KPMG

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information
and Audit of Federal Awards Programs

June 30, 2018

(With Independent Auditors' Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (primary government) and the aggregate discretely presented component units of the Norfolk Redevelopment and Housing Authority (the Authority), as of and for the year ended June 30, 2018, 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 nine 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.

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KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Opinions

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, 2018, 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.

Emphasis of Matter

As discussed in note 1(o) to the basic financial statements, in fiscal year 2018, the Authority adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–20 and the Required Supplementary Information and Notes to Required Supplementary Information on pages 63–68 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, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
March 22, 2019

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, 2018. Please read it in conjunction with the basic financial statements, which begin on page 21.

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, required supplementary information, other than management's discussion and analysis, 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 required supplementary information, other than this discussion and analysis, presents additional information regarding the Authority's participation in pension and other post employment benefit plans that is required by U.S. generally accepted accounting principles. The other supplementary information included in the financial section of the report presents 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 2018

The Authority's 2018 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $279.1 million and $84.3 million, respectively; total deferred outflows of resources and deferred inflows of resources were approximately $1.9 million and $3.6 million, respectively. Thus, total fund net position was approximately $193.1 million at June 30, 2018.
- Total revenues (including interest, gains, grants, and capital contributions) and expenses (including interest expense) were approximately $87.2 million and $88.7 million, respectively; resulting in a decrease in fund net position of $1.5 million. Additionally, as discussed in note 1(o) to the financial statements, during fiscal year 2018, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in a decrease in fund net position as of June 30, 2017 of approximately $1.5 million.
- Revenues are derived from various sources with approximately 5.1% from City funding and 59.4% 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 24.6% of total revenue. The 10.9% 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).

- Additions to long-term debt totaled $27.1 million and were primarily related to additional debt of $9.7 million for renovations of Merrimack Landing Apartments, $5 million for renovations of Grandy Village, $0.6 million of additional debt related to the new component unit, Residential Options Inc., and $9.9 million of additional debt associated with the purchase of the City View Tower, NRHA's headquarters building at 555 East Main Street, by City View Tower GP, L.L.C., a new blended component unit of the Authority.
- The net decrease in cash and cash equivalents for the year was approximately $5.1 million, comprised of a $6.8 million net decrease in cash from operating activities, a net decrease of $0.4 million from capital and related financing activities, and a net increase of $2.1 million for all other activities.

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, 2018, the Authority owned over 4,400 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 3,200 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 2018 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 and government grants; 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, 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 net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will have actual cash flows in future fiscal periods (e.g., uncollected rent and earned but unused vacation leave).

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

Financial Analysis

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

(Continued)

Condensed Financial Information

The following table (Table 1) reflects the condensed statement of fund net position compared with the prior year. Total assets and liabilities of the Authority were approximately $279.1 million and $84.3 million, respectively; total deferred outflows of resources and inflows of resources were approximately $1.9 million and $3.6 million, respectively, thus, total fund net position was approximately $193.1 million at June 30, 2018.

Table 1

Condensed Summary of Fund Net Position

June 30, 2018 and 2017

(In millions)

Description		2018	2017	Change	Percentage change
Current assets:					
Cash and investments	$	45.8	54.5	(8.7)	(16.0)%
Restricted cash		10.2	6.6	3.6	54.5
Assets held for sale		8.2	8.1	0.1	1.2
Noncurrent assets:					
Capital assets, net		162.0	145.7	16.3	11.2
Other current and noncurrent assets		52.9	49.2	3.7	7.5
Total assets		279.1	264.1	15.0	5.7
Deferred outflows of resources		1.9	3.7	(1.8)	(48.6)
	$	281.0	267.8	13.2	4.9
Current liabilities	$	8.8	13.6	(4.8)	(35.3)
Noncurrent liabilities		75.5	57.0	18.5	32.5
Total liabilities		84.3	70.6	13.7	19.4
Deferred inflows of resources		3.6	1.1	2.5	227.3
Fund net position:					
Net invested in capital assets		120.6	129.2	(8.6)	(6.7)
Restricted		16.2	11.5	4.7	40.9
Unrestricted		56.3	55.4	0.9	1.6
Total fund net position		193.1	196.1	(3.0)	(1.5)
	$	281.0	267.8	13.2	4.9

(Continued)

The $52.9 of other current and noncurrent assets consists primarily of $29.9 million in notes receivable, including $12.3 million of receivables of the rehabilitation revolving loan fund (RLF), $16.8 million in accrued interest on the notes receivable, and $3.0 million due to the Authority from government entities to fund program and administrative costs expensed in the current financial statements. The $3.7 million increase in 2018 is primarily attributable to a $1.2 million increase in amounts due from the City of Norfolk and a $1.8 million increase in interest receivable on notes receivable.

The net decrease in cash and cash equivalents for the year was approximately $5.1 million, comprised of a $6.8 million net decrease in cash from operating activities, a net decrease of $0.4 million from capital and related financing activities, and a net increase of $2.1 million for all other activities.

The net increase in capital assets of $16.3 million is due primarily to the purchase of the City View Tower. Also contributing are asset additions through renovations to Grandy Village and Merrimack Landing Apartments.

Of the $84.3 million of liabilities, $8.8 million is current liabilities, which will require payment within twelve months of the reported fiscal year-end and $75.5 million is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities decreased $4.8 million since last fiscal year mainly due to decreases in vendor payables due to timing of capital payments and a decrease of $1.0 million on a line of credit and a decrease in accrued liabilities.

The noncurrent liabilities increased by $18.5 million largely due to a $9.7 million increase in debt related to the Merrimack Landing Apartments renovations and a $9.9 million loan for the purchase of City View Tower.

A breakout of the $84.3 million in liabilities is as follows:

- $46.9 million is long-term debt;
- $13.6 million is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $12.3 million RLF outstanding receivable balance noted above partially offsets this liability;
- $11.8 million is the Authority's share of the Virginia Retirement System (VRS) net pension liability
- $3.9 million is the Authority's other post employment benefit (OPEB) liability;
- $8.1 million consists of various obligations of the Authority including tenant security escrow deposit accounts, vested compensated absences payments due to third parties for services and payments due back to other governmental entities.

Deferred outflows of resources related to pensions totaled $1.7 million which 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 expected and actual experience.

Deferred outflows of resources related to other postemployment benefits (OPEB) totaled $0.2 million. Deferred inflows of resources related to OPEB totaled $0.1 million.

The fund net position balance of $193.1 million is the difference between assets, net deferred inflows/outflows of resources, and 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.

Referring back to Table 1, the Authority's fund net position decreased $3.0 million during the year ended June 30, 2018. This increase consists of the following:

Net investment in capital assets – this is the largest part of the net position balance and it decreased by $8.6 million. The decrease results from changes in two components, an increase in capital assets offset by an increase in debt related to the capital assets.

Restricted fund net position – this is the part of fund net position that has constraints established by debt covenants, enabling legislation, or other legal requirements, and it increased by $4.7 million. The increase was a result of funding replacement reserve accounts for the RAD converted projects as well as reserve accounts being funded for future improvements to the City View Tower.

Unrestricted fund net position – this is 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 and changed from $55.4 million at June 30, 2017 to $56.3 million at June 30, 2018, an increase of $0.9 million. 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 $17.3 million and $16.8 million, respectively, which is due beginning in 2044.
- The Authority does not include in its annual budget funding for unused employee vacation and sick days, funding for the unfunded portion of the VRS pension liability, or funding for the Postretirement Healthcare Benefit plan. As of June 30, 2018 the balance for unused employee vacation and sick days was $1.4 million, the pension and other postemployment benefit liability were $14.1 million and $3.9 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 2018, the Authority realized a decrease in fund net position of $3.0 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, 2018 and 2017

(In millions)

Description	2018	2017	Change	Percentage change
Total operating revenues	$ 80.2	79.2	1.0	1.3 %
Total operating expenses	87.5	87.1	0.4	0.5
Operating loss	(7.3)	(7.9)	0.6	(7.6)
Total nonoperating revenues	2.7	4.0	(1.3)	(32.5)
Total nonoperating expenses	(1.2)	(0.8)	(0.4)	50.0
Total nonoperating revenue	1.5	3.2	(1.7)	(53.1)
Loss before capital grants and contributions	(5.8)	(4.7)	(1.1)	23.4
Governmental capital grants	2.7	5.7	(3.0)	(52.6)
Capital contributions from limited partners	1.6	—	1.6	100.0
Change in fund net position	(1.5)	1.0	(2.5)	(250.0)
Total fund net position – beginning	196.1	195.1	1.0	0.5
Prior year adjustment of fund net position	(1.5)	—	(1.5)	(100.0)
Total fund net position – ending	$ 193.1	196.1	(3.0)	(1.5)

Fund net position decreased $7.3 million from operating activities and increased $1.5 million from nonoperating activities, resulting in a net $5.8 million decrease. This decrease was partially offset by $2.7 million in governmental capital grants, and $1.6 million in contributions from limited partners. This resulted in a $1.5 million decrease in fund net position. Additionally, as discussed in note 1(o) to the financial statements, during fiscal year 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in a decrease in fund net position as of June 30, 2017 of $1.5 million. The following sections discuss revenues and expenses separately.

Revenues

Table 3 provides a comparison of the Authority's operating and nonoperating revenues for 2018 and 2017 and shows that total revenues, gains, and capital contributions decreased $1.7 million.

Table 3

Summary Comparison of Operating and Nonoperating Revenues

Years ended June 30, 2018 and 2017

(In millions)

Description	2018	2017	Change	Percentage change
Operating revenues:				
Tenant revenue – rents and other	$ 21.4	20.2	1.2	5.9 %
Operating grants and subsidies	53.9	54.4	(0.5)	(0.9)
Other revenue, net	4.9	4.6	0.3	6.5
Total operating revenues	80.2	79.2	1.0	1.3
Nonoperating revenues:				
Interest and investment revenue, and gain on disposal of capital assets	2.7	4.0	(1.3)	(32.5)
Capital grants	2.7	5.7	(3.0)	(52.6)
Capital contributions from limited partners	1.6	—	1.6	100.0
Total revenues	$ 87.2	88.9	(1.7)	(1.9)

The $1.7 million decrease in total revenues is primarily attributable to a decrease of $3.0 million in capital grants used during the fiscal year and an increase in tenant revenues of $1.2 million during the fiscal year. The decrease in Interest and investment revenue, and gain on disposal of capital assets is offset by an increase in contributions from limited partners during the fiscal year.

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:

- 5.1%, or $4.4 million, from City government funding;
- 59.4%, or $51.8 million, received either directly from HUD ($50.2 million) or indirectly ($1.6 million through the City) from HUD;
- 24.6%, or $21.4 million, of total revenue received from tenant rental payments;
  - 51.9%, or $11.1 million, was from over 3,300 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace;

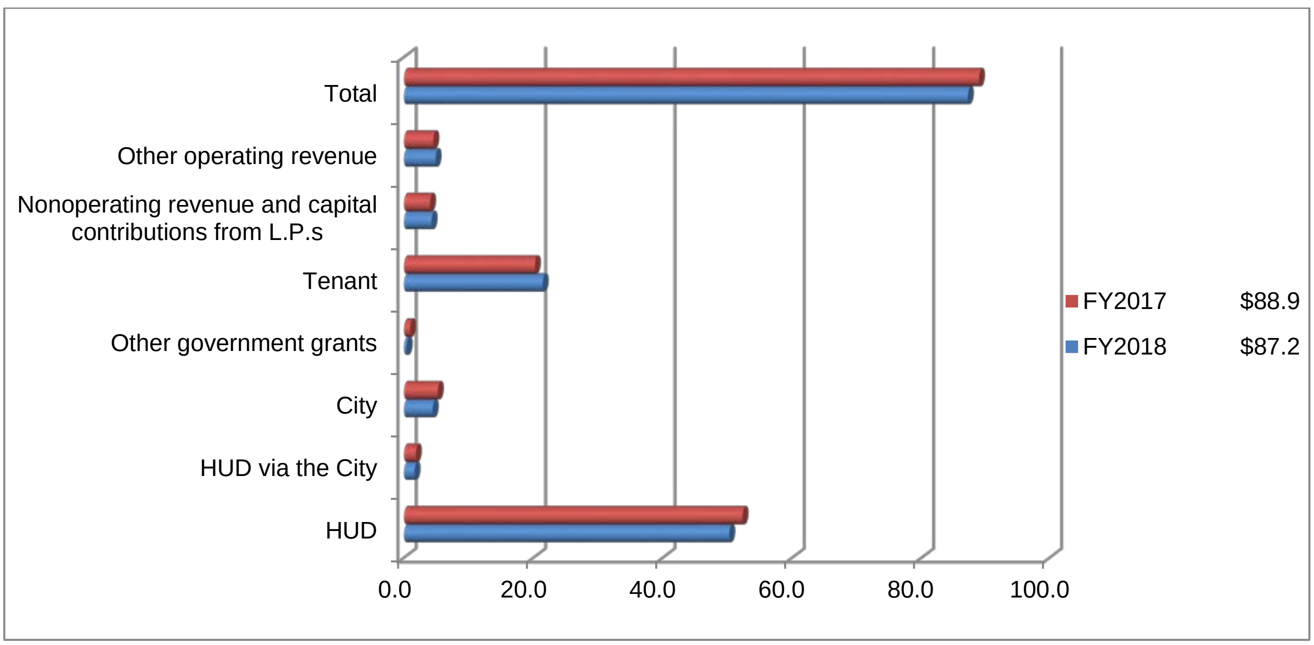
 - 44.9%, or $9.6 million, was from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and
 - 3.2%, or $0.7 million, in tenant revenue was from a variety of other commercial or residential customers

- 10.4%, or $9.1 million, is derived from miscellaneous fees for services (i.e., fees and other income) and nonoperating sources (i.e., interest and investment income); and
- 0.5%, or $0.5 million, is from various other government grants.

Revenue Source Comparison

Years ended June 30, 2018 and 2017

(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. City funding decreased by $0.8 million (from $5.2 million to $4.4 million). HUD funding decreased by $2.1 million. Other government grant revenue decreased by $0.5 million. Nonoperating revenue and revenue from HUD via the City remained consistent. Additionally, tenant revenue increased by $1.2 million. Discussion of the reasons for the $1.7 million decrease in total revenue is as follows:

There was a decrease in City funding of $0.8 million (from $5.2 million to $4.4 million). This was mostly due to the reduction in CIP fund usage for the year. We anticipate with the St. Paul's initiative that these expenditures will be increased in future years. Nonoperating revenue remained steady from 2017 to 2018. Additionally, there was a decrease in subsidies received directly from HUD of $2.1 million (from $52.3 million to $50.2 million). There was a $1.0 million increase in HCV subsidy due to an increase in HAP expenses; a $0.1 million decrease in Federal Housing subsidy due to pro-rations and a $3.0 million decrease in Capital Fund grant subsidy.

- Other miscellaneous increases and decreases to revenue consisted of:
  - Other governmental grants decreased by $0.5 million.
  - Tenant revenue increased by $1.2 million.

Expenses

Table 4 provides a comparison of the Authority's operating and nonoperating expenses for 2018 and 2017 and shows that there was a net increase in total expenses, losses, and distributions of $0.8 million ($88.7 million compared to $87.9 million).

Table 4

Summary Comparison of Operating and Nonoperating Expenses

Years ended June 30, 2018 and 2017

(In millions)

Description		2018	2017	Change	Percentage change
Operating expenses:					
Administrative	$	14.2	16.8	(2.6)	(15.5)%
Housing assistance payments (HAP)		25.1	25.7	(0.6)	(2.3)
Extraordinary maintenance		5.7	2.2	3.5	159.1
Maintenance – routine		11.1	10.8	0.3	2.8
Depreciation and amortization		9.2	9.5	(0.3)	(3.2)
Utilities		10.8	10.0	0.8	8.0
General		7.5	7.0	0.5	7.1
Tenant services		2.4	2.1	0.3	14.3
Protective services		1.4	1.3	0.1	7.7
Loss on disposal of assets held for sale		0.1	1.7	(1.6)	(94.1)
Total operating expenses		87.5	87.1	0.4	0.5
Nonoperating expenses:					
Interest expense		1.2	0.8	0.4	50.0
Total expenses	$	88.7	87.9	0.8	0.9

(Continued)

The most significant decrease in expenses was a $2.6 million decrease in administrative expenses primarily due to vacant management positions and a reduction in administrative overhead costs. There was a $3.5 million increase in extraordinary maintenance due to repairs for Merrimack Landing Apartments, working fund advances and work on the 5th to 7th Bay properties. After an active year in 2017, very little property was disposed of in 2018 resulting in a reduction of $1.6 million in loss on disposal of assets held for sale. Increase in interest expense is due to a $23 million net increase in outstanding long-term debt.

Capital Assets

The Authority's capital assets as of June 30, 2018 included land, buildings, improvements, construction in progress, and equipment totaling $162.0 million (net of accumulated depreciation). A breakdown of the Authority's capital assets is shown in Table 5 below.

Table 5

Composition of Capital Assets

June 30, 2018 and 2017

(In millions)

Description		2018	2017	Change	Percentage change
Nondepreciable capital assets:					
Land	$	27.5	24.7	2.8	11.3 %
Construction in progress		18.2	15.7	2.5	15.9
Depreciable capital assets:					
Buildings and building improvements		216.6	195.9	20.7	10.6
Improvements other than buildings		80.0	80.3	(0.3)	(0.4)
Equipment		6.6	6.4	0.2	3.1
Accumulated depreciation		(186.9)	(177.3)	(9.6)	5.4
Total capital assets, net	$	162.0	145.7	16.3	11.2

65.9% of the Authority's net capital assets or $106.8 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 24.3%, or $39.4 million, is invested in Authority-owned, nonassisted, multifamily, affordable housing units.

(Continued)

The net book value of capital assets increased $16.3 million during the current year ($162.0 million in 2018 compared to $145.7 million in 2017). Table 6 details the components of the change.

Table 6

Change in Capital Assets

Year ended June 30, 2018

(In millions)

		Nondepreciable capital assets	Depreciable capital assets	Total
July 1, 2017 beginning balance, net	$	40.4	105.3	145.7
Transfers		(2.5)	2.5	—
Purchases		7.8	18.5	26.3
Accumulated depreciation		—	(9.7)	(9.7)
Retirements, net		—	(0.3)	(0.3)
June 30, 2018 ending balance, net	$	45.7	116.3	162.0

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

- Increases in construction in progress totaled $5 million, and consisted primarily of capital improvements in our public housing communities. $2.5 million was completed and placed in service.
- Purchases for the year totaled $26.3 million, and consisted primarily of $1.8 million HUD Capital Fund funded improvements of public housing communities, $3.3 million improvements of Blended Component units, $0.5 million for the renovation of Oakmont North Apartments, $8.4 million ($7.4 million completed, $1.0 million construction in progress) for the renovation of Merrimack Landing Apartments and $12.1 million for the purchase of City View Tower, NRHA's headquarters building, also known as the PNC Bank Building.
- $1.8 million was expended to make improvements in each of our public housing communities including the following larger expenditures:
  - $22,002 architect, engineering improvements and inspections at Young Terrace Apartments.
  - $514,255 for architect, engineering and exterior lighting improvements at Tidewater Gardens Apartments.
  - $322,596 for architect, engineering, interior, exterior lighting, and storm water improvements at Calvert Square Apartments.
  - $60,676 for architect, engineering, interior building and site improvements at Partrea Midrise Apartments.
  - $71,389 for architect and engineering, library and elevator improvements at Sykes Midrise Apartments.
  - $170,526 for architect, engineering and carpet and tile improvements at Bobbitt Midrise Apartments.

- – $20,600 for architect and engineering at Scattered sites.
- – $402,339 for architect and engineering, demolition and site improvements at Grandy Village.
- – $191,492 for architect engineering at Diggs Town Apartments.

- $1.8 million was expended for a 70-unit development at Grandy Village.
- $63,100 was invested in equipment used by our Central Maintenance Shops including 5 mowers and 2 truck loaders.
- Approximately $41,000 of purchases had not been paid at June 30, 2018, and therefore, is included in accounts payable at year-end.

Long-Term Debt

The Authority's June 30, 2018 statement of fund net position reflects total debt outstanding of $45.9 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, 2018

Description	Amounts payable at June 30, 2017	Additions	Retirements and reductions	Amounts payable at June 30, 2018	Future debt service commitment
Line of credit	$ 2,969,994	1,933,522	2,969,994	1,933,522	Project revenue
City View Towers	—	9,860,000	—	9,860,000	Project revenue
Merrimack Landing	5,422,274	9,687,119	—	15,109,393	Project revenue
Oakmont North	1,235,000	—	285,000	950,000	Revenue bond
Partrea I, LP – AHP Loan	926,782	—	—	926,782	Project revenue
Partrea I, LP – TowneBank Loan	2,650,000	—	23,537	2,626,463	Project revenue
Grandy VI	—	5,038,005	—	5,038,005	Project revenue
Residential Options	—	620,075	11,086	608,989	Project revenue
Mission College I	9,883,257	—	82,888	9,800,369	Project revenue
Total	$ 23,087,307	27,138,721	3,372,505	46,853,523	

Observations of outstanding debt balances are as follows:

- Debt reductions totaling $3.4 million related to principal payoffs of approximately $3.3 million and scheduled payments of $0.1 million.

- Debt additions totaling $27.1 million related to a new line of credit of $1.9 million with TowneBank, as well as $25.2 million for an additional drawdown for the Merrimack Landing Apartments and Grandy Village construction loan with TowneBank and new note for the purchase of City View Tower, Grandy Village and Residential Options Inc. loans.

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.

In 2019, NRHA will continue the first phase of converting its projects from Public Housing projects to Project Based Voucher projects through the use of HUD's Rental Assistance Demonstration (RAD) program. Under this program, the Project Based Voucher projects will receive subsidy through the Housing Choice Voucher (HCV) program rather than the Public Housing program. This should provide a more reliable stream of subsidy from HUD, since Congress has traditionally provided a higher percentage of subsidy funding for the Housing Choice Voucher program than it has for the Public Housing program.

For calendar year 2018, HUD funded public housing authorities at 94.7% of their eligibility under HUD's Public Housing program's operating formula.

Public Housing Program

Calendar year	Percentage of full eligibility awarded	Formula amount at 100%	Actual funded amount	Over (under) calculated funding	Change vs. Prior year
CY 2018	94.7 %	$ 15,652,019	14,828,723	(823,296)	(79,414)
CY 2017	93.2	15,991,386	14,908,137	(1,083,249)	37,090
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)

In 2017 and 2016, the funding level was 93.2% and 90.2% 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, ($14.8 million in CY 2018, $14.9 million in CY 2017, $14.9 million in CY 2016, and $14.8 million in CY 2015) 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 –$4.9 million in CY 2012, $4.7 million in CY 2013, and $6.1 million in CY 2014.

Capital Fund Program

(In millions)

Award year	Actual funded amount	Change vs. prior year	
2018	$ 8.7	2.6	
2017	6.1	(0.3)	
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	6.1	

Although we saw an increase of funding in CY 2018 to the largest level we have received we expect the overall downward trend in funding to continue into future years as units are converted from the Low Income Public Housing Program.

The Housing Choice Voucher (HCV) program has provided adequate funding to cover housing assistance payments to participants each year until CY 2012; for CY 2012, 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 2018, HUD provided funding at a 99.5% proration factor based on the prior year's HAP expenses. In prior years, this amount was 99.54% (CY 2017), 99.58% (CY 2016), 101.25% (CY 2015), 99.7% (CY 2014), 98.5% (CY 2013), and 89% (CY 2012).

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
CY2018	$	27,247,753	1,408,770	2,276,017	389,856	76.0
CY2017		25,838,983	739,206	1,886,161	(4,297)	76.5
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 generally increased, but 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 a high of 3,766 in CY 2018 including RAD units.

In CY 2018, HUD provided 76.0% of eligible funding. To date, no appropriation level has been communicated for calendar year 2019; 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 address the results of fiscal year 2018 and the impact of the uncertainty of a new federal government administration, 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 the recent trend of grant funds being diverted to public service agencies for community initiatives have resulted in further reductions of grants contracted to NRHA. 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
2018	$ 3.9	0.1	2.6 %
2017	3.9	0.1	2.6
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

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 2018, the NRHA has applied for approximately $1.0 million in federal grants through the City's application process for CDBG ($0.1 million) and HOME ($0.9 million) funds. 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.

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 Interim 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, 2018

Assets	Primary government	Component unit NCCCC	Component unit AELP	Total
Current assets:				
Cash and cash equivalents (note 2)	$ 41,619,267	3,077	37,052	41,659,396
Cash with fiscal agents (note 2)	4,180,885	—	—	4,180,885
Investments (note 2)	19,278	—	—	19,278
Restricted cash and cash equivalents (note 2)	10,237,415	49,797	158,360	10,445,572
Receivables:				
Due from HUD	791,484	—	—	791,484
Due from City of Norfolk	2,315,052	—	—	2,315,052
Tenants rent, net	283,257	—	52,722	335,979
Notes, net (note 3)	172,511	680,000	—	852,511
Interest	24,344	26,994	—	51,338
Other, net	652,945	—	—	652,945
Total receivables, net	4,239,593	706,994	52,722	4,999,309
Inventories, net	470,417	—	—	470,417
Assets held for sale, restricted	8,228,448	—	—	8,228,448
Prepaid expenses and other assets	176,426	—	6,509	182,935
Total current assets	69,171,729	759,868	254,643	70,186,240
Noncurrent assets:				
Capital assets:				
Land	27,531,299	—	1,000,003	28,531,302
Buildings, improvements, and equipment	303,218,756	—	11,743,101	314,961,857
Construction in progress	18,162,761	—	—	18,162,761
Less accumulated depreciation	(186,900,156)	—	(1,235,005)	(188,135,161)
Capital assets, net (note 4)	162,012,660	—	11,508,099	173,520,759
Notes receivable, net (note 3)	29,873,318	720,000	—	30,593,318
Interest receivable	16,755,702	—	—	16,755,702
Other noncurrent assets	1,261,550	—	334,314	1,595,864
Total noncurrent assets	209,903,230	720,000	11,842,413	222,465,643
Total assets	279,074,959	1,479,868	12,097,056	292,651,883
Deferred Outflows of Resources				
Changes of pension assumptions (note 6)	31,572	—	—	31,572
Deferred pension contributions (note 6)	1,666,752	—	—	1,666,752
Deferred outflows related to OPEB plans (note 11)	232,735	—	—	232,735
Total deferred outflows of resources	1,931,059	—	—	1,931,059
Total assets and deferred outflows of resources	$ 281,006,018	1,479,868	12,097,056	294,582,942
Liabilities				
Current liabilities:				
Accounts payable	$ 805,189	—	11,575	816,764
Accrued salaries and benefits	290,998	—	—	290,998
Accrued compensated absences	120,756	—	—	120,756
Due to HUD and the City of Norfolk	401,678	—	—	401,678
Tenant security deposits	995,970	—	—	995,970
Unearned revenue	222,038	—	—	222,038
Bonds, notes, and loans payable, net (note 5)	2,416,883	680,000	133,524	3,230,407
Other current liabilities	3,538,359	12,975	21,903	3,573,237
Total current liabilities	8,791,871	692,975	167,002	9,651,848
Noncurrent liabilities:				
Bonds, notes, and loans payable, net (note 5)	44,436,640	720,000	5,098,979	50,255,619
Accrued compensated absences	1,276,194	—	—	1,276,194
Net pension liability (note 6)	11,764,883	—	—	11,764,883
Other postemployment benefit liability (notes 10 and 11)	3,875,338	—	—	3,875,338
Noncurrent liabilities – other	14,108,131	—	—	14,108,131
Total noncurrent liabilities	75,461,186	720,000	5,098,979	81,280,165
Total liabilities	84,253,057	1,412,975	5,265,981	90,932,013
Deferred Inflows of Resources				
Differences between expected and actual pension experience (note 6)	2,349,026	—	—	2,349,026
Net difference between projected and actual earnings on pension plan investments (note 6)	1,141,455	—	—	1,141,455
Deferred inflows related to OPEB plans (note 11)	124,000	—	—	124,000
Total deferred inflows of resources	3,614,481	—	—	3,614,481
Fund Net Position				
Net investment in capital assets	120,645,905	—	7,062,640	127,708,545
Restricted fund net position	16,169,823	49,797	158,360	16,377,980
Unrestricted fund net position	56,322,752	17,096	(389,925)	55,949,923
Total fund net position	193,138,480	66,893	6,831,075	200,036,448
Total liabilities, deferred inflows of resources, and fund net position	$ 281,006,018	1,479,868	12,097,056	294,582,942

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, 2018

	Primary government	Component unit NCCCC	Component unit AELP	Total
Operating revenues:				
Tenant revenues	$ 21,426,414	—	556,173	21,982,587
Government operating grants	53,914,724	—	—	53,914,724
Other revenue, net	4,820,402	10,265	—	4,830,667
Total operating revenues	80,161,540	10,265	556,173	80,727,978
Operating expenses:				
Administrative	14,251,692	14,800	38,405	14,304,897
Tenant services	2,355,639	—	—	2,355,639
Utilities	10,768,398	—	—	10,768,398
Maintenance	11,062,810	—	—	11,062,810
Protective services	1,453,397	—	—	1,453,397
General	7,517,881	—	110,166	7,628,047
Extraordinary maintenance	5,720,281	—	—	5,720,281
Housing assistance payments (HAP)	25,075,970	—	—	25,075,970
Depreciation and amortization (note 4)	9,242,554	—	310,801	9,553,355
Loss on sale of assets held for sale	54,743	—	—	54,743
Total operating expenses	87,503,365	14,800	459,372	87,977,537
Operating income (loss)	(7,341,825)	(4,535)	96,801	(7,249,559)
Nonoperating revenues (expenses):				
Interest and investment revenue	2,602,166	78,897	—	2,681,063
Gain on disposal of capital assets (note 4)	51,980	—	—	51,980
Interest expense	(1,163,398)	(106,497)	(204,270)	(1,474,165)
Total nonoperating revenue (expense), net	1,490,748	(27,600)	(204,270)	1,258,878
Loss before capital grants and capital contributions from limited partners	(5,851,077)	(32,135)	(107,469)	(5,990,681)
Government capital grants	2,747,325	—	—	2,747,325
Capital contributions from (to) limited partners	1,583,629	—	(36,216)	1,547,413
Change in fund net position	(1,520,123)	(32,135)	(143,685)	(1,695,943)
Total fund net position – beginning of year	196,123,787	99,028	6,974,760	203,197,575
Prior year adjustment of fund net position (note 1)	(1,465,184)	—	—	(1,465,184)
Total fund net position – end of year	$ 193,138,480	66,893	6,831,075	200,036,448

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2018

Cash flows from operating activities:		
Cash receipts from customers	$	18,631,223
Cash receipts from operating grants		52,383,726
Other operating cash receipts		5,946,767
Cash payments to employees for services		(22,548,629)
Cash payments to suppliers of goods and services		(30,477,034)
Other operating cash payments		(5,720,281)
Cash payments to landlords – HAP		(25,075,970)
Net cash used in operating activities		(6,860,198)
Cash flows from capital and related financing activities:		
Proceeds from disposal of capital assets		2,633,625
Proceeds from issuance of debt		26,484,276
Purchases of capital assets		(28,316,303)
Capital grants received		3,380,187
Principal payments on debt		(3,372,505)
Interest payments on debt		(1,163,919)
Net cash used in capital and related financing activities		(354,639)
Cash flows from investing activities:		
Distributions from limited partnerships		100,192
Contributions to limited partnerships		(120,620)
Issuance of notes receivable		(551,843)
Principal receipts on notes receivable		620,564
Capital contributions from limited partners		1,273,818
Interest and investment revenue received		823,474
Net cash provided by investing activities		2,145,585
Net decrease in cash and cash equivalents		(5,069,252)
Cash and cash equivalents at beginning of year		61,106,819
Cash and cash equivalents at end of year	$	56,037,567
Reconciliation to statement of fund net position of primary government:		
Current unrestricted cash and cash equivalents	$	41,619,267
Current cash with fiscal agents		4,180,885
Restricted cash and cash equivalents		10,237,415
Cash and cash equivalents	$	56,037,567

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2018

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(7,341,825)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense		9,242,554
Bad debt expense		411,860
Loss on sale of assets held for sale		54,743
Changes in assets and liabilities:		
Change in receivables due from HUD		(373,429)
Change in receivables due from City of Norfolk		(1,157,569)
Change in receivables from tenants rent, net		(371,198)
Change in receivables from other, net		(372,320)
Change in inventories, net		18,967
Change in assets held for sale		(206,950)
Change in prepaid expenses and other assets		169,366
Change in other noncurrent assets		(609,305)
Change in accounts payable		(700,089)
Change in accrued salaries and benefits		(47,893)
Change in accrued compensated absences		(92,180)
Change in due to HUD and the City of Norfolk		(260,960)
Change in tenant security deposits		33,651
Change in unearned revenue		(904,216)
Change in net pension liability and related deferred outflows and inflows of resources		(2,708,820)
Change in OPEB liability and related deferred outflows and inflows of resources		(252,801)
Change in other current and noncurrent liabilities		(1,391,784)
Net cash used by operating activities	$	(6,860,198)

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI Program and HOME in the amount of $194,218, and $969,926, respectively.

The Authority had net decreases of $450,262 in accounts payable and $477,735 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.

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., NRHA Grandy Village, L.P. (GVLP), NRHA Grandy V, L.L.C., NRHA North Wellington, L.L.C., City View Tower GP, L.L.C. (CVT), and Residential Options Inc., (ROI). 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 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.

(Continued)

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, L.L.C., 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, L.L.C. purchased the 99.99% limited partnership interest from NRHA.

The financial information of NOLP, MCA, MC1, GVLP, NRHA Partrea, L.P., NRHA Grandy Village V, L.L.C., NRHA North Wellington, L.L.C., HRV, CVT, and ROI 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 ten 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, 2018.

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, L.L.C. L.L.C. is a 0.01% general partner, Hudson Mission College, L.L.C. is a 99.98% limited partner, and Hudson SLP, L.L.C. is a 0.01% special limited partner. NRHA Mission College 1, L.L.C. is the only general partner in the partnership. The Authority owns a 79% interest in NRHA Mission College 1, L.L.C. 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 Franklin Arms, a 100 unit low-income public housing complex for the elderly, which is located in Norfolk, Virginia. On April 5, 2017, the Authority purchased the Limited Partner's interest from an unrelated third party. Norfolk One GP, L.L.C., is the general partner in the partnership, of which the Authority is the sole partner. 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, L.L.C. is the general partner in the partnership. NRHA has a 79% ownership interest in NRHA Grandy Village 1, L.L.C. 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 Cottage Bridge, a 47-unit project-based voucher Apartment Complex located in Norfolk, Virginia. NRHA Partrea I, L.L.C. is the sole general partner in the partnership. NRHA has a 79% interest in NRHA Partrea I, L.L.C., 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.

NRHA Grandy Village V, L.L.C., a Virginia limited liability company, was formed on November 18, 2016, to operate and lease Grandy View, a 16-unit project-based voucher complex located in Norfolk, Virginia. The Authority is the sole owner of NRHA Grandy Village V, L.L.C., and is responsible for all business decisions as well as the managing agent for the company. NRHA Grandy Village V, L.L.C., 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. This project was converted to project-based under HUD's Rental Assistance Demonstration (RAD) program effective August 1, 2018.

NRHA North Wellington, L.L.C., a Virginia limited liability company, was formed on November 18, 2016, to operate and lease North Wellington, a 25-unit project-based voucher complex located in Norfolk, Virginia. The Authority is the sole owner of NRHA North Wellington, L.L.C., and is responsible for all business decisions as well as the managing agent for the company. NRHA North Wellington, L.L.C., is an intricate part of the daily operation of the Authority; as the two entities share personnel for daily

(Continued)

operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD. This project was converted to project-based under HUD's Rental Assistance Demonstration (RAD) program effective August 1, 2018.

CVT, a Virginia Limited Liability company was formed on December 15, 2017, to own and operate 555 East Main Street, a 17 story commercial office building located in downtown Norfolk of which the Authority is the sole owner. Currently, approximately 34% of the building houses the administrative offices of the Authority; the remainder of the building is leased to private commercial enterprises. Revenue consists of rental income from the commercial leases of office space and the parking garage. The Authority retained Harbor Group to manage the property in 2018.

ROI is a nonprofit foundation organized in 1992 as an IRC 501(c)(3) to house individuals with intellectual disabilities. ROI was previously operated by Norfolk Community Services Board. The Authority assumed control over operations January 26, 2018. The project consists of: 32 units on Guy Avenue; 5 units on Hugo Street, and one building at 7439 Fenner Street which is projected to be demolished. The project is located in Norfolk Virginia. The income from this project consists of tenant rent.

(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

(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, 2018, there are no liabilities for unpaid claims

(m) Pensions

The Authority contributes to the Virginia Retirement System (VRS or the System), Political Subdivision Retirement Plan, a multiple-employer, agent plan. 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.

(n) Other Postemployment Benefits Plans

(i) Postretirement Healthcare Benefits Plan

At its sole discretion, the Authority offers a Postretirement Healthcare Benefits Plan (PHBP) subject to eligibility. The plan is a single employer defined benefit OPEB plan. 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. Under the plan, the Authority has elected to provide access to healthcare for retirees until age 65 or until they are eligible for Medicare. There are nine retirees participating at 100% of their own cost. The Authority's regular healthcare provider underwrites the retiree's policies. Benefit terms are established and may be amended by the Authority. The Authority also establishes the requirements for the employer and nonemployer contributing entities to pay OPEB as the benefits come due.

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to the PHBP OPEB, and OPEB expense, information about the fiduciary net position of the PHBP and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the PHBP. For this purpose, the PHBP recognizes benefit payments when due and payable in accordance with the benefit terms.

(ii) Group Life Insurance Program

The VRS Group Life Insurance (GLI) Program is a multiple-employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended.

The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

(iii) Political Subdivision Employee Virginia Local Disability Program

The VRS Political Subdivision Employee Virginia Local Disability Program (VLDP) is a multiple-employer, cost-sharing plan. The VLDP was implemented to provide short-term and long-term disability benefits for nonwork-related and work-related disabilities for employees with VRS Hybrid retirement benefits.

For purposes of measuring the net GLI and VLDP Programs' corresponding OPEB liability, each individual plan's deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the OPEB and the additions to/deductions from the OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(o) New Accounting Pronouncements

During fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of GASB Statement No. 75 is to improve accounting and financial reporting for postemployment benefits other than pensions. As a result of the adoption of Statement No. 75, the Authority has made an adjustment to fund net position as of July 1, 2017, to recognize the cumulative effect of the change in accounting for other postemployment benefits.

		Primary Government	Total
Total fund net position, as previously reported	$	196,123,787	203,197,575
Adoption of GASB Statement No. 75		(1,465,184)	(1,465,184)
Total fund net position, as restated	$	194,658,603	201,732,391

(p) Fund Net Position

Fund net position is categorized into three components as follows:

- *Net investment in capital assets* – This component of fund 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 fund net position consists of restrictions placed on fund 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 fund 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.

(2) Deposits and Investments

At June 30, 2018, the carrying value of the Authority's deposits with banks and savings institutions was $55,936,792 and the bank balance was $61,518,856, 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 2018, 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.

As of June 30, 2018, the Authority holds notes receivable of $17,250,420 with separate interest receivable of $16,755,702 from The Community Builders, see note 3 for further discussion.

(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	$	55,936,792
Cash on hand		775
Letter of credit		100,000
	$	56,037,567
Per Exhibit A:		
Cash and cash equivalents	$	41,619,267
Cash with fiscal agents		4,180,885
Restricted cash and cash equivalents		10,237,415
	$	56,037,567

(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, 2017, NCCCC had $3,077 in cash and $49,797 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, 2018, 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.	$	12,907,648
Allowance for doubtful accounts		(12,907,648)
	$	—
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.	$	360,409
Allowance for doubtful accounts		(360,409)
	$	—

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
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

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.	$	1,737,000
Total notes receivable – The Community Group (TCB)		17,250,420
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.		26,353
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.		64,559
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.		12,254,972

Hampton Roads Ventures – HRV holds a note receivable from a key employee, which is linked to a life insurance policy paid by HRV. Payments on this life insurance policy are made each year in the amount of $75,000 which annually increase the amount of the note receivable. These payments continue through 2025 until the policy premiums are fully funded in the amount of $750,000. The note is secured by the cash surrender value of the life insurance and HRV is designated as beneficiary of 50% of the cash surrender value of the insurance policy until the note's principal and interest are repaid. The note bears interest at 2% annually and matures on April 8, 2031, at which time all outstanding principal and any accrued interest shall be due.	$	150,000
Total notes receivable		30,045,829
Less current portion		172,511
	$	29,873,318

Component Unit

NCCCC leases a facility to the State Board for Community Colleges for $750,000 until December 31, 2019. The $750,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of $680,000 and $70,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $1,400,000 equal to the debt described in note 5.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2018

(4) Capital Assets

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

		Balance, June 30, 2017	Increases	Decreases	Balance, June 30, 2018
Capital assets not being depreciated:					
Land	$	24,726,115	2,805,184	—	27,531,299
Construction in progress		15,705,853	5,036,108	(2,579,200)	18,162,761
Total capital assets not being depreciated		40,431,968	7,841,292	(2,579,200)	45,694,060

		Balance, June 30, 2017	Increases	Decreases	Balance, June 30, 2018
Other capital assets:					
Buildings and building improvements	$	195,872,614	20,723,443	—	216,596,057
Improvements other than buildings		80,289,434	—	(315,724)	79,973,710
Equipment		6,421,166	367,103	(139,280)	6,648,989
Total other capital assets		282,583,214	21,090,546	(455,004)	303,218,756
Less accumulated depreciation for:					
Buildings and building improvements		117,884,746	7,243,491	—	125,128,237
Improvements other than buildings		55,147,118	2,085,214	(175)	57,232,157
Equipment		4,251,590	424,832	(136,660)	4,539,762
Total accumulated depreciation		177,283,454	9,753,537	(136,835)	186,900,156
Other capital assets, net		105,299,760	11,337,009	(318,169)	116,318,600
Capital assets, net	$	145,731,728	19,178,301	(2,897,369)	162,012,660

(Continued)

The Authority capitalizes interest costs that relate to the construction of capital assets. The capitalized interest cost was $346,211 for the year ended June 30, 2018.

The Authority has active construction projects as of June 30, 2018. Outstanding commitments related to construction in progress amounted to approximately $2,297,983 million at June 30, 2018.

(a) Component Unit

The following is a summary of changes in AELP's capital assets for the year ended December 31, 2017:

		December 31, 2016	Increases	Decreases	December 31, 2017
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		892,502	300,265	—	1,192,767
Equipment		31,702	10,536	—	42,238
Total accumulated depreciation		924,204	310,801	—	1,235,005
Other capital assets, net		10,818,897	(310,801)	—	10,508,096
Capital assets, net	$	11,818,900	(310,801)	—	11,508,099

(5) Debt

A summary of the Authority's debt activity for the fiscal year ended June 30, 2018 is presented below:

		Amounts payable at June 30, 2017	Additions	Retirements and reductions	Amounts payable at June 30, 2018	Amounts due within one year
Notes payable:						
Line of credit	$	2,969,994	1,933,522	2,969,994	1,933,522	1,933,522
Partrea Sr. Development		926,782	—	—	926,782	—
NRHA Partrea I		2,650,000	—	23,537	2,626,463	43,453
Merrick Renovation		5,422,274	9,687,119	—	15,109,393	—
NRHA Mission College I		9,883,257	—	82,888	9,800,369	104,271
Grandy VI		—	5,038,005	—	5,038,005	—
Resident Options, Inc.		—	620,075	11,086	608,989	35,637
City View Tower		—	9,860,000	—	9,860,000	—
		21,852,307	27,138,721	3,087,505	45,903,523	2,116,883
Bonds payable:						
Multifamily revenue bonds – Oakmont North		1,235,000	—	285,000	950,000	300,000
Total debt	$	23,087,307	27,138,721	3,372,505	46,853,523	2,416,883

The following summarizes the Authority's long-term note and bond obligations at June 30, 2018:

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.	$	9,800,369
Unsecured revolving line of credit with Townebank, maximum borrowings of $10 million, to advance funding for various development projects. Interest shall be calculated from the date of each advance at an interest of 2.05 percentage points over LIBOR (index rate). LIBOR is subject to change from time to time. Interest will be paid in monthly payments.		1,933,522
Note payable to a financial institution, for construction of a 47-unit apartment complex in Norfolk, Virginia. On November 22, 2017, principal outstanding of 2.65 million converted to permanent, amortizing over 30 years at 4.58%		2,626,463

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 is paid monthly and was started on May 1, 2016. Principal and accrued unpaid interest are payable on April 1, 2020.	$	15,109,393
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
Note payable to a financial institution, not to exceed $8 million, for construction of 70 project based units known as Grandy Village VI, in Norfolk, Virginia. The loan commenced on August 17, 2017 and is to be paid at an interest rate of 2.050 percentage points over LIBOR (index rate). The project is expected to be completed in 2019.		5,038,005
Note payable to VHDA assumed for Guy Avenue owned by Residential Options, Inc., a nonprofit acquired by NRHA in 2018. The note was executed in March, 2006. The interest rate is 7.32% and the loan matures in November, 2027. Principal and interest are paid in monthly installments of $36,601 through November, 2027.		247,068
Note payable to VHDA assumed for Hugo Street owned by Residential Options, Inc., a nonprofit acquired by NRHA in 2018. The note was executed in September, 2007. The interest rate is 4.75% and the loan matures in September, 2037. Principal and interest are paid in monthly installments of $20,970 through September, 2037.		264,230
Note payable to VHDA assumed for Fenner Avenue owned by Residential Options, Inc., a nonprofit acquired by NRHA in 2018. The note was executed in March, 2006. The interest rate is 3.5% and the loan matures in March, 2030. Principal and interest are paid in monthly installments of $10,152 through March, 2030.		97,691
Note payable to a financial institution for the purchase of City View Tower, A commercial high rise located at 555 East Main street and which serves as the location of the administrative offices of the Authority, interest only for 24 months beginning April 2, 2018 at 4.43%. The loan will be converted to a permanent loan on April 2, 2020.		9,860,000
Total notes payable		45,903,523

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, 2017 was 0.8% and is reset weekly based on LIBOR.	$	950,000
Total bonds and loans payable	$	46,853,523

(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:					
2019	$	2,116,883	1,387,390	300,000	520
2020		15,343,879	1,735,607	315,000	268
2021		432,381	1,352,593	335,000	—
2022		476,835	1,328,927	—	—
2023		9,702,796	3,415,291		
2024–2028		2,027,080	2,655,817	—	—
2029–2033		3,347,992	4,276,240	—	—
2034–2038		12,455,677	1,687,296	—	—
	$	45,903,523	17,839,161	950,000	788

(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, 2017, $1,400,000 remained outstanding. Interest at rates from 4.3% to 5.5% is payable semiannually and principal payments are due annually in November.

The final principal payment of $720,000 for the revenue bonds will occur in 2019.

(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. In May 2016 the construction loan converted to a permanent loan. At December 31, 2017, the outstanding loan amount was $4,496,819 with an interest rate of 4.30% with unamortized debt issuance costs of $51,360.

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, 2017, the outstanding principal balance was $787,044.

(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 and they have not taken a refund 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/2017-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, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	333
Inactive members:	
Vested inactive members	33
Nonvested inactive members	61
Inactive members active elsewhere in VRS	54
Total inactive members	148
Active members	270
Total covered employees	751

(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 contractually determined required contribution rate for the year ended June 30, 2018 was 12.34% of covered employee compensation. This rate was actuarially determined from a valuation performed as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $1,666,752 and $1,646,508 for the years ended June 30, 2018 and 2017, respectively.

(d) Net Pension Liability

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

(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, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.50 %
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	15.0%
Pre-retirement	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.
Post-retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 year; females 1.0% increase compounded from ages 70 to 90.
Post-disablement	RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

(f) Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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 summarized in the following table:

Asset class (strategy)	Target allocation	Arithmetic long-term expected rate of return	Weighted average long-term expected rate of return
Public equity	40.00 %	4.54 %	1.82 %
Fixed income	15.00	0.69	0.10
Credit strategies	15.00	3.96	0.59
Real assets	15.00	5.76	0.86
Private equity	15.00	9.53	1.43
Total	100.00 %		4.80
Inflation			2.50
* Expected arithmetic nominal return			7.30 %

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

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed 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, 2019 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, 2016	$	97,207,939	78,365,920	18,842,019
Changes for the year:				
Service cost		1,249,467	—	1,249,467
Interest		6,595,203	—	6,595,203
Changes of assumptions		50,823	—	50,823
Differences between expected and actual experience		(3,402,034)	—	(3,402,034)
Contributions – employer		—	1,646,508	(1,646,508)
Contributions – employee		—	656,733	(656,733)
Net investment income		—	9,331,928	(9,331,928)
Benefit payments, including refunds of employee contributions		(5,981,509)	(5,981,509)	—
Administrative expenses		—	(56,368)	56,368
Other changes		—	(8,206)	8,206
Net changes		(1,488,050)	5,589,086	(7,077,136)
Balances at June 30, 2017	$	95,719,889	83,955,006	11,764,883

(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	$	22,082,742	11,764,883	3,003,110

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

For the year ended June 30, 2018, the Authority recognized pension expense of $1,042,068 within operating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position. At

June 30, 2018, 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	$ —	2,349,026
Changes of assumptions	31,572	—
Net differences between projected and actual earnings on pension plan investments	—	1,141,455
Employer contribution subsequent to the measurement date	1,666,752	—
	$ 1,698,324	3,490,481

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date in the amount of $1,666,752 will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (2,324,694)
2020	(384,039)
2021	45,285
2022	(795,461)

(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, 2018.

(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 $3,554,584. 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 on 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, 2018, there were four issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of $117,311,172.

(10) Other Postemployment Benefits (OPEB) – Postretirement Healthcare Benefit Plan (PHBP)

(a) Plan Description

At its sole discretion, the Authority offers the PHBP subject to eligibility. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Medical coverage, including prescription drugs as part of the PHBP, is offered to active employees and pre-65 retirees on a self-funded basis administered by Optima Health Plan. Medical benefits to the retiree, or dependent of retiree, are no longer available once the member is eligible for Medicare (i.e., post-65 retiree).

Dental and vision coverage is also offered to active employees and retirees of the Authority through the PHBP. Retirees may continue both these coverages for as long as they choose (i.e., pre-65 and post-65). Three dental plan options are available as is one vision plan as well.

Retirees pay 100% of the cost of all benefits (medical, dental, & vision), however, since the Authority is self-funded with retiree costs blended with active costs, the retiree receives an implicit subsidy from the

Authority for medical coverage. Retirees are not reimbursed for Medicare Part B or Part D premium for retirees and dependents that are Medicare eligible.

(b) Contributions

To receive benefits, the employee or their beneficiary 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 PHBP is currently being paid by the Authority on a pay-as-you-go basis.

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the PHBP:

	2018
Inactive members or their beneficiaries currently receiving benefits	46
Active members	291
Total covered employees and retired members and beneficiaries	337

(c) PHBP Total OPEB Liability

The PHBP Total OPEB Liability was $2,762,338 as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017 which was rolled-forward to the measurement date of June 30, 2018. For the year ended June 30, 2018, the Authority recognized expense of $83,848 related to the PHBP. There were no deferred outflows of resources and deferred inflows of resources related to the PHBP as of June 30, 2018.

(d) Actuarial Assumptions

The PHBP Total OPEB Liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method:	Entry age normal as a level percentage of payroll
Discount rate:	3.50% – The selected discount rate is based on the prescribed discount interest rate methodology under GASB No. 74/75 based on an average of three 20-year bond indices (e.g., Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years) as of June 30, 2018.
Healthcare cost trend: Assumptions:	The following assumptions are used for annual healthcare cost inflation (trend):

	Year	Pre-65	Post 65
Year 1 trend	January 1, 2019	9.0 %	9.0 %
Ultimate trend	January 1, 2027 and later	5.0	5.0
Grading per year		0.5	0.5

Salary Changes: Average salary increase is assumed to be 3.0%.

Mortality: RP 2014 Healthy Male and Female Tables are based on the Employee and Healthy Annuitant Tables for both pre & post retirement projected with mortality improvements using Projection Scale AA for 3.5 years, (i.e., from date of table to the valuation date), plus ten (10) years additional mortality improvement.

% Future Retirees Opting Out: It is assumed that 100% participation for those covered as actives. All eligible active and retiree employee records provided by your organization were valued.

Turnover Assumptions: This reflects rate of separation from the active plan and excludes retirement and disability. Turnover table varies by years of service with rates of turnover based on VRS.

Disability Assumptions: This reflects disability assumptions from the active plan and is based on age. This is the assumption used for the VRS.

Retirement Assumptions: This reflects rate of retirement from the active plan and is based on age and gender. This is the assumption used for the VRS.

Age and marital status difference: Spouses are valued for benefits similar to retired employees. Employees with spouses are assumed to be married to those spouses at and throughout retirement. Employees that are without spouses (or not covering a spouse) are assumed to be single at and throughout retirement. It is assumed that actives with dependent coverage will elect dependent coverage in retirement 80% of the time since contribution rates are significant. It is assumed that female spouses are three years younger than male employees and male spouses are three years older than female employees unless actual spouse date of birth information was provided. Spousal dates of birth were provided and reflected when available. Surviving dependents who elect coverage receive the same benefits as the retiree.

(e) Changes in the PHBP Total OPEB Liability

Balance at July 1, 2017	$	2,846,186
Changes for the year:		
Service cost		56,067
Interest		95,497
Benefit payments		(235,412)
Net changes		(83,848)
Balance at June 30, 2018	$	2,762,338

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

The following presents the PHBP Total OPEB Liability as of June 30, 2018 using the discount rate of 3.50%, as well as what the PHBP Total OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

		1% decrease (2.50%)	Current discount rate (3.50%)	1% increase (4.50%)
PHBP OPEB liability as of June 30, 2018	$	3,008,602	2,762,338	2,558,749

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

The following presents the PHBP OPEB liability as of June 30, 2018 as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

		1% decrease (8.0% decreasing to 4.0%)	Healthcare cost trend rates (9.0% decreasing to 5.0%)	1% increase (10.0% decreasing to 6.0%)
PHBP OPEB liability as of June 30, 2018	$	2,525,813	2,762,338	3,054,181

(11) Other Postemployment Benefits – VRS Plans

(a) Plan Descriptions

(i) Group Life Insurance (GLI) Program

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the GLI Program upon employment. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The GLI Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. The program provides basic and optional group life insurance. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest. Members are also eligible to elect additional coverage for themselves as well as spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The benefits payable under the GLI Program have several components. The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include accidental dismemberment benefits, safety belt benefits, repatriation benefits, felonious assault benefits and accelerated death benefit options. The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111. For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the GLI Program.

(ii) Virginia Local Disability Program Plan (VLDP)

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure are automatically covered by the VLDP. This plan is administered by the VRS, along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

The VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for nonwork-related and work-related disabilities with Hybrid retirement benefits.

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. Eligibility includes full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.

Benefit Amounts

The Political Subdivision Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:

Short-Term Disability –

- The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.
- During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related of work-related disability.

- Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

Long-Term Disability –

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

(b) Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution at the contractually required employer contribution rate for the year ended June 30, 2018 of 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the Authority were $181,131 for the year ended June 30, 2018.

The contribution requirement for VLDP is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate 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 from the Authority to the VLDP were $17,000 for the year ended June 30, 2018.

(c) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the Authority reported a liability of $1,106,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The Authority's proportion of the Net GLI OPEB Liability was based on the Authority's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion was 0.07352% as compared to 0.07118% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized GLI OPEB expense of $18,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Authority reported a liability of $7,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Authority's proportion of the Net VLDP OPEB Liability was based on the Authority's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion of the VLDP was 1.20128% as compared to 1.08290% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized VLDP OPEB expense of $12,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the GLI and VLDP OPEB plans from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ —	24,000
Net difference between projected and actual earnings on OPEB plan investments	—	42,000
Change in assumptions	—	58,000
Changes in proportion	35,000	—
Employer contributions subsequent to the measurement date	197,735	—
Total as of June 30, 2018	$ 232,735	124,000

$197,735 reported as deferred outflows of resources related to the GLI and VLDP OPEB resulting from the Authority's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the Net OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plans will be recognized in the Authority's OPEB expense in future reporting periods as follows:

Year ending June 30:		
2019	$	(20,000)
2020		(19,000)
2021		(19,000)
2022		(19,000)
2023		(9,000)
Thereafter		(3,000)
	$	(89,000)

(d) Actuarial Assumptions, Long-Term Expected Rate of Return and Discount Rate

The total GLI Program and VLDP OPEB liabilities were based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the actuarial assumptions, long-term expected rate of return and discount rate consistent with the Defined Benefit Pension Plan as noted in Footnote 6, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

(e) VRS Net OPEB Liability

The net OPEB liability represents the VRS' total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (dollar amounts in thousands):

		GLI	VLDP
Total VRS OPEB liability	$	2,942,426	914
Plan fiduciary net position		(1,437,586)	(351)
Employers' net VRS OPEB liability	$	1,504,840	563
Plan fiduciary net position as a percentage of the total OPEB liability		48.86 %	38.40 %

The total OPEB liability is calculated by VRS' actuary, and each plan's fiduciary net position is reported in the VRS' financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS' notes to the financial statements and required supplementary information.

(f) Sensitivity of the Authority's Proportionate Share of the GLI Program and VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability using the current discount rates, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

		1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
The Authority's proportionate share of the GLI Net OPEB Liability	$	1,431,000	1,106,000	843,000
The Authority's proportionate share of the VLDP Net OPEB Liability		8,000	7,000	6,000

(g) GLI and VLDP Program Fiduciary Net Position

Detailed information about the GLI and VLDP Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-250

(12) 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, 2018

Current assets	$ 17,646,278
Capital assets	67,909,299
Other assets	2,230,528
	$ 87,786,105
Current liabilities	$ 2,618,567
Noncurrent liabilities	65,233,791
Total liabilities	67,852,358
Net investment in capital assets	6,732,774
Restricted	6,120,947
Unrestricted	7,080,026
Total fund net position	19,933,747
	$ 87,786,105

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

Year ended June 30, 2018

Tenant revenue	$ 5,006,807
Government operating grants	3,772,719
Other revenue, net	1,591,330
Total operating revenue	10,370,856
Administrative expense	2,296,475
Tenant services expense	119,629
Utilities expense	1,394,437
Maintenance expense	1,957,691
Protective services expense	257,476
General expense	1,916,594
Extraordinary maintenance expense	62,429
Depreciation and amortization expense	2,455,830
Total operating expenses	10,460,561
Operating loss	(89,705)
Total nonoperating expense	(1,270,061)
Operating transfers out	(1,198)
Government capital grants	225,198
Distributions to partners	(114,368)
Change in fund net position	(1,250,134)
Total fund net position – beginning	21,183,881
Total fund net position – ending	$ 19,933,747

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2018

Condensed Summary of Cash Flows – Blended Component Units

Year ended June 30, 2018

Net cash provided by (used in):		
Operating activities	$	4,533,129
Capital and related financing activities		(975,977)
Noncapital financing activities		576,604
Investing activities		1,026,403
Net increase in cash and cash equivalents		5,160,159
Cash and cash equivalents at beginning of year		11,488,530
Cash and cash equivalents at end of year	$	16,648,689

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

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Exhibit E-1

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, 2018

(Unaudited)

	*For the measurement years ended June 30,			
	2017	2016	2015	2014
Total pension liability:				
Service cost	$ 1,249,467	1,278,158	1,340,253	1,427,541
Interest	6,595,203	6,522,549	6,529,011	6,395,438
Changes in benefit terms	—	—	—	—
Differences between expected and actual experience	(3,402,034)	(796,693)	(2,014,395)	—
Changes of assumptions	50,823	—	—	—
Benefit payments, including refunds of employee contributions	(5,981,509)	(5,950,690)	(5,943,678)	(5,885,924)
Net change in total pension liability	(1,488,050)	1,053,324	(88,809)	1,937,055
Total pension liability – beginning	97,207,939	96,154,615	96,243,424	94,306,369
Total pension liability – ending (a)	95,719,889	97,207,939	96,154,615	96,243,424
Plan fiduciary net position:				
Contributions – employer	1,646,508	1,875,845	1,857,568	1,722,710
Contributions – employee	656,733	626,173	624,579	654,326
Net investment income	9,331,928	1,312,520	3,594,684	11,213,353
Benefit payments, including refunds of employee contributions	(5,981,509)	(5,950,690)	(5,943,678)	(5,885,924)
Administrative expense	(56,368)	(51,265)	(51,962)	(62,862)
Other	(8,206)	(575)	(750)	592
Net change in plan fiduciary net position	5,589,086	(2,187,992)	80,441	7,642,195
Plan fiduciary net position – beginning	78,365,920	80,553,912	80,473,471	72,831,276
Plan fiduciary net position – ending (b)	83,955,006	78,365,920	80,553,912	80,473,471
Authority's net pension liability – ending (a)-(b)	$ 11,764,883	18,842,019	15,600,703	15,769,953
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	87.71 %	80.62 %	83.78 %	83.61 %
Covered-employee payroll (c)	$ 13,800,789	12,852,153	12,541,560	12,849,410
Authority's net pension liability as a percentage of covered-employee payroll [(a)-(b)]/(c)	85.25 %	146.61 %	124.39 %	122.73 %

*The Authority's net pension liability reported as of June 30, 2015 through 2018 was measured as of June 30, 2014 through 2017.

See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibit E-6.

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, 2018

(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	—	12,849,410	13.41 %
2015	1,858,138	1,858,138	—	12,541,560	14.82
2016	1,875,845	1,875,845	—	12,852,153	14.60
2017	1,646,508	1,646,508	—	13,800,789	11.93
2018	1,666,752	1,666,752	—	13,506,904	12.34

See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibit E-6.

Exhibit E-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis

Schedule of VRS OPEB Plan Employer Contributions

Year ended June 30, 2018

(Unaudited)

For the year ended June 30	Program		Contractually required contribution (1)	Contractually required contributions (2)	Contractually deficiency (excess) (3)	Employer's covered payroll (4)	As a% of covered payroll (5)
2018	GLI	$	181,131	181,131	—	13,826,767	1.31%
2018	VLDP		16,604	16,604	—	2,767,340	0.60
2017	GLI		70,517	70,517	—	13,560,912	0.52
2017	VLDP		13,235	13,235	—	2,205,898	0.60

See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibit E-6.

Exhibit E-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis

Schedule of Authority's Share of VRS Net OPEB Liability

Year ended June 30, 2018

(Unaudited)

		June 30, 2017*
GLI Plan:		
Authority's proportion of the net GLI OPEB liability		0.07352%
Authority's proportionate share of net GLI OPEB liability	$	1,106,000
Employer's covered payroll		13,560,912
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll		8.16%
Plan fiduciary net position as a percentage of the total GLI OPEB liability		48.86%
VLDP Plan:		
Authority's proportion of the net VLDP OPEB liability		1.20128%
Authority's proportionate share of net VLDP OPEB liability	$	7,000
Employer's covered payroll		2,205,898
Employer's proportionate share of the net VLDP OPEB Liability as a percentage of its covered payroll		0.32%
Plan fiduciary net position as a percentage of the total VLDP OPEB Liability		38.40%

* The Authority's net OPEB liability related to its participation in the VRS GLI and VLDP OPEB plans as of June 30, 2018 is measured as of June 30, 2017.

See accompanying independent auditors' report and notes to required supplementary information other than management's discussion and analysis – exhibit E-6.

Exhibit E-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of the Changes in PHBP Total OPEB Liability and Related Ratios

Year ended June 30, 2018

(Unaudited)

		Year ended June 30 2018
PHBP Total OPEB liability:		
Service cost	$	56,067
Interest		95,497
Differences between expected and actual experience		—
Changes in assumptions or other inputs		—
Benefit payments		(235,412)
Net change in total OPEB liability		(83,848)
PHBP Total OPEB liability – beginning		2,846,186
PHBP Total OPEB liability – ending (a)	$	2,762,338
Covered-employee payroll (b)	$	13,826,767
Authority’s total OPEB liability as a percentage of covered-employee payroll ((a)/(b))		19.98 %

See accompanying independent auditors’ report and notes to the required supplementary information other than management's discussion and analysis - exhibit E-6.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other Than Management's Discussion and Analysis

Notes to Required Supplementary Information

Year ended June 30, 2018

(Unaudited)

(1) Changes in Benefit Terms

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation.

(2) Changes in Assumptions

The following changes in pension and GLI Program and VLDP OPEB actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Mortality Rates were updated to a more current mortality table – RP-2014 projected to 2020;
- Retirement Rates were lowered at older ages and changed final retirement from 70 to 75;
- Withdrawal Rates were adjusted to better fit experience at each year age and service through 9 years of service.
- Disability Rates were lowered;

There were no changes to the PHBP OPEB actuarial assumptions.

(3) Years Presented in Schedules

The Schedule of Changes in the Authority's Net Pension Liability and Related Ratios and the Schedule of Employer Contributions to Defined Benefit Pension Plan are required to be presented for the last ten fiscal years. However, the Authority has only presented the information since the beginning of fiscal year 2015, as 2015 was the year of implementation.

The Schedule of Authority's Share of VRS Net OPEB Liability, Schedule of the Changes in PHBP Total OPEB Liability and Related Ratios, and the Schedule of VRS OPEB Plan Employer Contributions are required to be presented for the last ten fiscal years. However, the Authority has only presented the information since the beginning of fiscal year 2018, as 2018 was the year of implementation.

See accompanying independent auditors' report.

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, 2018

(Unaudited)

		Administration	Site improvement	Site disposition	Rehabilitation	Miscellaneous		Total
Community Development Block Grant (CDBG) Fund:								
Program year 2013	$	—	—	—	1,228	—		1,228
Program year 2014		—	—	—	107,353	—		107,353
Program year 2015		—	—	—	—	—		—
Program year 2016		—	—	—	—	—		—
Program year 2017		65,882	—	—	22,115	—		87,997
Total CDBG Fund expenditures	$	65,882	—	—	130,696	—		196,578
Reconciliation to operating expenses:								
Project costs incurred							$	196,578
Land held for resale – CDBG								55,000
Operating expenses							$	251,578

See accompanying independent auditors' report.

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Capital Fund Program Expenditures

Year ended June 30, 2018

(Unaudited)

	VA36R006 502-2009-2011	VA36R006 502-2012	VA36R006 502-2013	VA36R006 502-2014	VA36R006 502-2015	VA36P006 501-2004 2012	VA36P006 501-2013	VA36P006 501-2014	VA36P006 501-2015	VA36P006 501-2016	VA36P006 501-2017	Total
Classification of expenditures:												
1406 Operations	$ —	—	—	—	—	609,991	948,959	—	608,731	550,000	—	2,717,681
1408 Management improvements	—	—	—	—	—	390,584	120,622	497	108,271	26,030	—	646,004
1410 Administration	—	—	—	—	—	1,043,632	474,479	614,990	619,575	637,591	613,475	4,003,742
1411 Audit	—	—	—	—	—	23,000	8,000	8,000	8,000	8,000	—	55,000
1430 Fees and costs	125,000	219,511	631,618	175,937	—	2,089,984	971,516	1,169,488	1,431,823	881,022	—	7,695,899
1450 Site improvements	—	—	—	—	—	1,444,018	182,445	1,486,809	1,824,069	215,073	—	5,152,414
1460 Dwelling structures	—	—	—	—	—	3,815,151	1,896,528	2,834,090	436,270	470,053	—	9,452,092
1465.1 Dwelling equipment – nonexpendable	—	—	—	—	—	430,584	52,163	36,035	403,184	14,688	—	936,654
1470 Nondwelling structures	—	—	—	—	—	521,365	970	—	45,775	—	—	568,110
1480 General Capital Activity	—	—	—	—	—	—	—	—	—	—	360,298	360,298
1485 Demolition	—	—	—	—	—	43,523	—	—	283,745	8,463	—	335,731
1495 Relocation costs	—	—	—	—	—	24,500	89,123	—	20,884	208,857	—	343,364
1498 Development Activity	—	—	—	—	—	—	—	—	7,540	—	—	7,540
1503/04 RAD CFP Activity	—	—	—	—	245,504	—	—	—	—	227,277	—	472,781
Total capital fund expenditures	125,000	219,511	631,618	175,937	245,504	10,436,332	4,744,805	6,149,909	5,797,867	3,247,054	973,773	32,747,310
1499 Replacement housing factor funds	1,625,000	445,838	32,272	375,003	—	—	—	—	—	—	—	2,478,113
Cumulative project costs at June 30, 2018	1,750,000	665,349	663,890	550,940	245,504	10,436,332	4,744,805	6,149,909	5,797,867	3,247,054	973,773	35,225,423
Cumulative project costs at June 30, 2017	1,750,000	430,045	176,254	174,396	—	10,436,332	4,687,231	5,979,212	4,894,869	2,167,394	—	30,695,733
Project costs incurred during year ended June 30, 2018	—	235,304	487,636	376,544	245,504	—	57,574	170,697	902,998	1,079,660	973,773	4,529,690
Increase in capital assets (not including depreciation):												
Ending balance FY2018	125,000	344,511	211,822	175,937	—	287,769	2,117,358	5,128,493	3,177,689	912,047	196,759	12,677,385
Transfers	—	—	452,083	375,003	—	817,658	217,955	247,225	161,920	75,149	—	2,346,993
Less ending balance FY2017	(125,000)	(109,207)	(176,269)	(174,396)	—	(1,107,160)	(2,277,739)	(5,208,254)	(2,634,175)	(376,136)	—	(12,188,336)
Increase in capital assets	—	235,304	487,636	376,544	—	(1,733)	57,574	167,464	705,434	611,060	196,759	2,836,042
Management improvements and administration	—	—	—	—	245,504	1,733	—	3,233	197,564	468,600	777,014	1,693,648
Depreciation	—	—	—	90,453	—	20,298	97,414	195,067	31,892	410	—	435,534
Operating expenses	$ —	—	—	90,453	245,504	22,031	97,414	198,300	229,456	469,010	777,014	2,129,182

See accompanying independent auditors' report.

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2018

(Unaudited)

		Program year				
	RPS101A010 2011	RFS079A012 2012	RFS258A013 2013	RPS041A013 2014	ROSS170024 2017	Total
Classification of expenditures:						
1168 Program coordinator – salaries	$ 468,378	105,431	101,978	466,121	139,080	1,280,988
1168 Program coordinator – fringe benefits	162,858	32,569	36,022	176,750	58,184	466,383
1268 Travel costs	10,434	—	—	13,862	234	24,530
1268 Training	6,128	—	—	2,842	1,285	10,255
1268 Program expenses	42,034	—	—	5,445	219	47,698
1868 Administrative costs	30,168	—	—	72,384	54,839	157,391
Cumulative project costs at June 30, 2018	720,000	138,000	138,000	737,404	253,841	1,987,245
Cumulative project costs at June 30, 2017	720,000	138,000	138,000	731,288	—	1,727,288
Project costs incurred during year ended June 30, 2018	$ —	—	—	6,116	253,841	259,957
Current year depreciation						—
Operating expenses						$ 259,957

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, 2018

(Unaudited)

		FSH682A014 2014	FSH216A015 2015	FSH216A015 2016	FSS17VA2044 2017	Total
Classification of expenditures:						
Salaries	$	247,951	248,546	227,048	105,860	829,405
Fringe benefits		81,453	83,628	76,657	37,049	278,787
Cumulative project costs at June 30, 2018		329,404	332,174	303,705	142,909	1,108,192
Cumulative project costs at June 30, 2017		329,404	332,174	157,212	—	818,790
Project costs incurred during year ended June 30, 2018	$	—	—	146,493	142,909	289,402

See accompanying independent auditors’ report.

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Job Plus Program Expenditures

Year ended June 30, 2018

(Unaudited)

		VA006FJP000615 2016
Classification of expenditures:		
1268 Training/Conference fees	$	5,791
1438 Supportive services		29,307
1688 Data systems/Software		87,981
1768 Travel		29,716
2067 Technical assistance/Consultants salaries		6,589
9210 Rent/Financial incentives		577,077
9400 Administrative		59,775
9840 Salaries		436,592
9840 Fringe benefits		161,192
Cumulative project costs at June 30, 2018		1,394,020
Cumulative project costs at June 30, 2017		484,871
Project costs incurred during year ended June 30, 2018	$	909,149

See accompanying independent auditors' report.

Exhibit G-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal 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		$ —	14,764,010
Housing Voucher Cluster:				
Section 8 Housing Assistance Payments Program:				
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4	14.871		—	28,323,168
Section 8 Project Based Cluster:				
Virginia Housing Development Authority (VHDA) – New construction – Park Terrace Program	14.182	P-5512	—	361,103
Single Room Occupancy (SRO) Program: (VA36K401001)	14.249		—	347,801
Subtotal-Section 8 Project Based Cluster			—	708,904
Capital fund program:				
VA-36-R006-502 (2012)	14.872		—	235,304
VA-36-R006-502 (2013)	14.872		—	487,636
VA-36-R006-502 (2014)	14.872		—	376,544
VA-36-R006-502 (2015)	14.872		—	245,504
VA-36-P006-501 (2013)	14.872		—	57,574
VA-36-P006-501 (2014)	14.872		—	170,697
VA-36-P006-501 (2015)	14.872		—	902,998
VA-36-P006-501 (2016)	14.872		—	1,079,660
VA-36-P006-501 (2017)	14.872		—	973,773
Subtotal – Capital Fund Program			—	4,529,690
Resident Opportunity and Supportive Services (ROSS) Program:				
VA006RPS041A013	14.870		—	6,116
ROSS170024	14.870		—	253,841
Subtotal – Resident Opportunity and Supportive Services Program			—	259,957
Resident Opportunity and Self Sufficiency Program:				
VA006FSH216A015	14.896		—	146,493
FSS17VA2044	14.896		—	142,909
Subtotal – Resident Opportunity and Self Sufficiency Program			—	289,402
Job Plus (VA006FJP000615)	14.895		—	909,149
CDBG Entitlement Grants Cluster:				
City of Norfolk – Community Development Block Grant:		CDBG No. B08-MC-510016		
Program year 2013	14.218		—	1,228
Program year 2014	14.218		—	107,353
Program year 2017	14.218		—	87,997
Subtotal – Community Development Block Grant			—	196,578
City of Norfolk – Home Investment Partnerships:		HOME No. M08-MC-510203		
Program year 2001	14.239		—	2,645
Program year 2009	14.239		—	1,650
Program year 2011	14.239		—	23,922
Program year 2012	14.239		—	92,736
Program year 2013	14.239		—	90,871
Program year 2014	14.239		—	5,000
Program year 2015	14.239		—	641,182
Program year 2016	14.239		—	513,226
Subtotal – Home Investment Partnerships			—	1,371,232
Housing Counseling Assistance Program	14.169		—	35,000
Total Department of Housing and Urban Development			—	51,387,090
Department of Transportation:				
Transit Services Program Cluster:				
Hampton Roads Transit – New Freedom Program	20.521	VA-57-X001/X004	—	284,323
Total Department of Transportation			—	284,323
Total expenditures of federal awards			$ —	51,671,413

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, 2018

(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. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

(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) Indirect Cost Rate

The Authority has not elected 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, 2018

(1) Summary of Auditors' Results

(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: **No**
- Significant deficiencies: **None reported**

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

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

- Material weaknesses: **No**
- Significant deficiencies: **Finding 2018-001**

(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): **Finding 2018-001**

(g) Major programs:

- Section 8 Housing Choice Vouchers Program – CFDA 14.871

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$1,550,142**

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

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2018-001: Eligibility

Program, CFDA No., Program year, Federal Agency, Grant Number

Section 8 Housing Choice Vouchers Program, CFDA No. 14.871, Program Year 2018, U.S. Department of Housing and Urban Development, Grant P-5540

Recipient

Norfolk Redevelopment and Housing Authority

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Criteria or Requirement

In accordance with 24 CFR sections 5.230, 5.609 and 960.259, the 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. Based on those factors, the PHA must determine income eligibility and calculate the tenant's rent payment using the documentation from third party verification. 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), KPMG noted two instances in which the tenant's annual income was not calculated in accordance with the relevant program requirements.

Cause and Possible Asserted Effect

Both instances discussed above were the result of the controls to support review of tenant files for required documentation and tenant rent and housing assistance payments calculations not operating effectively. This deficiency in controls resulted in erroneous tenant annual income calculations in one case.

Identification of Questioned Costs

In the first instance, the tenant's annual income was incorrectly calculated due to a keying error from between the amount shown on a paystub and the system used to calculate income. This resulted in a $51 higher tenant contribution than should have been, and a lower housing assistance payment (HAP) for one month during fiscal year 2018.

In the second instance, the PHA representative carried over the annual income verified during the prior annual income review instead of using the current year verified amount. However, the difference in the amounts was so minimal that there was no effect on the tenant's calculation or HAP payment amount. There were no questioned costs in either instance.

Sampling Method

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

Total fiscal year 2018 HAP expenditures associated with the 40 program participants tested in our sample was $272,268. The total population of HAP payments made during FY 2018 was approximately $26.7 million.

Identification of Repeated Finding

This is not a repeated finding from the prior year's audit.

(Continued)

Recommendations

The Authority should strengthen controls over its review processes regarding tenant eligibility and rent determinations, including that the correct information is used to determine rent amounts.

Views of Responsible Officials

Management agrees with this finding.

CORRECTIVE ACTION PLAN

NRHA has policies in place regarding review processes for tenant eligibility, rent determinations, and verification of information. On the first Friday of each month, the Housing Choice Voucher (HCV) Program staff meets to discuss program policies and procedures for training purposes. At each meeting, specific aspects of administering the program are reviewed, along with the related HUD policies. Staff members are given the opportunity to ask any questions on any procedures or policies they may not understand. During many meetings, activities from the Nan McKay Rent Calculation training are passed out to staff to complete individually. After staff completes the activity, the answers are reviewed as a group. Other activities take place which involve the staff answering questions regarding various case studies of situations that may occur in the daily activities of administering the HCV Program. In several monthly meetings, the Compliance staff is in attendance to review common errors and to discuss with staff any areas staff may have that are gray with audited files. Staff has also gone through an intensive training with a review of common errors per NRHA's Compliance Department.

Teams were established earlier this year to ensure more than half of all files with completed certification are reviewed and audited by another person who did not complete the certification to ensure the file was processed accurately.

Caseworkers and Administrative Staff have been instructed to review all certifications for accuracy to mitigate the risk of manual errors. The Compliance Department has increased the number of files that are being audited for the HCV Program to ensure that files are being processed properly, income is calculated correctly, and all information is verified, HAP payments issued are correct, and that units are inspected timely. Findings are noted and must be corrected by the Case Worker or Administrative Staff and the file is re-evaluated by the Compliance Department to ensure findings were corrected.

The anticipated completion date of the corrective action related to this finding is March 2019.

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, 2018, 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 22, 2019. 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

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our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 22, 2019

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 the of the Authority's major federal program for the year ended June 30, 2018. The Authority's major federal program is 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 the Authority's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are 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 2018-001. Our opinion on the major federal program is not modified with respect to these matters.

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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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 a 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 have not been 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 2018-001, 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 22, 2019