



NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2008

(With Independent Auditors' Reports Thereon)

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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FINANCIAL SECTION

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Independent Auditors' Report

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the accompanying financial statements of the business-type activities of the Norfolk Redevelopment and Housing Authority (the Authority), as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Norfolk Community College Campus Corporation, Mission College Apartments, L.P., Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, 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 Mission College Apartments, L.P., Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, L.L.C. together represent approximately 1% and 5% of the total assets and total revenues, respectively, of the primary government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mission College Apartments, L.P., Norfolk Community College Campus Corporation, Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, 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. and Hampton Roads Ventures Investors, 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 of the Authority as of June 30, 2008, and the changes in financial position and cash flows, and of its discretely presented component units where applicable, 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 March 31, 2009 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 16 and the Schedule of Funding Progress – VRS on page 39 are not a required part of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

March 31, 2009

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Management's Discussion and Analysis

June 30, 2008

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. 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, 2008. Please read it in conjunction with the financial statements, which begin on page 17.

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 comprised of two components: 1) the financial statements, and 2) the notes to these financial statements. The other supplementary information included in the financial section of the report presents required information as well as some information which 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 is not addressed in this discussion and analysis.

Financial Highlights for 2008

The Authority's 2008 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately \$250.2 million and \$61.7 million, respectively; thus, total net assets were approximately \$188.5 million at June 30, 2008.
- Total revenues (including capital contributions and distributions to partners) and expenses were approximately \$102.7 million and \$81.2 million, respectively; thus, net assets increased by approximately \$21.5 million during the fiscal year.
- Revenues are derived from various sources with approximately 25% from the City and 44% 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 19% of total revenue; 9% from Authority-owned federally assisted housing rental, 9% from Authority-owned nonassisted affordable housing units rental. The 12% remaining revenue balance is derived from miscellaneous fees for services or nonoperating sources (i.e., investment income, bond fees, gain on sale of fixed assets, partner's contributions).
- Cash flows from operating activities were a positive \$20.1 million. The net increase in cash and cash equivalents for the year was approximately \$22.5 million, primarily due to the sale of investments.

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- The formation of a new limited partnership occurred during the current year. The partnership interest (less debt) of Mission College Apartments, L.P. (MCA) was sold to create NRHA Mission College I L.P. (MCI). The new partnership relationship is presented as a blended component unit of the Authority; its \$1.3 million in net assets is included in the primary government financial statements. See further discussion in the summary of significant accounting policies on page 22.
- The formation of a new limited partnership, NRHA Grandy Village, L.P. (GVLP), occurred during the current fiscal year; 253 existing housing units and 22 buildings under construction in our Grandy Village Community were sold to the new partnership. The new partnership relationship is presented as a blended component unit of the Authority; its \$1.5 million in net assets is included in the primary government financial statements. See further discussion in the summary of significant accounting policies on page 23.

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, 2008, 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 2,100 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 2008 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* consists of all capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consists of assets that are restricted by constraints placed on the asset by external parties, such as, creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consists 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,

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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 the financial statements are also included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the Authority's 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 they are earned and expenses in the period when 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 statement 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 forty 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 are controlled at the City level.

Financial Analysis

The Authority's financial statements are presented as a single enterprise fund. The enterprise fund accounts for the Authority's operations of property development and management concerns similar to private sector counterparts. Some reclassifications of the 2007 financial information are being presented to facilitate comparisons of prior year and current year financial information.

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Condensed Financial Information

The following table reflects the condensed statement of net assets compared with the prior year. Total assets and liabilities of the Authority were approximately \$250.2 million and \$61.7 million, respectively; thus, total net assets were approximately \$188.5 million at June 30, 2008.

Table 1
Condensed Statements of Net Assets
June 30, 2008 and 2007
(In millions)

Description	2008	2007	Change	Percentage change
Current assets:				
Cash and investments	\$ 44.5	53.2	(8.7)	(16)%
Assets held for sale	12.9	14.6	(1.7)	(12)
Noncurrent assets:				
Restricted cash	23.4	10.9	12.5	115
Capital assets, net	133.2	131.2	2.0	2
Other current and noncurrent assets	36.2	33.3	2.9	9
Total assets	<u>250.2</u>	<u>243.2</u>	<u>7.0</u>	<u>3</u>
Current liabilities	11.3	20.0	(8.7)	(44)
Noncurrent liabilities	50.4	56.2	(5.8)	(10)
Total liabilities	<u>61.7</u>	<u>76.2</u>	<u>(14.5)</u>	<u>(19)</u>
Net assets:				
Invested in capital assets, net of related debt	102.0	107.5	(5.5)	(5)
Restricted	31.4	25.7	5.7	22
Unrestricted	55.1	33.8	21.3	63
Total net assets	<u>\$ 188.5</u>	<u>167.0</u>	<u>21.5</u>	<u>13%</u>

Of the Authority's \$250.2 million in assets, \$133.2 million or 53% is invested in capital assets, net of accumulated depreciation, \$67.9 million or 27% is cash, investments and restricted cash, \$12.9 million or 5% is invested in assets held for sale, and \$36.2 million or 15% is other current and noncurrent assets, of which \$15.6 million or 6% is receivables due in 40 years (starting in 2042) related to the Broad Creek Renaissance mixed finance project and \$7.5 million or 3% are receivables of the rehabilitation revolving loan fund.

Of the \$61.7 million of liabilities, \$39.8 million or 65% is debt, \$11.0 million or 18% are amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse; of the \$10.9 million balance, 17% consists of various obligations of the Authority including tenant escrow deposit accounts, vested compensated absences and payments due to third parties for services.

The net asset balance of \$188.5 million is the difference between the \$250.2 million in assets and the \$61.7 million in liabilities. Ideally, the breakout of the net assets balance allows financial statement users to identify resources that are available to finance the activities, programs, or projects with which they are most

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concerned, whether it be making debt service payments, supplementing mission critical, yet under-funded programs, or beginning a new service or expanding an existing one.

Referring back to table 1, the Authority's net assets increased \$21.5 million, or 13%. The increase results primarily from a \$21.3 million increase in unrestricted net assets.

Net assets invested in capital assets net of related debt—the largest part (54%) of the net asset balance – decreased by \$5.5 million or 5%. The decrease results from changes in two components, a \$2.0 million increase in capital assets, which went from \$131.2 million as of June 30, 2007 to \$133.2 million as of June 30, 2008 and, a \$7.5 million increase in the debt related to the capital assets, which went from \$23.7 million to \$31.2 million.

Restricted net assets—the part of net assets that has constraints established by debt covenants, enabling legislation or other legal requirements—increased 22% or \$5.7 million (\$31.4 million at June 30, 2008 compared to \$25.7 million at June 30, 2007). The largest component of this increase is due to a deposit of \$8.9 million of restricted funding set aside for the future retirement of debt of new tax credit entities. This amount is offset by a decrease of \$2.0 in the balance on hand restricted for housing assisted payments.

Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—changed from \$33.8 million at June 30, 2007 to \$55.1 million at June 30, 2008, an increase of \$21.3 million or 63%. The largest component of the increase results from the retirement and deductions of \$22 million of debt (not related to fixed assets). Observations of the unrestricted net asset balance follows:

- While presented in the aggregate in the financial statements, the unrestricted net assets includes over 20 programs controlled by contract terms; 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 includes notes and interest receivable related to the Hope VI Broad Creek Renaissance (BCR) tax credit project totaling \$15.6 million, which is due after 40 years, beginning in 2042.
- Debt of \$8.4 million is included in the unrestricted net asset balance; of this debt, \$7.4 million might be offset by future proceeds from specific land held for resale parcels.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for unused employee vacation and sick days. The balance for unused employee vacation and sick days at June 30, 2008 and 2007 was \$1.6 million and \$1.7 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.

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Management's Discussion and Analysis

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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 2008, the Authority realized an increase in net assets of \$21.5 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, 2008 and 2007

(In millions)

Description	2008	2007	Change	Percentage change
Total operating revenues	\$ 92.0	83.6	8.4	10%
Total operating expenses	79.0	77.4	1.6	2
Operating income	13.0	6.2	6.8	110
Total nonoperating revenues	4.4	3.6	0.8	22
Total nonoperating expenses	(2.2)	(18.4)	16.2	(88)
Total nonoperating income (expenses), net	2.2	(14.8)	17.0	(115)
Income (loss) before capital grants and contributions	15.2	(8.6)	23.8	(277)
Governmental capital grants	3.4	5.5	(2.1)	(38)
Capital contributions from limited partners	2.9	—	2.9	100
Change in net assets	21.5	(3.1)	24.6	(794)
Total net assets – beginning	167.0	170.1	(3.1)	(2)
Total net assets – ending	\$ 188.5	167.0	21.5	13%

Net assets increased \$13.0 million from operating activities and \$2.2 million from nonoperating activities, resulting in a \$15.2 million increase in net assets before recognizing the receipt of grant revenue for capital expenditures and capital contributions from limited partners'. Capital grant revenue of \$3.4 million and contributions from partnerships of \$2.9 million further resulted in an increase in total net assets from \$15.2 million increase to \$21.5 million increase.

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The following sections discuss revenues and expenses separately.

Revenues

Table 3 provides an excerpt of revenues from the statement of revenues, expenses and changes in net assets and shows that total revenues increased 11 % or \$9.9 million (\$102.7 million compared to \$92.8 million).

Table 3

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

Years ended June 30, 2008 and 2007

(In millions)

<u>Description</u>	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percentage change</u>
Operating revenues:				
Tenant revenue – rents and other	\$ 19.0	18.5	0.5	3%
Operating grants and subsidies	68.1	60.5	7.6	13
Other revenue, net	4.9	4.6	0.3	7
Total operating revenues	<u>92.0</u>	<u>83.6</u>	<u>8.4</u>	<u>10</u>
Nonoperating revenues:				
Gain on disposal of fixed assets	1.3	—	1.3	100
Interest and investment revenue	3.1	3.7	(0.6)	(16)
Total nonoperating revenues	<u>4.4</u>	<u>3.7</u>	<u>0.7</u>	<u>19</u>
Capital grants	3.4	5.5	(2.1)	(38)
Capital contributions from limited partners	2.9	—	2.9	100
Total revenues	<u>\$ 102.7</u>	<u>92.8</u>	<u>9.9</u>	<u>11%</u>

The \$9.9 million (11%) increase in total revenues is attributable to an increase in tenant revenue, which increased \$0.5 million (from \$18.5 million to \$19.0 million); an increase in operating grants and subsidies, which increased \$7.6 million (from \$60.5 million to \$68.1 million); an increase in other revenue, which increased \$0.3 million (from \$4.6 million to \$4.9 million); a gain on disposal of fixed assets occurred, which increased revenue \$1.3 million (from no gain to \$1.3 million); capital contributions were received, resulting in an increase of \$2.9 million (from no revenue to \$2.9 million). These increases were offset by decreases of \$0.6 million in interest and investment revenue, and \$2.1 million in capital grants (from \$3.7 million to \$3.1 million and \$5.5 million to \$3.4 million, respectively).

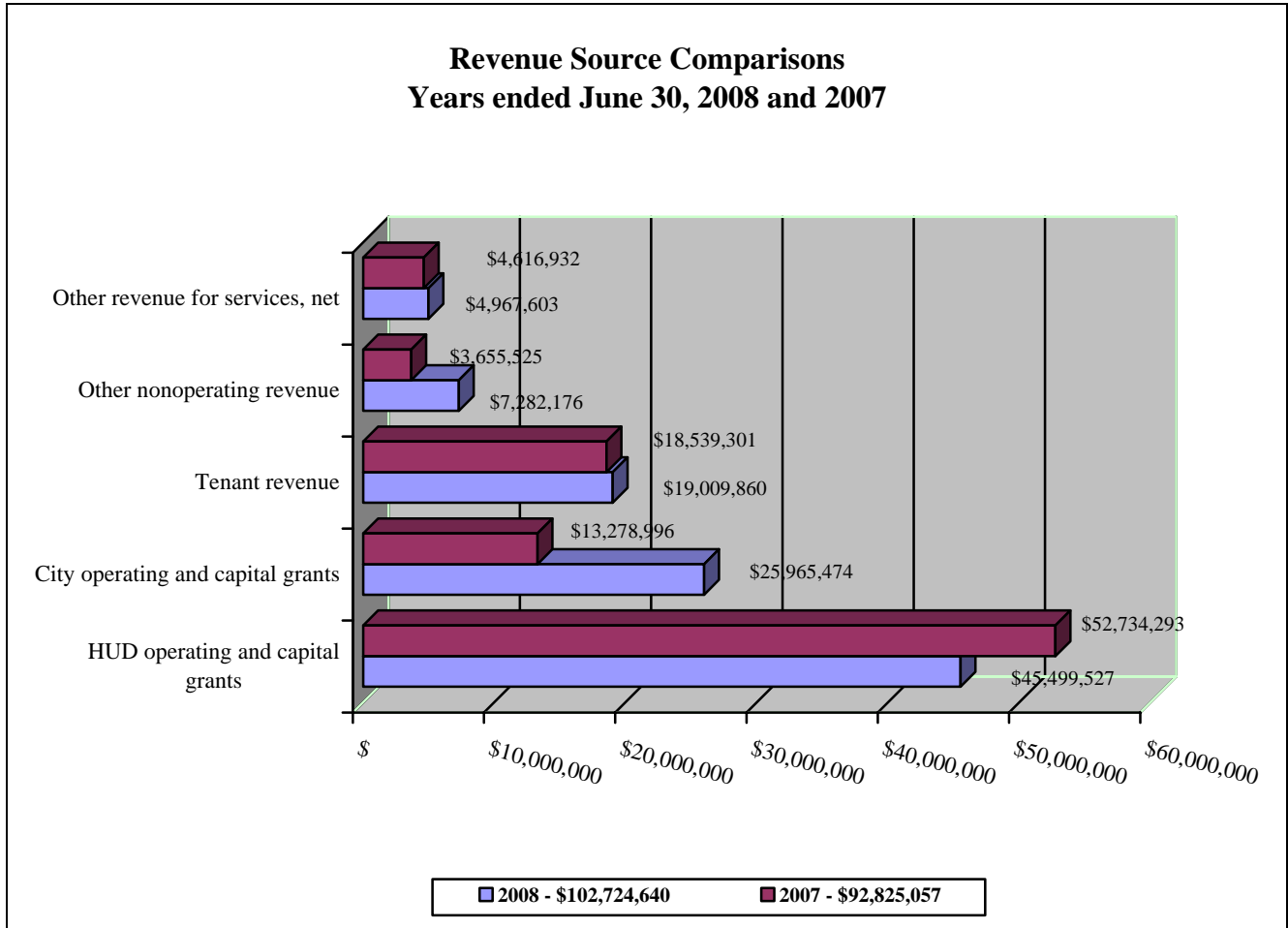
As reflected in the following graph, revenues were derived from various providers with approximately 25% or \$26.0 million from the City and 44% or \$45.5 million received either directly or indirectly (through the City – 7.4% in addition to the previous 25%) from the U.S. Department of Housing and Urban Development (HUD). Rental revenues accounted for an additional 19% or \$19.0 million of total revenue; 50% or \$9.4 million was from over 3,400 units of Authority-owned federally assisted housing—Federal Housing and Park Terrace; 48% or \$9.2 million is from 1,160 units of Authority-owned nonassisted affordable housing—Merrimack Landing, Oakmont North, and Mission College; and 2% or \$0.4 million tenant revenue was from a variety of other

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commercial or resident customers. The balance of 12% of total revenue or \$12.2 million is derived from miscellaneous fees for services or nonoperating sources (i.e., investment income, gain on sale of fixed assets, partner distributions).



Significant changes in revenue by provider were a \$7.2 million decrease in HUD operating and capital grants and a \$12.7 million increase in City operating and capital grants; City grant increases relate to the funding provided for the retirement of \$18.4 million of MacArthur debt.

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Expenses

Table 4 provides an excerpt of expenses from the statement of revenues, expenses and changes in net assets and shows that total expenses decreased 15 % or \$14.6 million (\$81.2 million compared to \$95.8 million).

Table 4

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

Years ended June 30, 2008 and 2007

(In millions)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percentage change</u>
Operating expenses:				
Administrative	\$ 14.7	13.9	0.8	6%
Housing assistance payments (HAP)	16.6	13.4	3.2	24
Extraordinary maintenance	9.4	13.0	(3.6)	(28)
Maintenance – routine	9.7	10.9	(1.2)	(11)
Depreciation and amortization	8.9	8.4	0.5	6
Utilities	10.4	8.1	2.3	28
General	5.7	6.0	(0.3)	(5)
Tenant services	2.7	2.1	0.6	29
Loss on the sale of land inventory	—	1.4	(1.4)	(100)
Protective services	0.9	0.2	0.7	350
Total operating expenses	<u>79.0</u>	<u>77.4</u>	<u>1.6</u>	<u>2</u>
Nonoperating expenses:				
Interest expense	2.2	3.9	(1.7)	(44)
Loss on disposal of capital assets	—	14.5	(14.5)	(100)
Total nonoperating expenses	<u>2.2</u>	<u>18.4</u>	<u>(16.2)</u>	<u>(88)</u>
Total expenses	<u>\$ 81.2</u>	<u>95.8</u>	<u>(14.6)</u>	<u>(15)%</u>

The most significant decrease in expenses was in loss on disposal of capital assets; there was a \$1.3 million net gain (see Table 3) at June 30, 2008 compared to a \$14.5 loss at June 30, 2007. During the current year a \$3.4 million loss on the sale in the Grandy Village project occurred. Also, capital assets were reduced by \$1.3 million to record the dedication of a linear part to the City for maintenance of infrastructure and public right of ways in the BCR project. In addition, a \$0.4 million gain was recorded on the sale of BCR lots and a \$0.1 million gain was recorded on the sale of scattered site lots and miscellaneous equipment. However, the impact of the sale of MCA, which resulted in a \$5.5 million gain, was that all losses were offset.

Other decreases were: extraordinary maintenance decrease for \$3.6 million (from \$13.0 million to \$9.4 million); routine maintenance decrease for \$1.2 million (from \$10.9 million to \$9.7 million); general expense decrease for \$0.3 million (from \$6.0 million to \$5.7 million); loss on the sale of land inventory had a net gain of \$0.04 million this year but had a loss of \$1.4 million dollars last year; and interest expense decreased \$1.7 million (from \$3.9 million to \$2.2 million).

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Increases for expenses were: administrative expense increased \$0.8 million (from \$13.9 million to \$14.7 million); housing assistance payments increased \$3.2 million (from \$13.4 million to \$16.6 million); depreciation expense increased \$0.5 million (from \$8.4 million to \$8.9 million); utility expense increased \$2.3 million (from \$8.1 million to \$10.4 million); tenant services expense increased \$0.6 million (from \$2.1 million to \$2.7 million); and protective services expense increased \$0.7 million (from \$0.2 million to \$0.9 million).

Capital Assets

The Authority's capital assets as of June 30, 2008 included land, buildings, improvements, construction in progress, and equipment that totaled \$133.2 million (net of depreciation). Most of the capital assets balance (\$102.0 million or 77%) is comprised of assisted public housing units available for lease to low and moderate-income residents or construction of communities for mixed income residents that include those eligible for public housing. Another 20% or \$27.0 million is invested in Authority-owned, nonassisted multifamily affordable housing units. A breakdown of the Authority's assets is shown in Table 5 below.

Table 5

Composition of Capital Assets of the Authority

June 30, 2008 and 2007

(In millions)

	Balance 2008	Balance 2007	Change	Percentage change
Nondepreciable assets:				
Land	\$ 23.4	18.7	4.7	25%
Construction in progress	12.7	11.0	1.7	15
Other capital assets:				
Buildings and building improvements	150.7	153.7	(3.0)	(2)
Improvements other than buildings	54.9	60.4	(5.5)	(9)
Equipment	7.9	8.2	(0.3)	(4)
Accumulated depreciation	(116.4)	(120.8)	4.4	(4)
Totals	\$ 133.2	131.2	2.0	2%

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The Authority had \$2.0 million in net additions to capital assets in 2008. Table 6 details the components of the change.

Table 6

Change in Capital Assets of the Authority

June 30, 2008

(In millions)

	<u>Nondepreciable assets</u>	<u>Other capital assets</u>	<u>Totals</u>
July 1, 2007 beginning balance, net	\$ 29.7	101.5	131.2
Transfers	(6.2)	6.2	—
Purchases	19.3	17.4	36.7
Depreciation	—	(8.8)	(8.8)
Retirements, net	(5.4)	(19.2)	(24.6)
Transfers to the City	(1.3)	—	(1.3)
Ending balance	\$ <u>36.1</u>	<u>97.1</u>	<u>133.2</u>

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

- Construction in progress totaling \$6.2 million, primarily capital improvements in our public housing communities, was completed and transferred to operations.
- Purchases of \$36.7 million included the purchase price of two newly formed partnerships totaling \$26.4 million.
 - The purchase price of NRHA Grandy Village, L.P. was \$15.9 million; \$8.1 million and \$7.8 million for nondepreciable assets and other capital assets, respectively. Additional purchases of \$3.4 million occurred during the year for Grandy Village, L.P. to continue the planned renovations.
 - The purchase price for NRHA Mission College 1, L.P. was \$10.5 million; \$2.3 million and \$8.2 million for nondepreciable assets and other capital assets, respectively. Additional purchases of \$0.7 million occurred during the year for nondepreciable assets for NRHA Mission College 1, L.P. to continue the planned construction.
 - The remaining \$6.2 million purchases of capital assets that occurred during the year included: the installation of air conditioning in Oakleaf Forrest, porch repairs in Calvert Square, as well as energy audits, window replacement and boiler room design in various communities. Some replacements in the vehicle fleet also occurred during the year.
- Retirements of \$24.6 million, net, are largely attributable to property sold in the two mixed finance deals forming the two new partnerships.
 - The book value of property sold in the NRHA Grandy Village, L.P. mixed finance deal was \$19.3 million,
 - The book value of assets sold in the NRHA Mission College 1, L.P. mixed finance deal was \$5.0 million,

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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- Also, included in the retirement total is the sale of two scattered site units with a \$0.1 million book value,
- A linear park with a book value of \$1.3 million located in the Broad Creek neighborhood was completed and donated to the City.

Long-Term Debt

At June 30, 2008, the Authority had total debt outstanding of \$39.8 million (excluding vested compensated absences). Of this amount, \$1.9 million of debt for the Granby Street 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), the associated project property or is 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
Fiscal year 2008

Description	Amounts payable at July 1, 2007	Additions	Retirements and reductions	Amounts payable at June 30, 2008	Future debt service commitment	Scheduled final payment
Granby Street Office building	\$ 2,048,914	—	(140,701)	1,908,213	The Authority	December 2020
Park Terrace	974,159	—	(64,733)	909,426	Revenue bond	April 2017
Oakmont North	3,370,000	—	(165,000)	3,205,000	Revenue bond	March 2021
Merrimack Landing	3,639,663	—	(433,141)	3,206,522	Revenue bond	December 2010
Grandy Village	315,243	—	(55,540)	259,703	Project revenue	July 2012
Federal Financing Bank	8,766,458	—	(486,395)	8,280,063	HUD pays directly	November 2019
Mission College Apartments	4,752,921	—	(94,913)	4,658,008	Project revenue	September 2030
Neighborhood Redevelopment						
Credit Line	6,793,668	1,149,537	(2,532,380)	5,410,825	Various	July 2009
Property Acquisition	4,075,000	—	(1,045,000)	3,030,000	Obligation of the City	
Grandy Partnership	—	8,900,000	—	8,900,000	Project revenue	June 2011
MacArthur	18,413,286	—	(18,413,286)	—	Obligation of the City	
Total bank financing	<u>\$ 53,149,312</u>	<u>10,049,537</u>	<u>(23,431,089)</u>	<u>39,767,760</u>		

The Authority's total outstanding debt reductions totaled \$23.4 million including the retirement of \$18.4 million of MacArthur debt and payoff of the \$2.0 million BCR debt under the Neighbor Redevelopment line of credit; an additional \$1.1 million was drawn down on the Neighborhood Redevelopment line of credit to facilitate property renovations in NRHA Mission College LP., and a new \$8.9 million debt instrument was established to finance renovations in NRHA Grandy Village LP.

- The Authority has outstanding debt of \$3.0 million, which is the moral obligation of the City; and must be paid by future revenue from the City. Specific land proceeds are held for the debt service of the indebtedness.
- The Authority has outstanding debt of \$8.3 million with the Federal Financing Bank, which is the sole responsibility of the Department of Housing and Urban Development.

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- The Authority's note payable of \$5.4 million against a line of credit was used to gap finance neighborhood redevelopment. At June 30, 2008, \$2.5 million for Chesapeake Street, \$1.7 million for Pretty Lake Dunes, \$0.2 million for East Beach and \$1.0 million for Mission College was outstanding. Future project funding and/or proceeds from property sales are expected to service this debt. The City has a moral obligation on components of this debt; the net book value of assets used to collateralize the City's obligation totals \$0.04 million and is carried on the books of the City.

Other Economic Factors and Next Year's Budget

Economic Factors

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

In 2009, the federal housing operating fund is projected to receive a significant reduction of the eligible funding level. The Authority received 89.96% of its eligible funding for calendar year 2008. The calendar year 2009 funding level is not expected to be finalized until mid-year 2009 but is being provided at an 88% interim level. If the final level of funding is less than the 88% interim level, subsequent payments will be reduced to capture the overpayment.

Currently, a frozen rent provision in the current operating subsidy formula for the federal housing program is scheduled to be discontinued beginning in calendar year 2010; unless HUD extends this provision or provides an offsetting alternative, the Authority is projected to experience a \$2.0 million reduction in its eligible operating subsidy amount.

Appropriation of funds by Congress and the Administration for the capital fund program is expected to be level. Also, the President's economic stimulus package is projected to provide additional funding for public housing capital expenditures at an amount that exceeds the current year's normal appropriation. The specific amount, while not defined, is sure to have a positive impact on our programs.

HUD's new administrative fee rates for the Housing Choice Voucher program yields a reduction in funding when compared with recent past formulas used to fund administrative costs.

As a part of the Hope VI program, NRHA demolished two public communities; as a result, we are experiencing corresponding losses of funding in operating and capital subsidies for units that are not replaced. The last of 300 on site replacement units have come on line, however, the corresponding operating subsidy is paid to the limited partnerships that own and manage the new units.

The City will continue to reduce the administrative funding provided through its federally funded contract with the Authority; a 5% reduction has occurred every year since 2001.

The Authority's revenue for redevelopment initiatives comes from federal and local sources. A decrease in real estate taxes is projected for 2010. Also, the state reduced aid to the City by more than \$4 million for fiscal year 2010. Such reductions for the City are sure to impact the Authority's funding level.

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 effect how we acquire property.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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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 2009 operating and capital budget is \$97 million, representing a decrease of 9% 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 Assistant Executive Director of Finance and Administration, Norfolk Redevelopment and Housing Authority, 201 Granby Street, Norfolk VA 23510 or visit our website at www.nrha.norfolk.va.us.

BASIC FINANCIAL STATEMENTS

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Net Assets

June 30, 2008

Assets	Primary government	Component units	Total
Current assets:			
Cash and cash equivalents (note 2)	\$ 32,307,712	1,546	32,309,258
Cash with fiscal agents (note 2)	8,201,017	—	8,201,017
Investments (note 2)	4,031,619	—	4,031,619
Receivables:			
Due from HUD	2,898,702	—	2,898,702
Due from City of Norfolk	1,747,944	—	1,747,944
Tenants rent, net	208,064	—	208,064
Notes, net (note 3)	200,688	1,350,000	1,550,688
Interest	56,815	309,908	366,723
Other, net	384,333	—	384,333
Total receivables	5,496,546	1,659,908	7,156,454
Inventories, net	519,049	—	519,049
Assets held for sale	12,870,791	—	12,870,791
Prepaid expenses and other assets	460,315	—	460,315
Total current assets	63,887,049	1,661,454	65,548,503
Noncurrent assets:			
Restricted cash and cash equivalents (note 2)	23,442,580	399,905	23,842,485
Capital assets:			
Land	23,405,222	—	23,405,222
Buildings and equipment	213,465,624	—	213,465,624
Construction in progress	12,735,079	—	12,735,079
Less accumulated depreciation	(116,455,125)	—	(116,455,125)
Capital assets, net (note 4)	133,150,800	—	133,150,800
Notes receivable, net (note 3)	23,604,196	13,810,000	37,414,196
Other noncurrent assets	6,125,257	430,840	6,556,097
Total noncurrent assets	186,322,833	14,640,745	200,963,578
Total assets	\$ 250,209,882	16,302,199	266,512,081
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 2,579,525	17,750	2,597,275
Accrued salaries and benefits	451,198	—	451,198
Accrued compensated absences (note 5)	186,020	—	186,020
Due to HUD and the City of Norfolk	532,355	—	532,355
Tenant security deposits	1,126,439	—	1,126,439
Deferred revenue	268,253	470,000	738,253
Bonds, notes, and loans payable (note 5)	2,985,804	1,350,000	4,335,804
Other current liabilities	3,202,820	116,114	3,318,934
Total current liabilities	11,332,414	1,953,864	13,286,278
Noncurrent liabilities:			
Bonds, notes, and loans payable (note 5)	36,781,956	14,044,987	50,826,943
Accrued compensated absences (note 5)	1,416,249	—	1,416,249
Noncurrent liabilities – other	12,175,416	—	12,175,416
Total noncurrent liabilities	50,373,621	14,044,987	64,418,608
Total liabilities	61,706,035	15,998,851	77,704,886
Net assets:			
Invested in capital assets, net of related debt	101,981,485	—	101,981,485
Restricted net assets	31,429,010	—	31,429,010
Unrestricted net assets	55,093,352	303,348	55,396,700
Total net assets	188,503,847	303,348	188,807,195
Total liabilities and net assets	\$ 250,209,882	16,302,199	266,512,081

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

	<u>Primary government</u>	<u>Component units</u>	<u>Total</u>
Operating revenues:			
Tenant revenue	\$ 19,009,860	—	19,009,860
Government operating grants	68,069,632	—	68,069,632
Other revenue, net	4,967,603	142,770	5,110,373
Total operating revenues	<u>92,047,095</u>	<u>142,770</u>	<u>92,189,865</u>
Operating expenses:			
Administrative	14,706,453	31,455	14,737,908
Tenant services	2,706,506	—	2,706,506
Utilities	10,424,848	—	10,424,848
Maintenance	9,656,042	—	9,656,042
Protective services	844,171	—	844,171
General	5,717,789	—	5,717,789
Extraordinary maintenance	9,404,962	—	9,404,962
Housing assistance payments (HAP)	16,640,969	—	16,640,969
Depreciation and amortization	8,891,660	44,113	8,935,773
Fraud losses	1,301	—	1,301
Total operating expenses	<u>78,994,701</u>	<u>75,568</u>	<u>79,070,269</u>
Operating income	<u>13,052,394</u>	<u>67,202</u>	<u>13,119,596</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	3,113,110	714,409	3,827,519
Gain on disposal and donations of fixed assets (note 4)	1,295,125	—	1,295,125
Interest expense	(2,240,334)	(717,569)	(2,957,903)
Total nonoperating revenues (expenses), net	<u>2,167,901</u>	<u>(3,160)</u>	<u>2,164,741</u>
Income before capital grants and distribution to partners	15,220,295	64,042	15,284,337
Government capital grants	3,395,369	—	3,395,369
Capital contributions from limited partners	2,873,941	—	2,873,941
Change in net assets	21,489,605	64,042	21,553,647
Total net assets – beginning	<u>167,014,242</u>	<u>239,306</u>	<u>167,253,548</u>
Total net assets – ending	<u>\$ 188,503,847</u>	<u>303,348</u>	<u>188,807,195</u>

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2008

Cash flows from operating activities:	
Cash receipts from customers	\$ 17,685,033
Cash receipts from grants	66,893,726
Other operating cash receipts	6,426,783
Cash payments to employees for services	(17,165,057)
Cash payments to suppliers of goods and services	(27,542,159)
Other operating cash payments	(9,513,508)
Cash payments to landlords – HAP	(16,640,969)
	<u>20,143,849</u>
Net cash provided by operating activities	
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	27,217,133
Proceeds from issuance of debt	10,049,537
Purchases of capital assets	(38,001,816)
Capital grants received	4,011,872
Principal payments on debt	(23,467,948)
Interest payments on debt	(2,533,433)
	<u>(22,724,655)</u>
Net cash used in capital and related financing activities	
Cash flows from investing activities:	
Sales of investments	39,901,140
Purchases of investments	(21,357,108)
Issuance of notes receivable	(645,115)
Principal receipts on notes receivable	1,065,373
Interest received	3,198,589
Capital contributions from limited partners	2,873,941
	<u>25,036,820</u>
Net cash provided by investing activities	
Net increase in cash and cash equivalents	22,456,014
Cash and cash equivalents at beginning of year	<u>41,495,295</u>
Cash and cash equivalents at end of year	<u>\$ 63,951,309</u>
Reconciliation to balance sheet of primary government:	
Current unrestricted cash and cash equivalents	\$ 32,307,712
Current cash with fiscal agents	8,201,017
Noncurrent restricted cash and cash equivalents	23,442,580
	<u>63,951,309</u>
Cash and cash equivalents	<u>\$ 63,951,309</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2008

Reconciliation of operating income to net cash provided by operating activities:	
Operating income:	\$ 13,052,394
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	8,891,660
Bad debt expense	245,977
Loss on disposal of assets held for sale	(47,175)
Changes in assets and liabilities:	
Change in receivables due from HUD	(736,376)
Change in receivables due from City of Norfolk	(439,530)
Change in receivables from tenants rent, net	(292,951)
Change in receivables from other, net	328,399
Change in inventories	(135,200)
Change in assets held for sale	1,736,669
Change in prepaid expenses and other assets	207,545
Change in other noncurrent assets	(3,168,229)
Change in accounts payable	257,361
Change in accrued salaries and benefits	123,197
Change in accrued compensated absences	(81,388)
Change in due to HUD and the City of Norfolk	245,996
Change in due to other governments	(34,859)
Change in tenant security deposits	98,905
Change in deferred revenue	5,632,440
Change in other current and noncurrent liabilities	(5,740,986)
Net cash provided by operating activities	\$ 20,143,849

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI, Federal Housing, Program Income, Home Partnership Investment Program (HOME), and Rehabilitation programs in the amount of \$833,702. In addition, \$64,445 of notes payable were retired.

The Authority deeded \$1,342,174 of fixed assets to the City of Norfolk.

The Authority had a decrease of \$1,296,330 in accounts payable related to the acquisition of fixed assets.

The City of Norfolk refunded a revenue note of the Authority's in the amount of \$18,413,286.

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The Norfolk Redevelopment and Housing Authority (the Authority), 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 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 for eligible individuals and families. The board of commissioners authorizes these contracts with the U.S. Department of Housing and Urban Development (HUD) pursuant to the latter agency's regulations and statutory authorizations.

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

(a) *The Financial Reporting Entity*

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's Board, and either: a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The City has determined that the Authority is a component unit of the City and accordingly, the financial position and results of operations of the Authority are reflected in the financial statements included in the comprehensive annual financial report of the City.

Component Units

The accompanying financial statements present the Authority and its component units, Mission College Apartments, L.P. (MCA), NRHA Mission College 1, L.P. (MC1), Norfolk Community College Campus Corporation (NCCCC), Norfolk One, L.P. (NOLP), Hampton Roads Ventures, L.L.C. (HRV), Hampton Roads Ventures Investors, L.L.C. (HRVI), and NRHA Grandy Village, L.P. (GVLP). The financial data of the component units is included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

NCCCC is a discretely presented component unit. Discretely presented component units are entities that are legally separate from the Authority, but for which the Authority is financially accountable, or whose relationships with the Authority are such that exclusion would cause the Authority's 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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

The financial information of NOLP, MCA, MC1, GVLP and HRV are 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 the 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. In previous years it was reported separately as a discretely presented component unit. 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. MCA made total distributions of \$428,380 to its partners through June 30, 2008. Separate audited financial statements are available from MCA. On December 28, 2007, the partnership sold 100% of its capital assets to MC1.

MC1, a Virginia limited partnership, was formed to acquire, redevelop and operate a low-income housing project located in Norfolk, Virginia. NRHA Mission College 1, LLC is a .01% general partner, Hudson Mission College, LLC is a 99.98% limited partner and Hudson SLP, LLC is a .01% special limited partner. NRHA Mission College 1, LLC is the only general partner in the partnership. The Authority owns a 79% interest in NRHA Mission College 1, LLC and is therefore responsible for all business decisions. On December 28, 2007, the partnership purchased 100% of the capital assets of MCA.

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 from NCCCC.

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 non-recourse 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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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 of Norfolk. 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 annual contributions contract (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 non-recourse to the other partners. During 2008, the Authority sold certain assets to GVLP as described in footnote 4. The activity of GVLP is included in the accompanying financial statements as of June 30, 2008.

(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. 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 GASB pronouncements.

(c) Basis of Accounting and Measurement Focus

The Authority's 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 operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The statement of net assets and statement of activities of the Authority are 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, housing assistance payments 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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

The Authority has entered into annual contributions contracts with HUD to develop, manage, and own public housing projects and to administer the federal Section 8 housing programs, whereby monthly housing assistance payments 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.

Effective in fiscal year 2006, HUD has mandated that revenues from the Housing Choice Voucher (HCV) program, Housing Assistance Payments (HAP), be recognized based on the current year's budget appropriation from HUD, rather than the methodology used in previous years of recognizing revenue based on expenditures incurred.

(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 2.1-327 and 2.1-328. 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 also short-term in nature such that cost and fair value are the same. Securities are held in safekeeping by the respective financial institutions. Repurchase agreements are collateralized by securities at market value sufficient to cover the face values of the investments.

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

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

(f) *Inventories*

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

(g) *Restricted Cash and Cash Equivalents*

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

(h) *Assets Held For Sale and Extraordinary Maintenance*

Assets held for sale are stated at acquisition cost plus improvements, but not in excess of net realizable value. Proceeds received from sales of these properties are required to be remitted to either

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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, capital outlay purchases on behalf of the City and capital outlays with an acquisition cost less than \$500.

(i) Capital Assets

Capital outlays are recorded as assets in the financial statements if the acquisition cost is greater than \$500 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 was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

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

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

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

Buildings and improvements	20 to 40 years
Data processing equipment	3 to 7 years
Automobiles	4 to 5 years
Office furniture and equipment	2 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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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 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 generally accepted accounting principles 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 a self-insurance program. All personal assets of the Board would be defended in civil actions arising from their duties. At June 30, 2008, there are no liabilities for unpaid claims.

(p) *Other Post Employment 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 eighteen 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 41 retirees participating at 100% of their own cost. The Authority's regular healthcare provider underwrites the retiree's policies.

(2) *Deposits and Investments*

At June 30, 2008, the carrying value of the Authority's deposits with banks and savings institutions was \$17,294,049 and the bank balance was \$20,937,180 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.

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

Authority. If the value of the pool’s collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks and savings institutions) of the pool; therefore, these deposits are considered collateralized and as a result are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

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

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

Concentration of Credit Risk

There are no concentrations of credit risk, other than investments in U.S. Government obligations greater than 5% of total investments.

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.

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. Investment of reserves not needed for operations are typically held to maturity.

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities (in years)</u>		
		<u>Less than 1</u>	<u>1-2</u>	<u>2-4</u>
U.S. agency and discount notes	\$ 29,292,154	26,316,529	—	2,975,625
Repurchase agreement	6,894,912	6,894,912	—	—
Commercial paper	3,925,594	3,925,594	—	—
Certificates of deposit	9,975,392	1,055,994	8,919,398	—
	<u>\$ 50,088,052</u>	<u>38,193,029</u>	<u>8,919,398</u>	<u>2,975,625</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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	\$ 17,294,049
Cash on hand	827
Letter of credit	600,000
Investments	<u>50,088,052</u>
	<u>\$ 67,982,928</u>
Per exhibit A:	
Cash and cash equivalents	\$ 32,307,712
Cash with fiscal agents	8,201,017
Restricted cash and cash equivalents	23,442,580
Investments	<u>4,031,619</u>
	<u>\$ 67,982,928</u>

Foreign Currency Risk

The Authority does not have any foreign investments.

Component Units

Norfolk Community College Campus Corporation

Credit Risk

Financial instruments which potentially subject the Corporation to credit risk consist principally of cash and bond escrow funds. The Corporation places its cash with high credit quality financial institutions and balances may, at times, exceed the FDIC insured limits. At December 31, 2007, the Corporation had \$1,546 in cash and \$399,905 invested by the Trustee in short-term money market instruments.

Investments

Corporate investments are stated at fair value.

(3) Receivables

The only receivables not expected to be collected within one year are the notes receivable. A summary of notes receivable at June 30, 2008, with specific payment terms, are as follows:

1% promissory notes, due from Community Ventures Investors, L.L.C. Monthly installments of interest only. Principal to be paid in full by January 1, 2015. The purpose of the loan is for Community Ventures Investors, L.L.C. to purchase new market tax credits for the Attucks Theater.	\$ 5,688,000
Allowance for doubtful accounts	<u>(5,688,000)</u>
	<u>—</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

Notes receivable – Hope VI

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

\$ 11,046,215
(11,046,215)

Allowance for doubtful accounts

—

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.

1,454,310
(1,454,310)

Allowance for doubtful accounts

—

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.

2,509,099

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Notes to Basic Financial Statements

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Promissory note receivable due from TCB. The funds were provided for approved costs of the Marshall Manor III development. The note bears no interest, principal payments to be made from cash flow and/or net proceeds of TCB Marshall Manor III that TCB receives.	\$ 131,211
Promissory note receivable due from TCB Bowling Green III LP. The funds were provided for the construction of 45 units of rental housing, of which 35 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2045.	2,020,387
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.	1,389,197
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.	1,595,000
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 5.36%. Interest and principal shall be due in December 2046.	<u>650,000</u>
Total notes receivable – Hope VI	<u>15,636,185</u>
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.	76,275
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.	257,292
Broad Creek – 0% promissory note receivable, due from a local citizen on a deferred basis to purchase a home located in a targeted neighborhood. The note is secured by a deed of trust.	34,525
EOV Note Initiatives – 0% promissory note for the purchase of a residence. The note is due when the signor vacates the residence or upon her death. The note is secured by a deed of trust on certain real property.	195,000

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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.”	\$ 119,914
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.	<u>7,485,693</u>
Total notes receivable	23,804,884
Less current portion	<u>200,688</u>
	<u>\$ 23,604,196</u>

Component Units

NCCCC leases a facility to the State Board for Community Colleges for approximately \$2,000,000 per year until December 31, 2015, and \$750,000 thereafter until December 31, 2019. The \$2,000,000 annual rent payment consists of principal repayments on the current notes receivable in the amount of \$1,290,000 and \$710,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of \$15,160,000 equal to the debt described in note 5.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

(4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 18,676,474	7,389,725	(2,660,977)	23,405,222
Construction in progress	<u>11,028,859</u>	<u>11,939,722</u>	<u>(10,233,502)</u>	<u>12,735,079</u>
Total capital assets not being depreciated	<u>29,705,333</u>	<u>19,329,447</u>	<u>(12,894,479)</u>	<u>36,140,301</u>
Other capital assets:				
Buildings and building improvements	153,704,603	22,507,582	(25,491,100)	150,721,085
Improvements other than buildings	60,360,359	607,596	(6,068,413)	54,899,542
Equipment	<u>8,232,423</u>	<u>413,535</u>	<u>(800,961)</u>	<u>7,844,997</u>
Total other capital assets	<u>222,297,385</u>	<u>23,528,713</u>	<u>(32,360,474)</u>	<u>213,465,624</u>
Less accumulated depreciation for:				
Buildings and building improvements	76,077,273	6,423,065	(10,248,551)	72,251,787
Improvements other than buildings	38,893,969	1,791,874	(2,277,552)	38,408,291
Equipment	<u>5,826,301</u>	<u>622,914</u>	<u>(654,168)</u>	<u>5,795,047</u>
Total accumulated depreciation	<u>120,797,543</u>	<u>8,837,853</u>	<u>(13,180,271)</u>	<u>116,455,125</u>
Other capital assets, net	<u>101,499,842</u>	<u>14,690,860</u>	<u>(19,180,203)</u>	<u>97,010,499</u>
	<u>\$ 131,205,175</u>	<u>34,020,307</u>	<u>(32,074,682)</u>	<u>133,150,800</u>

The Authority has active construction projects as of June 30, 2008. Outstanding commitments related to construction in progress amounted to \$2,248,362 at June 30, 2008.

Included in the changes in capital assets is a net decrease of \$3,449,969 related to the sale of Authority assets to a newly formed blended component unit, NRHA Grandy Village L.P. The book value of the assets sold was \$19,328,968; \$25,840,049 and \$6,511,081 for the gross assets and accumulated depreciation, respectively. The purchase price was \$15,878,999.

Also included in the changes in capital assets is a \$5,492,675 gain related to the sale of existing NRHA assets to a newly formed blended component unit, NRHA Mission College 1. The net book value of assets sold was \$4,972,325; \$11,473,176 and \$6,500,851 for the gross assets and accumulated depreciation, respectively. The purchase price was \$10,465,000.

Other decreases in capital assets were the sale of two public housing units with a book value of \$45,543, as well as the donation of a linear park to the City of Norfolk with a book value of \$1,342,174.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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

Depreciation and amortization expense	\$ 8,891,660
Less amortization expense	(53,807)
	8,837,853
Increase in accumulated depreciation	\$ 8,837,853

(5) Long-Term Debt

A summary of the Authority's long-term liability activity for the fiscal year ended June 30, 2008 is presented below:

	Amounts payable at July 1, 2007	Additions	Retirements and reductions	Amounts payable at June 30, 2008	Amounts due within one year
Notes payable:					
Granby Street office building	\$ 2,048,914	—	140,701	1,908,213	147,081
Federal Financing Bank Renewal and replacement (line of credit)	8,766,458	—	486,395	8,280,063	517,000
Property construction	6,793,668	1,149,537	2,532,380	5,410,825	188,591
Grandy renovation	18,413,286	—	18,413,286	—	—
Park Terrace	315,243	—	55,540	259,703	58,562
Mission College Apartments	974,159	—	64,733	909,426	70,787
	4,752,921	—	94,913	4,658,008	100,642
	42,064,649	1,149,537	21,787,948	21,426,238	1,082,663
Bonds payable:					
Property acquisition bonds	4,075,000	—	1,045,000	3,030,000	1,270,000
Grandy Partnership	—	8,900,000	—	8,900,000	—
Multi-family revenue bonds – Oakmont North	3,370,000	—	165,000	3,205,000	175,000
Revenue bonds – Merrimack Landing	3,850,000	—	470,000	3,380,000	495,000
Less:					
Unamortized bond discount	(68,565)	—	(10,686)	(57,879)	(10,686)
Unamortized loss on refunding	(141,772)	—	(26,173)	(115,599)	(26,173)
Accrued compensated absences	1,683,657	—	81,388	1,602,269	186,020
Total long-term liabilities	\$ 54,832,969	10,049,537	23,512,477	41,370,029	3,171,824

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Notes to Basic Financial Statements

June 30, 2008

The following summarizes the Authority's long-term note and bond obligations at June 30, 2008.

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.	\$ 8,280,063
Renewal and replacement (line of credit) note due to a local bank, interest at 1.5% over LIBOR (3.98% at June 30, 2008). Payments of interest are due monthly. Subsequent to year end, this line of credit was refinanced with full repayment of the note due on July 30, 2009. The note is secured by real property owned by the Authority and the City. The Authority can borrow up to \$8,000,000 under the note.	5,410,825
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.	259,703
Tax-exempt government bond for renovation to the 201 Granby Building. Repayment of yearly principal and interest of \$231,887 due in monthly installments with interest at 4.513% through 2018. The debt is secured by the building and all equipment at 201 Granby Street.	1,908,213
Mortgage note insured by the Federal Housing Administration for a 260 unit apartment complex in Norfolk, Virginia. Bearing interest at the rate of 5.875%. Principal and interest are paid in monthly installments of \$30,968.	4,658,008
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.	<u>909,426</u>
Total notes payable	<u>21,426,238</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

Bonds payable:

Tax-exempt variable rate property acquisition bonds. Interest is payable monthly, principal payments are due on September 1 through 2010. These bonds are secured by a letter of credit with a local bank. The interest rate at June 30, 2008 was 2.48% and is reset weekly based on LIBOR.	\$ 3,030,000
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, 2008 was 1.61% and is reset weekly based on LIBOR.	3,205,000
Tax-exempt multi-family housing revenue draw down bonds series 2008. Interest is variable and payable monthly, principal due at maturity, June 1, 2011. The interest rate at June 30, 2008 was 4.73% and is reset monthly based on one-month LIBOR. The bonds are unsecured.	8,900,000
Multi-family housing serial revenue refunding bonds issued February 1, 1997, interest from 4.1% to 5.5% payable semiannually. The bonds are secured by a lien on the property and a security interest in the leases and rents of the property. The bonds will be redeemed pursuant to the sinking fund provisions of the trust agreement between the Authority and the trustee, in increasing amounts each December 1 through 2013.	3,380,000
	18,515,000
Less:	
Unamortized bond discount	(57,879)
Unamortized loss on refunding	(115,599)
Total bonds payable	18,341,522
Accrued compensated absences	1,602,269
Total long-term liabilities	\$ 41,370,029

During the year, the City refunded bonds to retire a revenue note due to two local banks used to finance the construction of a retail outlet. Principal of \$18,413,286 and related interest were paid off by the City on the Authority's behalf. The amount paid by the City is reflected as operating revenues in the accompanying statement of revenues, expenses, and changes in net assets.

(a) Future Maturities

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

	Note payable		Bonds payable	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2009	\$ 1,082,663	1,274,152	1,940,000	723,820
2010	6,174,637	959,684	2,095,000	652,877
2011	1,013,062	875,740	10,010,000	566,502
2012	1,077,534	811,267	780,000	142,602
2013	1,079,252	746,959	820,000	119,966
2014-2018	6,328,761	2,585,860	1,920,000	200,790
2019-2023	2,361,337	951,553	950,000	44,505
2024-2028	1,367,576	490,474	—	—
2029-2030	941,416	80,338	—	—
	<u>\$ 21,426,238</u>	<u>8,776,027</u>	<u>18,515,000</u>	<u>2,451,062</u>

Future maturities of accrued compensated absences are not determinable.

(b) Component Units

The Authority issued Educational Facility Revenue bonds dated September 1, 1999 for the Tidewater Community College downtown campus project in the amount of \$9,115,000. At December 31, 2007, \$6,505,000 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, 2007, \$8,655,000 remained outstanding. Interest at rates from 2.0% to 5.25% is payable semiannually and principal payments are due annually in November. Also due is \$234,987 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2008, \$1,350,000; 2009, \$1,400,000; 2010, \$1,455,000; 2011, \$1,515,000; 2012, \$1,580,000; and 2013-2022, \$7,860,000.

(6) Pension Plan

(a) Plan Description

The Authority contributes to the Virginia Retirement System (VRS), an agent multiple-employer, defined benefit pension plan administered by the Virginia Retirement System (VRS or the System). All full-time, salaried permanent employees must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers, payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. In addition, retirees qualify for annual cost-of-living (COLA) adjustments beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. 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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System 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% of their annual reported compensation to the VRS. This 5% 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, 2008 was 16.6 % of annual covered payroll, including the member contribution of 5%.

(c) Annual Pension Cost

For the fiscal year ended June 30, 2008, the Authority's annual pension cost of \$2,293,238 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.5% per year cost-of-living adjustments. 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 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, 2008	\$ 2,293,238	100%	none
June 30, 2007	2,270,239	100%	none
June 30, 2006	1,432,444	100%	none

(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, 2008.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

(8) Commitments and Contingencies

(a) *Federal Award Programs*

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

(b) *Litigation*

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

(c) *Waterside Limited Partnership*

The Authority guarantees a note payable to BB&T (Branch Banking & Trust Co.). The outstanding balance of the note at June 30, 2008 was \$5,694,364 and was with full recourse to the Authority.

(d) *Letters of Credit*

The Authority has nine letters of credit with a bank for \$25,471,714. Monthly draws have been made against two of the letters of credit to pay interest on bonds issued by the bank. Those letters of credit are repaid from interest escrow accounts kept with the bank. No draws have been made against the other seven letters of credit.

(9) Conduit Debt

Periodically, the Authority has issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction and rehabilitation of industrial and commercial facilities and multi-family 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, 2008, there were 11 issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately \$184,879,265.

(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 are funded with Hope VI funds supplied by the Authority and low income housing tax credits administered by the Virginia Housing and Development Authority. During the current year, the Authority loaned \$35,453 of Hope VI to the Phase 4 limited partnership owner entities.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2008

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 Arcade. The agreement is a limited liability of the Authority.

During the year, NRHA received development fees of \$2,150,000 and bond issuance fees of \$100,000 from its blended component unit, GVLP. These amounts are recorded in other operating revenues on the accompanying statement of revenues, expenses and changes in net assets. Such amounts were partially funded with capital contributions received by GVLP from its limited partners in 2008, which amounted to \$1,505,000. These capital contributions are recorded as capital contributions from limited partners in the accompanying statements of revenues, expenses and changes in net assets of the primary government. These transactions between NRHA and the blended component unit have not been eliminated in the accompanying financial statements.

During the year, NRHA received development fees of \$200,000 from its blended component unit, MC1. These amounts are recorded in other operating revenues on the accompanying statement of revenues, expenses and changes in net assets. Such amounts were funded with capital contributions received from MC1 from its limited partners in 2008, which amounted to \$200,000. These capital contributions are recorded as capital contributions from limited partners in the accompanying statements of revenues, expenses and changes in net assets of the primary government. These transactions between NRHA and the blended component unit have not been eliminated in the accompanying financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
(UNAUDITED)**

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Required Supplementary Information Other than MD&A
Schedule of Funding Progress – VRS (Unaudited)

Year ended June 30, 2008

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Underfunded actuarial accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
June 30, 2005	\$ 63,189,946	78,147,194	14,957,248	80.86	\$ 14,768,978	101.27
June 30, 2006	65,055,152	73,377,992	8,322,840	88.66	14,013,401	59.39
June 30, 2007	72,045,739	80,500,571	8,454,832	89.50	13,371,113	63.23

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION (UNAUDITED)

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Community Development Block Grant Fund Expenditures by Program Year (Unaudited)

Year ended June 30, 2008

	<u>Site clearance</u>	<u>Administration</u>	<u>Site improvement</u>	<u>Site acquisition</u>	<u>Site disposition</u>	<u>Rehabilitation</u>	<u>Relocation</u>	<u>Miscellaneous</u>	<u>Total</u>
Community Development Block Grant Fund:									
Program year 2001	\$ —	—	(116)	73	—	—	—	—	(43)
Program year 2002	4,865	—	—	178,923	—	—	—	—	183,788
Program year 2003	—	—	135,253	58,080	6,809	—	—	—	200,142
Program year 2004	9,157	—	—	54,751	—	45,000	—	—	108,908
Program year 2005	—	—	5,993	—	—	10,000	2,200	—	18,193
Program year 2006	35,289	—	540,825	398	774	242,787	15,797	—	835,870
Program year 2007	73,095	735,387	157,513	340,137	484,577	1,146,697	114,398	75,000	3,126,804
Total CD	\$ <u>122,406</u>	<u>735,387</u>	<u>839,468</u>	<u>632,362</u>	<u>492,160</u>	<u>1,444,484</u>	<u>132,395</u>	<u>75,000</u>	<u>4,473,662</u>
Reconciliation to operating expenses:									
Project costs incurred	\$ 122,406	735,387	839,468	632,362	492,160	1,444,484	132,395	75,000	4,473,662
Land held for resale									280,216
Operating expenses								\$	<u>4,753,878</u>

Unaudited – see accompanying independent auditors’ report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY
 Schedule of Urban Renewal Fund Expenditures by Project (Unaudited)
 Year ended June 30, 2008

	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	6,579,299	14,684	10,797	929,917	18,027	7,557,848
Legal services	26,512	374,316	66,185	27,170	9,023	2,229	505,435
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	(546,414)	(60,545)	(15,881)	(13,823)	7,373	(878)	(630,168)
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)	(7,110,146)	(16,771)	(81,839)	(67,794)	(26,270)	(7,382,181)
Real estate purchases	—	183,000	—	—	30,000	30,000	243,000
Rehabilitation	—	367,948	—	—	—	—	367,948
Net cumulative project costs at June 30, 2008	(514,204)	4,867,743	3,336,850	1,463,535	1,356,527	165,787	10,676,238
Net cumulative project costs at June 30, 2007	(502,204)	4,855,873	3,336,850	1,463,535	1,356,527	165,787	10,676,368
Net project costs incurred during year ended June 30, 2008	(12,000)	11,870	—	—	—	—	(130)
Revenue earned during year ended June 30, 2008	12,000	3,130	—	—	—	—	15,130
Gross project costs incurred during year ended June 30, 2008	\$ —	15,000	—	—	—	—	\$ 15,000

Unaudited – see accompanying independent auditors’ report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY
 Summary Schedule of Comprehensive Grant Program and Capital Fund Program Expenditures (Unaudited)
 Year ended June 30, 2008

	Program year										Total
	1998-1999	2000	2001	2002	2003	Bonus 2003	2004	2005	2006	2007	
Classification of expenditures:											
1408 Management improvements	\$ 801,144	201,609	622,736	221,423	221,104	—	120,809	136,328	99,982	58,538	2,483,673
1410 Administration	1,023,085	490,002	541,466	489,796	480,414	—	510,444	674,274	572,652	312,684	5,094,817
1430 Fees and costs	1,074,409	106,454	236,651	116,464	106,987	74,311	239,687	842,123	214,209	150,910	3,162,205
1450 Site improvements	2,518,641	501,429	260,731	121,019	163,000	—	230,178	231,573	66,027	—	4,092,598
1460 Dwelling structures	6,775,445	6,525,469	2,115,545	1,806,991	839,130	331,633	2,248,251	1,942,510	865,274	33,418	23,483,666
1465.1 Dwelling equipment – nonexpendable	61,391	—	255,444	132,238	496,887	—	167,565	202,280	—	—	1,315,805
1470 Nondwelling structures	1,016,866	16,779	170,767	1,001,887	680	826,005	—	637,502	125,332	—	3,795,818
1475 Nondwelling equipment	14,454	208,055	—	107,334	12,408	—	—	—	10,657	—	352,908
1495 Relocation costs	17,985	12,883	116,016	—	—	—	—	—	—	—	146,884
1490 Replacement reserves*	—	—	3,500,000	3,500,000	3,500,000	—	3,343,069	772,911	—	—	14,615,980
1498 Development activity	—	—	—	—	—	—	—	1,284,706	712,816	—	1,997,522
1460 Replacement Housing Factor Funds	—	—	7,481	15,752	12,229	—	359,885	6,440	—	—	401,787
Cumulative project costs at June 30, 2008	13,303,420	8,062,680	7,826,837	7,512,904	5,832,839	1,231,949	7,219,888	6,730,647	2,666,949	555,550	60,943,663
Cumulative project costs at June 30, 2007	13,303,420	8,062,680	7,826,837	7,512,904	5,832,839	1,231,949	7,196,527	5,232,106	826,746	—	57,026,008
Project costs incurred during year ended June 30, 2008	\$ —	—	—	—	—	—	23,361	1,498,541	1,840,203	555,550	3,917,655
Classification of expenditures:											
Management improvements	\$ —	—	1,715	—	—	—	—	—	—	—	1,715
Administration	—	—	(1,862)	400	—	—	6,738	—	—	—	5,276
Fees and costs	—	—	67,911	18,889	151,118	—	24,564	46,989	—	—	309,471
Site improvements	—	—	398,880	217,404	1,607,855	—	1,172,180	—	—	—	3,396,319
Dwelling structures	—	—	3,179,390	2,760,642	1,570,137	—	1,317,034	—	—	—	8,827,203
Nondwelling structures	—	—	—	629,317	312,172	—	1,033,925	—	—	—	1,975,414
Relocation costs	—	—	196	—	59,572	—	—	—	—	—	59,768
Cumulative project costs at June 30, 2008	—	—	3,646,230	3,626,652	3,700,854	—	3,554,441	46,989	—	—	14,575,166
Cumulative project costs at June 30, 2007	—	—	3,646,230	3,626,652	3,605,767	—	2,296,711	142,871	—	—	13,318,231
Project costs incurred during year ended June 30, 2008	\$ —	—	—	—	95,087	—	1,257,730	(95,882)	—	—	1,256,935
Reconciliation to operating expenses:											
Total project costs incurred during year ended June 30, 2008	\$ —	—	—	—	95,087	—	1,281,091	1,402,659	1,840,203	555,550	5,174,590
Increase in capital assets (not including depreciation):											
Ending balance	—	—	3,319,306	3,285,934	3,583,720	1,231,949	5,497,286	3,222,875	1,483,831	145,409	21,770,310
Transfers/surveys	—	—	8,155	15,752	1,134,420	—	1,156,383	1,973,146	510,484	38,919	4,837,259
Beginning balance	—	—	(3,327,461)	(3,301,686)	(4,621,841)	(1,231,949)	(5,372,578)	(3,806,916)	(354,872)	—	(22,017,303)
Increase in capital assets	—	—	—	—	96,299	—	1,281,091	1,389,105	1,639,443	184,328	4,590,266
Management improvements and administration	—	—	—	—	(1,212)	—	—	13,554	200,760	371,222	584,324
Administrative expenses transferred to central office cost center	—	—	—	—	—	—	—	(13,554)	(200,760)	(371,222)	(585,536)
Depreciation	—	—	194,927	188,999	242,063	167,227	362,212	87,429	4,525	—	1,247,382
Operating expenses	\$ —	—	194,927	188,999	240,851	167,227	362,212	87,429	4,525	—	1,246,170

*Replacement Reserves Expenditures

Unaudited – see accompanying independent auditors' report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY
 Summary Schedule of ROSS Grants Program Expenditures (Unaudited)
 Year ended June 30, 2008

	Program year						Total
	2001	2002	2003	2005	2006	2007	
Classification of expenditures:							
Program coordinator	\$ 81,000	—	44,242	39,183	130,000	130,000	424,425
Revolving loan program	60,000	—	—	—	—	—	60,000
Employment and job readiness	12,500	—	—	—	—	—	12,500
Job training	14,928	—	131,041	238,679	—	—	384,648
Vocational training	14,525	—	—	—	—	—	14,525
Family support service	48,971	—	—	5,856	—	—	54,827
Travel costs	1,557	1,250	998	8,706	—	7,284	19,795
Administrative costs	5,000	4,600	31,120	14,602	—	4,524	59,846
Capacity building activities	—	—	42,560	—	—	—	42,560
Individual Savings Account	—	—	—	37,500	—	—	37,500
Market analysis	68	—	—	—	—	—	68
Program expenses	—	40,619	83,401	19,657	—	4,800	148,477
Salaries	—	32,482	—	145,764	—	22,495	200,741
Fringe benefits	—	9,419	16,835	29,236	—	6,488	61,978
	238,549	88,370	350,197	539,183	130,000	175,591	1,521,890
Cumulative project costs at June 30, 2008							
Cumulative project costs at June 30, 2007	238,549	88,370	350,197	406,087	130,000	3,613	1,216,816
Project costs incurred during year ended June 30, 2008	\$ —	—	—	133,096	—	171,978	305,074
Equipment							(7,915)
Current year depreciation							7,329
Operating expenses						\$	304,488

Unaudited – see accompanying independent auditors' report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Urban Revitalization Program (Hope VI) Expenditures (Unaudited)

Year ended June 30, 2008

	<u>Program year 2008</u>	<u>Total</u>
Classification of expenditures:		
Management improvements	\$ 3,838,718	3,838,718
Administration	3,546,165	3,546,165
Fees and costs	4,669,312	4,669,312
Site acquisition	68,475	68,475
Site improvement	1,959,801	1,959,801
Dwelling structures	13,377,084	13,377,084
Nondwelling equipment	25,000	25,000
Demolition	2,158,723	2,158,723
Relocation costs	1,536,756	1,536,756
Hope VI Section 8	<u>2,059,099</u>	<u>2,059,099</u>
Cumulative project costs at June 30, 2008	33,239,132	33,239,133
Cumulative project costs at June 30, 2007	<u>31,283,029</u>	<u>31,283,029</u>
Project costs incurred during year ended June 30, 2008	<u>\$ 1,956,103</u>	<u>1,956,104</u>
Reconciliation to operating expenses:		
Project costs incurred:		\$ 1,956,104
Decrease in fixed assets:		
Ending balance	\$ 1,709,127	
Depreciation	4,934	
Surveys	351,516	
Beginning balance	<u>(1,910,888)</u>	
Increase in fixed assets		(154,689)
Increase in notes receivable:		
Ending balance	15,636,185	
Beginning balance	<u>(15,592,633)</u>	
Increase in notes receivable		(43,552)
Current year other income		77,210
Administrative expenses transferred to central office cost center		43,443
Operating transfers out		(95,104)
Operating transfers in		101,500
Retainage		4,552
Depreciation		<u>4,934</u>
Operating expenses		<u>\$ 1,894,398</u>

Unaudited – see accompanying independent auditors’ report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Empowerment Zone Program Expenditures (Unaudited)

Year ended June 30, 2008

	Program year 2002	Total
	<u> </u>	<u> </u>
Classification of expenditures:		
Administration	\$ 486,334	486,334
Planning	30,478	30,478
Site acquisition	678,018	678,018
Site improvement	1,154,019	1,154,019
Demolition	22,938	22,938
Rehabilitation	150,000	150,000
Tenant services	6,242	6,242
Operating transfer out	513,000	513,000
Nondwelling equipment	25,885	25,885
	<u> </u>	<u> </u>
Cumulative project costs at June 30, 2008	3,066,914	3,066,914
Cumulative project costs at June 30, 2007	<u>3,066,914</u>	<u>3,066,914</u>
Project costs incurred during year ended June 30, 2008	\$ <u> —</u>	<u> —</u>
Reconciliation to operating expenses:		
Current year depreciation	\$ <u> 861</u>	<u> 861</u>

Unaudited – see accompanying independent auditors’ report.

COMPLIANCE SECTION

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Agency/program grant title	Pass-through agency	Federal CFDA number	Expenditures
Department of Housing and Urban Development:			
Low-income Housing:			
Local housing authority:			
Public Housing Program (contract P-5540):			
VA6-2 through VA6-12 and VA6-18 through VA6-22 and VA6-24 annual subsidy			
		14.850	\$ 15,161,634
Section 8 Housing Assistance Payments Program:			
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4			
		14.871	17,540,570
New construction – Park Terrace Program (contract P-5512)			
	VHDA	14.182	307,538
Subtotal – Section 8 Housing Assistance Payments Program			17,848,108
Single Room Occupancy (SRO) Program: (VA36K401001)			14.249
			355,068
Capital Fund Program:			
VA-36-P006-501 (2003)			
		14.872	95,087
VA-36-P006-501 (2004)			
		14.872	1,281,091
VA-36-P006-501 (2005)			
		14.872	1,402,659
VA-36-P006-501 (2006)			
		14.872	1,840,203
VA-36-P006-501 (2007)			
		14.872	555,550
Subtotal – Capital Fund Program			5,174,590
Resident Opportunity and Supportive Services (ROSS) Program:			
VA006REF046A004 (2005)			
		14.870	133,096
VA006RFS158A006 (2007)			
		14.870	126,387
VA006REF034A006 (2007)			
		14.870	45,591
Subtotal – ROSS Program			305,074
Community Development Block Grant:			
	City of Norfolk		
Program year 2001 (CDBG No. B01-MC-510016)			
		14.218	(43)
Program year 2002 (CDBG No. B02-MC-510016)			
		14.218	183,788
Program year 2003 (CDBG No. B03-MC-510016)			
		14.218	200,142
Program year 2004 (CDBG No. B04-MC-510016)			
		14.218	108,908
Program year 2005 (CDBG No. B05-MC-510016)			
		14.218	18,193
Program year 2006 (CDBG No. B06-MC-510016)			
		14.218	835,870
Program year 2007 (CDBG No. B07-MC-510016)			
		14.218	3,126,804
Subtotal – Community Development Block Grant			4,473,662
Home Investment Partnerships:			
	City of Norfolk		
Program year 2003 (HOME No. M03-MC-510203)			
		14.239	38,265
Program year 2004 (HOME No. M04-MC-510203)			
		14.239	156,352
Program year 2005 (HOME No. M05-MC-510203)			
		14.239	437,312
Program year 2006 (HOME No. M06-MC-510203)			
		14.239	913,151
Program year 2007 (HOME No. M07-MC-510203)			
		14.239	1,407,720
Subtotal – Home Investment Partnerships			2,952,800
Urban Revitalization Program (HOPE VI) (VA-36-URD006-1100) (2000)			14.866
			1,956,104
Intermodal Surface Transportation Efficiencies Act (ISTEA) –			
Historic Preservation Grant (EN-01-122-121)			
	City of Norfolk	15.904	160,996
Prepare Until Success Happens (PUSH) – (07-A5411GS05)			
	City of Norfolk	16.738	3,674
Total expenditures of federal awards			\$ 48,391,710

See notes to schedule of expenditures of federal awards.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) General

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

(2) Basis of Accounting

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

(3) Amounts Provided to Subrecipients

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

Park Place Redevelopment Foundation, Inc.	\$ 42,624
Plumb Line Ministries	59,511
Beacon Light Civic League	261,286
Community Housing Partner	<u>27,500</u>
	<u>\$ 390,921</u>

(4) Loans Outstanding

The Authority had \$8,280,063 outstanding at June 30, 2008 under the Low-Income Housing program.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes, 08-1 and 08-2**
Material weaknesses: **No**
- (c) Noncompliance which is material to the basic financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes, finding 08-3 through 08-6**
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (g) Major programs: **Section 8 Housing Assistance Payments Program, Housing Choice Voucher; CFDA 14.871; Capital Fund CFDA 14.872; Urban Revitalization Program (HOPE VI) CFDA 14.866**
- (h) Dollar threshold used to determine Type A programs: **\$1,451,751**
- (i) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

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

Finding 08-1: Component Unit Transactions

Significant Deficiency in Internal Control

Criteria – Generally accepted accounting principles allow component unit information to be recorded based on the component unit's fiscal year-end date as long as appropriate disclosures are made.

Condition – The Authority's blended component unit, Mission College Apartments, L.P. (MCA) has a fiscal year-end of December 31st. The Authority did not record transactions for MCA for the four-day period of December 28, 2007 through December 31, 2007 prior to the start of the audit fieldwork.

Questioned Costs – There are no questioned costs associated with this finding.

Perspective – On December 28, 2007, the partnership sold the majority of its assets to another partnership, Mission College I, L.P. (MC1) which is also a blended component unit of the Authority. MCA recorded a gain of approximate \$5,000,000 related to the sale.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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Cause and Effect – MCA reported its fiscal 2007 year-end information as of December 27th rather than December 31st to meet the deadline for the Real Estate Assessment Center (REAC) filing. As such, the stand alone audit did not include the four days of activity from December 28, 2008 through December 31, 2008 and management did not record these entries on the Authority's books.

Recommendation – We recommend that the Authority consider the financial statement implications at the Authority's level of financial reporting when component unit information is not presented consistent with generally accepted accounting principles.

Views of Management – Management agrees with the finding. The closing documents for the December 28, 2007 partnership sale were not completed in time to allow for the timely completion of the MCA (a component unit) audit engagement and REAC submission which was due by March 30, 2008. We received permission from HUD to file the stub period with the December 31, 2008 financial statements; however, even though appropriate, we neglected to include the additional entries in the records provided for the June 30, 2008 NRHA audit engagement.

Corrective Action – The Authority has budgeted for and is pursuing additional staffing to perform heightened due diligence in performing all aspects of the partnership accounting functions; including more review and involvement before the deals close. Also, management will strive to influence the closing dates of any future deals to allow reasonable time to analyze final documents, and to record and prepare transaction for audit.

Finding 08-2: Fixed Asset Accounting**Significant Deficiency in Internal Control**

Criteria – Generally accepted accounting principles require the Authority to reconcile its subsidiary records to the general ledger for fixed asset related accounts.

Condition – The Authority did not perform timely reconciliations of the fixed asset and accumulated depreciation accounts.

Questioned Costs – There are no questioned costs associated with this finding.

Perspective – The Authority does not perform a review of fixed asset accounts on a routine basis. We did not receive fixed asset account reconciliations and supporting schedules until after audit fieldwork had ended.

Cause and Effect – The Authority did not have a fixed asset accountant in place for much of fiscal 2008 due to a vacancy in the position. The reconciliations were not being routinely performed.

Recommendation – We recommend that the Authority work to fill the vacancy in the fixed asset accountant position and put internal controls in place to ensure fixed asset reconciliations between the subsidiary ledgers and the general ledgers are performed on a monthly basis. We further recommend that the Authority consider whether the software used to track fixed assets is sufficient for the needs of the Authority.

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Views of Management – Management agrees that there was a significant delay in providing the fixed asset records for the audit. While turnover in key positions that support this function caused a significant challenge to complete schedules for audit, the defeating obstacle was the closing of a partnership deal on June 28, 2008—two days before year end—which required major analysis of affected project assets. Also receipt and review of final documents and clarification of financial terms took significant time after the closing date and year end.

Corrective Action – The Authority has budgeted for and is pursuing additional staffing to perform heighten due diligence in performing all aspects of the partnership accounting functions – including impact on fixed assets – prior to closing. Also, management will strive to influence the closing dates of any future deals to allow reasonable time to analyze final documents, and to record and prepare transaction for audit.

In regards to software, during the last month, the software vendor for the Authority’s current fixed asset system was with us for 3 days to train and discuss the processes and challenges the Authority needs to address to improve our more active construction in process, transfers and adjustments, and asset sale workload. We have concluded that available upgrades in the software as well as the use of set-up features not implemented in the past can address our changing needs; we plan to upgrade the system in the fall of 2009 payments.

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

Department of Housing and Urban Development

Section 8 Housing Assistance Payments Program, Housing Choice Vouchers; CFDA 14.871

Significant Deficiency in Internal Control

Finding 08-3: Eligibility

Criteria – In accordance with 24CFR section 982.516, the Authority is required to reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payments (HAP) as necessary.

Condition – We noted three families out of 40 families tested for which the eligibility calculation did not agree to the HAP payments.

Questioned Costs – The questioned costs associated with this finding were a net overpayment of HAP amounting to \$336 on an annualized basis for the three families in our sample.

Perspective – There were three errors out of 40 in our sample with known questioned costs of \$336. The total annual HAP payments for our sample of 40 amounted to \$310,992. During fiscal 2008, the Authority’s total HAP expenditures were \$15,759,714.

Cause and Effect – The Authority did not have adequate controls in place to monitor the accuracy of HAP payments.

Recommendation – We recommend that the Authority enhance the internal controls surrounding the processing of eligibility for HAP payments to ensure accuracy of the payments.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Views of Management – Management agrees with this finding.

Corrective Action Plan – Audited files were reviewed and corrected and the following action steps were taken.

- Effective July 1, 2008 a Compliance Manager was hired to audit the files completed by the Housing Choice Voucher (HCV) staff to review files for accuracy and to determine any areas where improvement is necessary.
- All HCV staff persons have attended six Lunch ‘N Learn sessions sponsored by Nan McKay and associates on several topics dealing with the administration of the HCV Program since the end June 2008.
- Monthly staff meetings involve training on rent calculation and policy and procedures. Internal training is conducted at monthly staff meetings, several case studies were completed by the HCV staff which were reviewed and discussed by the staff for accuracy and clarification.

Finding 08-4: Section 8 Wait List Special Test**Significant Deficiency in Internal Control**

Criteria – In accordance with 24CFR section 5.410, 982.549(d), and 982.201 through 982.207, the Authority is required to have written policies in its Housing Choice Voucher Program administrative plan for selecting applicants from the waiting list and the Authority’s documentation must show that the Authority follows these policies when selecting applicants for admission from the waiting list.

Condition – While the Authority does have an administrative plan for Section 8, we were unable to ensure that applicants were selected in accordance with the administrative plan which required a maximum of up to 50% of voucher vacancies to be filled by applicants that qualify for a local earned employment preference and the remaining applicants will need preference holders. The Authority did not maintain an adequate audit trail for the waiting list.

Questioned Costs – There are no questioned costs associated with this finding.

Perspective – The Authority did not maintain an adequate audit trail for the waiting list.

Cause and Effect – The waiting list includes participants in the Housing Choice Voucher pool as well as participants in the Single Room Occupancy pool. A separate listing should be maintained for each program in order to leave a clear audit trail.

Recommendation – We recommend that the Authority develop separate waiting lists for each housing program and maintain a clear audit trail on file of how participants are selected from the respective waiting lists in sufficient detail to allow a reviewer to re-perform the selection process for the waiting list participants.

Views of Management – Management agrees that the documentation and reporting should be changed to clarify the process. We used a single waitlist to draw participants for two different programs – the Housing Choice Voucher program and the Single Room Occupancy program. As documented in the the administrative plan, these programs have different draw criteria. The Occupancy supervisor is responsible

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for reviewing and verifying all waitlist draws to ensure compliance with the Housing Choice Voucher Administrative Plan and for Public Housing, the Admissions and Continued Occupancy Plan as appropriate. The Waitlist draws are maintained in a PDF file, with limited staff access.

Corrective Action Plan – Staff will work with information staff to provide separate waiting lists for various programs. The Occupancy supervisor will continue her review process and documentation will be maintained in files to support compliance with our approved Administrative Plan.

Finding 08-5: Utility Allowance – Special Test

Significant Deficiency in Internal Control

Criteria – In accordance with 24CFR section 982.517, the Authority is required to review utility rate data for each utility category each year and adjust its utility allowance schedule if there has been a rate change of 10% or more for utility category or fuel type.

Condition – The Authority utilized a third-party service organization to prepare the utility allowance schedule; however, the schedule was not reviewed by the Authority's management and a clear audit trail was not maintained to support the calculations in the report.

Questioned Costs – We were unable to determine the questioned costs associated with this finding.

Perspective – The rates and usage amounts for electricity and the rate for sewer utility calculations did not agree to supporting documentation.

Cause and Effect – The Authority did not have a monitoring process in place to review the activities performed by the third-party service organization.

Recommendation – We recommend that the Authority put a monitoring system in place to ensure the accuracy of the calculations provided by the third-party service organization.

Views of Management – Management agrees with this finding.

Corrective Action Plan – The Authority requested and received from the contractor the actual work sheets that were used to determine the rates for all utilities; we have reviewed these documents and agree that the supporting documentation is incomplete. In the future, the Authority will require the contractor to include the adequate documentation and worksheets along with the established rates. The Housing Choice Voucher Manager will review for accuracy before implementation.

Capital Fund; Urban Revitalization Program (HOPE VI)

Finding 08-6: Reporting

Significant Deficiency in Internal Control

Criteria – In accordance with 24CFR sections 135.3(a) and 135.90, the Authority is required to submit Form HUD 60002 quarterly.

Condition – In two quarterly reports that we inspected, the following errors were noted: a) For both quarterly reports, even though the report contained information relating to several programs, all activity

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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was reported using the Hope VI grant number; b) On the March quarterly report, Line 3 reported CDBG contract award amounts of \$39,013, but the actual value of the contract awarded was \$853,346; c) On the June quarterly report, Line 3 reported Other Housing Programs contract award amounts of \$9,034,169, but the actual value of the contracts awarded were \$1,378,861.

Questioned Costs – There are no known questioned costs associated with this finding.

Perspective – Each quarterly report in our sample of two quarters contained errors.

Cause and Effect – The Authority does not have a review control in place prior to the submission of the report.

Recommendation – We recommend that the Authority put a review control in place prior to submission of the report.

Views of Management – Management agrees with this finding. The Authority's Office of Economic Opportunities has contacted the HUD Washington Office of Economic Opportunities to inquire about remedial options for this finding and recommendations for future reporting. HUD noted that while the contract number submitted on these reports is assigned to the HOPE VI program, the HUD Program Codes accurately identify the appropriate program for the data on the individual reports. HUD does not recommend retroactively correcting and resubmitting the data.

Corrective Action Plan – The Authority's Office of Economic Opportunities will adhere to the following actions to remedy this audit finding and monitor the accuracy of the data for future Section 3 reporting:

- Prior to the preparation of each quarterly report, staff will review the system codes for needed changes. If changes are required, IS will be engaged to upgrade the Section 3 reporting program. Identifying the Authority's fund source code and the grant year specifically identifies the program and associates it with the appropriate grant year. The source code and contract year would then be cross referenced to the appropriate HUD Program Code.
- Emphasize across the agency the importance of accurately and consistently completing the contract verification form. Data entered for the contract register is extracted from the contract verification form. The contract register is the source document for extracting the Authority's contract data for Section 3 reporting.
- Move the internal quarterly cut off for employment and training data entry from the 9th of each month to the 7th. This will allow ample time to compile and prepare hard copies of the data for review by the Client Services Director, prior to submitting the data to HUD. The 60002 Section 3 summaries are due 10 days after the end of each quarter.



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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the financial statements of the Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. 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 Mission College Apartments, L.P., Norfolk Community College Campus Corporation, Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, L.L.C. as described in our report on the Authority's financial statements. The financial statements of Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, L.L.C. were not audited in accordance with *Government Auditing Standards*. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the schedule of findings and questioned costs as items 08-1 and 08-2 to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

The Authority's response to the findings identified in our audit are described in the schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of commissioners, others within of 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

March 31, 2009



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**Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

Compliance

We have audited the compliance of the Norfolk Redevelopment and Housing Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 08-3 through 08-6.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.



Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-3 through 08-6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response, and accordingly, we express no opinion on it.

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

March 31, 2009