NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2012

(With Independent Auditors’ Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

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, 2012, 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 10% and 6% of the total assets and operating revenues, respectively, of the primary government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our 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, 2012, 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 December 21, 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 45 and 46 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 in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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

December 21, 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, 2012. 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 2012

The Authority's 2012 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $252.2 million and $44.4 million, respectively; thus, total net assets were approximately $207.8 million at June 30, 2012.
- Total revenues (including capital contributions and grants) and expenses were approximately $93.2 million and $90.4 million, respectively; thus, net assets increased by approximately $2.8 million during the fiscal year.
- Revenues are derived from various sources with approximately 9.8% from City funding and 60% 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 20.7% of total revenue; 9.9% from Authority-owned federally assisted housing rental; 10.5% from Authority-owned nonassisted affordable housing rental units and 0.3% from a variety of other commercial or residential customers. The 9.5% remaining revenue balance is derived from miscellaneous fees for services, other government grants, or nonoperating sources (i.e., investment income, and partner's contributions).
- Debt reductions totaled $11.7 million. Only $1.7 million related to scheduled payments; $10 million related to payoffs of the indebtedness.

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- Cash flows provided by operating activities was approximately $7.6 million. The net increase in cash and cash equivalents for the year was approximately $6.5 million, the $7.6 million net increase in cash from operating activities was reduced by $8.0 million for debt retirement and capital financing activity ($5.0 million and $3.0 million respectively), and increased by $6.9 million from investment activities.
- Component units Mission College 1, L.P. and Hampton Roads Ventures, L.L.C. have December 31 year-ends and their December 31, 2011 balances are blended into the Authority's June 30, 2012 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, 2012 report are as of June 30, 2012.

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, 2012, 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 2,900 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 2012 management 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 with 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.

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 $252.2 million and $44.4 million, respectively; thus, total net assets were approximately $207.8 million at June 30, 2012.

Table 1

Condensed Statements of Net Assets

June 30, 2012 and 2011

(In millions)

Description		2012	2011	Change	Percentage change
Current assets:					
Cash and investments	$	42.5	39.4	3.1	8%
Restricted cash		8.9	11.1	(2.2)	(20)
Assets held for sale		12.6	13.7	(1.1)	(8)
Noncurrent assets:					
Capital assets, net		146.4	150.9	4.5	3
Other current and noncurrent assets		41.8	41.0	(0.8)	(2)
Total assets	$	252.2	256.1	(3.9)	(2)%
Current liabilities	$	8.5	17.6	(9.1)	(52)%
Noncurrent liabilities		35.9	33.5	2.4	7
Total liabilities	$	44.4	51.1	(6.7)	(13)%
Net assets:					
Invested in capital assets, net of related debt	$	124.6	128.3	(3.7)	(3)%
Restricted		19.2	19.3	(0.1)	(1)
Unrestricted		64.0	57.4	6.6	11
Total net assets	$	207.8	205.0	2.8	1%

Of the Authority's $252.2 million in assets, $146.4 million or 58% is invested in capital assets, net of accumulated depreciation, $51.4 million or 20% is cash and investments ($42.5 million cash and investments plus $8.9 million restricted cash), $12.6 million or 5% is invested in assets held for sale, and $41.8 million or 17% is other current and noncurrent assets, of which $15.5 million or 6% is receivables due in 40 years (starting in 2042) related to the Broad Creek Renaissance (BCR) mixed finance project, $10.3 million or 4% is receivables of the rehabilitation revolving loan fund (RLF), and $5.1 million or 2% represents funds due to the Authority from government entities to fund program and administrative cost expensed in the current financial statements.

Cash increased slightly –$0.9 million or 2% – since last fiscal year (from $50.5 million to $51.4 million). Of the $51.4 million June 30, 2012 balance and the $0.9 million increase from the prior year, $4.7 million and

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$1.7 million, respectively, relates to the December 31, 2011 balances for two of the Authority's legally separate entities (Hampton Roads Ventures and NRHA Mission College I), which are presented as blended component units in this report.

Of the $44.4 million of liabilities, $8.5 million or 19% is current liabilities, which will require payment within 12 months of the reported fiscal year-end and $35.9 million or 81% is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities decreased $9.1 million or 52% since last fiscal year ($8.5 million in fiscal year 2012 compared to $17.6 million in fiscal year 2011) mainly due to the retirement of debt in fiscal year 2012. The noncurrent liabilities increase by $2.4 million or 7% ($35.9 million in fiscal year 2012 compared to $33.5 million in fiscal year 2011) largely due to debt activity.

A breakout of the $44.4 million in liabilities is as follows:

- $21.9 million or 49% is long-term debt;
- $11.6 million or 26% is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $10.3 million RLF outstanding receivable balance noted above offsets this liability; and
- $10.9 million or 25% balance consists of various obligations of the Authority including tenant escrow deposit accounts ($.9 million), vested compensated absences ($1.4 million), payments due to third parties for services ($1.9 million), and payments due back to other governmental entities ($0.6 million).

The net asset balance of $207.8 million is the difference between the $252.2 million in assets and the $44.4 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 is making debt service payments, supplementing mission critical, yet underfunded programs, or beginning a new service or expanding an existing one.

Referring back to Table 1, the Authority's net assets increased $2.8 million or 1%. This increase consists of the following:

Net assets invested in capital assets net of related debt – the largest part of the net asset balance – decreased by $3.7 million or 3%. The decrease results from changes in two components, a $4.5 million decrease in capital assets, which went from $150.9 million as of June 30, 2011 to $146.4 million as of June 30, 2012 and a $0.7 million decrease in the debt related to the capital assets, which went from $22.5 million to $21.8 million.

Restricted net assets – the part of net assets that has constraints established by debt covenants, enabling legislation or other legal requirements decreased slightly – 1% or $0.1 million. While a net decrease of $0.1 million in itself is not significant, it is worth noting that there were two significant changes when you look at the changes in the program components of the restricted net assets. The restricted net assets of the Housing Choice Voucher Program – the amount on hand to make Housing Choice Voucher Program housing assistance payments – decreased $2.3 million (from $3.7 million to $1.4 million); this decrease was offset by a $2.0 million increased (from $10.6 million to $12.6 million) in the restricted net asset balance for property held for resale.

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

$57.4 million at June 30, 2011 to $64 million at June 30, 2012, an increase of $6.6 million or 11%. Observations on the unrestricted net asset balance is as follows:

- 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 $8.1 million, respectively, which is due after 40 years, beginning in 2042.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for unused employee vacation and sick days. The balance for unused employee vacation and sick days at both June 30, 2012 and 2011 was $1.4 million and $1.6 million, respectively, 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, 2012 and 2011 was $1 million and $1.2 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.
- 35% or $2.3 million results from blended component units Hampton Roads Ventures ($2.1 million) and Mission College entities ($.2 million), both presented as of their December 31, 2011 year-end.

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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 2012, the Authority realized an increase in net assets of $2.8 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, 2012 and 2011

(In millions)

Description	2012	2011	Change	Percentage change
Total operating revenues	$ 86.3	85.8	0.5	1%
Total operating expenses	87.2	90.6	(3.4)	(4)
Operating loss	(0.9)	(4.8)	3.9	81
Total nonoperating revenues	1.1	1.4	(0.3)	(21)
Total nonoperating expenses	(3.2)	(1.9)	(1.3)	68
Total nonoperating expense, net	(2.1)	(0.5)	(1.6)	320
Loss before capital grants and contributions	(3.0)	(5.3)	2.3	43
Governmental capital grants	5.4	10.0	(4.6)	(46)
Capital contributions from limited partners	0.4	8.5	(8.1)	(95)
Change in net assets	2.8	13.2	(10.4)	79
Total net assets – beginning	205.0	191.8	13.2	7
Total net assets – ending	$ 207.8	205.0	2.8	1%

Net assets decreased $0.9 million from operating activities and decreased $2.1 million from nonoperating activities, resulting in a $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 $5.8 million – governmental capital grants ($5.4 million) and contributions from limited partners ($.4 million) – resulting in a $2.8 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 decreased 12% or $12.5 million ($93.2 million compared to $105.7 million).

Table 3

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

Years ended June 30, 2012 and 2011

(In millions)

Description		**2012**	**2011**	**Change**	**Percentage change**
Operating revenues:					
Tenant revenue – rents and other	$	19.3	19.3	—	—%
Operating grants and subsidies		59.7	58.0	1.7	3
Other revenue, net		7.3	8.5	(1.2)	(14)
Total operating revenues		86.3	85.8	0.5	1
Nonoperating revenues:					
Interest and investment revenue		1.1	1.4	(0.3)	(21)
Capital grants		5.4	10.0	(4.6)	(46)
Capital contributions from limited partners		0.4	8.5	(8.1)	(95)
Total revenues	$	93.2	105.7	(12.5)	(12)%

The $12.5 million (12%) decrease in total revenues is primarily attributable to a $8.1 million decrease in capital contributions from limited partners (from $8.5 million to $0.4 million) as well as a $4.6 million decrease (from $10 million to $5.4 million) in capital grants and a $1.2 million decrease (from $8.5 million to $7.3 million) in other income. Interest and investment revenue also decreased $0.3 million (from $1.4 million to $1.1 million).

A $1.7 million increase in operating grants and subsidies, which increased from $58.0 million to $59.7 million, offset the above decreases.

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

- 9.8%, or $9.1 million, from City government funding;
- 60.0%, or $55.9 million, received either directly ($51.5 million) or indirectly ($4.4 million through the City – 4.7% in addition to the previous 9.8%) from the HUD;
- 20.7%, or $19.3 million, of total revenue received from tenant rental payments;

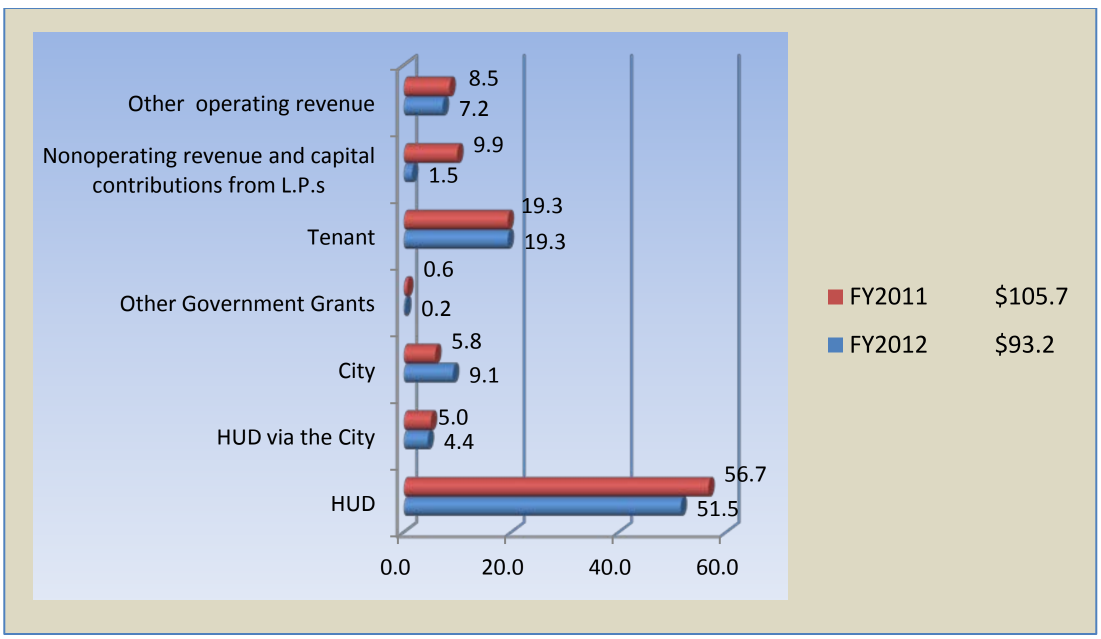
  - 9.9%, or $9.2 million, was from over 3,400 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace;
  - 10.5%, or $9.8 million, was from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and
  - 0.3%, or $0.3 million, in tenant revenue was from a variety of other commercial or residential customers.

- 9.3%, or $8.7 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); and
- 0.2%, or $0.2 million, is from various other government grants.

Revenue Source Comparison

Years ended June 30, 2012 and 2011

(In millions)



The graph on the previous page 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 Authority experienced significant decreases from all funding providers except the City's local funds and tenant income. City local funding increased from $5.8 to $9.1 or $3.3 million primarily resulting from the appropriation of land sale proceeds to retire $4.3 million in maturing debt. Rental income was level at $19.3 million for the two years compared. Discussion of the significant decreases that contributed to the $12.5 million decrease in revenue is as follows.

- The largest decrease in revenue was an $8.4 million decrease in nonoperating income (from $9.9 million to $1.5 million). The major source of the decrease in nonoperating revenues was capital contributions from partners – a fluctuating source – which decreased $8.1 million (from $8.5 million in 2011 to $.4 million in 2012); partners from the Mission College and Grandy Village partnerships provided funding to retire maturing debt in 2011; however, in 2012 partnership activity did not reach this same magnitude and only reflects converting Mission College debt to permanent financing and the distribution of a small development fee. Also impacting the decrease in nonoperating income is a $0.3 million decrease in interest and investment revenue (from $1.4 million to $1.1 million).
- There was a $5.2 million decrease in funding received directly from HUD (from $56.7 million to $51.5 million). Individual program components of the change include the following:
  - a $4.3 million decrease in the American Recovery and Reinvestment Act (ARRA) program funding was reimbursed as the Authority completes the programs to accomplish the public housing capital initiatives earmarked in this nonrecurring stimulus fund award; and
  - a $1 million decrease in the Hope VI program funding also occurred; this program was completed and closed out in fiscal year 2012;

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 decreased 2% or $2.1 million ($90.4 million compared to $92.5 million).

Table 4

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

Years ended June 30, 2012 and 2011

(In millions)

Description	2012	2011	Change	Percentage change
Operating expenses:				
Administrative	$ 15.6	17.3	(1.7)	(10)%
Housing assistance payments (HAP)	24.7	21.3	3.4	16
Extraordinary maintenance	5.1	7.5	(2.4)	(32)
Maintenance – routine	10.7	11.1	(0.4)	(4)
Depreciation and amortization	9.1	8.9	0.2	2
Utilities	9.6	9.7	(0.1)	(1)
General	7.7	9.8	(2.1)	(21)
Tenant services	2.8	3.5	(0.7)	(20)
Loss on disposal of assets held for sale	0.4	—	0.4	100
Protective services	1.5	1.5	—	—
Total operating expenses	87.2	90.6	(3.4)	(4)
Nonoperating expenses:				
Interest expense	1.5	1.7	(0.2)	(12)
Loss on disposal of fixed assets	1.7	0.2	1.5	750
Total nonoperating expenses	3.2	1.9	1.3	68
Total expenses	$ 90.4	92.5	(2.1)	(2)%

The most significant decreases in expenses were: extraordinary maintenance expense decreased $2.4 million (from $7.5 million to $5.1 million) and routine maintenance expense decreased $.4 million (from $11.1 million to $10.7 million); general expense decreased $2.1 million (from $9.8 million to $7.7 million); administrative expense decreased $1.7 million (from $17.3 million to $15.6 million), and tenant services expense decreased $0.7 million (from $3.5 million to $2.8 million).

These decreases in expenses were partially offset by a $3.4 million increase in HAP (from $21.3 million to $24.7 million); a $1.5 million increase in the loss on disposal of fixed assets expense (from $0.2 million to $1.7 million); and a $0.4 million loss on disposal of assets held for sale.

There was also a $0.2 million increase in depreciation and amortization expenses (from $8.9 million to $9.1 million) and a $0.1 million decrease in utility expense (from $9.7 million to $9.6 million).

Capital Assets

The Authority's capital assets as of June 30, 2012 included land, buildings, improvements, construction in progress, and equipment that totaled $146.4 million (net of depreciation). A breakdown of the Authority's capital assets is shown in Table 5 below.

Table 5

Composition of Capital Assets

June 30, 2012 and 2011

(In millions)

Description		2012	2011	Change	Percentage change
Nondepreciable assets:					
Land	$	23.1	23.1	—	—%
Construction in progress		10.0	13.5	(3.5)	(26)
Other capital assets:					
Buildings and building improvements		178.6	181.1	(2.5)	(1)
Improvements other than buildings		69.6	63.9	5.7	9
Equipment		9.4	9.9	(0.5)	(5)
Accumulated depreciation		(144.3)	(140.6)	(3.7)	3
Total	$	146.4	150.9	(4.5)	(3)%

75% of the Authority's capital assets or $109.9 million are associated with the assisted public housing units available for lease to low- and moderate-income residents or construction of communities for mixed income residents that include those eligible for public housing. Another 22%, or $32.6 million, is invested in Authority-owned, nonassisted, multifamily, affordable housing units.

The book value of net capital assets decreased $4.5 million during the current year ($146.4 million in 2012 compared to $150.9 million in 2011). Table 6 details the components of the change.

Table 6

Change in Capital Assets

Year ended June 30, 2012

(In millions)

		Nondepreciable capital assets	Depreciable capital assets	Total
July 1, 2011 beginning balance, net	$	36.7	114.2	150.9
Transfers		(8.3)	8.3	—
Purchases		4.7	1.8	6.5
Depreciation		—	(9.1)	(9.1)
Retirements, net		—	(1.9)	(1.9)
June 30, 2012 ending balance, net	$	33.1	113.3	146.4

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

- Construction in progress totaling $8.3 million, primarily capital improvements in our public housing communities, was completed and placed in service.
- Purchases for the year totaled $6.5 million.
- $5.1 million was expended to make improvements in each of our public housing communities including the following:
  - $952,877 for demolition at the Moton Circle site,
  - $787,163 for handicap access modifications and site access improvements at Young Terrace Apartments,
  - $502,091 for window replacement at Tidewater Gardens Apartments,
  - $371,764 for erosion mitigation in Calvert Square Apartments,
  - $282,597 for site improvements at Partrea Apartments,
  - $875,478 for HVAC and window replacement at Sykes Apartments,
  - $219,431 Interior improvements at Franklin Arms Apartments, and
  - $516,837 for erosion mitigation and door hardware replacement at Diggs Town Apartments.

(Continued)

- $750,576 was expended for improvements at one of our component units, NRHA Mission College 1 for building improvements and roof replacements.
- $258,369 was invested in equipment used by our Central Maintenance Shops including 5 trucks and 1 car, a new stump grinder, 1 new forklift, and a propane heater.
- Approximately $326,060 of purchases had not been paid at June 30, 2012 and, therefore, is included in accounts payable at year-end.
- Retirements of $1.9 million, net, related to the flattening of the Moton site ($1.8 million), as well as the sale of one of the public housing scatter site units and routine equipment replacement.

Long-Term Debt

The Authority's June 30, 2012 statement of net assets reflects total debt outstanding of $21.9 million (excluding vested compensated absences). Of this amount, $1.3 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, 2012

Description	Amounts payable at July 1, 2011	Additions	Retirements and reductions	Amounts payable at June 30, 2012	Future debt service commitment
Granby Office Building	$ 1,438,868	—	171,684	1,267,184	The Authority
Park Terrace	676,586	—	92,563	584,023	Project revenue
Oakmont North	2,650,000	—	205,000	2,445,000	Revenue bond
Merrimack Landing	1,757,098	—	538,141	1,218,957	Revenue bond
Grandy Village	74,419	—	68,504	5,915	Project revenue
LIPH Midrises	6,621,352	—	627,972	5,993,380	HUD pays directly
Pretty Lake	1,151,429	—	1,151,429	—	Obligation of the City
Chesapeake Street	2,058,335	—	2,058,335	—	Obligation of the City
Neighborhood Redevelopment Credit Line	657,561	—	657,561	—	Project revenue
East Beach	1,057,500	—	1,057,500	—	Obligation of the City
Mission College I	9,431,591	6,082,181	5,092,108	10,421,664	Project revenue
Total bank financing	$ 27,574,739	6,082,181	11,720,797	21,936,123	

Debt reductions totaled $11.7 million. Only $1.7 million related to scheduled payments; the $9.9 million related to payoffs of East Beach, Pretty Lake, and Chesapeake Street indebtedness and remaining payoff of Mission Development debt.

Debt additions totaled $6.1 million, related to new indebtedness for Mission College I.

Other observations of outstanding debt balances are as follows:

- The Authority has outstanding debt of $6.0 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.
- The Authority has outstanding debt to third parties of $10.4 million for Mission College I.

Other Economic Factors and Next Year's Budget

Economic Factors

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

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

For calendar year 2012, the administration is funding public housing authorities at 93.05% of their eligibility under HUD's Public Housing program's operating formula. In 2011 and 2010, the funding level was 100% and 103% of funding eligibility; prior to 2010, agencies had not received full operating funding since 2002. The dollar amounts funded for this program have not steadily increased ($15.9 million in CY 2012, $15.4 million in CY 2011, and $16.4 million in CY 2010) even though the cost of operations continues to rise. The rental income that complements the funding of this program has been flat over this time period.

The Capital Fund Program, which addresses the capital needs of the public housing units, has experienced a steady decline and the last year of funding represented the lowest level of funding in program history – $6.5 million in CY 2010, $5.5 million in CY 2011, and $4.9 million in CY 2012. We expect this trend to continue.

The Housing Choice Voucher (HCV) program has provided adequate funding to cover housing assistance payments to participants each year until CY 2012; for 2012, HUD has required the use of reserves to cover the projected cost of these payments and systematically reduced new funding to ensure these reserves were used as well as the reduction of service level.

The administrative funding for the administration of HCV program has been on a drastic decline for 3 years – 95% of eligible funding was provided in CY 2010, 92.03% of eligible funding was provided in CY 2011, and 82% of eligible funding is being provided in CY 2012.

To date, no appropriation level has been communicated for calendar year 2013; thus, NRHA has no final information on funding for the next 18 months.

Based on HUD's discussions about future funding levels, the Authority is anticipating: drastic funding reductions in our public housing program subsidy, administrative funding for 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 in the implementation stage to optimize forces for the change in funding provision.

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

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

For fiscal year 2014, 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 2013 funding levels for neighborhood programs. Other grants are being pursued to offset any revenues that may not materialize.

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

These challenges in funding our programs will be monitored closely to determine the precise impact on NRHA and its operations. We will continue to make appropriate adjustments and to be innovative in searching out new funding sources and new partners to achieve our mission. Approximately 70% of the Authority's revenues come from federal, state, or city governments. The Authority's 2013 operating and capital budget is $89.3 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 Web site at www.nrha.norfolk.va.us.

BASIC FINANCIAL STATEMENTS

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Exhibit A

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Net Assets

June 30, 2012

Assets		**Primary government**	**Component unit**	**Total**
Current assets:				
Cash and cash equivalents (note 2)	$	38,439,378	1,643	38,441,021
Cash with fiscal agents (note 2)		3,655,814	—	3,655,814
Restricted cash and cash equivalents (note 2)		8,899,027	262,837	9,161,864
Investment (note 2)		384,161	—	384,161
Receivables:				
Due from HUD		1,530,865	—	1,530,865
Due from City of Norfolk		3,580,247	—	3,580,247
Tenants rent, net		176,072	—	176,072
Notes, net (note 3)		103,279	1,580,000	1,683,279
Interest		9,603	202,827	212,430
Other, net		351,807	—	351,807
Total receivables		5,751,873	1,782,827	7,534,700
Inventories, net		942,971	—	942,971
Assets held for sale, restricted		12,629,716	—	12,629,716
Prepaid expenses and other assets		540,800	—	540,800
Total current assets		71,243,740	2,047,307	73,291,047
Noncurrent assets:				
Capital assets:				
Land		23,126,377	—	23,126,377
Buildings, improvements, and equipment		257,664,507	—	257,664,507
Construction in progress		9,983,363	—	9,983,363
Less accumulated depreciation		(144,345,098)	—	(144,345,098)
Capital assets, net (note 4)		146,429,149	—	146,429,149
Notes receivable, net (note 3)		26,230,980	7,860,000	34,090,980
Other noncurrent assets		8,246,815	85,631	8,332,446
Total noncurrent assets		180,906,944	7,945,631	188,852,575
Total assets	$	252,150,684	9,992,938	262,143,622
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$	1,847,726	13,000	1,860,726
Accrued salaries and benefits		2,782	—	2,782
Accrued compensated absences (note 12)		142,688	—	142,688
Due to HUD and the City of Norfolk		557,107	—	557,107
Tenant security deposits		947,385	—	947,385
Deferred revenue		518,540	90,000	608,540
Bonds, notes, and loans payable (note 5)		1,832,533	1,580,000	3,412,533
Other current liabilities		2,610,932	79,448	2,690,380
Total current liabilities		8,459,693	1,762,448	10,222,141
Noncurrent liabilities:				
Bonds, notes, and loans payable (note 5)		20,103,590	7,975,470	28,079,060
Accrued compensated absences (note 12)		1,291,437	—	1,291,437
Noncurrent liabilities – other		14,488,290	—	14,488,290
Total noncurrent liabilities		35,883,317	7,975,470	43,858,787
Total liabilities		44,343,010	9,737,918	54,080,928
Net assets:				
Invested in capital assets, net of related debt		124,615,175	—	124,615,175
Restricted net assets		19,230,750	262,837	19,493,587
Unrestricted net assets		63,961,749	(7,817)	63,953,932
Total net assets		207,807,674	255,020	208,062,694
Total liabilities and net assets	$	252,150,684	9,992,938	262,143,622

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, 2012

		Primary government	Component unit	Total
Operating revenues:				
Tenant revenue	$	19,316,911	—	19,316,911
Government operating grants		59,754,436	—	59,754,436
Other revenue, net		7,265,333	94,584	7,359,917
Total operating revenues		86,336,680	94,584	86,431,264
Operating expenses:				
Administrative		15,556,261	28,625	15,584,886
Tenant services		2,834,278	—	2,834,278
Utilities		9,526,283	—	9,526,283
Maintenance		10,687,613	—	10,687,613
Protective services		1,515,884	—	1,515,884
General		7,731,430	—	7,731,430
Extraordinary maintenance		5,126,561	—	5,126,561
Housing assistance payments (HAP)		24,644,532	—	24,644,532
Depreciation and amortization		9,159,613	110,509	9,270,122
Loss on disposal of assets held for sale		377,991	—	377,991
Total operating expenses		87,160,446	139,134	87,299,580
Operating loss		(823,766)	(44,550)	(868,316)
Nonoperating revenues (expenses):				
Interest and investment revenue		1,118,945	473,061	1,592,006
Loss on disposal of fixed assets (note 4)		(1,703,779)	—	(1,703,779)
Interest expense		(1,541,835)	(494,444)	(2,036,279)
Total nonoperating expenses, net		(2,126,669)	(21,383)	(2,148,052)
Loss before capital grants and capital contributions from limited partners		(2,950,435)	(65,933)	(3,016,368)
Government capital grants		5,438,086	—	5,438,086
Capital contributions from limited partners		349,181	—	349,181
Change in net assets		2,836,832	(65,933)	2,770,899
Total net assets – beginning		204,970,842	320,953	205,291,795
Total net assets – ending	$	207,807,674	255,020	208,062,694

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2012

Cash flows from operating activities:		
Cash receipts from customers	$	17,765,849
Cash receipts from operating grants		59,527,521
Other operating cash receipts		8,758,162
Cash payments to employees for services		(21,663,221)
Cash payments to suppliers of goods and services		(26,998,323)
Other operating cash payments		(5,126,561)
Cash payments to landlords – HAP		(24,644,532)
Net cash provided by operating activities		7,618,895
Cash flows from capital and related financing activities:		
Proceeds from disposal of capital assets		165,712
Proceeds from issuance of debt		6,082,181
Purchases of capital assets		(6,929,678)
Capital grants received		6,088,507
Principal payments on debt		(6,832,831)
Interest payments on debt		(1,610,137)
Net cash used in capital and related financing activities		(3,036,246)
Cash flows from noncapital financing activity:		
Principal payments on debt		(4,924,825)
Net cash used in noncapital financing activity		(4,924,825)
Cash flows from investing activities:		
Sales of investments		6,115,662
Purchases of investments		(397,753)
Issuance of notes receivable		(807,951)
Principal receipts on notes receivable		513,391
Interest received		1,119,564
Capital contributions from limited partners		349,181
Net cash provided by investing activities		6,892,094
Net increase in cash and cash equivalents		6,549,918
Cash and cash equivalents at beginning of year		44,444,301
Cash and cash equivalents at end of year	$	50,994,219
Reconciliation to statement of net assets of primary government:		
Current unrestricted cash and cash equivalents	$	38,439,378
Current cash with fiscal agents		3,655,814
Restricted cash and cash equivalents		8,899,027
Cash and cash equivalents	$	50,994,219

See accompanying notes to basic financial statements.

(Continued)

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2012

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(823,766)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		9,159,613
Bad debt expense		253,600
Loss on disposal of assets held for sale		377,991
Changes in assets and liabilities:		
Change in receivables due from HUD		565,207
Change in receivables due from City of Norfolk and other governments		(792,122)
Change in receivables from tenants rent, net		(206,425)
Change in receivables from other, net		292,413
Change in inventories, net		(278,330)
Change in assets held for sale		654,393
Change in prepaid expenses and other assets		451,197
Change in other noncurrent assets		(1,118,632)
Change in accounts payable		459,075
Change in accrued salaries and benefits		(564,274)
Change in accrued compensated absences		(208,575)
Change in due to the City of Norfolk and other governments		338,050
Change in tenant security deposits		9,444
Change in deferred revenue		224,326
Change in other current and noncurrent liabilities		(1,174,290)
Net cash provided by operating activities	$	7,618,895

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI Program Income in the amount of $388,075.

The Authority had net decreases of $300,763 and $168,274 in accounts payable and and other current liabilities, respectively, related to the purchases of capital assets.

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statement

June 30, 2012

(1) Summary of Significant Accounting Policies

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

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

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

(a) The Financial Reporting Entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's 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), and NRHA Grandy Village, L.P. (GVLP). The financial data of the component units is included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

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

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

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

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

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

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

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

GVLP, a Virginia limited partnership, was formed March 13, 2007 to acquire, construct, revitalize, and operate a low-income public housing complex, which is located in the City. NRHA Grandy Village 1, LLC is the sole general partner in the partnership. NRHA has a 79% ownership interest in NRHA Grandy Village 1, LLC and is, therefore, responsible for all business decisions. The Authority is also the managing agent for the partnership. GVLP is an intricate part of the daily operation of the Authority; as the two entities share personnel for daily operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD under a single ACC. The Authority is not only responsible for all day-to-day business decisions of GVLP, but is also responsible for funding any operating deficits via an operating loan that will not bear interest and is nonrecourse to the other partners. The activity of GVLP is included in the accompanying financial statements as of June 30, 2012 and 2011.

(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 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.

(Continued)

(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.

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

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

(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, 2012, 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 29 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.

(Continued)

(2) Deposits and Investment

At June 30, 2012, the carrying value of the Authority's deposits with banks and savings institutions was $50,393,432 and the bank balance was $54,264,912, 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 2012, approximately $384,161 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 the Authority's 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 a certificate of deposit with a single financial institution, representing 100% of total investments; however, this certificate of deposit is 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 maturities (in years)		
Investment type	**Fair value**	**Less than 1**	**1 – 2**	**2 – 4**
Certificates of deposit	$ 384,161	384,161	—	—

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	$ 50,393,432
Cash on hand	787
Letter of credit	600,000
Investment	384,161
	$ 51,378,380

Per Exhibit A:	
Cash and cash equivalents	$ 38,439,378
Cash with fiscal agents	3,655,814
Restricted cash and cash equivalents	8,899,027
Investment	384,161
	$ 51,378,380

(d) ***Foreign Currency Risk***

The Authority does not have any foreign investments.

(e) ***Component Unit***

Norfolk Community College Campus Corporation

Credit Risk

Financial instruments that potentially subject NCCCC to credit risk consist principally of cash and bond escrow funds. NCCCC places its cash with high credit quality financial institutions and balances may, at times, exceed the FDIC-insured limits. At December 31, 2011, NCCCC had $1,643 in cash and $262,837 invested by the trustee in short-term money market instruments.

(3) Receivables

The only receivables not expected to be collected within one year are the notes receivable. A summary of notes receivable at June 30, 2012, with specific payment terms, is as follows:

1% promissory notes, due from Community Ventures Investors, L.L.C. Monthly installments of interest only. Principal is due in full by January 1, 2015. The purpose of the loan is for Community Ventures Investors, L.L.C. to purchase new market tax credits for the Attucks Theater. The principal balance is not expected is be paid, thus the note is fully reserved	$ 5,688,000
Allowance for doubtful accounts	(5,688,000)
	$ —
Notes receivable – HOME:	
0% promissory notes receivable of the HOME program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	$ 12,776,301
Allowance for doubtful accounts	(12,776,301)
	$ —
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.	$ 1,901,962
Allowance for doubtful accounts	(1,901,962)
	$ —

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

(Continued)

Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.	$	1,368,552
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low-income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low-income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.		1,531,494
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low-income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Total notes receivable – Hope VI		15,513,420
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.		22,014
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.		171,594
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."	$	82,391
Rehabilitation Loans – 5% to 12% fixed-rate promissory notes receivable, due from local citizens either on a deferred basis or in monthly installments of principal and interest. The loans are made to qualifying persons to make improvements to property located in certain redevelopment and rehabilitation areas as designated by the Authority and the City. The notes are secured by deeds of trust on the rehabilitation improvements made to the properties.		10,310,315
Total notes receivable		26,334,259
Less current portion		103,279
	$	26,230,980

Component Unit

NCCCC leases a facility to the State Board for Community Colleges for approximately $2,000,000 per year until December 31, 2015, and $750,000 thereafter until December 31, 2019. The $2,000,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of $1,580,000 and $420,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $9,440,000 equal to the debt described in note 5.

(4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2012:

	Balance, July 1, 2011	Increases	Decreases	Balance, June 30, 2012
Capital assets not being depreciated:				
Land	$ 23,141,377	—	(15,000)	23,126,377
Construction in progress	13,539,193	4,714,201	(8,270,031)	9,983,363
Total capital assets not being depreciated	36,680,570	4,714,201	(8,285,031)	33,109,740
Other capital assets:				
Buildings and building improvements	181,103,373	2,272,994	(4,785,868)	178,590,499
Improvements other than buildings	63,936,269	7,566,774	(1,872,591)	69,630,452
Equipment	9,850,380	265,009	(671,833)	9,443,556
Total other capital assets	254,890,022	10,104,777	(7,330,292)	257,664,507
Less accumulated depreciation for:				
Buildings and building improvements	90,700,435	6,574,382	(3,421,560)	93,853,257
Improvements other than buildings	43,204,583	1,998,020	(1,415,534)	43,787,069
Equipment	6,809,428	527,479	(632,135)	6,704,772
Total accumulated depreciation	140,714,446	9,099,881	(5,469,229)	144,345,098
Other capital assets, net	114,175,576	1,004,896	(1,861,063)	113,319,409
	$ 150,856,146	5,719,097	(10,146,094)	146,429,149

The Authority has active construction projects as of June 30, 2012. Outstanding commitments related to construction in progress amounted to approximately $3.3 million at June 30, 2012.

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	$ 9,159,613
Less amortization expense	(59,732)
Increase in accumulated depreciation	$ 9,099,881

(5) Debt

A summary of the Authority's debt activity for the fiscal year ended June 30, 2012 is presented below:

	Amounts payable at July 1, 2011	Additions	Retirements and reductions	Amounts payable at July 1, 2012	Amounts due within one year
Notes payable:					
Granby Street office building	$ 1,438,868	—	171,684	1,267,184	179,165
Federal Financing Bank	6,621,352	—	627,972	5,993,380	668,335
Renewal and replacement (line of credit)	3,209,764	—	3,209,764	—	—
Refinancing note	1,057,500	—	1,057,500	—	—
Grandy renovation	74,419	—	68,504	5,915	5,915
Park Terrace	676,586	—	92,563	584,023	101,220
NRHA Mission I	9,431,591	6,082,181	5,092,108	10,421,664	79,489
	22,510,080	6,082,181	10,320,095	18,272,166	1,034,124
Bonds payable:					
Multifamily revenue bonds – Oakmont North	2,650,000	—	205,000	2,445,000	215,000
Revenue bonds – Merrimack Landing	1,820,000	—	575,000	1,245,000	605,000
Less:					
Unamortized bond discount	(25,822)	—	(10,686)	(15,136)	(10,686)
Unamortized loss on refunding	(37,080)	—	(26,173)	(10,907)	(10,905)
	4,407,098	—	743,141	3,663,957	798,409
Loans payable:					
Mission Development	657,561	—	657,561	—	—
Total debt	$ 27,574,739	6,082,181	11,720,797	21,936,123	1,832,533

Additions to debt of $6,082,181 relates to NRHA Mission I entering into a mortgage loan agreement with C.W. Capital, LLC as a part of permanent financing of $10,458,000 during their December 31, 2011 fiscal year. Reductions to debt of $5,092,108 relates to debt payment made to NRHA during April 2011 which were not presented as relates to debt payments made by NRHA Mission I June 30, 2011, fiscal year end as a result of the difference between NRHA and Mission I's fiscal year-end.

The following summarizes the Authority's long-term note and bond obligations at June 30, 2012:

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.	$	5,993,380
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.		5,915
Tax-exempt government bond for renovation to the 201 Granby Building. Repayment of yearly principal and interest of $232,588 due in monthly installments with interest at 4.388% through 2018. The debt is secured by the building and all equipment at 201 Granby Street.		1,267,184
Mortgage note insured by the Federal Housing Administration for a 260-unit apartment complex in Norfolk, Virginia bearing interest at the rate of 5.875%. Principal and interest are paid in monthly installments of $30,968.		10,421,664
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.		584,023
Total notes payable		18,272,166
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, 2012 was 0.19% and is reset weekly based on LIBOR.		2,445,000
Multifamily housing serial revenue refunding bonds issued February 1, 1997, interest from 4.1% to 5.5% payable semiannually. The bonds are secured by a lien on the property and a security interest in the leases and rents of the property. The bonds will be redeemed pursuant to the sinking fund provisions of the trust agreement between the Authority and the trustee, in increasing amounts each December 1 through 2013.		1,245,000
		3,690,000
Less:		
Unamortized bond discount		(15,136)
Unamortized loss on refunding		(10,907)
Total bonds payable		3,663,957
Total bonds and loans payable	$	21,936,123

(a) Future Maturities

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

	Notes and loan payable		Bonds payable	
	Principal	Interest	Principal	Interest
Fiscal years ending June 30:				
2013	$ 1,034,124	1,195,297	820,000	67,968
2014	1,096,515	1,126,935	870,000	3,392
2015	1,168,347	1,055,103	240,000	2,936
2016	1,244,976	987,473	255,000	2,451
2017	1,300,392	897,149	270,000	2,347
2018 – 2022	3,100,386	3,498,106	1,235,000	8,275
2023 – 2026	9,327,426	2,998,423	—	—
	$ 18,272,166	11,758,486	3,690,000	87,369

The preceding schedule does not include either the unamortized bond discount of $15,136 or the unamortized loss on refunding of $10,907.

(b) Component Unit

The Authority issued Educational Facility Revenue bonds dated September 1, 1999 for the Tidewater Community College downtown campus project in the amount of $9,115,000. At December 31, 2011, $4,780,000 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, 2011, $4,660,000 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 $115,470 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2012 – $1,580,000; 2013 – $1,650,000; 2014 – $1,735,000; 2015 – $1,820,000; 2016 – $610,000; and 2017 through 2021 – $2,045,000.

(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/2011-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. 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, 2012 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, 2012, the Authority's annual pension cost of $2,094,673 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.50% per year COLA for Plan 1 members and 2.25% for Plan 2 members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis. The amortization period is 30 years (decreasing by one each year in subsequent valuations until reaching 20 years). The trend information for the Authority's employees is as follows:

	Three-year trend information		
	Annual pension cost (APC)	**Percentage of APC contributed**	**Net pension obligation**
Fiscal year ending:			
June 30, 2012	$ 2,094,673	100%	None
June 30, 2011	2,175,491	100	None
June 30, 2010	1,998,290	100	None

(d) Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 77.51% funded. The actuarial accrued liability for benefits was $93,055,684, and the actuarial value of assets was $72,126,884, resulting in an unfunded actuarial accrued liability (UAAL) of $20,928,800. The covered payroll (annual payroll of active employees covered by the plan) was $14,270,980, and the ratio of the UAAL to the covered payroll was 146.65%.

(Continued)

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, 2012.

(8) Commitments and Contingencies

(a) Federal Award Programs

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

(b) Litigation

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

(c) Guarantee

The Authority guarantees a note payable to BB&T (Branch Banking & Trust Co.) on behalf of the Waterside Limited Partnership. The outstanding balance of the note at June 30, 2012 was $4,285,529 and was with full recourse to the Authority.

(d) Letters of Credit

The Authority has eight outstanding letters of credit with a bank for $4,867,085. Monthly draws have been made against one of the letters of credit to pay interest on bonds issued by the bank. Those letters of credit are repaid from interest escrow accounts kept with the bank. No draws have been made against the other seven letters of credit.

(9) Conduit Debt

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

Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2012, there were eight issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately $157,000,000.

(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.

(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	
		2012	**2011**
ARC:			
Normal cost	$	509,548	491,130
Adjustments to ARC		(73,255)	(49,903)
Interest		47,849	33,261
Total ARC		484,142	474,488
Contributions made		(151,885)	(109,796)
Increase in net OPEB obligation		332,257	364,692
Net OPEB obligation, beginning of year		1,196,225	831,533
Net OPEB obligation, end of year	$	1,528,482	1,196,225

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 through 2012 were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
2010	$	535,196	22.3%	$	831,533
2011		474,488	23.1		1,196,225
2012		484,142	31.4		1,528,482

(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.

(12) Compensated Absences

Authority employees are entitled to certain compensated absences based on their accrued leave balance. Upon termination, employees may be paid their full vacation (leave) balance at their normal pay rate, employees hired prior to December 31, 1997 with more than five years of service are paid 30% of unused sick leave. As of June 30, 2012, the Authority accrued $1,434,125 for compensated absences.

		Balance, July 1, 2011	Additions	Deletions	Balance, June 30, 2012	Balance due within one year
Accrued compensated absences	$	1,642,700	855,634	1,064,209	1,434,125	142,688

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

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Exhibit E-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2012

(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, 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
June 30, 2011	72,126,884	93,055,684	20,928,800	77.51	14,270,980	146.65

Unaudited - see accompanying accountants' report.

Exhibit E-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2012

(Unaudited)

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

Unaudited - see accompanying accountants' report.

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, 2012

(Unaudited)

	Site clearance	Administration	Site improvement	Site acquisition	Site disposition	Rehabilitation	Relocation	Miscellaneous	Total
Community Development (CD) Block Grant Fund:									
Program year 2002	$ —	—	—	—	—	—	—	—	—
Program year 2003	—	—	—	—	—	—	—	—	—
Program year 2004	—	—	—	—	—	—	—	—	—
Program year 2005	—	—	—	—	—	—	—	—	—
Program year 2006	—	—	—	—	—	—	—	—	—
Program year 2007	—	—	—	—	—	—	—	—	—
Program year 2008	—	—	10,560	65,000	19,202	109,968	—	—	204,730
Program year 2009	—	—	3,565	—	8,687	(181,278)	—	—	(169,026)
Program year 2010	—	—	24,654	—	9,608	618,302	—	—	652,564
Program year 2011	—	598,500	26,760	—	85,375	1,741,020	—	62,625	2,514,280
Total CD	$ —	598,500	65,539	65,000	122,872	2,288,012	—	62,625	3,202,548
Reconciliation to operating expenses:									
Project costs incurred	$ —	598,500	65,539	65,000	122,872	2,288,012	—	62,625	3,202,548
Project costs incurred – Neighborhood Stabilization Program (NSP)	—	—	—	—	—	83,577	—	—	83,577
Total CD and NSP									3,286,125
Land held for resale – CDBG	85,657	—	—	—	—	—	—	—	85,657
Land held for resale – NSP	147,953	—	—	—	—	—	—	—	147,953
Operating expenses									$ 3,519,735

Unaudited - see accompanying accountants' report.

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Urban Renewal Fund Expenditures by Project

Year ended June 30, 2012

(Unaudited)

	Atlantic City VA R-1	Downtown North VA R-8	Downtown South VA R-9	Rosemont VA R-25	Ghent Neighborhood Conservation VA R-43	Huntersville VA R-70	Total
Classification of expenditures:							
Administrative costs	$ 5,124	6,582,202	14,684	10,797	929,917	18,027	7,560,751
Legal services	26,512	388,368	66,185	27,170	9,023	2,229	519,487
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, 2012	(526,204)	4,883,800	3,336,850	1,463,535	1,356,527	165,787	10,680,295
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 project costs incurred during year ended June 30, 2012	—	2,394	—	—	—	—	2,394
Revenue earned during year ended June 30, 2012	12,240	—	—	—	—	—	12,240
Gross project costs incurred during year ended June 30, 2012	$ 12,240	2,394	—	—	—	—	14,634

Unaudited - see accompanying accountants' report.

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Capital Fund Program Expenditures

Year ended June 30, 2012

(Unaudited)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Classification of expenditures:										
1406 Operations	$ —	—	—	8,240	—	1,200,000	1,200,000	—	—	2,408,240
1408 Management improvements	120,809	155,813	139,388	171,297	147,275	183,348	216,163	94,954	3,814	1,232,861
1410 Administration	510,444	674,998	573,446	613,923	559,004	592,675	647,696	553,247	—	4,725,433
1411 Audit	—	—	—	—	—	9,000	—	7,000	—	16,000
1430 Fees and costs	239,686	882,418	745,714	2,236,853	871,773	915,601	711,695	509,924	—	7,113,664
1440 Predevelopment costs	—	277,695	—	—	—	—	—	—	—	277,695
1450 Site improvements	230,178	246,471	347,580	1,151,455	2,813,540	657,703	9,600	73,719	—	5,530,246
1460 Dwelling structures	2,255,113	1,723,793	2,067,889	1,352,370	1,350,135	2,231,214	153,629	32,342	—	11,166,485
1465.1 Dwelling equipment – nonexpendable	167,565	202,280	—	160,174	75,241	177,000	297,860	—	—	1,080,120
1470 Nondwelling structures	—	639,147	556,366	—	—	133,954	—	6,286	—	1,335,753
1475 Nondwelling equipment	—	—	—	—	—	—	—	—	—	—
1485 Demolition	—	—	—	99,235	—	—	1,075,340	—	—	1,174,575
1490 Replacement reserves*	3,343,069	772,911	—	—	—	—	—	—	—	4,115,980
1495 Relocation costs	—	—	—	—	—	325,059	—	—	—	325,059
1498 Development activity	—	1,661,636	1,677,736	350,486	639,570	—	—	—	—	4,329,428
Total capital fund expenditures	6,866,864	7,237,162	6,108,119	6,144,033	6,456,538	6,425,554	4,311,983	1,277,472	3,814	44,831,539
1460 Replacement housing factor funds	359,885	6,440	—	—	—	—	—	—	—	366,325
Cumulative project costs at June 30, 2012	7,226,749	7,243,602	6,108,119	6,144,033	6,456,538	6,425,554	4,311,983	1,277,472	3,814	45,197,864
Cumulative project costs at June 30, 2011	7,226,749	7,243,602	6,108,119	6,074,357	5,331,569	4,372,133	1,035,677	—	—	37,392,206
Project costs incurred during year ended June 30, 2012	—	—	—	69,676	1,124,969	2,053,421	3,276,306	1,277,472	3,814	7,805,658
* Classification of expenditures – replacement reserves:										
1410 Administration	6,737	15,339	—	—	—	—	—	—	—	22,076
1430 Fees and costs	24,564	68,290	—	—	—	—	—	—	—	92,854
1450 Site improvements	1,172,180	8,558	—	—	—	—	—	—	—	1,180,738
1460 Dwelling structures	1,370,251	27,692	—	—	—	—	—	—	—	1,397,943
1470 Nondwelling structures	1,033,925	—	—	—	—	—	—	—	—	1,033,925
1495 Relocation costs	—	—	—	—	—	—	—	—	—	—
1498 Development activity	—	697,643	—	—	—	—	—	—	—	697,643
Cumulative project costs at June 30, 2012	3,607,657	817,522	—	—	—	—	—	—	—	4,425,179
Cumulative project costs at June 30, 2011	3,607,657	817,522	—	—	—	—	—	—	—	4,425,179
Project costs incurred during year ended June 30, 2012	—	—	—	—	—	—	—	—	—	—
Total project costs incurred during year ended June 30, 2012	—	—	—	69,676	1,124,969	2,053,421	3,276,306	1,277,472	3,814	7,805,658
Increase in capital assets (not including depreciation):										
Ending balance	5,550,457	2,200,356	4,120,209	3,962,707	4,415,015	3,342,200	1,480,937	127,423	—	25,199,304
Surveys	5,647	—	—	—	—	—	—	—	—	5,647
Beginning balance	(5,556,104)	(2,200,356)	(4,120,209)	(3,899,695)	(3,473,441)	(1,534,767)	(63,497)	—	—	(20,848,069)
Increase (decrease) in capital assets	—	—	—	63,012	941,574	1,807,433	1,417,440	127,423	—	4,356,882
Management improvements and administration	—	—	—	6,664	183,395	245,988	1,858,866	1,150,049	3,814	3,448,776
Transfers to operations	—	—	—	—	—	—	(1,200,000)	—	—	(1,200,000)
Depreciation	305,820	124,543	214,553	137,755	118,167	59,404	1,216	—	—	961,458
Operating expenses	$ 305,820	124,543	214,553	144,419	301,562	305,392	660,082	1,150,049	3,814	3,210,234

* Replacement reserves expenditures

Unaudited - see accompanying accountants' report.

Exhibit F-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2012

(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	125,685	952,040
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	—	—	—	2,426	27,996
Administrative costs	40,720	14,602	—	51,826	—	—	—	16,435	123,583
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	—	—	—	1,321	239,276
Indirect costs	—	—	—	25,000	—	—	—	—	25,000
Salaries – training	32,482	145,764	—	231,387	—	—	—	99,745	509,378
Fringe benefits – training	26,254	29,236	—	57,980	—	—	—	34,999	148,469
Cumulative project costs at June 30, 2012	677,116	539,183	130,000	630,000	131,000	134,930	136,000	280,611	2,658,840
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
Project costs incurred during year ended June 30, 2012	$ —	—	—	—	—	—	—	273,006	273,006
Current year depreciation									556
Operating expenses									$ 273,562

Unaudited - see accompanying accountants' report.

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Urban Revitalization Program (Hope VI) Expenditures

Year ended June 30, 2012

(Unaudited)

		Program year 2000		Total
Classification of expenditures:				
Management improvements	$	5,189,369		5,189,369
Administration		4,220,049		4,220,049
Fees and costs		4,551,856		4,551,856
Site acquisition		68,475		68,475
Site improvement		1,125,692		1,125,692
Dwelling structures		14,660,223		14,660,223
Nondwelling equipment		25,000		25,000
Demolition		2,158,723		2,158,723
Relocation costs		1,537,747		1,537,747
Hope VI Section 8		2,059,099		2,059,099
Cumulative project costs at June 30, 2012		35,596,233		35,596,233
Cumulative project costs at June 30, 2011		34,911,710		34,911,710
Project costs incurred during year ended June 30, 2012	$	684,523		684,523
Reconciliation to operating expenses:				
Project costs incurred			$	684,523
Decrease in fixed assets:				
Ending balance	$	1,563,853		
Depreciation		1,101		
Surveys		—		
Beginning balance		(1,564,954)		
Decrease in fixed assets				—
Decrease in notes receivable:				
Ending balance		17,332,728		
Beginning balance		(17,332,728)		
Decrease in notes receivable				—
Accrued compensated absences				(2,009)
Depreciation				1,101
Total operating expenses			$	683,615

Unaudited - see accompanying accountants' report.

Exhibit F-6

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ARRA – Capital Fund Recovery Grant Expenditures

Year ended June 30, 2012

(Unaudited)

	Program year 2009	Total
Classification of expenditures:		
1410 Administration	$ 783,264	783,264
1430 Fees and costs	456,454	456,454
1450 Site improvements	3,298,691	3,298,691
1460 Dwelling structures	4,650,234	4,650,234
1485 Demolition	5,000	5,000
Cumulative project costs at June 30, 2012	9,193,643	9,193,643
Cumulative project costs at June 30, 2011	7,979,111	7,979,111
Project costs incurred during year ended June 30, 2012	$ 1,214,532	1,214,532
Reconciliation to schedule of expenditures of federal awards:		
Project costs incurred during year ended June 30, 2012		$ 1,214,532
Prior year Administration expenditures received during 2012		340
Total expenditures of federal awards		$ 1,214,872
Reconciliation to operating expenses:		
Project costs incurred during year ended June 30, 2012		$ 1,214,532
Increase in fixed assets (not including depreciation):		
Ending balance		8,408,762
Beginning balance		(7,327,557)
Increase in fixed assets		1,081,205
Administration		133,327
Current year depreciation		156,579
Operating expenses		$ 289,906

Unaudited - see accompanying accountants’ report.

Exhibit F-7

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of FAIR Housing Assistance Program (FAIR) Expenditures

Year ended June 30, 2012

(Unaudited)

		Program year 2011	Total
Classification of expenditures:			
Salaries	$	12,118	12,118
Fringe benefits		3,081	3,081
Cumulative project costs at June 30, 2012		15,199	15,199
Cumulative project costs at June 30, 2011		—	—
Project costs incurred during year ended June 30, 2012	$	15,199	15,199

Unaudited - see accompanying accountants' report.

Exhibit F-8

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Choice Neighborhood Incentives (CNI) Expenditures

Year ended June 30, 2012

(Unaudited)

		Program year 2012	Total
Classification of expenditures:			
Salaries	$	430	430
Fringe benefits		184	184
Training and travel		14,000	14,000
Other admin		52,674	52,674
Tenant services		4,780	4,780
Cumulative project costs at June 30, 2012		72,068	72,068
Cumulative project costs at June 30, 2011		—	—
Project costs incurred during year ended June 30, 2012	$	72,068	72,068

Unaudited - see accompanying accountants' report.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the financial statements of Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 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 Norfolk Community College Campus Corporation, NRHA Mission College I, L.P., 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*.

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

December 21, 2012