NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2011

(With Independent Auditors' Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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KPMG LLP
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Independent Auditors' Report

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the accompanying financial statements of the business-type activities (primary government) and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Norfolk Community College Campus Corporation, NRHA Mission College I, L.P., and Hampton Roads Ventures, L.L.C. Norfolk Community College Campus Corporation, a discretely presented component unit, represents 100% of the assets and revenues of the aggregate discretely presented component units while NRHA Mission College I, L.P. and Hampton Roads Ventures, L.L.C., together represent approximately 9% and 4% of the total assets and total revenues, respectively, of the primary government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRHA Mission College I, L.P., Norfolk Community College Campus Corporation, and Hampton Roads Ventures, L.L.C., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Hampton Roads Ventures, L.L.C. were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority as of June 30, 2011, and the changes in financial position, and where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 18 and the schedule of funding progress – VRS and schedule of funding progress – postretirement healthcare benefit plan on pages 46 and 47 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The information listed as supplementary information and the compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

KPMG LLP

January 31, 2012

Introduction

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

The management of the Authority provides this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements, which begin on page 19.

Overview of the Financial Statements

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

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

Financial Highlights for 2011

The Authority's 2011 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $256.1 million and $51.1 million, respectively; thus, total net assets were approximately $205 million at June 30, 2011.
- Total revenues (including capital contributions and grants) and expenses were approximately $105.7 million and $92.5 million, respectively; thus, net assets increased by approximately $13.2 million during the fiscal year.
- Revenues are derived from various sources with approximately 5% from City funding and 59% 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 18% of total revenue; 9% from Authority-owned federally assisted housing rental; and 9% from Authority-owned nonassisted affordable housing rental units. The 18% remaining revenue balance is derived from miscellaneous fees for services or nonoperating sources (i.e., investment income, and partner's contributions).
- Debt reductions totaled $22.2 million. Only $2.9 million related to scheduled payments; $19.3 million related to payoffs of the Grandy Partnership indebtedness, reductions of the Neighborhood Redevelopment credit line and partial payoff of Mission Development debt.

(Continued)

- Cash flows provided by operating activities were a reduction of approximately $1.9 million. The net decrease in cash and cash equivalents for the year was approximately $13.9 million, primarily due to debt retirement.
- Component units Mission College 1, L.P. and Hampton Roads Ventures, L.L.C. have December 31 year-ends and their December 31, 2010 balances are blended into the Authority's June 30, 2011 report. All other blended component units have December 31 year-ends; however, as they are directly managed by NRHA, the balances for these blended component units included in the Authority's June 30, 2011 report are as of June 30, 2011.

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, 2011, the Authority owned over 4,600 residential units that are owned and leased to low-income families and individuals. Another 300 units, while not owned, were governed and partially funded through the Authority's contract with HUD. In addition, housing assistance was being paid to over 2,700 households under the Federal Housing Choice Voucher program for privately owned existing housing.

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

Basic Financial Statements

The Authority is presenting its 2011 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

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

- *Net assets invested in capital assets, net of related debt* consist 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 net assets* consist 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 net assets* consist of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.

The statement of revenues, expenses, and changes in net assets (similar to an income statement) includes operating revenues, such as tenant revenue; operating expenses, such as administrative, utilities, maintenance, and depreciation; and nonoperating revenues and expenses, such as investment income, interest expense, and capital distributions. The statement's focus is the change in net assets during the most recent fiscal year.

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

In addition to the three financial statements, notes to basic financial statements are also included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided 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 in the period in which they are incurred. This means all changes in net assets 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. Most of these programs are financed by federal 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. Some reclassifications of the 2010 financial information are being presented to facilitate comparisons of prior year and current year financial information.

Condensed Financial Information

The following table (Table 1) reflects the condensed statement of net assets compared with the prior year. Total assets and liabilities of the Authority were approximately $256.1 million and $51.1 million, respectively; thus, total net assets were approximately $205.0 million at June 30, 2011.

Table 1

Condensed Statements of Net Assets

June 30, 2011 and 2010

(In millions)

Description		2011	2010	Change	Percentage change
Current assets:					
Cash and investments	$	39.4	44.0	(4.6)	(10)%
Restricted cash		11.1	19.8	(8.7)	(44)
Assets held for sale		13.7	13.4	0.3	2
Noncurrent assets:					
Capital assets, net		150.9	148.0	2.9	2
Other current and noncurrent assets		41.0	40.6	0.4	1
Total assets	$	256.1	265.8	(9.7)	(4)%
Current liabilities	$	17.6	36.6	(19.0)	(52)%
Noncurrent liabilities		33.5	37.4	(3.9)	(10)
Total liabilities	$	51.1	74.0	(22.9)	(31)%
Net assets:					
Invested in capital assets, net of related debt	$	128.3	113.1	15.2	13%
Restricted		19.3	27.4	(8.1)	(30)
Unrestricted		57.4	51.3	6.1	12
Total net assets	$	205.0	191.8	13.2	7%

Of the Authority's $256.1 million in assets, $150.9 million or 59% is invested in capital assets, net of accumulated depreciation, $50.5 million or 20% is cash related ($39.4 million cash and investments plus $11.1 million restricted cash), $13.7 million or 5% is invested in assets held for sale, and $41.0 million or 16% is other current and noncurrent assets, of which $15.5 million or 6% is receivables due in 40 years (starting in 2042) related to the Broad Creek Renaissance (BCR) mixed finance project and $9.7 million or 4% is receivables of the rehabilitation revolving loan fund (RLF).

Cash decreased $13.3 million or 21% since last fiscal year (from $63.8 million to $50.5 million); the largest cause for this decrease was the use of cash to retire debt maturing during the current year. It is also worth noting that $3.3 million of the $50.5 million cash balance represents the December 31, 2010 balances for two of the Authority's legally separate entities (Hampton Roads Ventures and NRHA Mission College I) presented as blended component units in this report.

Of the $51.1 million of liabilities, $17.6 million or 34% is current liabilities, which will require payment within 12 months of the reported fiscal year-end and $33.5 million or 66% is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities decreased $19.0 million or 52% since last fiscal year ($17.6 million in fiscal year 2011 compared to $36.6 million in fiscal year 2010) mainly due to the near term bond redemption/debt retirement for two programs. The noncurrent liabilities decrease by $3.9 million or 10% ($33.5 million in fiscal year 2011 compared to $37.4 million in fiscal year 2010).

A breakout of the $51.1 million in liabilities follows: $27.6 million or 54% is debt; $11.3 million or 22% is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $9.7 million RLF outstanding receivable balance noted above offsets this liability and the $12.2 million or 24% balance consists of various obligations of the Authority including tenant escrow deposit accounts, vested compensated absences, and payments due to third parties for services.

The net asset balance of $205.0 million is the difference between the $256.1 million in assets and the $51.1 million in liabilities. Ideally, the breakout of the net asset 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 be 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 net assets increased $13.2 million or 7%. This increase consists of the following:

Net assets invested in capital assets net of related debt – the largest part (63%) of the net asset balance – increased by $15.2 million or 13%. The increase results from changes in two components, a $2.9 million increase in capital assets, which went from $148.0 million as of June 30, 2010 to $150.9 million as of June 30, 2011 and a $12.3 million decrease in the debt related to the capital assets, which went from $34.8 million to $22.5 million.

Restricted net assets – the part of net assets that has constraints established by debt covenants, enabling legislation or other legal requirements – decreased 30% or $8.1 million ($19.3 million at June 30, 2011 compared to $27.4 million at June 30, 2010). The most significant component of this decrease was a $9 million payment to retire bonds issued to revitalize the Grandy Village Community. These decreases were offset by a $1.1 increase in the amount on hand to make Housing Choice Voucher Program housing assistance payments.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – changed from $51.3 million at June 30, 2010 to $57.4 million at June 30, 2011, an increase of $6.1 million or 12%. Observations on the unrestricted net asset balance follow:

- While presented in the aggregate in the financial statements, the unrestricted net assets include 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 net assets of the Authority include notes and interest receivable related to the Hope VI BCR tax credit project totaling $15.5 million and $7.3 million, respectively, which is due after 40 years, beginning in 2042.
- Debt of $0.8 million is included in the unrestricted net asset balance, which might be offset by future proceeds from specific land held for resale parcels.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for unused employee vacation and sick days. The balance for unused employee vacation and sick days at both June 30, 2011 and 2010 was $1.6 million, and is included in the unrestricted net assets. The Authority will need to include this amount in future years' budgets as they come due.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for Postretirement Healthcare Benefit Plan, which is offered at the Authority's discretion. The liability at June 30, 2011 and 2010 was $1.2 million and $0.8 million, respectively, and is included in unrestricted net assets. The Authority will need to include these amounts in future years' budgets as they come due.

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Revenues, Expenses, and Changes in Net Assets

The results of the Authority's operations are reported in the statement of revenues, expenses, and changes in net assets. In 2011, the Authority realized an increase in net assets of $13.2 million. Table 2 below presents a condensed summary from the Authority's statement of revenues, expenses, and changes in net assets.

Table 2

Summary of Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In millions)

Description	2011	2010	Change	Percentage change
Total operating revenues	$ 85.8	86.2	(0.4)	—%
Total operating expenses	90.6	89.5	1.1	1
Operating loss	(4.8)	(3.3)	(1.5)	(45)
Total nonoperating revenues	1.4	1.8	(0.4)	(22)
Total nonoperating expenses	(1.9)	(2.1)	0.2	(10)
Total nonoperating expense, net	(0.5)	(0.3)	(0.2)	67
Loss before capital grants and contributions	(5.3)	(3.6)	(1.7)	(47)
Governmental capital grants	10.0	6.5	3.5	54
Capital contributions from limited partners	8.5	3.5	5.0	143
Change in net assets	13.2	6.4	6.8	(106)
Total net assets – beginning	191.8	185.4	6.4	3
Total net assets – ending	$ 205.0	191.8	13.2	7%

Net assets decreased $4.8 million from operating activities and decreased $0.5 million from nonoperating activities, resulting in a $5.3 million decrease in net assets before recognizing the receipt of grant revenue for capital expenditures and capital contributions from limited partners. These decreases were offset by capital revenues totaling $18.5 million – governmental capital grants ($10.0 million) and contributions from limited partners ($8.5 million) – resulting in a $13.2 million increase in net assets.

The following sections discuss revenues and expenses separately.

Revenues

Table 3 provides an excerpt of income from the statement of revenues, expenses, and changes in net assets and shows that total revenues, gains, and capital contributions increased 8% or $7.7 million ($105.7 million compared to $98.0 million).

Table 3

Excerpt of Revenues from Statement of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In millions)

Description		2011	2010	Change	Percentage change
Operating revenues:					
Tenant revenue – rents and other	$	19.3	19.5	(0.2)	(1)%
Operating grants and subsidies		58.0	61.2	(3.2)	(5)
Other revenue, net		8.5	5.5	3.0	55
Total operating revenues		85.8	86.2	(0.4)	(0.5)
Nonoperating revenues:					
Interest and investment revenue		1.4	1.8	(0.4)	(22)
Capital grants		10.0	6.5	3.5	54
Capital contributions from limited partners		8.5	3.5	5.0	143
Total revenues	$	105.7	98.0	7.7	8%

The $7.7 million (8%) increase in total revenues is primarily attributable to a $5.0 million increase in capital contributions from limited partners (from $3.5 million to $8.5 million) as well as $3.5 million increase (from $6.5 million to $10.0 million) in capital grants and a $3.0 million increase (from $5.5 million to $8.5 million) in other income.

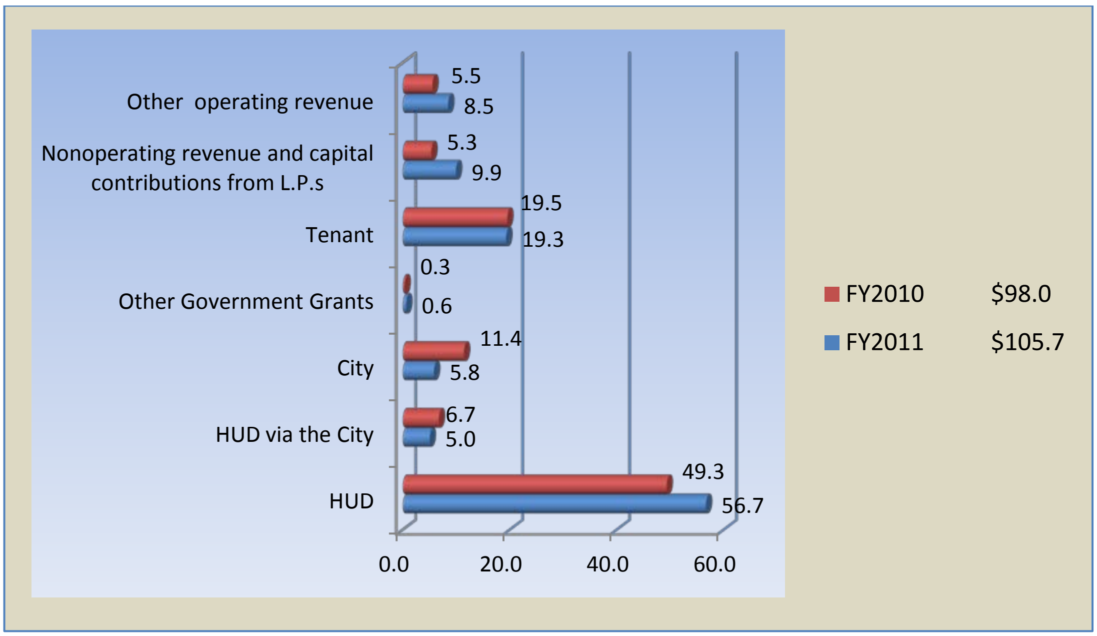
A $3.2 million decrease in operating grants and subsidies, which decreased from $61.2 million to $58.0 million, offset the above increases.

To better understand some of above changes in revenues, a comparison by source (provider) of revenues is considered helpful. Revenues were derived from various providers with approximately 5%, or $5.8 million, from the City and 58.3%, or $61.7 million, received either directly ($56.7 million) or indirectly ($5 million through the City – 4.7% in addition to the previous 53.6%) from the HUD. Tenant rental revenues accounted for an additional 18.2%, or $19.3 million, of total revenue; 8.6%, or $9.1 million, was from over 3,400 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace; 9.3%, or $9.9 million, was from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and 3%, or $0.3 million, in tenant revenue was from a variety of other commercial or residential customers. The 18% balance of total revenue, or $18.9 million, is derived from miscellaneous fees for services (i.e., fees from bond (issuance fees) or nonoperating sources (i.e., investment income, and distributions from partners).

Revenue Source Comparison

Years ended June 30, 2011 and 2010

(In millions)



The graph above depicts sources of Authority's revenue by funding providers and allows the reader to review changes in the level of funding from the Authority's primary funding providers, HUD and the City. The most significant change in revenue by provider was a $7.4 million increase in funding received directly from HUD (from $49.3 million to $56.7 million). Individual program components of the change include the following:

- a $3.6 million increase in Housing Choice Voucher program funding level resulted from the continued growth in the number of vouchers leased – funding increased $4.0 million when we exceeded 2,500 vouchers leased in 2010, in 2011 the leased voucher count exceeded 2,800;
- a $3.1 million increase in the American Recovery and Reinvestment Act (ARRA) program funding was reimbursed as the Authority accomplished the public housing capital initiatives earmarked in this nonrecurring stimulus fund award; and,
- a $0.8 million increase in the capital fund program funding and a $0.6 million increase in the Hope VI program funding also occurred.
- A $0.4 million decrease in the ROSS grants program funding and a $0.3 million decrease in the Federal Housing program funding also occurred.

- We also had a $4.6 million increase (from $5.3 million to $9.9 million) in nonoperating revenues and a $3.0 million increase (from $5.5 million to $8.5 million) in revenue from other fees for services together. The major source of the increase in nonoperating revenues was capital contributions from partners which increased $5.0 million (from $3.5 million in 2010 to $8.5 million in 2011); partners from the Mission College and Grandy Village partnerships provided funding to retire maturing debt. The major component of the $2.8 million increase in other fees for service was a $1.3 million increase in development fees earned by the Housing Reinvention initiatives.

Offsetting the increases noted above was a $7.3 million decrease in funding provided by the City.

Direct City funding provided through the Capital Improvement Program decreased $5.6 million (from $11.4 million in 2010 to $5.8 million in 2011) – the level of activity in the Capital Improvement program – a reimbursement program – was impacted by the July 1, 2010 sunset effective date for new laws restricting prior practices of eminent domain laws.

HUD funding via the City decreased $1.7 million (from $6.7 million in 2010 to $5 million in 2011) – a $1.6 decrease in Community Development program reimbursements and a $0.4 million decrease in the Home program reimbursements were offset by increase reimbursements from the Neighborhood Stabilization (NSP) program funding level.

Expenses

Table 4 provides an excerpt of expenses from the statement of revenues, expenses, and changes in net assets and shows that total expenses, losses, and distributions increased 1% or $0.9 million ($92.5 million compared to $91.6 million).

Table 4

Excerpt of Expenses from Statement of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In millions)

Description		2011	2010	Change	Percentage change
Operating expenses:					
Administrative	$	17.3	15.9	1.4	9%
Housing assistance payments (HAP)		21.3	19.7	1.6	8
Extraordinary maintenance		7.5	11.6	(4.1)	(35)
Maintenance – routine		11.1	10.4	0.7	7
Depreciation and amortization		8.9	8.4	0.5	6
Utilities		9.7	9.4	0.3	3
General		9.8	9.8	—	—
Tenant services		3.5	2.9	0.6	21
Protective services		1.5	1.4	0.1	7
Total operating expenses		90.6	89.5	180.1	201
Nonoperating expenses:					
Interest expense		1.7	2.1	(0.4)	(19)
Gain on sale of fixed assets		0.2	—	0.2	—
Total nonoperating expenses		1.9	2.1	(0.2)	(10)
Total expenses	$	92.5	91.6	0.9	1%

The most significant increases in expenses were: administrative expense increased $1.4 million (from $15.9 million to $17.3 million); and a $1.6 million increase in HAP (from $19.7 million to $21.3 million). These increases in expenses were partially offset by a decrease in extraordinary maintenance expense of $4.1 million (from $11.6 million to $7.5 million).

Other increases were: routine maintenance expense increased $0.7 million (from $10.4 million to $11.1 million); depreciation and amortization expenses increased $0.5 million (from $8.4 million to $8.9 million); utility expense increased $0.3 million (from $9.4 million to $9.7 million); general expense increased $0.1 million (from $9.8 million to $9.9 million) tenant services expense increased $0.6 million (from $2.9 million to $3.5 million); and protective service expense increased $0.1 million (from $1.4 million to $1.5 million).

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Capital Assets

The Authority's capital assets as of June 30, 2011 included land, buildings, improvements, construction in progress, and equipment that totaled $150.9 million (net of depreciation). A breakdown of the Authority's capital assets is shown in Table 5 below.

Table 5

Composition of Capital Assets of the Authority

June 30, 2011 and 2010

(In millions)

Description	2011	2010	Change	Percentage change
Nondepreciable assets:				
Land	$ 23.1	23.5	(0.4)	(1.7)%
Construction in progress	13.5	10.1	3.4	34
Other capital assets:				
Buildings and building improvements	181.1	176.3	4.8	3
Improvements other than buildings	63.9	60.6	3.3	5
Equipment	9.9	9.9	—	—
Accumulated depreciation	(140.6)	(132.4)	(8.2)	6
Total	$ 150.9	148.0	2.9	2%

Most of the capital asset balance, $112.9 million, or 75%, is composed of 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 22%, or $33.7 million, is invested in Authority-owned, nonassisted, multifamily, affordable housing units.

The Authority had $2.9 million in net additions to capital assets in 2011. Table 6 details the components of the change.

Table 6

Change in Capital Assets of the Authority

Year ended June 30, 2011

(In millions)

		Nondepreciable assets	Other capital assets	Total
July 1, 2010 beginning balance, net	$	33.5	114.5	148.0
Transfers		(6.3)	6.3	—
Purchases		9.8	2.4	12.2
Depreciation		—	(8.7)	(8.7)
Retirements, net		(0.3)	(0.3)	(0.6)
June 30, 2011 ending balance, net	$	36.7	114.2	150.9

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

- Construction in progress totaling $6.3 million, primarily capital improvements in our public housing communities, was completed and transferred to operations.
- Purchases of $12.2 million included $3.8 million expended for the newly revitalized Grandy Village community for significant site and wetland improvements, recreational equipment at the learning center, renovations at the community center, and final developer fee payment; $1.2 million at the Young Terrace community for handicap access modifications; $2.2 million at Oakleaf Forest for site improvements including enhanced lighting; and $.2 million expended for the Morton Circle demolition initiative. The remaining $3.4 million in purchases of capital assets that occurred during the year included the following:
  - tank replacements, new security doors, window and screen replacement, cathodic protection, kitchen cabinet replacement, paved area walks, extensive preventive maintenance initiatives, boiler repair and replacement, and some meter replacement in our public housing communities;
  - roof and gutter replacement at Merrimac Landing Apartments; and
  - replacements in the maintenance vehicle fleet and some office computer replacement also occurred during the year.

  Approximately $0.3 million of purchases had not been paid at June 30, 2011 and, therefore, are included in accounts payable at year-end.
- Retirements of $0.6 million, net, related to the disposition of property in the Broad Creek neighborhood as well as routine equipment replacement.

(Continued)

Long-Term Debt

The Authority's June 30, 2011 Statement of Net Assets reflects total debt outstanding of $27.6 million (excluding vested compensated absences). Of this amount, $1.4 million of debt for the Granby Office building is backed by the full faith and credit of the Authority. The remainder of the Authority's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), secured by the associated project property or debt backed by other governmental entities.

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

Table 7

Change in Long-Term Debt Summary

Year ended June 30, 2011

Description	Amounts payable at July 1, 2010	Additions/Adj.	Retirements and reductions	Amounts payable at June 30, 2011	Future debt service commitment
Granby Office Building	$ 1,602,469	—	163,602	1,438,867	The Authority
Park Terrace	761,232	—	84,646	676,586	Project revenue
Oakmont North	2,845,000	—	195,000	2,650,000	Revenue bond
Merrimack Landing	2,270,239	—	513,141	1,757,098	Revenue bond
Grandy Village	139,436	—	65,017	74,419	Project revenue
LIPH Midrises	7,210,444	—	589,091	6,621,353	HUD pays directly
	1,508,716	—	357,287	1,151,429	Obligation of the City
Chesapeake Street	2,523,000	—	464,665	2,058,335	Obligation of the City
Neighborhood Redevelopment Credit Line	2,999,583	—	2,342,022	657,561	Project revenue
East Beach	1,410,000	—	352,500	1,057,500	Obligation of the City
Mission College I	4,452,641	5,092,108	113,158	9,431,591	Project revenue
NRHA Mission College, LLC	2,279,430	—	2,279,430	—	Project revenue
Grandy Partnership	14,679,000	—	14,679,000	—	Project revenue
Total bank financing	$ 44,681,190	5,092,108	22,198,559	27,574,739	

Additions to debt of Mission College I, L.P. of $5.1 million relate to an adjustment associated with the timing difference between the financial information of the Authority as of June 30, 2011 and that of the blended component unit as of December 31, 2010. The $5.1 million is not new indebtedness; but is an interagency debt balance (between the Authority and its blended component unit, NRHA Mission College, LLC which has a December 31, 2010 fiscal year end). Mission College, LLC paid the debt outstanding to NRHA subsequent to their year end of December 31, 2010; therefore, the debt is not outstanding as of June 30, 2011. However, as the financial information for the component unit is included as of December 31, 2010, prior to payoff of the outstanding debt, it is outstanding in Mission College, LLC's financial information. In prior years, this amount was eliminated to avoid double counting indebtedness between the blended component unit, primary government and the 3rd party lending institution. However, due to the timing difference in the fiscal year ends, the amount does not eliminate as of June 30, 2011.

- Debt reductions totaled $22.2 million. Only $2.9 million related to scheduled payments; the $19.3 million related to payoffs of Grandy Partnership indebtedness and partial payoff of Mission Development debt.

Other observations of outstanding debt balances are as follows:

- The Authority has outstanding debt of $6.6 million with the Federal Financing Bank used to finance the original construction of three public housing midrise apartments; the debt is the sole responsibility of HUD.
- $2.1 million for Chesapeake Street, $1.2 million for 5th to 7th Bay Street, and $1.1 million for East Beach were outstanding. Future project funding and/or proceeds from property sales are expected to service this debt. The City has a moral obligation on this debt; the net book value of assets used to collateralize the City's obligation totals $0.04 million and is carried on the books of the City.
- The Authority has outstanding debt to third parties of $4.3 million ($9.4 million less $5.1 million) for Mission College I. Mission Development paid the Mission College interagency debt of $5.1 million after their December 31, 2010 fiscal year. On April 28, 2011, Mission College 1 went from a construction loan that was secured by HUD to permanent financing with a Multifamily Fannie Mae loan. As a result of this transaction, this debt is now being guaranteed by Fannie Mae.

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.

For calendar year 2011, the administration is funding public housing authorities at 100% of their eligibility under HUD's Public Housing program's operating formula. In 2010, the funding level was 103%; prior to 2010 agencies had not received full operating funding since 2002. This funding commitment only addresses the first six months of the Authority's current 2012 fiscal year.

To date, no appropriation level has been communicated for calendar year 2012; thus, NRHA has no final information on funding for the next 18 months out. Based on the congressional appropriations to HUD and HUD's discussions about potential impact, the Authority is anticipating: drastic funding reductions in our public housing program subsidy, administrative funding the housing choice voucher programs, and the capital fund program funding level. The Authority has issued retirement incentives in anticipation of drastic funding reductions. A restructuring initiative is underway to optimize forces for the change in funding provision.

The frozen rent provision that was in effect for the federal housing program operating subsidy formula submissions for calendar year 2004 through calendar year 2009 was discontinued in calendar year 2010. The frozen rent amount used for each of these years was $6.7 million, while actual rent increased on a steady basis; for fiscal year 2009, rental income was $8.8 million, or $2.1 million more than the frozen rent amount. Based on data published by HUD, NRHA's change in rental income during this period was on the high end of the norm; therefore, a negative impact on amounts received was anticipated. Because of the 103% of subsidy eligibility provision for calendar year 2010 as well as a higher utility cost reimbursement, the Authority did not experience the anticipated reduced funding. If HUD continues to provide full funding, this change in rental provision will not negatively impact NRHA.

NRHA's neighborhood development programs rely heavily on federal grant funding provided through 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 funds sources, NRHA faces the same challenges in declining revenues. Also, recent trends in grant funds being diverted to public service agencies for community initiatives have resulted in further reductions of grants contracted to NRHA.

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 2013, NRHA has applied for federal grants through the City's application process for CDBG and HOME funds. We anticipate maintaining at least the fiscal year 2012 funding levels for neighborhood programs. Other grants are being pursued to offset any revenues that may not materialize.

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

These challenges in funding our programs will be monitored closely to determine the precise impact on NRHA and its operations. We will continue to make appropriate adjustments and to be innovative in searching out new funding sources and new partners to achieve our mission. Approximately 70% of the Authority's revenues come from federal, state or city governments. The Authority's 2013 operating and capital budget is $95 million, representing a decrease of 7% from the previous fiscal year.

Contacting Authority Management

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

BASIC FINANCIAL STATEMENTS

Exhibit A

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Net Assets

June 30, 2011

Assets	Primary government	Component unit	Total
Current assets:			
Cash and cash equivalents (note 2)	$ 30,161,806	25,268	30,187,074
Cash with fiscal agents (note 2)	3,178,449	—	3,178,449
Restricted cash and cash equivalents (note 2)	11,104,046	270,037	11,374,083
Investments (note 2)	6,106,244	—	6,106,244
Receivables:			
Due from HUD	2,808,370	—	2,808,370
Due from City of Norfolk	2,788,125	—	2,788,125
Tenants rent, net	205,768	—	205,768
Notes, net (note 3)	111,804	1,515,000	1,626,804
Interest	10,222	233,015	243,237
Other, net	661,699	—	661,699
Total receivables	6,585,988	1,748,015	8,334,003
Inventories, net	664,641	—	664,641
Assets held for sale, restricted	13,662,100	—	13,662,100
Prepaid expenses and other assets	991,997	—	991,997
Total current assets	72,455,271	2,043,320	74,498,591
Noncurrent assets:			
Capital assets:			
Land	23,141,377	—	23,141,377
Buildings and equipment	254,890,022	—	254,890,022
Construction in progress	13,539,193	—	13,539,193
Less accumulated depreciation	(140,714,446)	—	(140,714,446)
Capital assets, net (note 4)	150,856,146	—	150,856,146
Notes receivable, net (note 3)	25,647,942	9,440,000	35,087,942
Other noncurrent assets	7,146,882	196,140	7,343,022
Total noncurrent assets	183,650,970	9,636,140	193,287,110
Total assets	$ 256,106,241	11,679,460	267,785,701
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 1,689,414	13,000	1,702,414
Accrued salaries and benefits	567,056	—	567,056
Accrued compensated absences (note 12)	165,424	—	165,424
Due to HUD and the City of Norfolk	280,934	—	280,934
Tenant security deposits	937,941	—	937,941
Deferred revenue	294,214	155,000	449,214
Bonds, notes, and loans payable (note 5)	10,359,803	1,515,000	11,874,803
Other current liabilities	3,369,382	90,158	3,459,540
Total current liabilities	17,664,168	1,773,158	19,437,326
Noncurrent liabilities:			
Bonds, notes, and loans payable (note 5)	17,214,936	9,585,349	26,800,285
Accrued compensated absences (note 12)	1,477,276	—	1,477,276
Noncurrent liabilities – other	14,779,019	—	14,779,019
Total noncurrent liabilities	33,471,231	9,585,349	43,056,580
Total liabilities	51,135,399	11,358,507	62,493,906
Net assets:			
Invested in capital assets, net of related debt	128,336,398	—	128,336,398
Restricted net assets	19,290,582	—	19,290,582
Unrestricted net assets	57,343,862	320,953	57,664,815
Total net assets	204,970,842	320,953	205,291,795
Total liabilities and net assets	$ 256,106,241	11,679,460	267,785,701

See accompanying notes to basic financial statements.

Exhibit B

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

		Primary government	Component unit	Total
Operating revenues:				
Tenant revenue	$	19,287,098	—	19,287,098
Government operating grants		58,058,502	—	58,058,502
Other revenue, net		8,494,741	115,035	8,609,776
Total operating revenues		85,840,341	115,035	85,955,376
Operating expenses:				
Administrative		16,741,352	29,766	16,771,118
Tenant services		3,522,789	—	3,522,789
Utilities		9,711,679	—	9,711,679
Maintenance		11,147,774	—	11,147,774
Protective services		1,495,427	—	1,495,427
General		9,893,448	—	9,893,448
Extraordinary maintenance		7,864,136	—	7,864,136
Housing assistance payments (HAP)		21,287,893	—	21,287,893
Depreciation and amortization		8,955,815	20,491	8,976,306
Total operating expenses		90,620,313	50,257	90,670,570
Operating income (loss)		(4,779,972)	64,778	(4,715,194)
Nonoperating revenues (expenses):				
Interest and investment revenue		1,396,602	535,562	1,932,164
Loss on disposal of fixed assets (note 4)		(183,640)	—	(183,640)
Interest expense		(1,727,883)	(552,296)	(2,280,179)
Total nonoperating expenses, net		(514,921)	(16,734)	(531,655)
Income (loss) before capital grants and distribution to partners		(5,294,893)	48,044	(5,246,849)
Government capital grants		9,987,551	—	9,987,551
Capital contributions from limited partners		8,480,306	—	8,480,306
Change in net assets		13,172,964	48,044	13,221,008
Total net assets – beginning		191,797,878	272,909	192,070,787
Total net assets – ending	$	204,970,842	320,953	205,291,795

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2011

Cash flows from operating activities:		
Cash receipts from customers	$	17,505,941
Cash receipts from operating grants		57,933,529
Other operating cash receipts		9,803,219
Cash payments to employees for services		(22,143,708)
Cash payments to suppliers of goods and services		(34,998,870)
Other operating cash payments		(8,668,081)
Cash payments to landlords – HAP		(21,287,893)
Net cash used in operating activities		(1,855,863)
Cash flows from capital and related financing activities:		
Proceeds from disposal of capital assets		394,996
Proceeds from issuance of debt		714,785
Purchases of capital assets		(13,933,082)
Capital grants received		10,852,539
Principal payments on debt		(16,489,065)
Interest payments on debt		(2,011,708)
Net cash used in capital and related financing activities		(20,471,535)
Cash flows from noncapital financing activities:		
Principal payments on debt		(5,795,904)
Net cash used in noncapital financing activities		(5,795,904)
Cash flows from investing activities:		
Sales of investments		11,966,184
Purchases of investments		(12,611,066)
Issuance of notes receivable		(740,753)
Principal receipts on notes receivable		5,674,015
Interest received		1,475,411
Capital contributions from limited partners		8,480,306
Net cash provided by investing activities		14,244,097
Net decrease in cash and cash equivalents		(13,879,205)
Cash and cash equivalents at beginning of year		58,323,506
Cash and cash equivalents at end of year	$	44,444,301
Reconciliation to statement of net assets of primary government:		
Current unrestricted cash and cash equivalents	$	30,161,806
Current cash with fiscal agents		3,178,449
Restricted cash and cash equivalents		11,104,046
Cash and cash equivalents	$	44,444,301

(Continued)

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2011

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(4,779,972)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		8,955,815
Bad debt expense		326,430
Gain on disposal of assets held for sale		(207,558)
Changes in assets and liabilities:		
Change in receivables due other PHA		(4,230)
Change in receivables due from HUD		(529,605)
Change in receivables due from City of Norfolk		408,862
Change in receivables from tenants rent, net		(220,700)
Change in receivables from other, net		(184,401)
Change in inventories		42,689
Change in assets held for sale		(13,444)
Change in prepaid expenses and other assets		(279,351)
Change in other noncurrent assets		(1,199,337)
Change in accounts payable		(3,177,893)
Change in accrued salaries and benefits		34,383
Change in accrued compensated absences		28,887
Change in due to HUD and the City of Norfolk		49,425
Change in due to other governments		(89,768)
Change in tenant security deposits		(67,578)
Change in deferred revenue		(1,207,246)
Change in other current and noncurrent liabilities		258,729
Net cash used in operating activities	$	(1,855,863)

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI, Program Income, and Home Partnership Investment Program (HOME) programs in the amount of $512,775.

The Authority had a net decrease of $1,657,331 in accounts payable related to the acquisition of fixed assets.

See accompanying notes to basic financial statements.

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(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 as specified by the Governmental Accounting Standards Board (GASB). The Authority's significant accounting policies are described below.

(a) The Financial Reporting Entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's Board and either: a) the ability to impose will by the primary government or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government.

Component Units

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

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

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

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

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

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

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

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

HRVI, a Virginia limited liability corporation, was formed on June 4, 2003. It was created to hold a 1% interest in Mission College Apartments, L.P. Members/owners of the LLC are NRHA with a 99.9999% ownership and the CDC with a 0.0001% ownership interest.

GVLP, a Virginia limited partnership, was formed March 13, 2007 to acquire, construct, revitalize, and operate a low-income public housing complex, which is located in the City. NRHA Grandy Village 1, LLC is the sole general partner in the partnership. NRHA has a 79% ownership interest in NRHA Grandy Village 1, LLC and is therefore responsible for all business decisions. The Authority is also the managing agent for the partnership. GVLP is an intricate part of the daily operation of the Authority, as the two entities share personnel for daily operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD under a single ACC. The Authority is not only responsible for all day-to-day business decisions of GVLP, but is also responsible for funding any operating deficits via an operating loan that will not bear interest and is nonrecourse to the other partners. The activity of GVLP is included in the accompanying financial statements as of June 30, 2011 and 2010.

(b) Basis of Presentation

All of the Authority’s programs are accounted for as business-type activities for financial reporting purposes. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued prior to November 30, 1989, unless they conflict with existing GASB pronouncements.

(c) 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 net assets. The Authority’s statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The statement of net assets and revenues, expenses, and changes in net assets 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

(Continued)

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.

(d) Revenue Recognition

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

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

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

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

(e) 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.

(f) Inventories

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

(g) 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 net assets because the use of these amounts is governed by revenue bond indenture provisions or a regulatory agreement.

(h) 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, net assets 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.

(i) Capital Assets

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

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

Certain capital assets with an approximate book value of $41,828 have been deeded to the Authority from the City solely to serve as collateral on certain loan agreements. As the Authority has no responsibility or control over the operations of these assets, they have been excluded from the Authority's basic financial statements. The City has capitalized the value of these assets on its basic financial statements.

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
Automobiles	3 to 5 years
Office furniture and equipment	3 to 5 years

(j) Bond Premiums, Discounts, and Issuance Costs

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

(k) Deferred Loss on Refunding

The Authority's deferred loss on refunding is being charged to operations through the year 2013 using the straight-line method.

(l) Compensated Absences

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

(m) Income Taxes

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

(n) Use of Estimates

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

(o) Self-Insurance

The Authority participates in a self-insurance program with the City for commissioners' liability insurance. There are no limits set in this self-insurance program. All personal assets of the Board would be defended in civil actions arising from their duties. At June 30, 2011, there are no liabilities for unpaid claims.

(p) Other Postemployment Benefits

The Authority provides postretirement health and dental care benefits, in accordance with the federal COBRA law, which requires the Authority to extend access to healthcare benefits for 18 months after termination to any employee participating in the health and dental plan. The Authority has elected to provide access to healthcare for retirees until age 65 or until they are eligible for Medicare.

There are 26 retirees participating at 100% of their own cost. The Authority's regular healthcare provider underwrites the retiree's policies. GAAP requires the plan sponsor to record the actuarial cost (net of employee and retiree contributions) of the plan as an expense in its financial statements and then accrue a liability to the extent actual contributions are less than this actuarial required contribution.

(2) Deposits and Investments

At June 30, 2011, the carrying value of the Authority's deposits with banks and savings institutions was $36,593,578 and the bank balance was $41,845,635, which was either covered by Federal Depository Insurance Corporation (FDIC), collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), or held in trust accounts. During 2011, approximately $3,565,342 was 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 its investment policy, temporary cash surpluses are invested in repurchase agreements and certificates of deposit. The repurchase agreement is fully collateralized by the U.S. government and government agency securities pledged in the Authority's name. The collateral is held by the pledging financial institution in its own name.

The investment in the repurchase agreement represents an overnight sweep investment of excess cash deposits with a bank. The amount is collateralized under the Act. The investment in commercial paper is AAA rated.

(b) Concentration of Credit Risk

The Authority holds several certificates of deposit with a single financial institution, which are approximately 9% of total investments; however, these certificates of deposit are covered by the FDIC.

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

(c) Interest Rate Risk

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

Investment type	Fair value	Investment maturities (in years) Less than 1	1 – 2	2 – 4
U.S. agency and discount notes	$ 10,378,738	10,378,738	—	—
Certificates of deposit	2,977,429	2,977,429	—	—
	$ 13,356,167	13,356,167	—	—

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

Deposits	$ 36,593,578
Cash on hand	800
Letter of credit	600,000
Investments	13,356,167
	$ 50,550,545

Per Exhibit A:	
Cash and cash equivalents	$ 30,161,806
Cash with fiscal agents	3,178,449
Restricted cash and cash equivalents	11,104,046
Investments	6,106,244
	$ 50,550,545

(d) Foreign Currency Risk

The Authority does not have any foreign investments.

(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, 2010, NCCCC had $25,268 in cash and $270,037 invested by the trustee in short-term money market instruments.

Investments

Corporate investments are stated at fair value.

(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, 2011, with specific payment terms, is as follows:

1% promissory notes, due from Community Ventures Investors, L.L.C. Monthly installments of interest only. Principal to be paid in full by January 1, 2015. The purpose of the loan is for Community Ventures Investors, L.L.C. to purchase new market tax credits for the Attucks Theater.	$	5,688,000
Allowance for doubtful accounts		(5,688,000)
	$	—
Notes receivable – Hope VI		
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.	$	12,924,535
Allowance for doubtful accounts		(12,924,535)
	$	—

0% promissory notes receivable of the Hope VI program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	$	1,878,122
Allowance for doubtful accounts		(1,878,122)
	$	—

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

Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.	$	1,368,552
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.		1,531,494
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Total notes receivable – Hope VI		15,513,420
Housing Opportunity – Fixed rate 5% to 6% promissory notes receivable due from local citizens in monthly installments of principal and interest. The loans are made to qualified home buyers in Wellington Oaks and Bell Diamond for the purchase and/or improvement of property. All notes are secured by deeds of trust.		25,775
EDA Revolving Loan – Fixed rate 5% promissory notes receivable due from local citizens in monthly installments of principal and interest. The loans are made to qualifying businesses for capital improvements. An allowance of doubtful accounts of $4,000 is recorded related to these notes.		188,839
Broad Creek – 0% promissory notes receivable, due from local citizens on a deferred basis to purchase homes located in a targeted neighborhood. The notes are secured by a deed of trust and are partially forgivable.		39,525
EOV Note Initiatives – 0% promissory note for the purchase of a residence. The note is due when the signor vacates the residence or upon the homeowner's death. The note is secured by a deed of trust on certain real property.		195,000

Program Income – 0% to 8% fixed rate promissory notes receivable due from local citizens on a deferred basis, forgivable basis, or in monthly installments of principal and interest. Program income consists of gap financing, demo in lieu of acquisition, an ecumenical family shelter note, and other notes. Gap financing is issued to qualifying person(s) to provide second deeds of trust for down payments and closing costs. Demo in lieu of acquisition is issued to qualifying person(s) in which the Authority incurs the cost of demolition and takes a note to be paid at a future date. The ecumenical family shelter note is for the acquisition and renovation of a multiple family building, the "Dwelling Place." Other notes are issued to nonprofit agencies for land the Authority has "donated." The notes become payable if the use is no longer for "low to moderate income residential."		102,649
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.		9,694,538
Total notes receivable		25,759,746
Less current portion		111,804
	$	25,647,942

Component Units

NCCCC leases a facility to the State Board for Community Colleges for approximately $2,000,000 per year until December 31, 2015, and $750,000 thereafter until December 31, 2019. The $2,000,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of $1,455,000 and $545,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $10,955,000 equal to the debt described in note 5.

(Continued)

(4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2011:

	Balance, July 1, 2010	Increases	Decreases	Balance, June 30, 2011
Capital assets not being depreciated:				
Land	$ 23,484,428	—	(343,051)	23,141,377
Construction in progress	10,053,922	9,827,885	(6,342,614)	13,539,193
Total capital assets not being depreciated	33,538,350	9,827,885	(6,685,665)	36,680,570
Other capital assets:				
Buildings and building improvements	176,327,259	5,081,609	(305,495)	181,103,373
Improvements other than buildings	60,620,921	3,322,498	(7,150)	63,936,269
Equipment	9,927,917	379,780	(457,317)	9,850,380
Total other capital assets	246,876,097	8,404,107	(769,962)	254,890,022
Less accumulated depreciation for:				
Buildings and building improvements	84,222,495	6,558,577	(80,637)	90,700,435
Improvements other than buildings	41,474,262	1,732,216	(1,895)	43,204,583
Equipment	6,685,171	576,103	(451,846)	6,809,428
Total accumulated depreciation	132,381,928	8,866,896	(534,378)	140,714,446
Other capital assets, net	114,494,169	(462,789)	(235,584)	114,175,576
	$ 148,032,519	9,365,096	(6,921,249)	150,856,146

The Authority has active construction projects as of June 30, 2011. Outstanding commitments related to construction in progress amounted to approximately $5.2 million at June 30, 2011.

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

Depreciation and amortization expense	$ 8,955,815
Less amortization expense	(88,919)
Increase in accumulated depreciation	$ 8,866,896

(5) Debt

A summary of the Authority's debt activity for the fiscal year ended June 30, 2011 is presented below:

		Amounts payable at July 1, 2010	Additions	Retirements and reductions	Amounts payable at June 30, 2011	Amounts due within one year
Notes payable:						
Granby Street office building	$	1,602,469	—	163,601	1,438,868	171,092
Federal Financing Bank		7,210,444	—	589,092	6,621,352	627,973
Renewal and replacement (line of credit)		4,031,716	—	821,952	3,209,764	2,434,133
Refinancing note		1,410,000	—	352,500	1,057,500	352,500
Grandy renovation		139,436	—	65,017	74,419	68,503
Park Terrace		761,232	—	84,646	676,586	92,563
NRHA Mission I		4,452,641	5,092,108	113,158	9,431,591	5,212,337
		19,607,938	5,092,108	2,189,966	22,510,080	8,959,101
Bonds payable:						
Grandy partnership		14,679,000	—	14,679,000	—	—
Multifamily revenue bonds – Oakmont North		2,845,000	—	195,000	2,650,000	205,000
Revenue bonds – Merrimack Landing		2,370,000	—	550,000	1,820,000	575,000
Less:						
Unamortized bond discount		(36,508)	—	(10,686)	(25,822)	(10,686)
Unamortized loss on refunding		(63,253)	—	(26,173)	(37,080)	(26,173)
		19,794,239	—	15,387,141	4,407,098	743,141
Loans payable:						
Mission development		5,279,013	—	4,621,452	657,561	657,561
Total debt	$	44,681,190	5,092,108	22,198,559	27,574,739	10,359,803

Additions to debt of NRHA Mission I of $5,092,108 relate to an adjustment associated with the timing difference between the financial information of the Authority as of June 30, 2011 and that of the blended component unit as of December 31, 2010. This amount is not new indebtedness; but is an interagency debt balance (between the Authority and its blended component unit, NRHA Mission College, LLC, which has a December 31, 2010 fiscal year end). Mission College, LLC paid the debt outstanding to NRHA subsequent to their year end of December 31, 2010; therefore, the debt is not outstanding as of June 30, 2011. However, as the financial information for the component unit is included as of December 31, 2010, prior to payoff of the outstanding debt, it is outstanding in Mission College, LLC's financial information. In prior years, this amount was eliminated to avoid double counting indebtedness between blended component unit, primary government and the 3rd party lending institution. However, due to the timing difference in the fiscal year ends, the amount does not eliminate as of June 30, 2011.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2011

The following summarizes the Authority's long-term note and bond obligations at June 30, 2011.

Notes payable:		
6.6% Federal Financing Bank notes due in annual installments of principal and interest totaling $1,064,982 through November 1, 2019. The notes are secured by three low-income housing projects.	$	6,621,352
4.95% renewal and replacement note due to a local bank, monthly installments of $35,428.63 through May 27, 2014. The note is secured by real property owned by the Authority.		1,151,429
Renewal and replacement note due to a local bank with quarterly installments of interest at 4.0%. One principal payment of $464,665.48 is due January 26, 2011. Final payment of principal and interest is due January 26, 2012. The note is secured by real property owned by the Authority.		2,058,335
Renewal and replacement note due to a local bank with four annual principal installments of $352,500. Final payment is due on September 1, 2013. Interest is calculated at prime + 5%. The note is secured by real property owned by the Authority.		1,057,500
Unsecured note due to a local bank for infrastructure improvements to a federally aided low-income public housing apartment complex. Payments of $5,898 are paid monthly, including interest at 5.24%, through July 2012.		74,419
Tax-exempt government bond for renovation to the 201 Granby Building. Repayment of yearly principal and interest of $231,887 due in monthly installments with interest at 4.513% through 2018. The debt is secured by the building and all equipment at 201 Granby Street.		1,438,868
Mortgage note insured by the Federal Housing Administration for a 260 unit apartment complex in Norfolk, Virginia. Bearing interest at the rate of 5.875%. Principal and interest are paid in monthly installments of $30,968.		4,339,483
Mortgage loan agreement for a 260 unit apartment complex in Norfolk, Virginia. Per the NRHA Mission College I audited statements as of December 31, 2010, this loan was still outstanding. It bears interest at a rate of 6.62%.		5,092,108
Note payable to VHDA, due in monthly installments of $12,461, including interest at 8.974%, through April 2017. The note is secured by substantially all assets of the Park Terrace apartment project.		676,586
Total notes payable		22,510,080

(Continued)

Bonds payable:		
Tax-exempt variable rate multi-family rental housing revenue bonds Series 1999. Interest is payable monthly, principal payments are due annually on March 1 through 2021. These bonds are secured by a letter of credit with a local bank. The interest rate at June 30, 2011 was 0.1% and is reset weekly based on LIBOR.	$	2,650,000
Multi-family housing serial revenue refunding bonds issued February 1, 1997, interest from 4.1% to 5.5% payable semiannually. The bonds are secured by a lien on the property and a security interest in the leases and rents of the property. The bonds will be redeemed pursuant to the sinking fund provisions of the trust agreement between the Authority and the trustee, in increasing amounts each December 1 through 2013.		1,820,000
		4,470,000
Less:		
Unamortized bond discount		(25,822)
Unamortized loss on refunding		(37,080)
Total bonds payable		4,407,098
Loan payable – Mission Development		657,561
Total bonds and loans payable	$	27,574,739

(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 year ending June 30:				
2012	$ 9,616,662	950,886	780,000	85,312
2013	5,921,613	565,043	820,000	67,276
2014	1,744,422	447,304	870,000	2,900
2015	1,077,465	369,608	240,000	2,552
2016	1,147,806	299,268	255,000	2,182
2017 – 2021	3,659,673	492,702	1,505,000	1,505
	$ 23,167,641	3,124,811	4,470,000	161,727

The preceding schedule does not include either the unamortized bond discount of $25,822 or the unamortized loss on refunding of $37,080.

(b) Component Units

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, 2010, $5,245,000 remained outstanding. Interest at rates from 4.3% to 5.5% is payable semiannually and principal payments are due annually in November.

The Authority issued Educational Facility Revenue Refunding bonds dated March 1, 2003 for the Tidewater Community College downtown campus project in the amount of $8,970,000. These bonds refunded a portion of the Educational Facility Revenue bonds dated May 1, 1995. At December 31, 2010, $5,710,000 remained outstanding. Interest at rates from 2.00% to 5.25% is payable semiannually and principal payments are due annually in November. Also included in bonds payable is $145,349 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2012 – $1,515,000; 2013 – $1,580,000; 2014 – $1,650,000; 2015 – $1,735,000; 2016 – $1,820,000; and 2017 through 2023 – $2,655,000.

(6) Pension Plan

(a) Plan Description

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Nonhazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Nonhazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a

reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70%. The retirement multiplier for eligible political subdivision hazardous duty employees is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. This 5.00% member contribution has been assumed by the employer. In addition, the employer is required to contribute the remaining amounts necessary to fund its participation in the System using the actuarial basis specified by statute and approved by the VRS board of trustees. The Authority's contribution rate for the fiscal year ended June 30, 2011 was 15.38% of annual covered payroll, including the member contribution of 5.00%.

(c) Annual Pension Cost

For the fiscal year ended June 30, 2011, the Authority's annual pension cost of $2,175,491 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.50% per year COLA. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liabilities

(Continued)

are being amortized as a level percentage of payroll on an open basis. The amortization period is 20 years. The trend information for the Authority's employees is as follows:

	Three-year trend information		
	Annual pension cost (APC)	**Percentage of APC contributed**	**Net pension obligation**
Fiscal year ending:			
June 30, 2011	$ 2,175,491	100 %	None
June 30, 2010	1,998,290	100	None
June 30, 2009	1,940,531	100	None

(d) Funding Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 78.42% funded. The actuarial accrued liability for benefits was $92,644,897, and the actuarial value of assets was $72,651,349, resulting in an unfunded actuarial accrued liability (UAAL) of $19,993,548. The covered payroll (annual payroll of active employees covered by the plan) was $14,066,851, and the ratio of the UAAL to the covered payroll was 142.13%.

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

(7) Deferred Compensation Plan

The Authority offers all regular employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees or beneficiaries until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in an annuity contract for the participants. The contract is managed by ING Life Insurance and Annuity Company. The assets are not included in the accompanying basic financial statements as of June 30, 2011.

(8) Commitments and Contingencies

(a) Federal Award Programs

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

(b) Litigation

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

(c) Waterside Limited Partnership

The Authority guarantees a note payable to BB&T (Branch Banking & Trust Co.). The outstanding balance of the note at June 30, 2011 was $4,709,126 and was with full recourse to the Authority.

(d) Letters of Credit

The Authority has eight outstanding letters of credit with a bank for $5,457,695. Monthly draws have been made against two of the letters of credit to pay interest on bonds issued by the bank. Those letters of credit are repaid from interest escrow accounts kept with the bank. No draws have been made against the other seven letters of credit.

(9) Conduit Debt

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

Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2011, there were 8 issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately $160,000,000.

(10) Related-Party Transactions

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

The City has entered into a cooperation agreement with the Authority and its wholly owned affiliate, Selden Arcade Associates, L.L.C., to own, renovate, and operate the historic Selden Arcade located downtown in the City. Under this agreement, the Authority established its affiliate to pursue historic tax credits for the renovation and the City donated the property and its funds for the renovation and operation of the Selden Arcade. The agreement is a limited liability of the Authority.

(Continued)

(11) Other Postemployment Benefits (OPEB) Liability

(a) Plan Description

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

(b) Funding Policy

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

(c) Annual OPEB Cost and Net OPEB Obligation

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

		Year ended June 30	
		2011	**2010**
ARC:			
Normal cost	$	491,130	539,361
Adjustments to ARC		(49,903)	(20,798)
Interest		33,261	16,633
Total ARC		474,488	535,196
Contributions made		(109,796)	(119,481)
Increase in net OPEB obligation		364,692	415,715
Net OPEB obligation, beginning of year		831,533	415,818
Net OPEB obligation, end of year	$	1,196,225	831,533

(Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009 through 2011 were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
2009	$	519,865	20.0%	$	415,818
2010		535,196	22.3		831,533
2011		474,488	23.1		1,196,225

(d) Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $4,032,158. The covered payroll (annual payroll of active employees covered by the plan) was $14,014,644, and the ratio of the UAAL to the covered payroll was 28.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at July 1, 2011 included a 4% investment rate of return and an annual healthcare cost trend rate increase of 3%. The projected rate increases to 8% in 2012 and then grades down to 5% over 4 years. The Authority's UAAL is being amortized on a closed level dollar amount basis over a period of 28 years.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2011

(12) Compensated Absences

Authority employees are entitled to certain compensated absences based on their accrued leave balance. Upon termination, employees may be paid their full vacation (leave) balance at their normal pay rate, but are not paid for their accumulated sick leave. As of June 30, 2011, the Authority accrued $1,642,700 for compensated absences.

		Balance, July 1, 2010	Additions	Deletions	Balance, June 30, 2011	Balance due within one year
Accrued compensated absences	$	1,613,813	129,792	100,905	1,642,700	165,424

(13) Subsequent Events

The Authority has evaluated subsequent events for potential recognition and/or disclosure through January 31, 2012 the date the financial statements were issued.

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

Exhibit E-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2011

(Unaudited)

Actuarial valuation date		Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded actuarial accrued liability (UAAL)	Funded ratio			Covered payroll	UAAL as a percentage of covered payroll	
June 30, 2008	$	77,400,690	84,176,732	6,776,042	91.95	%	$	13,736,580	49.33	%
June 30, 2009		75,153,285	87,539,077	12,385,792	85.85			14,174,282	87.38	
June 30, 2010		72,651,349	92,644,897	19,993,548	78.42			14,066,851	142.13	

See accompanying independent auditors' report.

Exhibit E-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2011

(Unaudited)

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

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, 2011

(Unaudited)

	Site clearance	Administration	Site improvement	Site acquisition	Site disposition	Rehabilitation	Relocation	Miscellaneous	Total
Community Development (CD) Block Grant Fund:									
Program year 2002	$ 500	—	—	—	—	—	—	—	500
Program year 2003	1,621	—	—	20,338	—	—	—	—	21,959
Program year 2004	—	—	—	67,759	—	—	—	—	67,759
Program year 2005	—	—	58,947	—	—	—	—	—	58,947
Program year 2006	—	—	262	—	—	595	—	—	857
Program year 2007	—	—	304,753	—	(1,083)	8,975	—	—	312,645
Program year 2008	5,200	—	—	158,700	—	7,536	—	—	171,436
Program year 2009	—	—	9,292	—	746	434,608	—	—	444,646
Program year 2010	—	664,978	—	—	161,681	1,663,167	—	75,000	2,564,826
Total CD	$ 7,321	664,978	373,254	246,797	161,344	2,114,881	—	75,000	3,643,575
Reconciliation to operating expenses:									
Project costs incurred	$ 7,321	664,978	373,254	246,797	161,344	2,114,881	—	75,000	3,643,575
Project costs incurred – Neighborhood Stabilization Program (NSP)	—	—	—	—	—	593,661	—	—	593,661
Total CD and NSP									4,237,236
Land held for resale – CDBG	33,021	—	—	—	—	—	—	—	33,021
Land held for resale – NSP	(205,957)	—	—	—	—	—	—	—	(205,957)
Operating expenses									$ 4,064,300

See accompanying independent auditors' report

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Urban Renewal Fund Expenditures by Project

Year ended June 30, 2011

(Unaudited)

	Atlantic City VA R-1	Downtown North VA R-8	Downtown South VA R-9	Rosemont VA R-25	Ghent Neighborhood Conservation VA R-43	Huntersville VA R-70	Total
Classification of expenditures:							
Administrative costs	$ 5,124	6,580,468	14,684	10,797	929,917	18,027	7,559,017
Legal services	26,512	387,708	66,185	27,170	9,023	2,229	518,827
Survey and planning	9,950	735,757	39,533	—	5,084	—	790,324
Acquisition expense	—	10,228	—	—	823	1,610	12,661
Operation of acquired property	(558,414)	(60,545)	(15,881)	(13,823)	7,373	(878)	(642,168)
Relocation costs	—	20,942	—	—	205,629	22,596	249,167
Site clearance	935	16,597	—	2,583	66,917	43,663	130,695
Project or site improvements	11,040	3,457,056	119,555	1,272,591	135,129	11,125	5,006,496
Project or site improvements/transfer to waterside	—	—	3,100,000	—	—	—	3,100,000
Disposal, lease, and retention costs	58,010	293,291	29,545	246,056	34,426	63,685	725,013
Other income, primarily interest	(79,361)	(7,111,044)	(16,771)	(81,839)	(67,794)	(26,270)	(7,383,079)
Real estate purchases	—	183,000	—	—	30,000	30,000	243,000
Rehabilitation	—	367,948	—	—	—	—	367,948
Net cumulative project costs at June 30, 2011	(526,204)	4,881,406	3,336,850	1,463,535	1,356,527	165,787	10,677,901
Net cumulative project costs at June 30, 2010	(526,204)	4,879,506	3,336,850	1,463,535	1,356,527	165,787	10,676,001
Net project costs incurred during year ended June 30, 2011	—	1,900	—	—	—	—	1,900
Revenue earned during year ended June 30, 2011	12,000	3	—	—	—	—	12,003
Gross project costs incurred during year ended June 30, 2011	$ 12,000	1,903	—	—	—	—	13,903

See accompanying independent auditors' report

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Capital Fund Program Expenditures

Year ended June 30, 2011

(Unaudited)

	2001-2003	2004	2005	2006	2007	2008	2009	2010	Total
Classification of expenditures:									
1406 Operations	$ —	—	—	—	8,240	—	1,200,000	—	1,208,240
1408 Management improvements	1,174,320	120,809	155,813	139,388	171,297	126,117	148,074	44,940	2,080,758
1410 Administration	1,511,813	510,444	674,998	573,446	613,922	558,905	592,675	593,721	5,629,924
1411 Audit	—	—	—	—	—	—	9,000	—	9,000
1430 Fees and costs	460,102	239,686	882,418	745,714	2,236,673	776,306	688,974	347,064	6,376,937
1440 Predevelopment costs	—	—	277,695	—	—	—	—	—	277,695
1450 Site improvements	544,750	230,178	246,471	347,580	1,088,624	2,434,719	193,138	2,400	5,087,860
1460 Dwelling structures	5,376,226	2,255,113	1,723,793	2,067,889	1,345,706	720,713	931,022	—	14,420,462
1465.1 Dwelling equipment – nonexpendable	387,683	167,565	202,280	—	160,174	75,241	177,000	—	1,169,943
1470 Nondwelling structures	1,788,862	—	639,147	556,366	—	—	110,577	—	3,094,952
1475 Nondwelling equipment	509,295	—	—	—	—	—	—	—	509,295
1485 Demolition	—	—	—	—	99,235	—	—	47,552	146,787
1490 Replacement reserves*	10,500,000	3,343,069	772,911	—	—	—	—	—	14,615,980
1495 Relocation costs	116,016	—	—	—	—	—	321,673	—	437,689
1498 Development activity	—	—	1,661,636	1,677,736	350,486	639,570	—	—	4,329,428
1460 Replacement housing factor funds	35,462	359,885	6,440	—	—	—	—	—	401,787
Cumulative project costs at June 30, 2011	22,404,529	7,226,749	7,243,602	6,108,119	6,074,357	5,331,571	4,372,133	1,035,677	59,796,737
Cumulative project costs at June 30, 2010	22,404,529	7,226,749	7,243,602	6,108,119	4,348,063	2,545,394	2,143,158	—	52,019,614
Project costs incurred during year ended June 30, 2011	—	—	—	—	1,726,294	2,786,177	2,228,975	1,035,677	7,777,123
* Classification of expenditures – replacement reserves:									
1410 Administration	253	6,737	15,339	—	—	—	—	—	22,329
1430 Fees and costs	237,917	24,564	68,290	—	—	—	—	—	330,771
1450 Site improvements	2,232,624	1,172,180	8,558	—	—	—	—	—	3,413,362
1460 Dwelling structures	7,647,031	1,370,251	27,692	—	—	—	—	—	9,044,974
1470 Nondwelling structures	990,229	1,033,925	—	—	—	—	—	—	2,024,154
1495 Relocation costs	59,768	—	—	—	—	—	—	—	59,768
1498 Development activity	258	—	697,643	—	—	—	—	—	697,901
Cumulative project costs at June 30, 2011	11,168,080	3,607,657	817,522	—	—	—	—	—	15,593,259
Cumulative project costs at June 30, 2010	11,168,080	3,606,397	817,522	—	—	—	—	—	15,591,999
Project costs incurred during year ended June 30, 2011	—	1,260	—	—	—	—	—	—	1,260
Total project costs incurred during year ended June 30, 2011	—	1,260	—	—	1,726,294	2,786,177	2,228,975	1,035,677	7,778,383
Increase in capital assets (not including depreciation):									
Ending balance	—	5,556,104	2,200,356	4,120,209	3,899,695	3,473,441	1,534,767	63,497	20,848,069
Beginning balance	(11,614,995)	(5,556,104)	(2,200,356)	(4,120,209)	(3,131,957)	(784,849)	(138,322)	—	(27,546,792)
Increase (decrease) in capital assets	(11,614,995)	—	—	—	767,738	2,688,592	1,396,445	63,497	(6,698,723)
Management improvements and administration	11,614,995	1,260	—	—	958,556	97,585	832,530	972,180	14,477,106
Administrative expenses transferred to central office cost center	—	—	—	—	808	—	—	—	808
Transfers to operations	(11,614,995)	—	—	—	—	—	—	—	(11,614,995)
Depreciation	—	324,309	133,147	204,337	104,748	20,503	1,308	—	788,352
Operating expenses	$ —	325,569	133,147	204,337	1,064,112	118,088	833,838	972,180	3,651,271

* Replacement reserves expenditures

See accompanying independent auditors' report

Exhibit F-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2011

(Unaudited)

	Program year								
	2001-2003	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Classification of expenditures:									
Program coordinator	$ 125,242	39,183	130,000	130,000	131,000	134,930	136,000	7,605	833,960
Revolving loan program	60,000	—	—	—	—	—	—	—	60,000
Employment and job readiness	12,500	—	—	—	—	—	—	—	12,500
Job training	145,969	238,679	—	—	—	—	—	—	384,648
Vocational training	14,525	—	—	—	—	—	—	—	14,525
Family support service	48,971	5,856	—	—	—	—	—	—	54,827
Travel costs	3,805	8,706	—	13,059	—	—	—	—	25,570
Administrative costs	40,720	14,602	—	51,826	—	—	—	—	107,148
Capacity building activities	42,560	—	—	—	—	—	—	—	42,560
Individual savings account	—	37,500	—	—	—	—	—	—	37,500
Market analysis	68	—	—	—	—	—	—	—	68
Stipend	—	—	—	26,470	—	—	—	—	26,470
Program expenses	124,020	19,657	—	94,278	—	—	—	—	237,955
Indirect costs	—	—	—	25,000	—	—	—	—	25,000
Salaries – training	32,482	145,764	—	231,387	—	—	—	—	409,633
Fringe benefits – training	26,254	29,236	—	57,980	—	—	—	—	113,470
Cumulative project costs at June 30, 2011	677,116	539,183	130,000	630,000	131,000	134,930	136,000	7,605	2,385,834
Cumulative project costs at June 30, 2010	677,116	539,183	130,000	617,881	131,000	134,930	56,226	—	2,286,336
Project costs incurred during year ended June 30, 2011	$ —	—	—	12,119	—	—	79,774	7,605	99,498
Current year depreciation									2,975
Operating expenses									$ 102,473

See accompanying independent auditors' report

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Urban Revitalization Program (Hope VI) Expenditures

Year ended June 30, 2011

(Unaudited)

	Program year 2000	Total
Classification of expenditures:		
Management improvements	$ 4,990,290	4,990,290
Administration	4,060,677	4,060,677
Fees and costs	4,549,295	4,549,295
Site acquisition	68,475	68,475
Site improvement	1,125,692	1,125,692
Dwelling structures	14,336,712	14,336,712
Nondwelling equipment	25,000	25,000
Demolition	2,158,723	2,158,723
Relocation costs	1,537,747	1,537,747
Hope VI Section 8	2,059,099	2,059,099
Cumulative project costs at June 30, 2011	34,911,710	34,911,710
Cumulative project costs at June 30, 2010	33,653,873	33,653,873
Project costs incurred during year ended June 30, 2011	$ 1,257,837	1,257,837
Reconciliation to operating expenses:		
Project costs incurred		$ 1,257,837
Decrease in fixed assets:		
Ending balance	$ 1,564,954	
Depreciation	3,275	
Surveys	(300)	
Beginning balance	(1,680,193)	
Decrease in fixed assets		112,264
Decrease in notes receivable:		
Ending balance	17,332,728	
Beginning balance	(17,332,728)	
Decrease in notes receivable		—
Accrued compensated absences		1,519
Operating transfers out		—
Operating transfers in		33,500
OPEB expenses – adjustment prior year		(13,310)
Depreciation		3,275
Total operating expenses		$ 1,395,085

See accompanying independent auditors' report

Exhibit F-6

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ARRA – Capital Fund Recovery Grant Expenditures

Year ended June 30, 2011

(Unaudited)

		Program year 2009		Total
Classification of expenditures:				
1410 Administration	$	649,937		649,937
1430 Fees and costs		441,532		441,532
1450 Site improvements		3,263,407		3,263,407
1460 Dwelling structures		3,619,235		3,619,235
1485 Demolition		5,000		5,000
Cumulative project costs at June 30, 2011		7,979,111		7,979,111
Cumulative project costs at June 30, 2010		2,481,870		2,481,870
Project costs incurred during year ended June 30, 2011	$	5,497,241		5,497,241
Reconciliation to Schedule of Expenditures of Federal Awards:				
Project costs incurred during year ended June 30, 2011			$	5,497,241
Prior year Administration expenditures received during 2011				32,945
Total expenditures of Federal Awards				5,530,186
Schedule of Expenditures of Federal Awards:				5,530,186
			$	—
Reconciliation to operating expenses:				
Project costs incurred during year ended June 30, 2011			$	5,497,241
Increase in fixed assets (not including depreciation):				
Ending balance				7,327,557
Beginning balance				(2,256,276)
Increase in fixed assets				5,071,281
Administration				425,960
Transfer to COCC – Prior year management fees received in 2011				71,262
Prior year deficit – COCC				(38,317)
Current year depreciation				27,542
Operating expenses			$	486,447

See accompanying independent auditors’ report

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COMPLIANCE SECTION

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Agency/program grant title	Pass-through agency	CFDA number	Expenditures
Department of housing and urban development:			
Low-income housing:			
Local housing authority:			
Public Housing Program (contract P-5540):			
VA6-2 through VA6-12 and VA6-18 through VA6-22 and VA6-24 annual subsidy		14.850	$ 16,196,828
Section 8 Housing Assistance Payments Program:			
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4		14.871	22,972,997
New construction – Park Terrace Program (contract P-5512)	VHDA	14.182	331,435
Subtotal – Section 8 Housing Assistance Payments Program			23,304,432
Single Room Occupancy (SRO) Program: (VA36K401001)		14.249	347,502
Capital fund program:			
VA-36-P006-501 (2007)		14.872	1,726,397
VA-36-P006-501 (2008)		14.872	2,790,696
VA-36-P006-501 (2009)		14.872	2,228,279
VA-36-P006-501 (2010)		14.872	1,035,677
Subtotal – capital fund program			7,781,049
ARRA – Capital Fund Recovery Grant – (VA-36-S006-501-09)		14.855	5,530,186
Resident Opportunity and Supportive Services (ROSS) Program:			
VA006REF034A006 (2007)		14.870	12,119
VA006RFS193A009 (2010)		14.870	79,774
VA006RFS226A010(2011)		14.870	7,605
Subtotal – ROSS Program			99,498
Fire and Safety Grant (FEMA)		97.044	340,475
Community Development Block Grant:	City of Norfolk		
Program year 2002 (CDBG No. B02-MC-510016)		14.218	500
Program year 2003 (CDBG No. B03-MC-510016)		14.218	21,959
Program year 2004 (CDBG No. B04-MC-510016)		14.218	67,759
Program year 2005 (CDBG No. B05-MC-510016)		14.218	58,947
Program year 2006 (CDBG No. B06-MC-510016)		14.218	857
Program year 2007 (CDBG No. B07-MC-510016)		14.218	312,645
Program year 2008 (CDBG No. B08-MC-510016)		14.218	171,436
Program year 2009 (CDBG No. B08-MC-510016)		14.218	444,646
Program year 2010 (CDBG No. B08-MC-510016)		14.218	2,564,826
Neighborhood Stabilization Program:			
Program year 2009		14.218	593,661
Subtotal – Community Development Block Grant			4,237,236
Home Investment Partnerships:	City of Norfolk		
Program year 2003 (HOME No. M03-MC-510203)		14.239	3,500
Program year 2005 (HOME No. M05-MC-510203)		14.239	900
Program year 2006 (HOME No. M06-MC-510203)		14.239	596
Program year 2007 (HOME No. M07-MC-510203)		14.239	—
Program year 2008 (HOME No. M08-MC-510203)		14.239	73,970
Program year 2009 (HOME No. M08-MC-510203)		14.239	536,315
Program year 2010 (HOME No. M08-MC-510203)		14.239	214,524
Subtotal – Home Investment Partnerships			829,805
Urban Revitalization Program (HOPE VI) (VA-36-URD006-1100) (2000)		14.866	1,257,837
Total expenditures of federal awards			$ 59,924,848

See accompanying notes to schedule of expenditures of federal awards.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(1) General

The schedule of expenditures of federal awards (Exhibit G-1) presents the activity of all federal awards programs of the Authority. The Authority's reporting entity is defined in note 1 to the Authority's basic financial statements. The component units did not receive any federal awards. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

(2) Basis of Accounting

The schedule of expenditures of federal awards is presented using the full accrual basis of accounting, which is described in note 1 to the Authority's basic financial statements.

(3) Amounts Provided to Subrecipients

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

Plumb Line Ministries	$	31,450
Beacon Light Civic League		35,134
	$	66,584

(4) Loans Outstanding

The Authority had $6,621,351 of outstanding loans payable at June 30, 2011 under the Low-Income Housing program, and outstanding loans receivable of $12,924,535 under the Home Investment Partnerships Program $5,213,784 under the Community Development Block Grant Program and $278,460 under the Capital Fund Program. Such amounts are not included in the accompanying schedule of expenditures of federal awards.

Exhibit G-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

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

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No**
Material weaknesses: **No**

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

(d) Significant deficiencies in internal control over major programs: **No**
Material weaknesses: **No**

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

(f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**

(g) Major programs: **Capital Fund Program CFDA 14.872; ARRA – Capital Fund Recovery Grant CFDA 14.855; and Community Development Block Grant CFDA 14.218**

(h) Dollar threshold used to determine Type A programs: $2,541,146

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

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

None to be reported.

(3) Findings and Questioned Costs Relating to Federal Awards

None

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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the financial statements of Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the NRHA Mission College I, L.P., Norfolk Community College Campus Corporation, and Hampton Roads Ventures, L.L.C., as described in our report of the Authority's financial statements. The financial statements of Hampton Roads Ventures, L.L.C. were not audited in accordance with *Government Auditing Standards*. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 31, 2012.

This report is intended solely for the information and use of management, the board of commissioners, others within the Authority, the Virginia Housing Development Authority, the Department of Housing and Urban Development, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 31, 2012

KPMG LLP
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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

Compliance

We have audited Norfolk Redevelopment and Housing Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, Norfolk Redevelopment and Housing Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of commissioners, others within the Authority, the Virginia Housing Development Authority, the Department of Housing and Urban Development, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 31, 2012