



NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2009

(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, 2009. 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, 2009, 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.

As discussed in note 1 to the financial statements, on July 1, 2008, the Authority adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.



In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010 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 and schedule of funding progress – postretirement healthcare benefit plan on pages 42 and 43 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

KPMG LLP

March 31, 2010

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Management's Discussion and Analysis

June 30, 2009

Introduction

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

The management of the Authority provides this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2009. 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 composed 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 that is not required yet considered areas of interest to readers of the report.

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

Financial Highlights for 2009

The Authority's 2009 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately \$253 million and \$67.7 million, respectively; thus, total net assets were approximately \$185.3 million at June 30, 2009.
- Total revenues (including capital contributions) and expenses were approximately \$82.3 million and \$85.5 million, respectively; thus, net assets decreased by approximately \$3.2 million during the fiscal year.
- Revenues are derived from various sources with approximately 11% from the City and 58% received either directly or indirectly (through the City) from the U.S. Department of Housing and Urban Development (HUD). Rental revenues account for an additional 24% of total revenue; 12% from Authority-owned federally assisted housing rental, 12% from Authority-owned nonassisted affordable housing units rental. The 7% 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 provided by operating activities were approximately \$2.4 million. The net decrease in cash and cash equivalents for the year was approximately \$12.0 million, primarily due to the purchase of capital assets and investments.

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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, 2009, 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 2009 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows.

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

- *Net assets invested in capital assets, net of related debt* consist of all capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consist of assets that are restricted by constraints placed on the asset by external parties, such as creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consist of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.

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

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

In addition to the three financial statements, notes to 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.

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The basic financial statements utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses in the period in which they are incurred. This means all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the 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 2008 financial information are being presented to facilitate comparisons of prior year and current year financial information.

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Management's Discussion and Analysis

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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 \$253 million and \$67.7 million, respectively; thus, total net assets were approximately \$185.3 million at June 30, 2009.

Table 1
Condensed Statements of Net Assets
June 30, 2009 and 2008
(In millions)

Description	2009	2008	Change	Percentage change
Current assets:				
Cash and investments	\$ 40.5	44.5	(4.0)	(9)%
Assets held for sale	12.8	12.9	(0.1)	(1)
Noncurrent assets:				
Restricted cash	19.4	23.4	(4.0)	(17)
Capital assets, net	139.5	133.2	6.3	5
Other current and noncurrent assets	40.8	36.2	4.6	13
Total assets	253.0	250.2	2.8	1
Current liabilities	24.4	11.3	13.1	116
Noncurrent liabilities	43.3	50.4	(7.1)	(14)
Total liabilities	67.7	61.7	6.0	10
Net assets:				
Invested in capital assets, net of related debt	108.7	102.0	6.7	7
Restricted	26.9	31.4	(4.5)	(14)
Unrestricted	49.7	55.1	(5.4)	(10)
Total net assets	\$ 185.3	188.5	(3.2)	(2)%

Of the Authority's \$253 million in assets, \$139.5 million or 55% is invested in capital assets, net of accumulated depreciation, \$59.9 million or 24% is cash related (\$40.5 million cash and investments plus \$19.4 million restricted cash), \$12.8 million or 5% is invested in assets held for sale, and \$40.8 million or 16% 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 \$8.2 million or 3% is receivables of the rehabilitation revolving loan fund (RLF).

Of the \$67.7 million of liabilities, \$24.4 million is current liabilities which will require payment within 12 months of the reported fiscal year end and \$43.3 million is noncurrent liabilities for which payments will be made subsequent to the next 12 month period. A breakout of the \$67.7 million in liabilities follows: \$41.4 million or 61% is debt, \$10.8 million or 16% is amounts under the rehabilitation revolving loan program

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requiring reappropriation by another government before reuse—the \$8.2 million RLF receivable outstanding receivable balance noted above offsets this liability; the \$15.5 million or 23% balance consists of various obligations of the Authority including tenant escrow deposit accounts, vested compensated absences and payments due to third parties for services.

The net asset balance of \$185.3 million is the difference between the \$253 million in assets and the \$67.7 million in liabilities. Ideally, the breakout of the net asset balance allows financial statement users to identify resources that are available to finance the activities, programs, or projects with which they are most concerned, whether it be making debt service payments, supplementing mission critical, yet under-funded programs, or beginning a new service or expanding an existing one.

Referring back to table 1, the Authority's net assets decreased \$3.2 million, or 2%. This decrease consists of the following:

Net assets invested in capital assets net of related debt—the largest part (59%) of the net asset balance – increased by \$6.7 million or 7%. The increase results from changes in two components, a \$6.3 million increase in capital assets, which went from \$133.2 million as of June 30, 2008 to \$139.5 million as of June 30, 2009 and a \$0.4 million decrease in the debt related to the capital assets, which went from \$31.2 million to \$30.8 million.

Restricted net assets—the part of net assets that has constraints established by debt covenants, enabling legislation or other legal requirements—decreased 14% or \$4.5 million (\$26.9 million at June 30, 2009 compared to \$31.4 million at June 30, 2008). The largest components of this decrease are decreases of \$3.6 in the balance on hand restricted for housing assistance payments and \$1.8 million in the balance on hand restricted for public housing capital expenditures.

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 \$55.1 million at June 30, 2008 to \$49.7 million at June 30, 2009, a decrease of \$5.4 million or 10%. Observations on the unrestricted net asset balance follows:

- While presented in the aggregate in the financial statements, the unrestricted net assets includes over 20 distinct programs, each controlled by the terms of its own contract; specific program eligibility rules apply when considering the use of unrestricted net asset balances—consisting of the net of cash in the bank, receivables net of allowances, and other assets less all other liabilities not previously applied.
- The unrestricted net assets of the Authority include notes and interest receivable related to the Hope VI Broad Creek Renaissance (BCR) tax credit project totaling \$15.6 million and \$4.8 million respectively, which is due after 40 years, beginning in 2042.
- Debt of \$10.5 million is included in the unrestricted net asset balance; of this debt, \$5.9 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, 2009 and 2008 was \$1.7 million and \$1.6 million, respectively, and is included in the unrestricted net assets. The Authority will need to include this amount in future years' budgets as they come due.

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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 2009, the Authority realized a decrease in net assets of \$3.2 million. Table 2 below presents a condensed summary from the Authority's statement of revenues, expenses and changes in net assets.

Table 2

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

Years ended June 30, 2009 and 2008

(In millions)

Description	2009	2008	Change	Percentage change
Total operating revenues	\$ 75.4	92.0	(16.6)	(18)%
Total operating expenses	82.7	79.0	3.7	5
Operating income (loss)	(7.3)	13.0	(20.3)	(156)
Total nonoperating revenues	2.6	4.4	(1.8)	(41)
Total nonoperating expenses	(1.8)	(2.2)	0.4	(18)
Total nonoperating income (expenses), net	0.9	2.2	(1.3)	(59)
Income (loss) before capital grants and contributions	(6.4)	15.2	(21.6)	(142)
Governmental capital grants	4.3	3.4	0.9	26
Capital contributions from (distributions to) limited partners	(1.1)	2.9	(4.0)	(138)
Change in net assets	(3.2)	21.5	(24.7)	(115)
Total net assets – beginning	188.5	167.0	21.5	13
Total net assets – ending	\$ 185.3	188.5	(3.2)	(2)%

Net assets decreased \$7.3 million from operating activities and increased \$0.9 million from nonoperating activities, resulting in a \$6.4 million decrease in net assets before recognizing the receipt of grant revenue for capital expenditures and capital distributions to limited partners. Distributions to limited partners of \$1.1 million increased the loss to \$7.5 million. This was partially offset by capital grant revenue of \$4.3 million which reduced the decrease in total net assets to \$3.2 million.

The following sections discuss revenues and expenses separately.

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Revenues

Table 3 provides an excerpt of income from the statement of revenues, expenses and changes in net assets and shows that total revenues, gains and capital contributions decreased 20% or \$20.4 million (\$82.3 million compared to \$102.7 million).

Table 3

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

Years ended June 30, 2009 and 2008

(In millions)

<u>Description</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage change</u>
Operating revenues:				
Tenant revenue – rents and other	\$ 19.4	19.0	0.4	2%
Operating grants and subsidies	52.5	68.1	(15.6)	(23)
Other revenue, net	3.5	4.9	(1.4)	(29)
Total operating revenues	<u>75.4</u>	<u>92.0</u>	<u>(16.6)</u>	<u>(18)</u>
Nonoperating revenues:				
Gain on disposal of fixed assets	—	1.3	(1.3)	100
Interest and investment revenue	2.6	3.1	(0.5)	(16)
Total nonoperating revenues	<u>2.6</u>	<u>4.4</u>	<u>(1.8)</u>	<u>(41)</u>
Capital grants	4.3	3.4	0.9	26
Capital contributions from limited partners	—	2.9	(2.9)	100
Total revenues	<u>\$ 82.3</u>	<u>102.7</u>	<u>(20.4)</u>	<u>(20)%</u>

The \$20.4 million (20%) decrease in total revenues is primarily attributable to a decrease in operating grants and subsidies of \$15.6 million (from \$68.1 million to \$52.5 million). Other components of the decrease were other revenue (net), which decreased \$1.4 million (from \$4.9 million to \$3.5 million); there was no gain on disposal of fixed assets (from \$1.3 million gain in prior year to a net loss for the current year); interest and investment revenue, which decreased \$0.5 million (from \$3.1 million to \$2.6 million); and a reduction in capital contributions from limited partners, which was a contribution of \$2.9 million in the prior year and a distribution to limited partners in the current year. These decreases in revenue totaling \$21.7 million were offset by \$1.3 million in increases; an increase in tenant revenue of \$0.4 million (from \$19.0 million to \$19.4 million) and an increase in capital grants of \$0.9 million (from \$3.4 million to \$4.3 million).

To better understand the above changes in revenues, a comparison by source (provider) of revenues is considered helpful. Revenues were derived from various providers with approximately 11%, or \$9.3 million, from the City and 58%, or \$47.5 million, received either directly or indirectly (through the City – 9% in addition to the previous 11%) from the HUD. Rental revenues accounted for an additional 24%, or \$19.4 million, of total

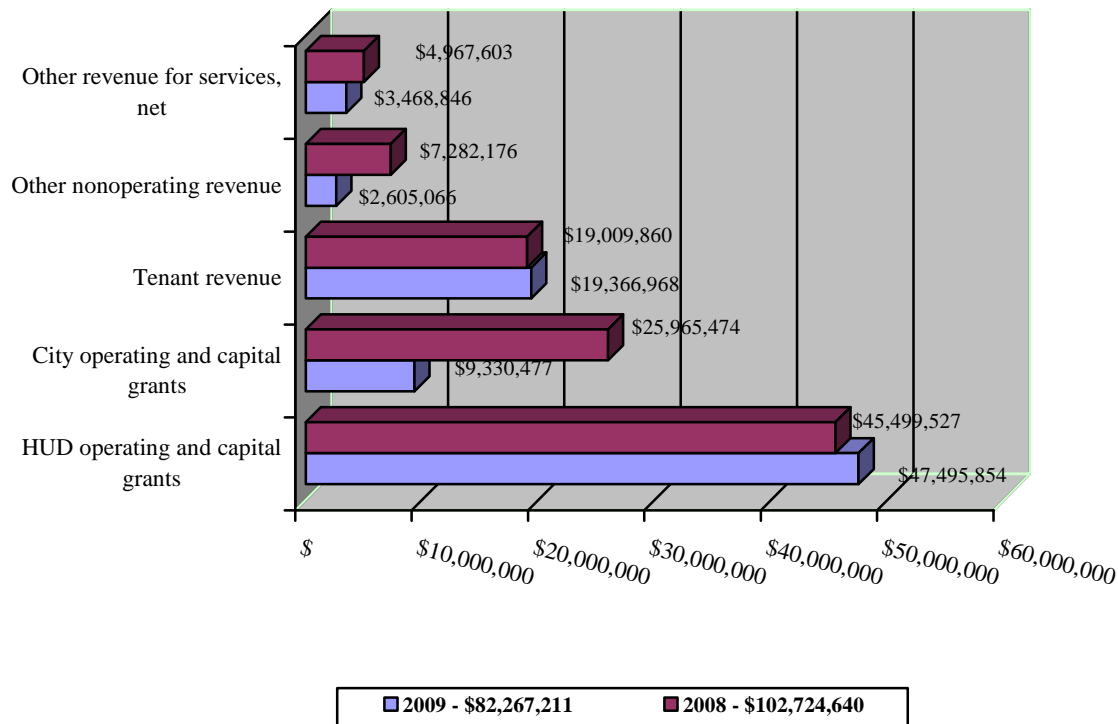
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revenue; 12%, or \$10 million, was from over 3,400 units of Authority-owned federally assisted housing—Federal Housing and Park Terrace; 11%, or \$9 million, is from 1,160 units of Authority-owned nonassisted affordable housing—Merrimack Landing, Oakmont North, and Mission College; and 1%, or \$0.4 million, in tenant revenue was from a variety of other commercial or residential customers. The balance of 4% of total revenue, or \$3.5 million, is derived from miscellaneous fees for services or nonoperating sources (i.e., investment income).

Revenue Source Comparisons
Years ended June 30, 2009 and 2008



As reflected in the graph above, significant changes in revenue by provider were a \$16.6 million decrease in City operating and capital grants and a \$4.7 million decrease in nonoperating revenue; the City grant decrease relates to the nonrecurring funding provided last year for the retirement of \$16.9 million of MacArthur debt. No debt was retired in the current year. The \$4.7 million decrease in nonoperating revenue relates to a \$0.5 million decrease in interest income plus no income in the current year from the sale of fixed assets or capital contributions from limited partners (from a gain of \$1.3 million to a loss; and \$2.9 million in contributions to distributions, respectively).

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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, losses and distributions increased 5% or \$4.3 million (\$85.5 million compared to \$81.2 million).

Table 4

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

Years ended June 30, 2009 and 2008

(In millions)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage change</u>
Operating expenses:				
Administrative	\$ 16.2	14.7	1.5	10%
Housing assistance payments (HAP)	18.6	15.7	2.9	18
Extraordinary maintenance	8.5	9.4	(0.9)	(10)
Maintenance – routine	9.7	9.7	—	—
Depreciation and amortization	8.0	8.9	(0.9)	(10)
Utilities	9.8	10.4	(0.6)	(6)
General	7.3	6.6	0.7	11
Tenant services	3.5	2.7	0.8	30
Protective services	1.1	0.9	0.2	22
Total operating expenses	<u>82.7</u>	<u>79.0</u>	<u>3.7</u>	<u>5</u>
Nonoperating expenses:				
Interest expense	1.7	2.2	(0.5)	(23)
Distributions to limited partners	1.1	—	1.1	100
Total nonoperating expenses	<u>2.8</u>	<u>2.2</u>	<u>0.6</u>	<u>27</u>
Total expenses	<u>\$ 85.5</u>	<u>81.2</u>	<u>4.3</u>	<u>5%</u>

The most significant increase in expenses was a \$2.9 million increase in housing assistance payments (\$18.6 million compared to \$15.7 million).

Other increases were: administrative expense increased \$1.5 million (from \$14.7 million to \$16.2 million); general expense increased \$0.7 million (from \$6.6 million to \$7.3 million); tenant services expense increased \$0.8 million (from \$2.7 million to \$3.5 million); protective services expense increased \$0.2 million (from \$0.9 million to \$1.1 million); and distributions to partners increased \$1.1 million (from contributions from limited partners in the prior year to \$1.1 million in distributions in the current year).

Decreases for expenses were: extraordinary maintenance expense decreased \$0.9 million (from \$9.4 million to \$8.5 million); depreciation and amortization expense decreased \$0.9 million (from \$8.9 million to \$8.0 million);

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utility expense decreased \$0.6 million (from \$10.4 million to \$9.8 million); and interest expense decreased \$0.5 million (from \$2.2 million to \$1.7 million).

Capital Assets

The Authority's capital assets as of June 30, 2009 included land, buildings, improvements, construction in progress, and equipment that totaled \$139.5 million (net of depreciation). A breakdown of the Authority's capital assets is shown in Table 5 below.

Table 5
Composition of Capital Assets of the Authority
June 30, 2009 and 2008
(In millions)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percentage change</u>
Nondepreciable assets:				
Land	\$ 23.5	23.4	0.1	—%
Construction in progress	13.0	12.7	0.3	2
Other capital assets:				
Buildings and building improvements	161.2	150.7	10.5	7
Improvements other than buildings	55.5	54.9	0.6	1
Equipment	10.5	7.9	2.6	33
Accumulated depreciation	<u>(124.2)</u>	<u>(116.4)</u>	<u>(7.8)</u>	<u>7</u>
Totals	\$ <u>139.5</u>	<u>133.2</u>	<u>6.3</u>	<u>5%</u>

Most of the capital asset balance, \$103.9 million, or 74%, is composed of assisted public housing units available for lease to low and moderate-income residents or construction of communities for mixed income residents that include those eligible for public housing. Another 23% or \$31.5 million is invested in Authority-owned, nonassisted multifamily affordable housing units.

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The Authority had \$6.3 million in net additions to capital assets in 2009. Table 6 details the components of the change.

Table 6

Change in Capital Assets of the Authority

June 30, 2009

(In millions)

	<u>Nondepreciable assets</u>	<u>Other capital assets</u>	<u>Totals</u>
July 1, 2008 beginning balance, net	\$ 36.1	97.1	133.2
Transfers	(7.5)	7.5	—
Purchases	7.9	6.5	14.4
Depreciation	—	(7.8)	(7.8)
Retirements, net	—	(0.3)	(0.3)
Transfers to the City	—	—	—
Ending balance	\$ <u>36.5</u>	<u>103.0</u>	<u>139.5</u>

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

- Construction in progress totaling \$7.5 million, primarily capital improvements in our public housing communities, was completed and transferred to operations.
- Purchases of \$14.4 million included \$5.3 million for the renovation of Mission College Apartments and \$3.9 for the continuous renovations in Grandy Village Apartments including building the community center, management office renovations and HVAC installation. The remaining \$5.2 million in purchases of capital assets that occurred during the year included: progress in the installation of air conditioning in Oakleaf Forrest; boiler replacement, security and alarm system replacement and replacement of HVAC/Heat exchanger at Hunter Square; boiler and kitchen cabinet replacement at Diggs Town; water sub metering, tub, countertop and cabinet replacement at Merrimac Landing Apartments; exterior renovations of the Grandy Office Building as well as energy audits in various communities. Some replacements in the vehicle fleet and office computers also occurred during the year. Approximately \$1.5 million of purchases had not been paid at June 30, 2009 and, therefore, are included in accounts payable at year end.
- Retirements of \$0.2 million, net, related to the sale of one public housing unit and the disposition of property in the Broad Creek neighborhood.

Long-Term Debt

At June 30, 2009, the Authority had total debt outstanding of \$41.4 million (excluding vested compensated absences). Of this amount, \$1.8 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 backed by other governmental entities.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Management's Discussion and Analysis

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

Table 7

Change in Long-Term Debt Summary

Fiscal year 2009

<u>Description</u>	<u>Amounts payable at July 1, 2008</u>	<u>Additions</u>	<u>Retirements and reductions</u>	<u>Amounts payable at June 30, 2009</u>	<u>Future debt service commitment</u>	<u>Scheduled final payment</u>
Granby Street Office building	\$ 1,908,213	—	(149,154)	1,759,059	The Authority	December 2020
Park Terrace	909,426	—	(70,787)	838,639	Revenue bond	April 2017
Oakmont North	3,205,000	—	(175,000)	3,030,000	Revenue bond	March 2021
Merrimack Landing	3,206,522	—	(458,141)	2,748,381	Revenue bond	December 2013
Grandy Village	259,703	—	(58,562)	201,141	Project revenue	July 2012
Federal Financing Bank	8,280,063	—	(517,000)	7,763,063	HUD pays directly	November 2019
Mission College Apartments	4,658,008	—	(100,642)	4,557,366	Project revenue	September 2030
NRHA Mission College, LLC	—	1,521,323	—	1,521,323	Project revenue	June 2010
Neighborhood Redevelopment Credit Line	5,410,825	1,955,000	(190,000)	7,175,825	Various	July 2009
Property Acquisition	3,030,000	—	(1,270,000)	1,760,000	Obligation of the City	
Grandy Partnership	8,900,000	1,150,000	—	10,050,000	Project revenue	June 2011
Total bank financing	<u>\$ 39,767,760</u>	<u>4,626,323</u>	<u>(2,989,286)</u>	<u>41,404,797</u>		

To facilitate property renovations at the Mission College property, \$3.5 million was drawn down under two debt instruments to provide temporary financing; \$1.15 million was drawn down under the construction bond for the Grandy Partnership; \$1.5 million of a \$6.6 commitment was drawn from the tax credit investor by NRHA Mission College, LLC and \$2 million was drawn down on the Neighborhood Redevelopment line of credit.

The Authority's total outstanding debt reductions totaled \$3.0 million; all were scheduled payments.

- The Authority has outstanding debt of \$7.8 million with the Federal Financing Bank, which is the sole responsibility of the Department of Housing and Urban Development.
- The Authority's note payable of \$7.2 million against a line of credit was used to finance neighborhood redevelopment. At June 30, 2009, \$3 million for Mission College, \$2.5 million for Chesapeake Street, and \$1.7 million for 5th to 7th Bay Street 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. Currently, NRHA is in the process of refinancing the line of credit to January 26, 2011. At that time, it will be converted from a line of credit to various notes.
- The Authority has outstanding debt of \$1.8 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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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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.

While the direct impact on NRHA will not be known until midyear 2010, Congress and the Administration have appropriated a 7% increase above the 2009 level for the federal housing operating fund. The amount is expected to fund agencies at or close to 100% of their eligibility under HUD's operating formula. Agencies have not received full operating funding since 2002. The Authority received 88.42% of its eligible funding for calendar year 2009. As an interim funding provision, NRHA is being funded at this same 88.42% level as of the current calendar year; once the final NRHA CY2010 subsidy amount is determined, adjustments will be made in amounts received by the Authority in the latter months of the 2010.

It has been announced that the frozen rent provision which has been in effect for the latest federal housing program operating subsidy formula submissions – calendar year 2004 through calendar year 2009 – will be discontinued beginning in calendar year 2010. The frozen rent amount used for each of these years was \$6.7 million, while actual rent increased on a steady basis; for FY 09 rental income was \$8.8 million or \$2.1 million more than the frozen rent amount. The impact of this change on the subsidy level will depend on the relative change in rent of other Authorities sharing the operating fund appropriation.

It has been announced that appropriation of funds by Congress and the Administration for the capital fund program will increase by \$50 million over the 2009 level. The specific amount to be award to NRHA, while not defined, is expected to positively impact our programs.

Increases in the funding levels for the Housing Choice Voucher program have also been announced; the fund level is projected to be sufficient to renew all vouchers used by families in 2009. This increase is also expected to positively impact funding for the administration of the Housing Choice Voucher program which was only funded at 91% of the eligible amount for CY2009.

As a part of the Hope VI program, NRHA demolished two public communities; as a result, we experienced corresponding losses of funding in operating and capital subsidies for units that were not replaced. On site replacement units are 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 though 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 affect how we acquire property.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Management's Discussion and Analysis

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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 2010 operating and capital budget is \$99 million, representing an increase of 2% from the previous fiscal year.

Contacting Authority Management

This financial report is designed to provide the citizens of the City, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Chief Financial Officer, Norfolk Redevelopment and Housing Authority, 201 Granby Street, Norfolk 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, 2009

Assets	Primary government	Component units	Total
Current assets:			
Cash and cash equivalents (note 2)	\$ 28,407,070	29,586	28,436,656
Cash with fiscal agents (note 2)	4,120,937	—	4,120,937
Restricted cash and cash equivalents (note 2)	19,391,760	—	19,391,760
Investments (note 2)	7,944,271	331,147	8,275,418
Receivables:			
Due from HUD	4,150,120	—	4,150,120
Due from City of Norfolk	2,607,904	—	2,607,904
Tenants rent, net	186,584	—	186,584
Notes, net (note 3)	1,825,766	1,400,000	3,225,766
Interest	172,700	286,215	458,915
Other, net	597,443	—	597,443
Total receivables	9,540,517	1,686,215	11,226,732
Inventories, net	649,767	—	649,767
Assets held for sale, restricted	12,821,950	—	12,821,950
Prepaid expenses and other assets	378,001	—	378,001
Total current assets	83,254,273	2,046,948	85,301,221
Noncurrent assets:			
Capital assets:			
Land	23,525,145	—	23,525,145
Buildings and equipment	227,169,959	—	227,169,959
Construction in progress	12,971,228	—	12,971,228
Less accumulated depreciation	(124,195,932)	—	(124,195,932)
Capital assets, net (note 4)	139,470,400	—	139,470,400
Notes receivable, net (note 3)	24,350,549	12,410,000	36,760,549
Other noncurrent assets	5,906,614	386,727	6,293,341
Total noncurrent assets	169,727,563	12,796,727	182,524,290
Total assets	\$ 252,981,836	14,843,675	267,825,511
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 6,865,853	18,000	6,883,853
Accrued salaries and benefits	459,661	—	459,661
Accrued compensated absences (note 5)	174,331	—	174,331
Due to HUD and the City of Norfolk	385,963	—	385,963
Tenant security deposits	1,087,097	—	1,087,097
Deferred revenue	219,540	345,000	564,540
Bonds, notes, and loans payable (note 5)	12,072,692	1,400,000	13,472,692
Other current liabilities	3,150,405	108,617	3,259,022
Total current liabilities	24,415,542	1,871,617	26,287,159
Noncurrent liabilities:			
Bonds, notes, and loans payable (note 5)	29,332,105	12,615,108	41,947,213
Accrued compensated absences (note 5)	1,491,062	—	1,491,062
Noncurrent liabilities – other	12,506,538	—	12,506,538
Total noncurrent liabilities	43,329,705	12,615,108	55,944,813
Total liabilities	67,745,247	14,486,725	82,231,972
Net assets:			
Invested in capital assets, net of related debt	108,668,950	—	108,668,950
Restricted net assets	26,879,406	—	26,879,406
Unrestricted net assets	49,688,233	356,950	50,045,183
Total net assets	185,236,589	356,950	185,593,539
Total liabilities and net assets	\$ 252,981,836	14,843,675	267,825,511

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, 2009

	<u>Primary government</u>	<u>Component units</u>	<u>Total</u>
Operating revenues:			
Tenant revenue	\$ 19,366,968	—	19,366,968
Government operating grants	52,531,575	—	52,531,575
Other revenue, net	3,468,846	138,714	3,607,560
Total operating revenues	<u>75,367,389</u>	<u>138,714</u>	<u>75,506,103</u>
Operating expenses:			
Administrative	16,241,705	25,210	16,266,915
Tenant services	3,470,664	—	3,470,664
Utilities	9,801,235	—	9,801,235
Maintenance	9,677,247	—	9,677,247
Protective services	1,155,609	—	1,155,609
General	7,223,100	—	7,223,100
Extraordinary maintenance	8,483,237	—	8,483,237
Housing assistance payments (HAP)	18,622,911	—	18,622,911
Depreciation and amortization	8,005,178	44,113	8,049,291
Casualty losses	2,784	—	2,784
Fraud losses	169	—	169
Total operating expenses	<u>82,683,839</u>	<u>69,323</u>	<u>82,753,162</u>
Operating income/(loss)	<u>(7,316,450)</u>	<u>69,391</u>	<u>(7,247,059)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	2,605,999	639,713	3,245,712
Loss on disposal of fixed assets (note 4)	(98,359)	—	(98,359)
Interest expense	(1,661,263)	(655,502)	(2,316,765)
Total nonoperating revenues (expenses), net	<u>846,377</u>	<u>(15,789)</u>	<u>830,588</u>
Income/(loss) before capital grants and distribution to partners	<u>(6,470,073)</u>	<u>53,602</u>	<u>(6,416,471)</u>
Government capital grants	4,294,756	—	4,294,756
Capital distributions to limited partners	(1,091,941)	—	(1,091,941)
Change in net assets	<u>(3,267,258)</u>	<u>53,602</u>	<u>(3,213,656)</u>
Total net assets – beginning	<u>188,503,847</u>	<u>303,348</u>	<u>188,807,195</u>
Total net assets – ending	<u>\$ 185,236,589</u>	<u>356,950</u>	<u>185,593,539</u>

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2009

Cash flows from operating activities:	
Cash receipts from customers	\$ 17,590,144
Cash receipts from operating grants	51,021,564
Other operating cash receipts	4,720,586
Cash payments to employees for services	(17,443,522)
Cash payments to suppliers of goods and services	(26,480,094)
Other operating cash payments	(8,364,054)
Cash payments to landlords – HAP	(18,622,911)
Net cash provided by operating activities	<u>2,421,713</u>
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	176,923
Proceeds from issuance of debt	1,150,000
Purchases of capital assets	(13,150,387)
Capital grants received	3,693,389
Principal payments on debt	(1,566,145)
Interest payments on debt	(1,673,444)
Net cash used in capital and related financing activities	<u>(11,369,664)</u>
Cash flows from noncapital financing activities:	
Proceeds from issuance of debt	3,476,323
Principal payments on debt	(1,460,000)
Net cash provided by noncapital financing activities	<u>2,016,323</u>
Cash flows from investing activities:	
Sales of investments	20,017,359
Purchases of investments	(23,906,597)
Issuance of notes receivable	(3,232,621)
Principal receipts on notes receivable	652,951
Interest received	2,460,935
Capital distributions to limited partners	(1,091,941)
Net cash used in investing activities	<u>(5,099,914)</u>
Net decrease in cash and cash equivalents	(12,031,542)
Cash and cash equivalents at beginning of year	<u>63,951,309</u>
Cash and cash equivalents at end of year	<u>\$ 51,919,767</u>
Reconciliation to statement of net assets of primary government:	
Current unrestricted cash and cash equivalents	\$ 28,407,070
Current cash with fiscal agents	4,120,937
Restricted cash and cash equivalents	19,391,760
Cash and cash equivalents	<u>\$ 51,919,767</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2009

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss:	\$ (7,316,450)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	8,005,178
Bad debt expense	294,112
Loss on disposal of assets held for sale	(6,905)
Changes in assets and liabilities:	
Change in receivables due from HUD	(650,051)
Change in receivables due from City of Norfolk	(859,960)
Change in receivables from tenants rent, net	(254,777)
Change in receivables from other, net	(230,965)
Change in inventories	(130,718)
Change in assets held for sale	55,746
Change in prepaid expenses and other assets	82,314
Change in other noncurrent assets	89,069
Change in accounts payable	2,781,423
Change in accrued salaries and benefits	8,463
Change in accrued compensated absences	63,124
Change in due to HUD and the City of Norfolk	(274,552)
Change in due to other governments	128,160
Change in tenant security deposits	(39,342)
Change in deferred revenue	(48,713)
Change in other current and noncurrent liabilities	726,557
Net cash provided by operating activities	\$ 2,421,713

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 \$325,421.

The Authority had a net increase of \$1,504,905 in accounts payable related to the acquisition of fixed assets.

See accompanying notes to basic financial statements.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(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 (the Board) is appointed by Norfolk's City Council for staggered four-year terms. The Board, in turn, elects a chairman and appoints an executive director to administer the affairs of the Authority.

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

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

(a) The Financial Reporting Entity

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

Component Units

The accompanying financial statements present the Authority and its component units, Mission College Apartments, L.P. (MCA), NRHA Mission College 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, 2009

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

The financial information of NOLP, MCA, MC1, GVLP and HRV is blended with the primary government's financial information. A blended component unit is so closely related to the primary government that its funds appear as if they are integral parts of the primary government. Generally, a reader of financial statements cannot distinguish between a fund of the primary government and a blended component unit without studying the notes to 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. 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 \$952,356 to its partners through June 30, 2009. 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 0.01% general partner, Hudson Mission College, LLC is a 99.98% limited partner and Hudson SLP, LLC is a 0.01% special limited partner. NRHA Mission College 1, LLC is the only general partner in the partnership. The Authority owns a 79% interest in NRHA Mission College 1, LLC and is therefore responsible for all business decisions. On December 28, 2007, the partnership purchased 100% of the capital assets of MCA.

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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

GVLP, a Virginia limited partnership, was formed March 13, 2007 to acquire, construct, revitalize and operate a low-income public housing complex, which is located in the City 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 nonrecourse to the other partners. The activity of GVLP is included in the accompanying financial statements as of June 30, 2009.

(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 statement of revenues, expenses and changes in net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The statement of net assets and statement of revenues, expenses and changes in net assets of the Authority is presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are rental revenue, charges for services and intergovernmental operating grants. Operating expenses for the Authority include the cost of services, administrative expenses, housing assistance payments and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(d) Revenue Recognition

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

The Authority has entered into 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.

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

(e) Cash and Cash Equivalents, Cash with Fiscal Agents and Investments

Cash equivalents and investments are stated at fair value. Investments are held in certificates of deposit, U.S. government securities, commercial paper, and repurchase agreements, as authorized by the Code of Virginia, Sections 2.2-4501 through 2.2-4512. The Authority's investments in U.S. Government securities and commercial paper are valued at amortized cost as they have maturity dates of less than one year. All of the Authority's other investments are 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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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

Assets held for sale are stated at acquisition cost plus improvements, but not in excess of net realizable value. Properties that the Authority intends to donate to the City or others are stated at a net realizable value of \$0, as the Authority does not expect to recover any of the cost of the property. Proceeds received from sales of these properties are required to be remitted to either the City or the federal government and, with the approval of the grantors, can be reprogrammed by the Authority or be used to reduce outstanding indebtedness. Consequently, as a result of this restriction, net assets associated with the above assets are considered restricted in the accompanying financial statements.

Extraordinary maintenance expenses include losses incurred to record assets held for sale at net realizable value and capital outlays with an acquisition cost less than \$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
Equipment:	
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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(k) *Deferred Loss on Refunding*

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

(l) *Compensated Absences*

Employees earn annual vacation leave at a rate ranging from 12 days per year, up to a maximum of 24 days per year after 31 years of service. There is no requirement that annual vacation leave be taken, but the maximum permissible accumulation is 36 days. At termination, employees are paid for any accumulated annual vacation leave. Employees also earn annual sick leave at the rate of one day each month. Employees hired prior to December 31, 1997 with more than five years of service are paid for 30% of unused sick leave upon separation. The current and noncurrent portions of accumulated annual vacation leave and sick leave estimated to be paid upon separation are recorded in the Authority's 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 this self-insurance program. All personal assets of the Board would be defended in civil actions arising from their duties. At June 30, 2009, 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. During the year ended June 30, 2009, the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). GASB 45 requires the plan sponsor to record the actuarial cost (net of employee and retiree contributions) of the plan as an expense in its

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

financial statements and then accrue a liability to the extent actual contributions are less than this actuarial required contribution.

(2) Deposits and Investments

At June 30, 2009, the carrying value of the Authority's deposits with banks and savings institutions was \$14,960,146 and the bank balance was \$18,465,137 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 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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

Interest Rate Risk

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

Investment type	Fair value	Investment maturities (in years)		
		Less than 1	1-2	2-4
U.S. agency and discount notes	\$ 18,967,481	15,974,607	—	2,992,874
Repurchase agreement	11,259,824	11,259,824	—	—
Commercial paper	3,884,806	3,884,806	—	—
Certificates of deposit	10,190,956	9,311,137	879,819	—
	<u>\$ 44,303,067</u>	<u>40,430,374</u>	<u>879,819</u>	<u>2,992,874</u>

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	\$ 14,960,146
Cash on hand	775
Letter of credit	600,050
Investments	44,303,067
	<u>\$ 59,864,038</u>
Per exhibit A:	
Cash and cash equivalents	\$ 28,407,070
Cash with fiscal agents	4,120,937
Restricted cash and cash equivalents	19,391,760
Investments	7,944,271
	<u>\$ 59,864,038</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 NCCCC 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, 2008, the Corporation had \$29,586 in cash and \$331,147 invested by the trustee in short-term money market instruments.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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, 2009, with specific payment terms, is as follows:

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

Notes receivable – Hope VI

0% promissory notes receivable of the HOME program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	\$ 12,349,970
Allowance for doubtful accounts	<u>(12,349,970)</u>
	<u>\$ —</u>

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.	\$ 1,554,934
Allowance for doubtful accounts	<u>(1,554,934)</u>
	<u>\$ —</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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
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.	650,000
Total notes receivable – Hope VI	<u>15,636,185</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

<p>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.</p>	\$ 59,061
<p>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.</p>	224,014
<p>Broad Creek – 0% promissory notes receivable, due from local citizens on a deferred basis to purchase homes located in a targeted neighborhood. The notes are secured by a deed of trust and are partially forgivable.</p>	39,525
<p>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.</p>	195,000
<p>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.”</p>	118,436
<p>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.</p>	8,238,971
<p>Tax Credit Note – 6.62% fixed rate promissory note receivable, due from a local Low Income Housing Tax Credit partnership. The funds were provided for the renovation of a 260 unit apartment complex. The note bears interest on a monthly basis and is due to be paid in full on or before June 30, 2010.</p>	1,665,123
<p style="padding-left: 40px;">Total notes receivable</p>	26,176,315
<p>Less current portion</p>	1,825,766
	<u>\$ 24,350,549</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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 \$1,350,000 and \$650,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of \$13,810,000 equal to the debt described in note 5.

(4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 23,405,222	216,584	(96,661)	23,525,145
Construction in progress	12,735,079	7,727,907	(7,491,758)	12,971,228
Total capital assets not being depreciated	<u>36,140,301</u>	<u>7,944,491</u>	<u>(7,588,419)</u>	<u>36,496,373</u>
Other capital assets:				
Buildings and building improvements	150,721,085	10,678,679	(190,224)	161,209,540
Improvements other than buildings	54,899,542	615,066	—	55,514,608
Equipment	7,844,997	2,681,385	(80,571)	10,445,811
Total other capital assets	<u>213,465,624</u>	<u>13,975,130</u>	<u>(270,795)</u>	<u>227,169,959</u>
Less accumulated depreciation for:				
Buildings and building improvements	72,251,787	5,773,941	(11,603)	78,014,125
Improvements other than buildings	38,408,291	1,509,245	—	39,917,536
Equipment	5,795,047	549,795	(80,571)	6,264,271
Total accumulated depreciation	<u>116,455,125</u>	<u>7,832,981</u>	<u>(92,174)</u>	<u>124,195,932</u>
Other capital assets, net	<u>97,010,499</u>	<u>6,142,149</u>	<u>(178,621)</u>	<u>102,974,027</u>
	<u>\$ 133,150,800</u>	<u>14,086,640</u>	<u>(7,767,040)</u>	<u>139,470,400</u>

The Authority has active construction projects as of June 30, 2009. Outstanding commitments related to construction in progress amounted to approximately \$10.7 million at June 30, 2009.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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	\$	8,005,178
Less amortization expense		<u>(172,197)</u>
Increase in accumulated depreciation	\$	<u><u>7,832,981</u></u>

(5) Long and Short-Term Debt

A summary of the Authority's long and short-term liability activity for the fiscal year ended June 30, 2009 is presented below:

	<u>Amounts payable at July 1, 2008</u>	<u>Additions</u>	<u>Retirements and reductions</u>	<u>Amounts payable at June 30, 2009</u>	<u>Amounts due within one year</u>
Notes payable:					
Granby Street office building	\$ 1,908,213	—	149,154	1,759,059	153,954
Federal Financing Bank	8,280,063	—	517,000	7,763,063	552,620
Renewal and replacement (line of credit)	5,410,825	1,955,000	190,000	7,175,825	7,175,825
Grandy renovation	259,703	—	58,562	201,141	61,705
Park Terrace	909,426	—	70,787	838,639	77,407
NRHA Mission I	4,658,008	—	100,642	4,557,366	106,717
	<u>21,426,238</u>	<u>1,955,000</u>	<u>1,086,145</u>	<u>22,295,093</u>	<u>8,128,228</u>
Bonds payable:					
Property acquisition bonds	3,030,000	—	1,270,000	1,760,000	1,760,000
Grandy Partnership	8,900,000	1,150,000	—	10,050,000	—
Multi-family revenue bonds – Oakmont North	3,205,000	—	175,000	3,030,000	185,000
Revenue bonds – Merrimack Landing	3,380,000	—	495,000	2,885,000	515,000
Less:					
Unamortized bond discount	(57,879)	—	(10,686)	(47,193)	(10,686)
Unamortized loss on refunding	(115,599)	—	(26,173)	(89,426)	(26,173)
	<u>18,341,522</u>	<u>1,150,000</u>	<u>1,903,141</u>	<u>17,588,381</u>	<u>2,423,141</u>
Loans payable:					
Mission Development	—	1,521,323	—	1,521,323	1,521,323
Accrued compensated absences	1,602,269	172,532	109,408	1,665,393	174,331
Total long-term liabilities	<u>\$ 41,370,029</u>	<u>4,798,855</u>	<u>3,098,694</u>	<u>43,070,190</u>	<u>12,247,023</u>

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

The following summarizes the Authority's long-term note and bond obligations at June 30, 2009.

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.	\$ 7,763,063
Renewal and replacement (line of credit) note due to a local bank, interest at 1.5% over LIBOR (1.813% at June 30, 2009). Payments of interest are due monthly. Subsequent to year end, the Authority is working with the local bank to refinance the line of credit to January 26, 2011, at which time it will convert to various notes. 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.	7,175,825
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.	201,141
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.	1,759,059
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.	4,557,366
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>838,639</u>
Total notes payable	<u>22,295,093</u>

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, 2009 was 0.70% and is reset weekly based on LIBOR.	1,760,000
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, 2009 was 0.29% and is reset weekly based on LIBOR.	3,030,000

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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, 2009 was 2.535% and is reset monthly based on one-month LIBOR. The bonds are unsecured.

\$ 10,050,000

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.

2,885,000

17,725,000

Less:

Unamortized bond discount

(47,193)

Unamortized loss on refunding

(89,426)

Total bonds payable

17,588,381

Loan payable – Mission Development

1,521,323

Accrued compensated absences

1,665,393

Total long-term liabilities

\$ 43,070,190

(a) *Future Maturities*

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

	Notes and loan payable		Bonds payable	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2010	\$ 9,649,551	1,200,959	2,460,000	626,841
2011	5,350,553	746,503	10,795,000	555,233
2012	957,546	559,636	780,000	87,482
2013	952,022	502,584	820,000	69,110
2014	1,008,617	437,386	870,000	4,906
2015-2019	5,625,346	1,147,205	1,350,000	16,390
2020-2024	272,781	18,003	650,000	2,167
	\$ 23,816,416	4,612,276	17,725,000	1,362,129

Future maturities of accrued compensated absences are not determinable.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(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, 2008, \$6,105,000 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, 2008, \$7,705,000 remained outstanding. Interest at rates from 2.0% to 5.25% is payable semiannually and principal payments are due annually in November. Also included in bonds payable is \$205,108 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2010, \$1,400,000; 2011, \$1,455,000; 2012, \$1,515,000; 2013, \$1,580,000; and 2014-2023, \$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 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, 2009 was 14.09% of annual covered payroll, including the member contribution of 5%.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(c) Annual Pension Cost

For the fiscal year ended June 30, 2009, the Authority's annual pension cost of \$1,940,531 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, 2009	\$ 1,940,531	100%	none
June 30, 2008	2,293,238	100	none
June 30, 2007	2,270,239	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, 2009.

(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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(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, 2009 was \$5,365,161 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, 2009, there were 14 issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately \$194,455,816.

(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.

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

During the year, NRHA received a construction management fee of \$35,000 from its blended component unit, GVLP. This amount was recorded as a capital expenditure on the accompanying statement of revenues, expenses and changes in net assets. This fee was funded by a draw from a tax exempt bond. This fee was recorded as other operating revenue 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 a management fee of \$15,000 from its blended component unit, HRV. This amount was recorded as an operating expense on the accompanying statement of revenues, expenses and changes in net assets. This fee was recorded as other operating revenue 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.

(11) Other Post Employment Benefits (OPEB) Liability**(a) Plan Description**

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

(b) Funding Policy

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

(c) *Annual OPEB Cost and Net OPEB Obligation*

The Authority’s annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years, and is included in the Authority’s statement of net assets in noncurrent liabilities – other. The following table shows the components of the Authority’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority’s net OPEB obligation for the healthcare benefit plan:

Annual required contribution (ARC):		
Normal cost		\$ 539,361
Unamortized actuarial accrued liability		—
Interest		—
		<hr/>
Total ARC		539,361
Contributions made		<hr/> —
		539,361
Increase in net OPEB obligation		539,361
Net OPEB obligation, beginning of year		<hr/> —
Net OPEB obligation, end of year		<hr/> <u>\$ 539,361</u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 were as follows:

<u>Year ended June 30</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2009	\$ 539,361	—%	\$ 539,361

(d) *Funded Status and Funding Progress*

As of July 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$4,124,354. The covered payroll (annual payroll of active employees covered by the plan) was \$14,269,757, and the ratio of the UAAL to the covered payroll was 28.9%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2009

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

(e) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at July 1, 2009 included a 4.0% investment rate of return and an annual healthcare cost trend rate increase of 14% grading down to 5% over 6 years. The Authority's unfunded actuarial accrued liability is being amortized on a closed level dollar amount basis over a period of 30 years.

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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, 2009

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2006	\$ 65,055,152	77,404,075	12,348,923	88.66%	\$ 14,013,401	88.12%
June 30, 2007	72,045,739	80,500,571	8,454,832	89.50	13,371,113	63.23
June 30, 2008	77,400,690	84,176,732	6,776,042	91.95	13,736,580	49.33

See accompanying independent auditors' report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY
 Required Supplementary Information Other than MD&A
 Schedule of Funding Progress – Postretirement Healthcare Benefit Plan (Unaudited)
 Year ended June 30, 2009

<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>
July 1, 2009	\$ —	4,124,354	4,124,354	—%	\$ 14,269,757	28.9%

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, 2009

	<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 2002	\$ —	—	—	19,240	—	—	—	—	19,240
Program year 2003	—	—	223,841	78,804	6	—	—	—	302,651
Program year 2004	—	—	13,945	—	—	—	—	—	13,945
Program year 2005	—	—	13,875	77,506	—	783	2,105	—	94,269
Program year 2006	—	—	93,658	117,047	3,436	22,868	5,552	—	242,561
Program year 2007	29,615	—	—	307,560	9,600	356,353	58,448	—	761,576
Program year 2008	9,844	672,714	113,012	254,994	449,923	2,202,334	48,258	75,722	3,826,801
Total CD	\$ 39,459	672,714	458,331	855,151	462,965	2,582,338	114,363	75,722	5,261,043
Reconciliation to operating expenses:									
Project costs incurred	\$ 39,459	672,714	458,331	855,151	462,965	2,582,338	114,363	75,722	5,261,043
Land held for resale	—	—	—	—	—	—	—	—	53,343
Operating expenses								\$	5,314,386

Unaudited – see accompanying independent auditors’ report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY
 Schedule of Urban Renewal Fund Expenditures by Project (Unaudited)
 Year ended June 30, 2009

	Atlantic City VA R-1	Downtown North VA R-8	Downtown South VA R-9	Rosemont VA R-25	Ghent Neighborhood Conservation VA R-43	Huntersville VA R-70	Total
Classification of expenditures:							
Administrative costs	\$ 5,124	6,580,468	14,684	10,797	929,917	18,027	7,559,017
Legal services	26,512	374,871	66,185	27,170	9,023	2,229	505,990
Survey and planning	9,950	735,757	39,533	—	5,084	—	790,324
Acquisition expense	—	10,228	—	—	823	1,610	12,661
Operation of acquired property	(558,414)	(60,545)	(15,881)	(13,823)	7,373	(878)	(642,168)
Relocation costs	—	20,942	—	—	205,629	22,596	249,167
Site clearance	935	16,597	—	2,583	66,917	43,663	130,695
Project or site improvements	11,040	3,457,056	119,555	1,272,591	135,129	11,125	5,006,496
Project or site improvements/transfer to Waterside	—	—	3,100,000	—	—	—	3,100,000
Disposal, lease, and retention costs	58,010	293,291	29,545	246,056	34,426	63,685	725,013
Other income, primarily interest	(79,361)	(7,111,044)	(16,771)	(81,839)	(67,794)	(26,270)	(7,383,079)
Real estate purchases	—	183,000	—	—	30,000	30,000	243,000
Rehabilitation	—	367,948	—	—	—	—	367,948
Net cumulative project costs at June 30, 2009	(526,204)	4,868,569	3,336,850	1,463,535	1,356,527	165,787	10,665,064
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 project costs incurred during year ended June 30, 2009	(12,000)	826	—	—	—	—	(11,174)
Revenue earned during year ended June 30, 2009	12,000	898	—	—	—	—	12,898
Gross project costs incurred during year ended June 30, 2009	\$ —	1,724	—	—	—	—	1,724

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, 2009

	2001	2002	2003	Bonus 2003	2004	2005	2006	2007	2008	Total
Classification of expenditures:										
1408 Management improvements	\$ 623,839	328,757	221,724	—	120,809	147,157	130,100	93,728	53,154	1,719,268
1410 Administration	541,467	489,796	480,550	—	510,444	674,998	573,446	585,456	407,571	4,263,728
1430 Fees and costs	236,651	116,464	106,987	—	239,686	882,418	561,841	462,374	308,429	2,914,850
1440 Pre-development costs	—	—	—	—	—	277,695	—	—	—	277,695
1450 Site improvements	260,731	121,019	163,000	—	230,178	246,471	347,580	101,900	35,994	1,506,873
1460 Dwelling structures	2,358,355	1,773,552	838,374	405,945	2,255,113	1,716,585	1,916,560	642,761	197,710	12,104,955
1465.1 Dwelling equipment – nonexpendable	—	387,683	—	—	167,565	202,280	—	—	75,241	832,769
1470 Nondwelling structures	182,297	779,881	680	826,004	—	639,147	546,211	—	—	2,974,220
1475 Nondwelling equipment	—	—	509,295	—	—	—	—	—	—	509,295
1495 Relocation costs	116,016	—	—	—	—	—	—	—	—	116,016
1490 Replacement reserves*	3,500,000	3,500,000	3,500,000	—	3,343,069	772,911	—	—	—	14,615,980
1498 Development activity	—	—	—	—	—	1,661,636	1,191,832	72,524	—	2,925,992
1460 Replacement Housing Factor Funds	7,481	15,752	12,229	—	359,885	6,440	—	—	—	401,787
Cumulative project costs at June 30, 2009	7,826,837	7,512,904	5,832,839	1,231,949	7,226,749	7,227,738	5,267,570	1,958,743	1,078,099	45,163,428
Cumulative project costs at June 30, 2008	7,826,837	7,512,904	5,832,839	1,231,949	7,219,888	6,730,647	2,666,949	555,550	—	39,577,563
Project costs incurred during year ended June 30, 2009	—	—	—	—	6,861	497,091	2,600,621	1,403,193	1,078,099	5,585,865
* Classification of expenditures – Replacement Reserves:										
1408 Management improvements	1,715	—	—	—	—	—	—	—	—	1,715
1410 Administration	(1,862)	400	—	—	6,737	15,339	—	—	—	20,614
1430 Fees and costs	67,911	18,889	151,117	—	24,564	63,016	—	—	—	325,497
1450 Site improvements	398,880	217,404	1,610,445	—	1,172,180	—	—	—	—	3,398,909
1460 Dwelling structures	3,179,390	2,760,642	1,663,407	—	1,367,607	23,267	—	—	—	8,994,313
1470 Nondwelling structures	—	629,317	335,922	—	1,033,925	—	—	—	—	1,999,164
1495 Relocation costs	196	—	59,572	—	—	—	—	—	—	59,768
1498 Development activity	—	—	—	—	—	697,643	—	—	—	697,643
Cumulative project costs at June 30, 2009	3,646,230	3,626,652	3,820,463	—	3,605,013	799,265	—	—	—	15,497,623
Cumulative project costs at June 30, 2008	3,646,230	3,626,652	3,700,854	—	3,554,441	46,989	—	—	—	14,575,166
Project costs incurred during year ended June 30, 2009	—	—	119,609	—	50,572	752,276	—	—	—	922,457
Total project costs incurred during year ended June 30, 2009	—	—	119,609	—	57,433	1,249,367	2,600,621	1,403,193	1,078,099	6,508,322
Increase in capital assets (not including depreciation):										
Ending balance	3,319,306	3,285,934	3,703,071	1,231,949	5,554,720	2,174,890	3,774,853	1,191,095	310,208	24,546,026
Transfers	—	—	258	—	—	1,079,200	275,584	4,555	—	1,359,597
Beginning balance	(3,319,306)	(3,285,934)	(3,583,720)	(1,231,949)	(5,497,287)	(2,031,616)	(1,461,871)	(145,409)	—	(20,557,092)
Increase in capital assets	—	—	119,609	—	57,433	1,222,474	2,588,566	1,050,241	310,208	5,348,531
Management improvements and administration	—	—	—	—	—	26,893	12,055	352,952	767,891	1,159,791
Administrative expenses transferred to central office cost center	—	—	—	—	—	(727)	(794)	(251,746)	(378,759)	(632,026)
Transfers to Grandy (Contra Account)	—	—	—	—	—	(15,339)	—	—	—	(15,339)
Depreciation	186,682	188,976	188,922	72,669	191,035	82,262	17,155	990	523	929,214
Operating expenses	\$ 186,682	188,976	188,922	72,669	191,035	93,089	28,416	102,196	389,655	1,441,640

* 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, 2009

	Program year							Total
	2001-2002	2003	2005	2006	2007	2008	2009	
Classification of expenditures:								
Program coordinator	\$ 81,000	44,242	39,183	130,000	130,000	131,000	8,887	564,312
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	2,807	998	8,706	—	7,284	—	—	19,795
Administrative costs	9,600	31,120	14,602	—	18,795	—	—	74,117
Capacity building activities	—	42,560	—	—	—	—	—	42,560
Individual Savings Account	—	—	37,500	—	—	—	—	37,500
Market analysis	68	—	—	—	—	—	—	68
Stipend	—	—	—	—	4,200	—	—	4,200
Program expenses	40,619	83,401	19,657	—	26,503	—	—	170,180
Salaries	32,482	—	145,764	—	109,045	—	—	287,291
Fringe benefits	9,419	16,835	29,236	—	26,103	—	—	81,593
Cumulative project costs at June 30, 2009	326,919	350,197	539,183	130,000	321,930	131,000	8,887	1,808,116
Cumulative project costs at June 30, 2008	326,919	350,197	539,183	130,000	175,503	—	—	1,521,802
Project costs incurred during year ended June 30, 2009	\$ —	—	—	—	146,427	131,000	8,887	286,314
Equipment								—
Current year depreciation								4,283
Operating expenses							\$	290,597

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, 2009

	<u>Program year 2009</u>	<u>Total</u>
Classification of expenditures:		
Management improvements	\$ 3,995,350	3,995,350
Administration	3,977,081	3,977,081
Fees and costs	4,676,515	4,676,515
Site acquisition	68,475	68,475
Site improvement	1,959,801	1,959,801
Dwelling structures	13,533,720	13,533,720
Nondwelling equipment	25,000	25,000
Demolition	2,158,723	2,158,723
Relocation costs	1,537,747	1,537,747
Hope VI Section 8	<u>2,059,099</u>	<u>2,059,099</u>
Cumulative project costs at June 30, 2009	33,991,511	33,991,511
Cumulative project costs at June 30, 2008	<u>33,239,133</u>	<u>33,239,133</u>
Project costs incurred during year ended June 30, 2009	<u>\$ 752,378</u>	<u>752,378</u>
Reconciliation to operating expenses:		
Project costs incurred:		\$ 752,378
Decrease in fixed assets:		
Ending balance	\$ 1,746,009	
Depreciation	3,920	
Surveys	21,093	
Beginning balance	<u>(1,709,127)</u>	
Increase in fixed assets		61,895
Increase in notes receivable:		
Ending balance	17,455,493	
Beginning balance	<u>(17,455,493)</u>	
Increase in notes receivable		—
Current year other income		11,693
Operating transfers out		(12,114)
Operating transfers in		172,690
Retainage		(4,552)
Compensated absence expense		2,612
Depreciation		<u>3,920</u>
Operating expenses		<u>\$ 988,522</u>

Unaudited – see accompanying independent auditors’ report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Empowerment Zone Program Expenditures (Unaudited)

Year ended June 30, 2009

	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, 2009	3,066,914	3,066,914
Cumulative project costs at June 30, 2008	3,066,914	3,066,914
	<u> </u>	<u> </u>
Project costs incurred during year ended June 30, 2009	\$ —	—
	<u> </u>	<u> </u>
Reconciliation to operating expenses:		
Current year depreciation	\$ 51	51

Unaudited – see accompanying independent auditors’ report.

COMPLIANCE SECTION

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NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Exhibit G-1

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

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	\$ 15,356,229
Section 8 Housing Assistance Payments Program:			
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4		14.871	19,991,609
New construction – Park Terrace Program (contract P-5512)	VHDA	14.182	311,144
Subtotal – Section 8 Housing Assistance Payments Program			<u>20,302,753</u>
Single Room Occupancy (SRO) Program: (VA36K401001)		14.249	<u>362,416</u>
Capital Fund Program:			
VA-36-P006-501 (2004)		14.872	6,861
VA-36-P006-501 (2005)		14.872	497,091
VA-36-P006-501 (2006)		14.872	2,600,621
VA-36-P006-501 (2007)		14.872	1,403,193
VA-36-P006-501 (2008)		14.872	1,078,099
Subtotal – Capital Fund Program			<u>5,585,865</u>
ARRA - Capital Fund Recovery Grant - (VA-36-S006-501-09)		14.855	<u>17,975</u>
Resident Opportunity and Supportive Services (ROSS) Program:			
VA006REF034A006 (2007)		14.870	146,427
VA006RFS189A007 (2008)		14.870	131,000
VA006RFS180A008 (2009)		14.870	8,887
Subtotal – ROSS Program			<u>286,314</u>
Community Development Block Grant:			
	City of Norfolk		
Program year 2002 (CDBG No. B02-MC-510016)		14.218	19,240
Program year 2003 (CDBG No. B03-MC-510016)		14.218	302,651
Program year 2004 (CDBG No. B04-MC-510016)		14.218	13,945
Program year 2005 (CDBG No. B05-MC-510016)		14.218	94,269
Program year 2006 (CDBG No. B06-MC-510016)		14.218	242,561
Program year 2007 (CDBG No. B07-MC-510016)		14.218	761,576
Program year 2008 (CDBG No. B08-MC-510016)		14.218	3,826,801
Subtotal – Community Development Block Grant			<u>5,261,043</u>
Home Investment Partnerships:			
	City of Norfolk		
Program year 2003 (HOME No. M03-MC-510203)		14.239	—
Program year 2004 (HOME No. M04-MC-510203)		14.239	740
Program year 2005 (HOME No. M05-MC-510203)		14.239	51,707
Program year 2006 (HOME No. M06-MC-510203)		14.239	45,117
Program year 2007 (HOME No. M07-MC-510203)		14.239	529,315
Program year 2008 (HOME No. M08-MC-510203)		14.239	1,601,681
Subtotal – Home Investment Partnerships			<u>2,228,560</u>
Urban Revitalization Program (HOPE VI) (VA-36-URD006-1100) (2000)		14.866	752,378
Intermodal Surface Transportation Efficiencies Act (ISTEA) – Historic Preservation Grant (EN-01-122-121)	City of Norfolk	15.904	114,357
Total expenditures of federal awards			\$ <u><u>50,267,890</u></u>

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, 2009

(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.	\$ 16,670
Plumb Line Ministries	24,040
Beacon Light Civic League	<u>32,301</u>
	<u>\$ 73,011</u>

(4) Loans Outstanding

The Authority had \$7,763,062 of outstanding loans at June 30, 2009 under the Low-Income Housing program. Such amounts are not included in the accompanying schedule of expenditures of federal awards.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No**
Material weaknesses: **No**
- (c) Noncompliance which is material to the basic financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes, findings 09-2 through 09-6**
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: **Public Housing Program CFDA 14.850; Section 8 Housing Assistance Payments Program, Housing Choice Vouchers CFDA 14.871; Capital Fund Program CFDA 14.872; Community Development Block Grant CFDA 14.218; Home Investment Partnerships CFDA 14.239; Urban Revitalization Program (HOPE VI) CFDA 14.866**
- (h) Dollar threshold used to determine Type A programs: **\$1,508,037**
- (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*

None to be reported.

(3) Findings and Questioned Costs Relating to Federal Awards

Department of Housing and Urban Development

**Public Housing Program CFDA 14.850
 Section 8 Housing Assistance Payments Program, Housing Choice Vouchers CFDA 14.871
 Capital Fund Program CFDA 14.872
 Community Development Block Grant CFDA 14.218
 Home Investment Partnerships CFDA 14.239
 Urban Revitalization Program (HOPE VI) CFDA 14.866**

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

*Deficiency in Internal Control***Finding 09-1: Allowable Costs**

Criteria – The Authority is required, in accordance with 2 CFR Section 215.27 to ensure that requirements for allowable costs/cost principles are met prior to charging a grant.

Condition – We noted in our sample of 62 timesheets submitted for allowable costs related to payroll that 1 timesheet tested did not properly support the amount charged to a grant.

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

Perspective – There were 26 employees that submitted late timesheets during the year. Due to the limitation in the payroll system, when a timesheet is submitted late, only one charge code may be charged for all time worked. After the end of the fiscal year, the Authority recorded a journal entry to manually adjust charges from late timesheets to the correct charge code.

Cause and Effect – The Authority does not appear to have a management control over the accuracy of timesheets that are not submitted timely.

Recommendation – We recommend that a management review control be implemented to oversee this process.

Views of Management – Management agrees with this finding. Oversight procedures in place addressed the appropriateness of staff charges to grants and charge codes, based on work assignment, but not a reconciliation to the delinquent time sheets.

Corrective Action Plan – We have adopted procedures that require the review and correction, if required, of payroll input for every timesheet received after the established deadline. We have also counseled staff on the importance of timely submission of time sheets.

Public Housing Program CFDA 14.850**Finding 09-2: Eligibility***Significant Deficiency in Internal Control*

Criteria – In accordance with 24 CFR Section 960.259 the Authority is required to reexamine family income and compensation at least once every 12 months and adjust the tenant rent and housing assistance payments as necessary using the documentation from a third party.

Condition – In our sample of 25 families tested for eligibility, we noted that for one of the families, income verification was not received timely from the third party; as a result, income per the interview was utilized to determine rent. After recertification was complete, income verification was received and a reexamination should have taken place, per review of the Statement of Policy 7-6.

Questioned Costs – The rent amount calculated with the verified information would have resulted in an increase in rent in the amount of \$54 per month or \$108 for the fiscal year (2 months of rent).

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Perspective – There was 1 error out of 25 in our sample, with known questioned costs of \$108. The total annual rent revenue for our sample of 25 amounted to \$87,660. During fiscal 2009, the Authority's total net tenant rental revenue amounted to \$8,836,856.

Cause and Effect – The Authority does not appear to have a strong management review control over the performance of interim-reexaminations for Low Income Public Housing.

Recommendation – We recommend that the Authority implement a review control to oversee this process.

Views of Management – Management agrees with this finding.

Corrective Action Plan – Annual Recertification training was provided on January 15, 2010 and Interim Recertification training was provided on February 26, 2010, for all Property Managers and Administrative Staff, to review the policies and processes for conducting annual and interim recertifications. Verification training was also provided on February 26, 2010, highlighting the importance of including third party income verification/documentation in the file. The Property Managers have been directed to review all tenant files to ensure accuracy and completion. In addition, Asset Zone Managers are conducting random file audits monthly at each community to ensure accuracy of recertifications and compliance with all HUD policies. Independent training will be scheduled on Eligibility, Income, and Rent (EIR) for the Department of Property Management.

Public Housing Program CFDA 14.850

Capital Fund Program CFDA 14.872

Community Development Block Grant CFDA 14.218

Urban Revitalization Program (HOPE VI) CFDA 14.866

Finding 09-3: Reporting

Significant Deficiency in Internal Control

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

Condition – In two quarterly reports from the third quarter that we inspected, errors were noted on Line 3, Part II Line 1A and Part II Line 2A for both 3B – Public/Indian Housing – Operation and the 10-Other Housing Programs quarterly reports.

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

Perspective – Two of the three quarterly reports in our sample of two quarters contained errors. The reporting appears to have a high prevalence of errors. This is a repeat finding from the prior year.

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.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Views of Management – Management agrees with this finding.

Corrective Action Plan – The 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 the annual 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 NRHA 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 NRHA contract data for Section 3 reporting.
- The internal cut off for employment and training data entry will be adjusted to the second working day after the end of the fiscal year. This will allow ample time to compile, analyze and prepare hard copies of the data for review by the Client Services Director prior to submitting the data to HUD. The form HUD 60002, Section 3 summaries are due 10 days after the end of the federal fiscal year, i.e., October 10th.

Public Housing Program CFDA 14.850

Finding 09-4: Reporting

Significant Deficiency in Internal Control

Criteria – In accordance with 24 CFR Section 980, the Authority is required to submit the HUD 50058 form electronically to HUD each time the Authority completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family.

Condition – In our sample of 25 families tested for reporting, we noted that for 1 of the families, the effective date was reported incorrectly, based on the information included in the client file.

Questioned Costs – If the effective date was correctly entered, a decrease in rent of \$17 would have been noted. As the difference relates to just one month, annual questioned costs are also (\$17).

Perspective – There was 1 error out of 25 in our sample, with known questioned costs of (\$17). The total annual rent revenue for our sample of 25 amounted to \$87,660. During fiscal 2009, the Authority's total net tenant rental revenue amounted to \$8,836,856.

Cause and Effect – The Authority does not appear to have a strong management review control over the accuracy of the 50058 form submission which determines the amount of rent. The information that populates the 50058 submission is input from the eligibility records.

Recommendation – We recommend that the Authority implement a review control to oversee this process.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Views of Management – Management agrees with this finding.

Corrective Action Plan – Annual Recertification training was provided on January 15, 2010 and Interim Recertification training was provided on February 26, 2010 for all administrative staff and managers, to review the policies and processing for conducting annual and interim recertifications. The Property Managers have been directed to review all tenant files during their reexamination period to ensure accuracy and completion. In addition, Asset Zone Managers are conducting random file audits monthly at each community to ensure accuracy of recertifications and compliance with all HUD policies. The Analysis and Reporting Specialists are reviewing all HUD 50058's prior to submittal to PIC. Independent training will be scheduled on Eligibility, Income, and Rent (EIR) for the Department of Property Management.

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

Finding 09-5: Reporting

Significant Deficiency in Internal Control

Criteria – In accordance with 24 CFR Section 908, the Authority is required to submit the HUD 50058 form electronically to HUD each time the Authority completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family.

Condition – In our sample of 40 families tested for reporting, we noted 2 families' 50058 forms were reported incorrectly as follows:

1. For one family, the dates of birth for all members of the family were incorrect. The dates of birth on the form were taken from the birth certificates' registration date field, not the actual date of birth.
2. For one family, the utility allowance was incorrectly listed as \$308 per month. The actual allowance should have been \$361 per month.

Questioned Costs – The questioned costs for both of these files totaled (\$53) per month.

Perspective – There were two errors out of 40 in our sample, with known questioned costs of (\$53). The total monthly HAP payments for our sample of 40 amounted to \$29,487. During fiscal 2009, the Authority's total HAP payments amounted to \$18,326,418.

Cause and Effect – The Authority does not appear to be a strong management review control over the accuracy of the 50058 form submission, which determines the amount of rent. This information that populates the 50058 submission is input from the eligibility records.

Recommendation – We recommend that the Authority implement a review control to oversee this process.

Views of Management – Management agrees with this finding.

Corrective Action Plan – Case workers were trained on reviewing birth certificates to ensure correct application of dates of birth. All staff are required to conduct an audit on all completed certifications prior to marking the cert complete, by printing the 50058 and comparing the data on the 50058 with the data in

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

the actual file. Other audit controls include, on a monthly basis, Case workers are to audit two files of their buddy Case worker to identify any discrepancies; also NRHA has a Quality Control Manager who audits a percentage of all certifications completed on a monthly basis.

Case workers were reminded that the Elite system did not properly apply the correct utility allowance for interims that are conducted after the allowances are updated in the system, and that they must manually input the new utility allowance scheduled. The system properly pulls the correct allowance schedule for annual re-exams. All staff are required to conduct an audit on all completed certifications prior to making the cert complete, by printing the 50058 and comparing the data on the 50058 with the date in the actual file. Other audit controls include, on a monthly basis, Case workers are to audit two files of their buddy Case worker to identify any discrepancies; also NRHA has a Quality Control Manager who audits a percentage of all certifications completed on a monthly basis.

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

Finding 09-6: Special Tests – Utility Allowance

Significant Deficiency in Internal Control

Criteria – In accordance with 24 CFR 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. This is a repeat finding from prior year.

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 HCV Program Manager will require all back-up documentation including but not limited to:

- Methodology
- Survey and Study Results
- Consumption Sources and Adjustments

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- Consumptions
- Utility Allowance Survey Cost of Consumption
- Support Documentation

Each formula used to arrive at the stipulated allowance for each exposed wall and unit type will be recalculated. Prior to implementation, the HCV Manager will run tapes on the yearly adjusted allowance schedule. The tapes will be maintained in a file.



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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the financial statements of Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 31, 2010. Our report was modified to include a reference to the Authority's implementation of a new accounting standard and 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 of 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 for the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Authority in a separate letter dated March 31, 2010.

This report is intended solely for the information and use of management, the board of commissioners, others within the Authority, and the Virginia Housing Development Authority, the Development 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, 2010



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

**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 each of its major federal programs for the year ended June 30, 2009. The Authority's major federal programs are identified in the summary of auditor's 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 each of its major federal programs for the year ended June 30, 2009. 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 are described in the accompanying schedule of findings and questioned costs as items 09-1 through 09-6.

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 entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain 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 items 09-2 through 09-6 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 any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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, 2010