accrued salaries and benefits	241,542	—	—	241,542
Accrued compensated absences (note 11)	117,318	—	—	117,318
Due to HUD and the City of Norfolk	664,635	—	—	664,635
Tenant security deposits	971,927	—	—	971,927
Unearned revenue	1,114,035	—	—	1,114,035
Bonds, notes, and loans payable (note 5)	479,762	610,000	88,643	1,178,405
Other current liabilities	3,646,093	24,607	37,205	3,707,905
Total current liabilities	8,559,181	647,607	137,898	9,344,686
Noncurrent liabilities:				
Bonds, notes, and loans payable (note 5)	14,939,480	2,045,000	5,401,111	22,385,591
Accrued compensated absences (note 11)	1,347,491	—	—	1,347,491
Net pension liability (note 6)	15,600,703	—	—	15,600,703
Noncurrent liabilities – other	17,090,940	—	—	17,090,940
Total noncurrent liabilities	48,978,614	2,045,000	5,401,111	56,424,725
Total liabilities	57,537,795	2,692,607	5,539,009	65,769,411
Deferred Inflows of Resources				
Deferred amounts related to net pension liability (note 6)	3,504,115	—	—	3,504,115
Fund Net Position				
Net investment in capital assets	127,618,287	—	6,639,948	134,258,235
Restricted fund net position	13,523,177	101,744	158,360	13,783,281
Unrestricted fund net position	53,973,202	27,925	323,306	54,324,433
Total fund net position	195,114,666	129,669	7,121,614	202,365,949
	$ 256,156,576	2,822,276	12,660,623	271,639,475

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, 2016

	Primary government	Component unit NCCCC	Component unit AELP	Total
Operating revenues:				
Tenant revenues	$ 20,444,586	—	556,171	21,000,757
Government operating grants	59,131,130	—	—	59,131,130
Other revenue, net	4,447,587	31,591	—	4,479,178
Total operating revenues	84,023,303	31,591	556,171	84,611,065
Operating expenses:				
Administrative	14,166,716	30,150	20,515	14,217,381
Tenant services	1,794,472	—	—	1,794,472
Utilities	9,752,649	—	—	9,752,649
Maintenance	11,031,323	—	—	11,031,323
Protective services	1,283,014	—	—	1,283,014
General	13,107,179	—	116,013	13,223,192
Extraordinary maintenance	3,680,092	—	—	3,680,092
Housing assistance payments (HAP)	24,288,545	—	—	24,288,545
Depreciation and amortization (note 4)	9,079,984	—	334,762	9,414,746
Loss on sale of assets held for sale	496,085	—	—	496,085
Total operating expenses	88,680,059	30,150	471,290	89,181,499
Operating income (loss)	(4,656,756)	1,441	84,881	(4,570,434)
Nonoperating revenues (expenses):				
Interest and investment revenue	1,590,893	163,939	—	1,754,832
Gain on disposal of capital assets (note 4)	10,813	—	—	10,813
Interest expense	(865,410)	(200,838)	(210,001)	(1,276,249)
Total nonoperating revenue (expense), net	736,296	(36,899)	(210,001)	489,396
Loss before capital grants and capital contributions from limited partners	(3,920,460)	(35,458)	(125,120)	(4,081,038)
Government capital grants	6,490,528	—	—	6,490,528
Capital contributions from limited partners	4,593,209	—	141,374	4,734,583
Change in fund net position	7,163,277	(35,458)	16,254	7,144,073
Total fund net position – beginning	187,951,389	165,127	7,105,360	195,221,876
Total fund net position – ending	$ 195,114,666	129,669	7,121,614	202,365,949

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	$ 18,868,270
Cash receipts from operating grants	54,527,924
Other operating cash receipts	5,249,189
Cash payments to employees for services	(20,660,158)
Cash payments to suppliers of goods and services	(24,375,835)
Other operating cash payments	(3,680,092)
Cash payments to landlords – HAP	(24,288,545)
Net cash provided by operating activities	5,640,753
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	62,192
Proceeds from issuance of debt	103,409
Purchases of capital assets	(8,150,705)
Capital grants received	7,409,074
Principal payments on debt	(5,010,124)
Interest payments on debt	(868,303)
Net cash used in capital and related financing activities	(6,454,457)
Cash flows from noncapital financing activities:	
Proceeds from issuance of debt	632,676
Net cash provided by noncapital financing activities	632,676
Cash flows from investing activities:	
Sales of investments	1,942
Purchases of investments	(4,078)
Issuance of notes receivable	(1,838,904)
Principal receipts on notes receivable	307,361
Interest received	17,387
Capital contributions from limited partners	4,593,209
Net cash provided by investing activities	3,076,917
Net increase in cash and cash equivalents	2,895,889
Cash and cash equivalents at beginning of year	55,163,126
Cash and cash equivalents at end of year	$ 58,059,015
Reconciliation to statement of fund net position of primary government:	
Current unrestricted cash and cash equivalents	$ 46,937,476
Current cash with fiscal agents	3,953,057
Restricted cash and cash equivalents	7,168,482
Cash and cash equivalents	$ 58,059,015

(Continued)

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2016

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(4,656,756)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		9,079,984
Bad debt expense		327,284
Loss on disposal of assets held for sale		496,085
Changes in assets and liabilities:		
Change in receivables due from HUD		106,846
Change in receivables due from City of Norfolk and other governments		285,020
Change in receivables from tenants rent, net		(282,912)
Change in receivables from other, net		(44,089)
Change in inventories, net		(5,816)
Change in assets held for sale		942,169
Change in prepaid expenses and other assets		(52,758)
Change in current and noncurrent notes receivable		14,750
Change in other noncurrent assets		225,729
Change in accounts payable		(131,575)
Change in accrued salaries and benefits		109,631
Change in accrued compensated absences		54,720
Change in due to the City of Norfolk and other governments		(59,428)
Change in tenant security deposits		17,215
Change in unearned revenue		16,407
Change in net pension liability		(1,675,001)
Change in other current and noncurrent liabilities		873,248
Net cash provided by operating activities	$	5,640,753

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI Program in the amount of $233,582.

The Authority had an $850,000 increase in fixed assets due to capitalization of deferred developer fees in NRHA Partrea, LP.

The Authority had a net increase of $344,457 in accounts payable and a net decrease of $616,066 in other current liabilities related to the purchases of capital assets.

See accompanying notes to basic financial statements.

(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 appointed 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 blended and discretely presented component units, Mission College Apartments, L.P. (MCA), NRHA Mission College I, L.P. (MC1), Norfolk Community College Campus Corporation (NCCCC), NRHA Arts Education, L.P., (AELP) Norfolk One, L.P. (NOLP), Hampton Roads Ventures, L.L.C. (HRV), NRHA Partrea, L.P., 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 and AELP are discretely presented component units. 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 units are

(Continued)

reported in separate columns in the financial statements to emphasize that they are legally separate from the Authority. NCCCC and AELP have December 31 year-ends.

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.

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, which is wholly owned by NRHA, is the sole 0.01% general partner in the partnership. As general partner, NRHA is responsible for funding all operating deficits. On December 18, 2013, the Community Historic Credit Fund VII, LLC purchased the 99.99% limited partnership interest from NRHA.

The financial information of NOLP, MCA, MC1, GVLP, NRHA Partrea, L.P., 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 six component units have a December 31 year-end, however, only HRV and MC1 are reported as of December 31. The other entities are directly managed by NRHA and are thus reported on NRHA's year end of June 30, 2016.

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 for 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, MC1 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 the Authority provided 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 Norfolk, Virginia. 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.

NRHA Partrea, L.P., a Virginia limited partnership, was formed on March 4, 2011, to construct, operate, and lease a 47-unit project-based voucher Apartment Complex located in Norfolk, Virginia. NRHA Partrea I, LLC is the sole general partner in the partnership. NRHA has a majority interest in NRHA Partrea I, LLC, and is, therefore, responsible for all business decisions. The Authority is also the managing agent for the partnership. NRHA Partrea, L.P. 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.

(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 nonoperating 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 nonoperating 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 ACCs 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 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 are recognized, based on the current year's 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, net

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. 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. 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, improvements, 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 statement of revenues, expenses, and changes in fund net position.

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) 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 are paid for 30% of unused sick leave accumulated before that date, 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.

(j) Income Taxes

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

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic 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 donated capital assets, useful lives of depreciable capital assets, valuation of receivables, and obligations related to employee benefits. Actual results could differ from those estimates.

(l) Self-Insurance

The Authority is covered by the City's self-insurance program 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, 2016, there are no liabilities for unpaid claims.

(m) 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 eight 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. The shortfall for these benefits is recorded as a part of other liabilities.

(n) New Accounting Standards Adopted

During the fiscal year ended June 30, 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The objective of GASB Statement No. 76 is to identify the hierarchy of generally accepted accounting principles (GAAP) by reducing the GAAP hierarchy to two categories of authoritative GAAP and addressing the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Adoption of GASB Statement No. 72 and Statement No. 76 did not have a material impact on the Authority's financial statements.

(o) Pensions

The Authority contributes to the Virginia Retirement System (VRS or the System), an agent multiple-employer public employee retirement system with separate cost-sharing pools for each locality, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Net Position

Net position is categorized into three components as follows:

- *Net investment 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 inflows 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 investment in capital assets."

(q) Cooperative Projects

From time to time, the Authority enters into cooperation agreements with the City related to projects that promote economic development within the City, some of which involve the construction of capital assets. Assets acquired in conjunction with these agreements are recorded on the financial statements of the entity who will ultimately hold and bear responsibility for the assets, which is typically the City.

(Continued)

(2) Deposits and Investments

At June 30, 2016, the carrying value of the Authority's deposits with banks and savings institutions was $57,458,240 and the bank balance was $62,773,869, which was either covered by Federal Deposit Insurance Corporation (FDIC), collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), or held in trust accounts. During 2016, 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	$	57,458,240
Cash on hand		775
Letter of credit		600,000
	$	58,059,015

Per Exhibit A:		
Cash and cash equivalents	$	46,937,476
Cash with fiscal agents		3,953,057
Restricted cash and cash equivalents		7,168,482
	$	58,059,015

(d) Foreign Currency Risk

The Authority does not have any foreign investments. The Authority does not have cash held in foreign accounts or accounts denominated in a currency other than United States Dollar.

(e) Component Units

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, 2015, NCCCC had $5,686 in cash and $101,744 invested in short-term money market instruments.

(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, 2016, with specific payment terms, is as follows:

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.	$	14,329,440
Allowance for doubtful accounts		(14,329,440)
	$	—
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.	$	770,400
Allowance for doubtful accounts		(770,400)
	$	—
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 are reserved for qualified low-income tenants on an ongoing basis. 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. There is no stated due date.		51,370

Notes receivable – HOME:		
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. There is no stated due date.		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
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
Promissory note receivable due from TCB Broad Creek V LP. The funds were provided for the construction of 50 units of rental housing, of which 50 units will be reserved for qualified low income tenants. The note earns interest at 6%. Interest and principal shall be due in December 2056.		1,612,000
Working Fund – A 3.75% rate per annum promissory note due from local citizen in monthly installments of principal and interest. This loan was 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 the home.		34,419

Notes receivable – HOME:		
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 the home.	$	65,000
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 on the homes 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 the residence.		195,000
Program Income – 0% to 8% fixed rate promissory notes receivable due from local citizens and businesses 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, 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. Other notes are issued to nonprofit agencies for land the Authority has donated to the agency. The note becomes payable if the use of the property is not secured by low to moderate income residents for its affordability period.		88,644
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.	$	12,509,046
Total notes receivable		30,057,054
Less current portion		38,594
	$	30,018,460

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 $750,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of $610,000 and $140,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $2,655,000 equal to the debt described in note 5.

(4) Capital Assets

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

	Balance, June 30, 2015	Increases	Decreases	Balance, June 30, 2016
Capital assets not being depreciated:				
Land	$ 24,799,115	—	—	24,799,115
Construction in progress	8,539,836	6,222,866	(3,838,599)	10,924,103
Total capital assets not being depreciated	33,338,951	6,222,866	(3,838,599)	35,723,218
Other capital assets:				
Buildings and building improvements	192,628,803	3,401,624	(83,062)	195,947,365
Improvements other than buildings	75,366,841	1,763,959	(50,782)	77,080,018
Equipment	7,944,395	329,688	(933,323)	7,340,760
Total other capital assets	275,940,039	5,495,271	(1,067,167)	280,368,143
Less accumulated depreciation for:				
Buildings and building improvements	112,612,534	6,397,249	(83,060)	118,926,723
Improvements other than buildings	50,330,624	2,390,903	(34,481)	52,687,046
Equipment	5,643,167	271,925	(898,247)	5,016,845
Total accumulated depreciation	168,586,325	9,060,077	(1,015,788)	176,630,614
Other capital assets, net	107,353,714	(3,564,806)	(51,379)	103,737,529
Capital assets, net	$ 140,692,665	2,658,060	(3,889,978)	139,460,747

The Authority has active construction projects as of June 30, 2016. Outstanding commitments related to construction in progress amounted to approximately $6.3 million at June 30, 2016.

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	$	9,079,984
Less amortization expense		(19,907)
Increases in accumulated depreciation	$	9,060,077

(a) Component Unit

The following is a summary of changes in AELP's capital assets for the year ended December 31, 2015:

		Balance, December 31, 2014	Increases	Decreases	Balance, December 31, 2015
Capital assets not being depreciated:					
Land	$	1,000,003	—	—	1,000,003
Other capital assets:					
Buildings and building improvements		11,687,494			11,687,494
Equipment		55,607			55,607
Total other capital assets		11,743,101	—	—	11,743,101
Less accumulated depreciation for:					
Buildings and building improvements		292,045	300,191	—	592,236
Equipment		10,044	11,122	—	21,166
Total accumulated depreciation		302,089	311,313	—	613,402
Other capital assets, net		11,441,012	(311,313)	—	11,129,699
Capital assets, net	$	12,441,015	(311,313)	—	12,129,702

(5) Debt

A summary of the Authority's debt activity for the fiscal year ended June 30, 2016 is presented below:

		Amounts payable at June 30, 2015	Additions	Retirements and reductions	Amounts payable at June 30, 2016	Amounts due within one year
Notes payable:						
Granby Street office building	$	696,592	—	696,592	—	—
Partrea Sr. Development		926,782	—	—	926,782	—
NRHA Partrea I		5,858,428	632,676	3,841,104	2,650,000	—
Park Terrace		251,078	—	132,358	118,720	118,720
Merrick Renovation		—	103,409	—	103,409	—
NRHA Mission College I		10,200,401	—	85,070	10,115,331	91,042
		17,933,281	736,085	4,755,124	13,914,242	209,762
Bonds payable:						
Multifamily revenue bonds – Oakmont North		1,760,000	—	255,000	1,505,000	270,000
Total debt	$	19,693,281	736,085	5,010,124	15,419,242	479,762

Subsequent to the Authority's fiscal year end, on December 28, 2016, the Authority opened a new line of credit with the potential for borrowings up to $10 million. This line of credit is to be utilized to finance various phases of project development.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2016

The following summarizes the Authority's long-term note and bond obligations at June 30, 2016:

Notes payable:		
Mortgage note insured by the Federal Housing Administration for a 260-unit apartment complex in Norfolk, Virginia, bearing interest at the rate of 6.71%. Principal and interest are paid in monthly installments of $64,698 through May 2026.	$	10,115,331
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.		118,720
Note payable to a financial institution, not to exceed $6.9 million, for construction of a 47-unit apartment complex in Norfolk, Virginia. Interest shall be calculated from the date of each advance at an interest rate of 2.050 percentage points over LIBOR (index rate). LIBOR is subject to change from time to time. Interest will be paid on 35 monthly payments starting November 28, 2014. On October 28, 2017, principal outstanding shall be reduced to $2.9 million, and shall then be amortized over 30 years.		2,650,000
Note payable to a financial institution, not to exceed $20.5 million, for renovation and construction of a 492-unit apartment complex in Norfolk, Virginia. Interest shall be calculated from the date of each advance at an interest rate of 2.050 percentage points over LIBOR (index rate). LIBOR is subject to change from time to time. Interest will be paid in monthly payments starting May 1, 2016. Principal and accrued unpaid interest are payable on April 1, 2020.		103,409
Note payable to a financial institution for construction of a 47-unit apartment complex in Norfolk, Virginia, bearing interest at the rate of 5.9%. Principal and interest are payable annually if surplus cash flow is available. Otherwise, principal and interest continue to accrue through April 2034, when all amounts due must be repaid in full.		926,782
Total notes payable		13,914,242
Bonds payable:		
Tax-exempt variable rate multifamily 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, 2016 was 0.1% and is reset weekly based on LIBOR.		1,505,000
Total bonds and loans payable	$	15,419,242

(Continued)

(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:				
2017	$ 209,762	753,923	270,000	988
2018	2,851,703	592,645	285,000	760
2019	111,590	667,520	300,000	520
2020	222,832	659,004	315,000	268
2021	127,281	649,095	335,000	—
2022 - 2026	9,464,292	5,655,937	—	—
2027 - 2031	—	—	—	—
2032 - 2036	926,782	1,989,952	—	—
	$ 13,914,242	10,968,076	1,505,000	2,536

(b) Component Unit – NCCCC

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, 2015, $2,655,000 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, 2015, $0 remained outstanding. Interest at rates from 2.00% to 5.25% is payable semiannually and principal payments are due annually in November.

Principal maturities for the revenue bonds are as follows: 2016 – $610,000; 2017 – $645,000; 2018 – $680,000; and 2019 – $720,000.

(c) Component Unit – AELP

AELP entered into a construction loan agreement with a financial institution on May 9, 2013, for the construction of improvements on the art and education building. Payments on the construction loan solely consist of interest. The construction loan agreement ends at the earlier of the payment of all outstanding principal amounts, or May 6, 2016, at which time the construction loan will be converted to a permanent loan. At December 31, 2015, the outstanding loan amount was $4,656,000, with an interest rate of 4.30%.

AELP entered into a loan agreement with a financial institution on December 18, 2013, in the original amount of $880,000 from The Governor’s Magnet School for Arts Foundation. The loan proceeds were used towards the rehabilitation of the project. The note bears interest at the rate of 0.50% per annum, compounding annually, and matures on December 18, 2048. Monthly principal and interest payments of $2,284 are required. As of December 31, 2015, the outstanding principal balance was $833,754.

(6) Defined Benefit Pension Plan

(a) Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set forth below:

VRS Plan 1 is a defined benefit plan. Members hired before July 1, 2010 and who were vested as of January 1, 2013 are eligible for Plan 1. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit.

VRS Plan 2 is a defined benefit plan. Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 and are not vested as of January 1, 2013 are covered under Plan 2. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available to Plan 2 members as early as age 60 with at least five years of service credit.

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Members hired on or after January 1, 2014 are eligible for the Hybrid Plan. The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. The benefit payment payable from the defined contribution plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. Employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. The retirement multiplier for the Authority's employees is 1.7% for Plan 1 members, 1.65% for Plan 2 members, and 1.0% for Hybrid Plan members. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. During years of no inflation or deflation per the Consumer Price Index for all Urban Consumers (CPI-U), 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 that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/pdf/publications/2015-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	340
Inactive members:	
Vested inactive members	34
Nonvested inactive members	74
Inactive members active elsewhere in VRS	54
Total inactive members	162
Active members	272
Total covered employees	774

(c) Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the

Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's actuarially determined required contribution rate for the year ended June 30, 2016 was 14.96% of covered employee compensation. This rate was actuarially determined from a valuation performed as of June 30, 2014. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $1,875,880 and $1,858,138 for the years ended June 30, 2016 and 2015, respectively.

(d) Net Pension Liability

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

(e) Actuarial Assumptions

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

Inflation	2.50%
Salary increases, including inflation	3.50%–5.35%
Investment rate of return, net of pension plan investment expense, including inflation*	7.00%
Cost-of-living adjustment	2.25%–2.50%

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

	Mortality assumptions
Deaths assumed to be service related	14.0%
Pre-retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years
Post-Retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study covering the period from July 1, 2008 through June 30, 2012. Changes to the previously utilized actuarial assumptions are as follows: update mortality table, decrease in rates of service retirement, decrease in rates of disability retirement, reduce rates of salary increase by 0.25% per year.

(f) Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	9.00	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	100.00%		5.83%
Inflation			2.50
*Expected arithmetic nominal return			8.33%

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

(g) Discount Rate

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

(h) Changes in Net Pension Liability

		Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	$	96,243,424	80,473,471	15,769,953
Changes for the year:				
Service Cost		1,340,253	—	1,340,253
Interest		6,529,011	—	6,529,011
Differences between expected and actual experience		(2,014,395)	—	(2,014,395)
Contributions – employer		—	1,858,138	(1,858,138)
Contributions – employee		—	624,579	(624,579)
Net investment income		—	3,594,684	(3,594,684)
Benefit payments, including refunds of employee contributions		(5,943,678)	(5,943,678)	—
Administrative expenses		—	(51,962)	51,962
Other changes		—	(1,320)	1,320
Net changes		(88,809)	80,441	(169,250)
Balances at June 30, 2016	$	96,154,615	80,553,912	15,600,703

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

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

		1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	$	26,095,943	15,600,703	6,705,510

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

For the year ended June 30, 2016, the Authority recognized pension expense of $200,879 within operating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	1,292,390
Net difference between projected and actual earnings on pension plan investments		—	2,211,725
Employer contributions subsequent to the measurement date		1,875,880	—
Total	$	1,875,880	3,504,115

Deferred outflows of resources related to pensions totaling $1,875,880, resulting from the Authority's contributions subsequent to the measurement date, will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2017	$	(1,586,944)
2018		(1,435,324)
2019		(864,939)
2020		383,092

(Continued)

(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 Voya Financial Partners. The assets are not included in the accompanying basic financial statements as of June 30, 2016.

(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 Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), 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 $4,114,906. 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, 2016, there were six issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of $148,456,684.

(Continued)

(10) 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 retirees 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. 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		
		2016	**2015**	**2014**
ARC:				
Normal cost	$	359,050	399,409	380,229
Adjustments to ARC		(209,924)	(123,776)	(123,776)
Interest		95,891	84,996	74,956
Total ARC		245,017	360,629	331,409
Contributions made		(167,936)	(88,268)	(80,394)
Increase in net OPEB obligation		77,081	272,361	251,015
Net OPEB obligation, beginning of year		2,397,269	2,124,908	1,873,893
Net OPEB obligation, end of year	$	2,474,350	2,397,269	2,124,908

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013 through 2016 were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2013	$	509,411	32.3%	1,873,893
2014		331,409	24.3	2,124,908
2015		360,629	24.5	2,397,269
2016		245,017	68.5	2,474,350

(d) Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the underfunded actuarial accrued liability (UAAL) was $2,890,811 as of June 30, 2016. The covered payroll (annual payroll of active employees covered by the plan) was $12,790,937, and the ratio of the UAAL to the covered payroll was 22.6% 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, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions at July 1, 2015 included a 4% investment rate of return and an annual healthcare cost trend rate increase of 9% in 2016 and then grades down to 5% over eight years. The Authority's UAAL is being amortized on an open level dollar amount basis over a period of 30 years.

(11) 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, 2016

Current assets	$	11,268,141
Capital assets		54,757,732
Other assets		4,667,773
	$	70,693,646
Current liabilities	$	895,919
Noncurrent liabilities		48,480,316
Total liabilities		49,376,235
Net investment in capital assets		8,350,855
Restricted		2,396,989
Unrestricted		10,569,567
Total fund net position		21,317,411
	$	70,693,646

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2016

Condensed Summary of Revenues, Expenses, and Changes in Fund Net Position – Blended Component Units

Year ended June 30, 2016

Tenant revenue	$	4,092,026
Government operating grants		2,724,401
Other revenue, net		1,964,785
Total operating revenue		8,781,212
Administrative expense		1,800,113
Tenant services expense		89,543
Utilities expense		1,207,126
Maintenance expense		1,558,919
Protective services expense		183,227
General expense		1,436,324
Extraordinary maintenance expense		93,863
Depreciation and amortization expense		1,857,258
Total operating expenses		8,226,373
Operating income		554,839
Total nonoperating expense		(1,919,912)
Government capital grants		111,769
Distributions to partners		4,448,895
Change in fund net position		3,195,591
Total fund net position – beginning		18,121,820
Total fund net position – ending	$	21,317,411

(Continued)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2016

Condensed Summary of Cash Flows – Blended Component Units

Year ended June 30, 2016

Net cash provided by (used in):		
Operating activities	$	3,270,857
Capital and related financing activities		(5,237,595)
Noncapital financing activities		(83,513)
Investing activities		4,467,601
Net increase in cash and cash equivalents		2,417,350
Cash and cash equivalents at beginning of year		8,513,618
Cash and cash equivalents at end of year	$	10,930,968

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

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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, 2016

(Unaudited)

Fiscal year end	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, 2013	July 1, 2011	$ —	4,032,158	4,032,158	—%	14,014,644	28.8
June 30, 2014	July 1, 2013	—	3,752,116	3,752,116	—	13,072,489	28.7
June 30, 2015	July 1, 2013	—	3,965,668	3,965,668	—	12,626,532	31.4
June 30, 2016	July 1, 2015	—	2,890,811	2,890,811	—	12,790,937	22.6

Unaudited – see accompanying independent auditors' report.

Exhibit E-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis

Schedule of Changes in the Authority's Net Pension Liability and Related Ratios

Year ended June 30, 2016

(Unaudited)

	Year ended June 30	
	2016	**2015**
Total pension liability:		
Service cost	$ 1,340,253	1,427,541
Interest	6,529,011	6,395,438
Changes of benefit terms	—	—
Differences between expected and actual experience	(2,014,395)	—
Changes in assumptions	—	—
Benefit payments, including refunds of employee contributions	(5,943,678)	(5,885,924)
Net change in total pension liability	(88,809)	1,937,055
Total pension liability – beginning	96,243,424	94,306,369
Total pension liability – ending (a)	$ 96,154,615	96,243,424
Plan fiduciary net position		
Contributions – employer	$ 1,857,568	1,722,710
Contributions – employee	624,579	654,326
Net investment income	3,594,684	11,213,353
Benefit payments, including refunds of employee contributions	(5,943,678)	(5,885,924)
Administrative expense	(51,962)	(62,862)
Other	(750)	592
Net change in plan fiduciary net position	80,441	7,642,195
Plan fiduciary net position – beginning	80,473,471	72,831,276
Plan fiduciary net position – ending (b)	80,553,912	80,473,471
Authority's net pension liability – ending (a)-(b)	$ 15,600,703	15,769,953
Plan fiduciary net position as a percentage of the total pension liability (b) / (a)	83.78%	83.61%
Covered-employee payroll (c)	$ 12,541,560	12,849,410
Authority's net pension liability as a percentage of covered-employee payroll [(a)-(b)] / (c)	124.39%	122.73%

Unaudited – See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibits E-2 and E-3.

Exhibit E-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis

Schedule of Employer Contributions to Defined Benefit Pension Plan

Year ended June 30, 2016

(Unaudited)

For the year ended June 30	Actuarially determined contribution	Contributions in Relation to actuarially determined contribution	Contribution deficiency (Excess)	Employer's covered employee payroll	Contributions as a % of covered employee payroll
2014	$ 1,722,710	1,722,710	—	13,705,618	12.57%
2015	1,858,138	1,858,138	—	12,849,410	14.46
2016	1,875,880	1,875,880	—	12,541,560	14.96

Unaudited – See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibits E-2 and E-3.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Required Supplementary Information Other Than Management's Discussion and Analysis – Exhibits E-2 and E-3

Year ended June 30, 2016

(Unaudited)

(1) Changes in benefit terms

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

(2) Changes in assumptions

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

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

SUPPLEMENTARY INFORMATION (UNAUDITED)

Exhibit F-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Community Development Block Grant Fund Expenditures by Program Year

Year ended June 30, 2016

(Unaudited)

		Administration	Site improvement	Site disposition	Rehabilitation	Miscellaneous		Total
Community Development (CD) Block Grant Fund:								
Program year 2009	$	—	9,474	40,987	—	—		50,461
Program year 2011		—	17,670	—	—	—		17,670
Program year 2012		—	—	—	8,872	—		8,872
Program year 2013		134,359	—	—	127,527	—		261,886
Program year 2014		48,277	—	—	319,652	—		367,929
Program year 2015		—	—	—	154,246	65,882		220,128
Total CD	$	182,636	27,144	40,987	610,297	65,882		926,946
Reconciliation to operating expenses:								
Project costs incurred	$	182,636	27,144	40,987	610,297	65,882		926,946
Land held for resale – CDBG								381,230
Operating expenses							$	1,308,176

Unaudited – see accompanying independent auditors' report.

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Capital Fund Program Expenditures

Year ended June 30, 2016

(Unaudited)

		VA36R006 501 – 2013	VA36R006 502 – 2009-2012	VA36R006 502 – 2013-2014	VA36P006 501 – 2004-2011	VA36P006 501 – 2012	VA36P006 501 – 2013	VA36P006 501 – 2014	VA36P006 501 – 2015	Total
Classification of expenditures:										
1406 Operations	$	—	—	—	209,991	400,000	948,959	—	598,200	2,157,150
1408 Management improvements		—	—	—	186,881	203,703	9,825	497	—	400,906
1410 Administration		—	—	—	553,247	490,385	474,479	614,990	619,575	2,752,676
1411 Audit		—	—	—	15,000	8,000	8,000	8,000	1,180	40,180
1430 Fees and costs		—	—	—	1,169,208	920,776	945,337	966,890	854,383	4,856,594
1440 Pre-development costs		—	—	—	—	—	—	—	—	—
1450 Site improvements		—	—	—	1,215,397	228,621	172,724	483,049	36,700	2,136,491
1460 Dwelling structures		—	—	—	1,890,931	1,924,220	1,445,146	1,620,030	7,845	6,888,172
1465.1 Dwelling equipment – nonexpendable		—	—	—	285,538	145,046	—	36,035	403,184	869,803
1470 Nondwelling structures		—	—	—	6,286	515,079	969	—	45,775	568,109
1485 Demolition		—	—	—	—	43,523	—	—	75,807	119,330
1495 Relocation costs		—	—	—	—	24,500	68,829	—	20,883	114,212
1498 Development Activity		—	—	—	—	—	—	—	—	—
Total capital fund expenditures		—	—	—	5,532,479	4,903,853	4,074,268	3,729,491	2,663,532	20,903,623
1499 Replacement housing factor funds		361,511	1,500,000	872,656	—	—	—	—	—	2,734,167
Cumulative project costs at June 30, 2016		361,511	1,500,000	872,656	5,532,479	4,903,853	4,074,268	3,729,491	2,663,532	23,637,790
Deferred revenue		—	—	(837,449)	—	—	—	—	—	(837,449)
Cumulative project costs at June 30, 2015		325,784	—	—	5,532,479	4,377,166	2,541,048	1,142,748	—	13,919,225
Project costs incurred during year ended June 30, 2016		35,727	1,500,000	35,207	—	526,687	1,533,220	2,586,743	2,663,532	8,881,116
Increase in capital assets (not including depreciation):										
Ending balance		361,511	—	35,207	4,148,558	2,770,454	1,957,318	2,981,465	507,354	12,761,867
Transfers to Broad Creek V		—	1,500,000	—	—	—	—	—	—	1,500,000
Beginning balance		(325,784)	—	—	(4,148,558)	(2,326,128)	(515,233)	(493,615)	—	(7,809,318)
Increase in capital assets		35,727	1,500,000	35,207	—	444,326	1,442,085	2,487,850	507,354	6,452,549
Management improvements and administration		—	—	—	—	82,361	91,135	98,893	2,156,178	2,428,567
Depreciation		—	—	—	214,283	94,187	9,489	4,474	152	322,585
Operating expenses	$	—	—	—	214,283	176,548	100,624	103,367	2,156,330	2,751,152

Unaudited – see accompanying independent auditors' report.

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2016

(Unaudited)

	Program year				
	RPS101A010 2011	**RFS079A012 2012**	**RFS258A013 2013**	**RPS041A013 2014**	**Total**
Classification of expenditures:					
1168 Program coordinator – salaries	$ 468,378	105,431	101,978	291,430	967,217
1168 Program coordinator – fringe benefits	162,858	32,569	36,022	115,282	346,731
1268 Travel costs	10,434	—	—	12,999	23,433
1268 Training	6,128	—	—	2,004	8,132
1268 Program expenses	42,034	—	—	5,146	47,180
1868 Administrative costs	30,168	—	—	50,233	80,401
Cumulative project costs at June 30, 2016	720,000	138,000	138,000	477,094	1,473,094
Cumulative project costs at June 30, 2015	720,000	138,000	91,551	249,610	1,199,161
Project costs incurred during year ended June 30, 2016	$ —	—	46,449	227,484	273,933
Current year depreciation					—
Operating expenses					$ 273,933

Unaudited – see accompanying independent auditors' report.

Exhibit F-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Resident Opportunity and Self Sufficiency Program Expenditures

Year ended June 30, 2016

(Unaudited)

		FSH682A014 2014	FSH216A015 2015	Total
Classification of expenditures:				
Salaries	$	247,951	174,377	422,328
Fringe benefits		81,453	58,970	140,423
Cumulative project costs at June 30, 2016		329,404	233,347	562,751
Cumulative project costs at June 30, 2015		56,925	—	56,925
Project costs incurred during year ended June 30, 2016	$	272,479	233,347	505,826

Unaudited – see accompanying independent auditors' report.

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Choice Neighborhood Incentives (CNI) Expenditures

Year ended June 30, 2016

(Unaudited)

		Program year 2012
Classification of expenditures:		
Salaries	$	37,222
Fringe benefits		12,700
Training and travel		16,785
Other admin		149,752
Tenant services		29,728
Cumulative project costs at June 30, 2016		246,187
Cumulative project costs at June 30, 2015		242,632
Project costs incurred during year ended June 30, 2016	$	3,555

Unaudited – see accompanying accountants' report.

Exhibit G-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

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	$ 14,760,839
Section 8 Housing Assistance Payments Program:			
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4		14.871	26,361,039
New construction – Park Terrace Program (contract P-5512)	VHDA	14.182	299,215
Subtotal – Section 8 Housing Assistance Payments Program			26,660,254
Single Room Occupancy (SRO) Program: (VA36K401001)		14.249	338,235
Capital fund program:			
VA-36-R006-501 (2013)		14.872	35,727
VA-36-R006-502 (2009)		14.872	223,748
VA-36-R006-502 (2010)		14.872	364,217
VA-36-R006-502 (2011)		14.872	591,197
VA-36-R006-502 (2012)		14.872	320,838
VA-36-R006-502 (2014)		14.872	35,207
VA-36-P006-501 (2012)		14.872	526,687
VA-36-P006-501 (2013)		14.872	1,533,220
VA-36-P006-501 (2014)		14.872	2,586,743
VA-36-P006-501 (2015)		14.872	2,663,532
Capital Fund loan receivable		14.872	612,771
Subtotal – Capital Fund Program			9,493,887
Resident Opportunity and Supportive Services (ROSS) Program:			
VA006RFS258A013		14.870	46,449
VA006RPS041A013		14.870	227,484
Subtotal – ROSS Program			273,933
Resident Opportunity and Self Sufficiency Program (FSH682A014)		14.896	505,826
Choice Neighborhood Initiative		14.889	3,555
Job Access Reverse Commute (JARC) (VA-37-X014/X022)	HRT	20.516	157,966
New Freedom Program (VA-57-X001/X004)	HRT	20.521	123,278
Job Plus (VA006FJP000615)		14.895	36,770
Community Development Block Grant:	City of Norfolk		
Program year 2009 (CDBG No. B08-MC-510016)		14.218	50,461
Program year 2011 (CDBG No. B08-MC-510016)		14.218	17,670
Program year 2012 (CDBG No. B08-MC-510016)		14.218	8,872
Program year 2013 (CDBG No. B08-MC-510016)		14.218	261,886
Program year 2014 (CDBG No. B08-MC-510016)		14.218	367,929
Program year 2015 (CDBG No. B08-MC-510016)		14.218	220,128
Community Development Block Grant loan receivable		14.218	10,037,922
Subtotal – Community Development Block Grant			10,964,868
Home Investment Partnerships:	City of Norfolk		
Program year 1997 (HOME No. M08-MC-510203)		14.239	6,983
Program year 2008 (HOME No. M08-MC-510203)		14.239	34,560
Program year 2009 (HOME No. M08-MC-510203)		14.239	233,565
Program year 2010 (HOME No. M08-MC-510203)		14.239	1,292
Program year 2011 (HOME No. M08-MC-510203)		14.239	(3,172)
Program year 2012 (HOME No. M08-MC-510203)		14.239	779,129
Program year 2013 (HOME No. M08-MC-510203)		14.239	557,018
Program year 2014 (HOME No. M08-MC-510203)		14.239	277,484
HOME loan receivable		14.239	13,006,641
Subtotal – Home Investment Partnerships			14,893,500
Housing Counseling Assistance Program		14.169	70,877
Urban Revitalization Program (HOPE VI) loan receivable		14.866	1,003,982
Total expenditures of federal awards			$ 79,287,770

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

COMPLIANCE SECTION

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(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 Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). 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*, or 2 CFR 200 Subpart E, *Cost Principles*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Amounts Provided to Subrecipients

For the fiscal year ended June 30, 2016, no amounts were provided to subrecipients.

(4) Loans Outstanding

The Authority had outstanding loans receivable of $14,329,440 under the HOME Investment Partnerships program, $10,332,671 under the Community Development Block Grant program, $770,401 under the Urban Revitalization Program, and $2,326,175 under the Capital Fund program at June 30, 2016. The schedule of expenditures of Federal awards includes outstanding loan balances at the beginning of the year, expenditures for current year loans, if any, and other allowable program expenditures.

(5) Indirect Cost Rate

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditors' Results

Financial Statements

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **Yes – 2016-002**
- Significant deficiencies: **None reported**

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

Federal Awards

(d) Internal control deficiencies over major programs disclosed by the audit:

(i) Material weaknesses: **No**

(ii) Significant deficiencies: **Yes – 2016-001**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes – 2016-001**

(g) Major programs:

- Section 8 Housing Choice Vouchers – CFDA 14.871
- Community Development Block Grants – CFDA 14.218

(h) Dollar threshold used to distinguish between Type A and Type B programs: $2,378,633

(i) Auditee qualified as a low-risk auditee: No

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

Finding 2016-002

The Authority entered into agreements with Norfolk Hotel Associates LLP (NHA) and the City of Norfolk between April 2013 and July 2015 related to development of the Main Hotel and Conference center. Among these agreements was a provision for NRHA to provide grant funding to defray the cost of development. However, the cash was paid directly from the City of Norfolk to NHA. NRHA did not have proper communication in place with the City to identify the actual payment of the cash, which occurred in fiscal years 2015 and 2016 and the associated revenue and expense items, nor did it have proper controls in place to assess the accounting implication of these agreements. As such, these revenues and expenses were not recorded. The actual impact to the financial statements as a result of these transactions is considered inconsequential, however, the lack of controls could have led to a material error not being detected.

In order to ensure future transactions are appropriately evaluated, we recommend management enhance communication controls over contracts jointly entered into with the City of Norfolk.

Views of Management – Management agrees with this finding.

To address the audit finding, NRHA staff and City staff have made a commitment for quarterly meetings to discuss transactions such as this; and to agree on our mutual responsibilities for financial reporting. To minimize opportunities for misstatements in our financial statements, we will implement the following procedures:

- We will seek the input of executive NRHA staff and City staff, as well as legal counsel to identify transactions that are underway that might not be detected in the normal course of business due to lack of financial exchange,
- NRHA staff will review on a quarterly basis the Norfolk Circuit Court records to identify any land exchanges that have occurred and verify these have been properly reported in our financial records,
- We will maintain a list of these initiatives and transactions and seek periodic updates,
- We will seek a debriefing from legal counsel and executive staff on all executed agreements, and
- We will discuss mutual financial reporting responsibilities of these transactions with City fiscal staff at our periodic meetings,

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding 2016-001: Eligibility

Program, CFDA No., Program Year, Federal Agency

Section 8 Housing Choice Vouchers, CFDA 14.871, 2015-2016, Department of Housing and Urban Development

Criteria or Requirement

In accordance with 24 CFR sections 5.230, 5.609 and 982.516, the public housing agency (PHA) must, as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility, including third-party verification of (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent. The PHA must reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification.

Condition Found

In our sample of 40 program participants (tenants), one tenant’s annual income was not calculated in accordance with relevant program requirements, one tenant’s adjusted income was calculated with expenses not supported by third-party verification, and one tenant’s rent and housing assistance payment was calculating using the incorrect utility allowance. This resulted in excess housing assistance payments of $90 out of a total population tested of $330,339. Housing assistance payments totaled approximately $24,288,000 for FY 2016.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause and Possible Asserted Effect

The Authority's application of controls over eligibility was inconsistent. The inconsistent application of eligibility controls caused housing assistance payments to be calculated incorrectly.

Identification of Questioned Costs

The aggregate known questioned costs associated with this finding is $90.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Identification of Repeat Finding

A similar finding was reported in the prior year's audit as finding number 2015-001.

Recommendations

We recommend the Authority enhance internal controls surrounding the review of tenant files and the performance of eligibility determinations overall.

Views of Responsible Officials

Management agrees with this finding.

Staff restructuring as well as increased staff training will continue on all aspects of the program and on customer service.

The "File Order" Form has been updated for all certification types, by adding boxes for a check-off list. Caseworkers will check applicable forms that should be in the file for the certification, and a signature line will be added for the caseworker to sign to signify the review has been completed.

The Administrative Plan/SOP policies and procedures will be reviewed with all staff, to ensure they are familiar with written policies and procedures, as well as any HUD updates and changes to the policies and procedures. The Compliance Supervisor and Specialist will increase the number of files to be monitored and provide recommendations to staff for improvement.

(continued)

In-service meetings will be held between the Compliance Specialist and staff to discuss any write ups of deficiencies to ensure that there are mutual understandings of policies.

A consultant from Quadel was contracted to review the HCV program in order to provide suggestions for improvements and to increase proficiencies. These suggestions have been reviewed and some implemented, and others may be implemented at a later time.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The 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, 2016, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2017. Our report includes a reference to other auditors who audited the financial statements of the NRHA Mission College I, L.P., Hampton Roads Ventures, L.L.C., NRHA Arts Education, L.P. and Norfolk Community College Campus Corporation, 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.

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.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-002 that we consider to be a material weakness.

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*.

Norfolk Redevelopment and Housing 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
March 28, 2017

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for Each Major Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 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, 2016. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item *2016-001*. Our opinion on each major federal program is not modified with respect to this matter.

KPMG

The Authority's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item *2016-001*, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
March 28, 2017