NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2010

(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 (primary government) and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express 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 opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Norfolk Redevelopment and Housing Authority as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2011 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

February 8, 2011

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, 2010. Please read it in conjunction with the financial statements, which begin on page 19.

Overview of the Financial Statements

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

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

Financial Highlights for 2010

The Authority's 2010 major financial highlights included the following:

- Total assets and liabilities of the Authority were approximately $265.8 million and $74.0 million, respectively; thus, total net assets were approximately $191.8 million at June 30, 2010.
- Total revenues (including capital contributions) and expenses were approximately $98.0 million and $91.6 million, respectively; thus, net assets increased by approximately $6.4 million during the fiscal year.
- Revenues are derived from various sources with approximately 11% from the City and 56% received either directly or indirectly (through the City) from the U.S. Department of Housing and Urban Development (HUD). Rental revenues account for an additional 20% of total revenue; 10% from Authority-owned federally assisted housing rental; and 10% from Authority-owned nonassisted affordable housing rental units. The 13% remaining revenue balance is derived from miscellaneous fees for services or nonoperating sources (i.e., investment income, and partner's contributions).
- The Authority also received new loan proceeds totaling $5.4 million. These proceeds plus $3.5 million in partner contributions and $6.5 million in capital grants were the primary financing source for $17.0 million in new capital asset additions.
- Cash flows provided by operating activities were approximately $8.4 million. The net increase in cash and cash equivalents for the year was approximately $6.4 million, primarily due to investing activities.

(Continued)

- Component Units Mission College 1, L.P., and Hampton Roads Ventures, L.L.C. have December 31 year-ends.

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, 2010, 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 2,500 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 2010 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

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

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

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

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

In addition to the three financial statements, notes to basic financial statements are also included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the Authority's basic financial statements.

The basic financial statements utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses in the period in which they are incurred. This means all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will have actual cash flows in future fiscal periods (e.g., uncollected rent and earned but unused vacation leave).

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

Financial Analysis

The Authority's basic financial statements are presented as a single enterprise fund. The enterprise fund accounts for the Authority's operations of property development and management concerns similar to private sector counterparts. Some reclassifications of the 2009 financial information are being presented to facilitate comparisons of prior year and current year financial information.

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Condensed Financial Information

The following table reflects the condensed statement of net assets compared with the prior year. Total assets and liabilities of the Authority were approximately $265.8 million and $74.0 million, respectively; thus, total net assets were approximately $191.8 million at June 30, 2010.

Table 1

Condensed Statements of Net Assets

June 30, 2010 and 2009

(In millions)

Description		2010	2009	Change	Percentage change
Current assets:					
Cash and investments	$	44.0	40.5	3.5	9%
Restricted cash		19.8	19.4	0.4	2
Assets held for sale		13.4	12.8	0.6	5
Noncurrent assets:					
Capital assets, net		148.0	139.6	8.4	6
Other current and noncurrent assets		40.6	40.8	(0.2)	—
Total assets	$	265.8	253.1	12.7	5%
Current liabilities	$	36.6	24.4	12.2	50%
Noncurrent liabilities		37.4	43.3	(5.9)	(14)
Total liabilities	$	74.0	67.7	6.3	9%
Net assets:					
Invested in capital assets, net of related debt	$	113.1	108.8	4.3	4%
Restricted		27.4	26.9	0.5	2
Unrestricted		51.3	49.7	1.6	3
Total net assets	$	191.8	185.4	6.4	3%

Of the Authority's $265.8 million in assets, $148.0 million or 56% is invested in capital assets, net of accumulated depreciation, $63.8 million or 24% is cash related ($44.0 million cash and investments plus $19.8 million restricted cash), $13.4 million or 5% is invested in assets held for sale, and $40.6 million or 15% is other current and noncurrent assets, of which $15.5 million or 6% is receivables due in 40 years (starting in 2042) related to the Broad Creek Renaissance (BCR) mixed finance project and $9.2 million or 3% is receivables of the rehabilitation revolving loan fund (RLF).

Of the $74.0 million of liabilities, $36.6 million is current liabilities, which will require payment within 12 months of the reported fiscal year-end and $37.4 million is noncurrent liabilities for which payments will be made subsequent to the next 12-month period. Current liabilities increased $12.2 or 50% since last fiscal year

($36.6 million in fiscal year 2010 compared to $24.4 million in fiscal year 2009) mainly due to the near term bond redemption dates for two programs. The noncurrent liabilities decrease by $5.9 million or 14% ($37.4 million in fiscal year 2010 compared to $43.3 million in fiscal year 2009); while the same near term maturity dates for two bond instruments reduced the noncurrent liabilities, the decrease was offset by new borrowings during the current fiscal year.

A breakout of the $74.0 million in liabilities follows: $44.7 million or 61% is debt; $11.0 million or 15% is amounts under the rehabilitation revolving loan program requiring reappropriation by another government before reuse – the $9.2 million RLF outstanding receivable balance noted above offsets this liability; the $18.3 million or 25% 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 $191.8 million is the difference between the $265.8 million in assets and the $74.0 million in liabilities. Ideally, the breakout of the net asset balance allows financial statement users to identify resources that are available to finance the activities, programs, or projects with which they are most concerned, whether it be making debt service payments, supplementing mission critical, yet underfunded programs, or beginning a new service or expanding an existing one.

Referring back to Table 1, the Authority's net assets increased $6.4 million or 3%. This increase 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 $4.3 million or 4%. The increase results from changes in two components, a $8.5 million increase in capital assets, which went from $139.5 million as of June 30, 2009 to $148.0 million as of June 30, 2010 and a $3.3 million increase in the debt related to the capital assets, which went from $41.4 million to $44.7 million.

Restricted net assets – the part of net assets that has constraints established by debt covenants, enabling legislation or other legal requirements – increased 2% or $0.5 million ($27.4 million at June 30, 2010 compared to $26.9 million at June 30, 2009). Significant components of the change included increases in property held for resale ($0.6 million); East Ocean View related debt ($0.3 million); Federal Housing ($0.3 million); Veterans Affairs Supportive Housing (VASH), a new program providing housing assistance payments (HAP) for veterans only ($0.1 million). These increases were offset by decreases in the amount on hand restricted for traditional HAP ($0.9 million).

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 $49.7 million at June 30, 2009 to $51.3 million at June 30, 2010, an increase of $1.6 million or 3%. Observations on the unrestricted net asset balance follow:

- While presented in the aggregate in the financial statements, the unrestricted net assets include over 20 distinct programs, each controlled by the terms of its own program contract; specific program eligibility rules apply when considering the use of unrestricted net asset balances – consisting of the net of cash in the bank, receivables net of allowances, and other assets less all other liabilities not previously applied.
- The unrestricted net assets of the Authority include notes and interest receivable related to the Hope VI BCR tax credit project totaling $15.5 million and $6.0 million, respectively, which is due after 40 years, beginning in 2042.

- Debt of $0.9 million is included in the unrestricted net asset balance, which might be offset by future proceeds from specific land held for resale parcels.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for unused employee vacation and sick days. The balance for unused employee vacation and sick days at June 30, 2010 and 2009 was $1.6 million and $1.7 million, respectively, and is included in the unrestricted net assets. The Authority will need to include this amount in future years' budgets as they come due.
- The Authority does not include in its annual budget nor recognize revenue (from reimbursement programs) to pay for Postretirement Healthcare Benefit Plan, which is offered at the Authority's discretion. The liability at June 30, 2010 and 2009 was $0.8 million and $0.5 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.

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 2010, the Authority realized an increase in net assets of $6.4 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, 2010 and 2009

(In millions)

Description	2010	2009	Change	Percentage change
Total operating revenues	$ 86.2	75.4	10.8	14%
Total operating expenses	89.5	82.5	7.0	8
Operating loss	(3.3)	(7.1)	3.8	54
Total nonoperating revenues	1.8	2.6	(0.8)	(31)
Total nonoperating expenses	(2.1)	(1.8)	(0.3)	17
Total nonoperating income (expenses), net	(0.3)	0.8	(1.1)	(138)
Loss before capital grants and contributions	(3.6)	(6.3)	2.7	43
Governmental capital grants	6.5	4.3	2.2	51
Capital contributions from (distributions to) limited partners	3.5	(1.1)	4.6	418
Change in net assets	6.4	(3.1)	9.5	306
Total net assets – beginning	185.4	188.5	(3.1)	(2)
Total net assets – ending	$ 191.8	185.4	6.4	3%

(Continued)

Net assets decreased $3.2 million from operating activities and decreased $0.3 million from nonoperating activities, resulting in a $3.5 million decrease in net assets before recognizing the receipt of grant revenue for capital expenditures and capital distributions from limited partners. These decreases were offset by increases totaling $10.0 million – governmental capital grants ($6.5 million) and distributions from limited partners ($3.5 million) – resulting in a $6.5 million increase in net assets.

The following sections discuss revenues and expenses separately.

Revenues

Table 3 provides an excerpt of income from the statement of revenues, expenses, and changes in net assets and shows that total revenues, gains, and capital contributions increased 19% or $15.7 million ($98.0 million compared to $82.3 million).

Table 3

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

Years ended June 30, 2010 and 2009

(In millions)

Description		2010	2009	Change	Percentage change
Operating revenues:					
Tenant revenue – rents and other	$	19.5	19.4	0.1	1%
Operating grants and subsidies		61.2	52.5	8.7	17
Other revenue, net		5.5	3.5	2.0	57
Total operating revenues		86.2	75.4	10.8	14
Nonoperating revenues:					
Interest and investment revenue		1.8	2.6	(0.8)	(31)
Capital grants		6.5	4.3	2.2	51
Capital contributions from limited partners		3.5	—	3.5	—
Total revenues	$	98.0	82.3	15.7	19%

The $15.7 million (19%) increase in total revenues is primarily attributable to an increase in operating grants and subsidies of $8.7 million (from $52.5 million to $61.2 million). Other components of the increase were an increase in tenant revenue of $0.1 million (from $19.4 million to $19.5 million); other revenue, net, which increased $2.0 million (from $3.5 million to $5.5 million); an increase in capital grants of $2.2 million (from $4.3 million to $6.5 million); and a capital contribution from limited partners of $3.5 million (there was a capital *distribution* of $1.1 million in the prior year versus a *contribution* in the current year).

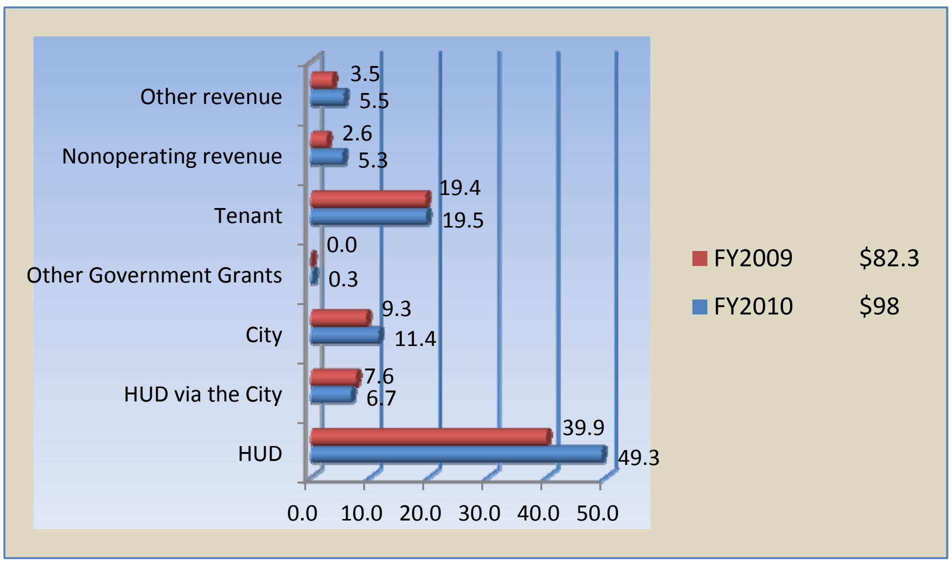
A decrease in interest and investment revenue, which decreased $0.8 million (from $2.6 million to $1.8 million) offset the above increases.

To better understand some of above changes in revenues, a comparison by source (provider) of revenues is considered helpful. Revenues were derived from various providers with approximately 12%, or $11.4 million, from the City and 57%, or $56.0 million, received either directly ($49.3 million) or indirectly ($6.7 million through the City – 7% in addition to the previous 12%) from the HUD. Tenant rental revenues accounted for an additional 20%, or $19.5 million, of total revenue; 10%, or $9.9 million, was from over 3,400 units of Authority-owned federally assisted housing – Federal Housing and Park Terrace; 10%, or $9.3 million, is from 1,160 units of Authority-owned nonassisted affordable housing – Merrimack Landing, Oakmont North, and Mission College; and 1%, or $0.6 million, in tenant revenue was from a variety of other commercial or residential customers. The 11% balance of total revenue, or $10.8 million, is derived from miscellaneous fees for services (i.e., fees from Hampton Roads Transit Authority) or nonoperating sources (i.e., investment income, and distributions from partners).

Revenue Source Comparison

Years ended June 30, 2010 and 2009

(In millions)



The graph above depicts changes in the Authority's revenue by source and allows the Authority to review changes from the Authority's primary funding providers, HUD and the City. The most significant change in revenue by providers was a $9.4 million increase in funding received directly from HUD (from $39.9 million to $49.3 million). Individual program components of the change were as follows:

- a $4.0 million increase in Housing Choice Voucher program funding level resulted from an increase of over 2,500 unit month lease ups;
- a $2.4 million increase in the American Recovery and Reinvestment Act (ARRA) program funding was reimbursed as the Authority accomplished the public housing capital initiatives earmarked in this nonrecurring stimulus fund award;
- a $1.6 million increase in the capital fund program funding level resulted primarily from a $1.2 million lump-sum drawdown used for public housing program operations. Also, administrative funds were drawn

down under the capital fund program as a lump sum for the first time in accordance with the new asset management rules;

- the federal housing program subsidy funding formula yielded a $1.2 million increase largely due to the escalated cost reflected in the most recent utility cost history used in the subsidy computation;
- Also, $0.2 million was received for the VASH voucher program, which was new this year.

City funding increased $2.1 million (from $39.9 million to $49.3 million). Activity in the Capital Improvement program – a reimbursement program – was accelerated due to sunset deadlines on eminent domain laws.

HUD funding via the City decreased $0.9 million. While reimbursements from the Community Development Block Grant (CDBG) program were level for the year, HOME program spending and reimbursements decreased $1.0 million due to lower volume of homeowner closings. This decreased was offset by $0.2 million revenue for a new program, Neighborhood Stabilization (NSP).

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 7% or $6.2 million ($91.6 million compared to $85.4 million).

Table 4

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

Years ended June 30, 2010 and 2009
(In millions)

Description	2010	2009	Change	Percentage change
Operating expenses:				
Administrative	$ 15.9	16.2	(0.3)	(2)%
Housing assistance payments (HAP)	19.7	18.6	1.1	6
Extraordinary maintenance	11.6	8.5	3.1	36
Maintenance – routine	10.4	9.7	0.7	7
Depreciation and amortization	8.4	8.0	0.4	5
Utilities	9.4	9.8	(0.4)	(4)
General	9.8	7.1	2.7	38
Tenant services	2.9	3.5	(0.6)	(17)
Protective services	1.4	1.1	0.3	27
Total operating expenses	89.5	82.5	7.0	8
Nonoperating expenses:				
Interest expense	2.1	1.7	0.4	24
Loss on sale of fixed assets	—	0.1	(0.1)	(100)
Distributions to limited partners	—	1.1	(1.1)	(100)
Total nonoperating expenses	2.1	2.9	(0.8)	(28)
Total expenses	$ 91.6	85.4	6.2	7%

 (Continued)

The most significant increases in expenses were: $3.1 million increase in extraordinary maintenance expense ($11.6 million compared to $8.5 million); $2.7 million increase in general expense ($9.8 million compared to $7.1 million); and $1.1 million increase in HAP ($19.7 million compared to $18.6 million).

Other increases were: routine maintenance expense increased $0.7 million (from $9.7 million to $10.4 million); depreciation and amortization expenses increased $0.4 million (from $8.0 million to $8.4 million); protective service expense increased $0.3 million (from $1.1 million to $1.4 million); and interest expense increased $0.4 million (from $1.7 million to $2.1 million).

Decreases for expenses were: administrative expense decreased $0.3 million (from $16.2 million to $15.9 million); utility expense decreased $0.4 million (from $9.8 million to $9.4 million); tenant services expense decreased $0.6 million (from $3.5 million to $2.9 million); loss on sale or donation of asset decreased $0.1 million (from $0.1 million to $0.02 million); and distributions to limited partners decreased $1.1 million or 100% (from $1.1 million distribution to limited partners in the prior year to $3.5 million contribution in the current year).

Capital Assets

The Authority's capital assets as of June 30, 2010 included land, buildings, improvements, construction in progress, and equipment that totaled $148.0 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, 2010 and 2009

(In millions)

Description	2010	2009	Change	Percentage change
Nondepreciable assets:				
Land	$ 23.5	23.5	—	—%
Construction in progress	10.1	13.0	(2.9)	(22)
Other capital assets:				
Buildings and building improvements	176.3	161.2	15.1	9
Improvements other than buildings	60.6	55.5	5.1	9
Equipment	9.9	10.5	(0.6)	(6)
Accumulated depreciation	(132.4)	(124.2)	(8.2)	7
Total	$ 148.0	139.5	8.5	6%

Most of the capital asset balance, $108.2 million or 73%, 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 24% or $35.1 million is invested in Authority-owned, nonassisted multifamily affordable housing units.

(Continued)

The Authority had $8.5 million in net additions to capital assets in 2010. Table 6 details the components of the change.

Table 6

Change in Capital Assets of the Authority

June 30, 2010
(In millions)

		Nondepreciable assets	Other capital assets	Total
July 1, 2009 beginning balance, net	$	36.5	103.0	139.5
Transfers		(12.8)	12.8	—
Purchases		9.9	7.1	17.0
Depreciation		—	(8.2)	(8.2)
Retirements, net		(0.1)	(0.2)	(0.3)
Ending balance	$	33.5	114.5	148.0

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

- Construction in progress totaling $12.8 million, primarily capital improvements in Grandy Village, L.P. ($11.9 million), was completed and transferred to operations. The remaining $0.9 million was roof renovations for the Granby Office building, which were completed and transferred to operations.
- Purchases of $17.0 million included $4.0 million for the renovation of Mission College Apartments, $5.4 million for the continuous renovations in Grandy Village Apartments including building the community center and HVAC installation, and $1.9 million was for new road and sitework in the Oakleaf community. The remaining $5.7 million in purchases of capital assets that occurred during the year included the following:
  - cathodic protection, kitchen cabinet replacement, paved area walks, extensive preventive maintenance initiatives, boiler replacement and replacement, and some meter replacement in our public housing communities;
  - replaced gas meters and HVAC, countertop and cabinet replacement at Merrimac Landing Apartments;
  - exterior renovations of the Granby Office building as well as HVAC enhancements;
  - significant replacements in the maintenance vehicle fleet and some office computer replacement also occurred during the year.

  Approximately $2.0 million of purchases had not been paid at June 30, 2010 and, therefore, are included in accounts payable at year-end.
- Retirements of $0.3 million, net, related to the disposition of property in the Broad Creek neighborhood as well as routine equipment replacement.

Long-Term Debt

At June 30, 2010, the Authority had total debt outstanding of $44.7 million (excluding vested compensated absences). Of this amount, $1.6 million of debt for the Granby Office building is backed by the full faith and credit of the Authority. The remainder of the Authority's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), secured by the associated project property or backed by other governmental entities.

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

Table 7

Change in Long-Term Debt Summary

Year ended June 30, 2010

Description	Amounts payable at July 1, 2009	Additions	Retirements and reductions	Amounts payable at June 30, 2010	Future debt service commitment
Granby Office Building	$ 1,759,059	—	156,590	1,602,469	The Authority
Park Terrace	838,639	—	77,407	761,232	Project revenue
Oakmont North	3,030,000	—	185,000	2,845,000	Revenue bond
Merrimack Landing	2,748,381	—	478,142	2,270,239	Revenue bond
Grandy Village	201,141	—	61,705	139,436	Project revenue
LIPH Midrises	7,763,063	—	552,619	7,210,444	HUD pays directly
Neighborhood Redevelopment Credit Line	7,175,825	—	7,175,825	—	Not applicable
Pretty Lake (refinanced)	—	1,652,705	143,989	1,508,716	Obligation of the City
Chesapeake Street (refinanced)	—	2,523,000	—	2,523,000	Obligation of the City
Neighborhood Redevelopment Credit Line (refinanced)	—	3,000,118	535	2,999,583	Project revenue
East Beach	1,760,000	—	1,760,000	—	Not applicable
East Beach (refinanced)	—	1,410,000	—	1,410,000	Obligation of the City
Mission College I	4,557,366	—	104,725	4,452,641	Project revenue
NRHA Mission College, LLC	1,521,323	758,107	—	2,279,430	Project revenue
Grandy Partnership	10,050,000	4,629,000	—	14,679,000	Project revenue
Total bank financing	$ 41,404,797	13,972,930	10,696,537	44,681,190	

Additions to debt totaled $14.0 million. Only $5.4 million of the additions were new indebtedness; the $8.6 million balance related to the refinancing of existing debt balances that were converted to new debt instruments.

- $4.6 million was drawn down under the construction bond for the Grandy Partnership renovations;
- $0.8 million was drawn down for the NRHA Mission College, LLC to provide temporary financing for renovations in that project;
- The $7.2 million balance (as of June 30, 2009) on an existing neighborhood redevelopment credit line was refinanced and converted to three separate debt instruments – a $1.7 million note for previous investments in the redevelopment of the Pretty Lake neighborhood, a $2.5 million note, which previously financed the

redevelopment of Chesapeake Street project, and a $3.0 million new revolving credit line, which is currently funding capital expenditures previously made in the NRHA Mission College development.

- The $1.8 million East Beach bond was retired; $1.4 million of this amount was refinanced as a note at a more favorable interest rate.

Debt reductions totaled $10.7 million. Only $1.8 million related to scheduled payments; the $8.9 million balance were the existing balances discussed above that were refinanced and set up in new debt instruments.

Other observations of outstanding debt balances are as follows:

- The Authority has outstanding debt of $7.2 million with the Federal Financing Bank used to finance the original construction of three public housing midrise apartments; the debt is the sole responsibility of HUD.
- $2.5 million for Chesapeake Street, $1.7 million for 5th to 7th Bay Street, and $1.8 million for East Beach were outstanding. Future project funding and/or proceeds from property sales are expected to service this debt. The City has a moral obligation on this debt; the net book value of assets used to collateralize the City's obligation totals $0.04 million and is carried on the books of the City.

Other Economic Factors and Next Year's Budget

Economic Factors

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

For calendar year 2010, the administration is funding public housing authorities at 103% of their eligibility under HUD's operating formula. Until now, agencies had not received full operating funding since 2002. This funding commitment only addresses the first six months of the Authority's current 2011 fiscal year. To date, no appropriation level has been communicated for calendar year 2011 or 2012; thus, NRHA has no concrete information on funding for the next 18 months out. It is anticipated that as an interim funding provision, NRHA will be funded at a reasonable level as of calendar year beginning January 1, 2011, to ensure we can meet the fiscal obligations of that program; once the final NRHA calendar year 2011 subsidy amount is determined, adjustments will be made in amounts advanced to the Authority by the federal government in the latter months of the calendar year 2011. Note that it is not unusual that advanced amounts exceed the final commitment, in which case a downward adjustment would be made.

The frozen rent provision that was in effect for the federal housing program operating subsidy formula submissions for calendar year 2004 through calendar year 2009 was discontinued in calendar year 2010. The frozen rent amount used for each of these years was $6.7 million, while actual rent increased on a steady basis; for fiscal year 09 rental income was $8.8 million or $2.1 million more than the frozen rent amount. Based on data published by HUD, NRHA's change in rental income during this period was on the high end of the norm, therefore, a negative impact on amounts received was anticipated. Because of the 103% of subsidy eligibility provision for calendar year 2010 as well as a higher utility cost reimbursement, the Authority did not experience the anticipated reduced funding. If HUD continues to provide full funding, this change in rental provision will not negatively impact NRHA.

The appropriation of funds by Congress and the Administration for the capital fund program (for fiscal year 2011) has not been announced; therefore, the specific amount to be awarded to NRHA is not known.

The funding levels for the Housing Choice Voucher program also have not been announced; current speculations say funding will not be sufficient to renew all vouchers used by families in 2010. Also, fees provided to administer this program was funded at 92.5% for calendar year 2010. The proration rate for 2011 calendar and fiscal year has not been announced.

NRHA's neighborhood development programs rely heavily on federal grant funding provided through the City. The economic recession at the federal, state, and local levels continue to be impacted by declining revenues and increases in cost of doing business. As recipients of those funds sources, NRHA faces the same challenges in declining revenues. Also recent trends in grant funds being diverted to public service agencies for community initiatives have resulted in further reductions of grants contracted to NRHA.

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

For fiscal year 2012, NRHA has applied for federal grants through the City's application process for CDBG and HOME funds. We anticipate maintaining at least the fiscal year 2011 funding levels for neighborhood programs. Other grants are being pursued to offset any revenues that may not materialize.

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

These challenges in funding our programs will be monitored closely to determine the precise impact on NRHA and its operations. We will continue to make appropriate adjustments and to be innovative in searching out new funding sources and new partners to achieve our mission. Approximately 70% of the Authority's revenues come from federal, state or city governments. The Authority's 2011 operating and capital budget is $102 million, representing an increase of 1% from the previous fiscal year.

Contacting Authority Management

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

BASIC FINANCIAL STATEMENTS

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Exhibit A

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Net Assets

June 30, 2010

Assets	Primary government	Component unit	Total
Current assets:			
Cash and cash equivalents (note 2)	$ 34,615,372	11,999	34,627,371
Cash with fiscal agents (note 2)	3,951,627	—	3,951,627
Restricted cash and cash equivalents (note 2)	19,756,507	298,365	20,054,872
Investments (note 2)	5,462,972	—	5,462,972
Receivables:			
Due from HUD	3,143,753	—	3,143,753
Due from City of Norfolk	3,192,757	—	3,192,757
Tenants rent, net	286,612	—	286,612
Notes, net (note 3)	858,544	1,455,000	2,313,544
Interest	90,092	260,854	350,946
Other, net	502,184	—	502,184
Total receivables	8,073,942	1,715,854	9,789,796
Inventories, net	707,330	—	707,330
Assets held for sale, restricted	13,441,098	—	13,441,098
Prepaid expenses and other assets	712,646	—	712,646
Total current assets	86,721,494	2,026,218	88,747,712
Noncurrent assets:			
Capital assets:			
Land	23,484,428	—	23,484,428
Buildings and equipment	246,876,097	—	246,876,097
Construction in progress	10,053,922	—	10,053,922
Less accumulated depreciation	(132,381,928)	—	(132,381,928)
Capital assets, net (note 4)	148,032,519	—	148,032,519
Notes receivable, net (note 3)	25,115,509	10,955,000	36,070,509
Other noncurrent assets	5,952,890	216,630	6,169,520
Total noncurrent assets	179,100,918	11,171,630	190,272,548
Total assets	$ 265,822,412	13,197,848	279,020,260
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 6,524,638	—	6,524,638
Accrued salaries and benefits	532,673	—	532,673
Accrued compensated absences (note 5)	158,637	—	158,637
Due to HUD and the City of Norfolk	321,277	—	321,277
Tenant security deposits	1,005,519	—	1,005,519
Deferred revenue	1,501,460	240,000	1,741,460
Bonds, notes, and loans payable (note 5)	22,856,602	1,455,000	24,311,602
Other current liabilities	3,768,017	99,711	3,867,728
Total current liabilities	36,668,823	1,794,711	38,463,534
Noncurrent liabilities:			
Bonds, notes, and loans payable (note 5)	21,824,588	11,130,228	32,954,816
Accrued compensated absences (note 5)	1,455,176	—	1,455,176
Noncurrent liabilities – other	14,075,947	—	14,075,947
Total noncurrent liabilities	37,355,711	11,130,228	48,485,939
Total liabilities	74,024,534	12,924,939	86,949,473
Net assets:			
Invested in capital assets, net of related debt	113,092,634	—	113,092,634
Restricted net assets	27,411,762	—	27,411,762
Unrestricted net assets	51,293,482	272,909	51,566,391
Total net assets	191,797,878	272,909	192,070,787
Total liabilities and net assets	$ 265,822,412	13,197,848	279,020,260

See accompanying notes to basic financial statements.

Exhibit B

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

		Primary government	Component unit	Total
Operating revenues:				
Tenant revenue	$	19,533,544	—	19,533,544
Government operating grants		61,197,562	—	61,197,562
Other revenue, net		5,475,067	130,772	5,605,839
Total operating revenues		86,206,173	130,772	86,336,945
Operating expenses:				
Administrative		15,913,897	29,880	15,943,777
Tenant services		2,883,456	—	2,883,456
Utilities		9,383,211	—	9,383,211
Maintenance		10,393,378	—	10,393,378
Protective services		1,386,155	—	1,386,155
General		9,877,617	—	9,877,617
Extraordinary maintenance		11,591,392	—	11,591,392
Housing assistance payments (HAP)		19,696,170	—	19,696,170
Depreciation and amortization		8,406,411	20,491	8,426,902
Fraud losses		244	—	244
Total operating expenses		89,531,931	50,371	89,582,302
Operating income (loss)		(3,325,758)	80,401	(3,245,357)
Nonoperating revenues (expenses):				
Interest and investment revenue		1,823,761	590,957	2,414,718
Loss on disposal of fixed assets (note 4)		(19,842)	—	(19,842)
Interest expense		(2,038,222)	(605,794)	(2,644,016)
Total nonoperating expenses, net		(234,303)	(14,837)	(249,140)
Income (loss) before capital grants and distribution to partners		(3,560,061)	65,564	(3,494,497)
Government capital grants		6,516,404	—	6,516,404
Capital contributions from limited partners		3,480,656	—	3,480,656
Change in net assets		6,436,999	65,564	6,502,563
Total net assets – beginning		185,360,879	207,345	185,568,224
Total net assets – ending	$	191,797,878	272,909	192,070,787

See accompanying notes to basic financial statements.

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2010

Cash flows from operating activities:	
Cash receipts from customers	$ 17,643,464
Cash receipts from operating grants	62,261,119
Other operating cash receipts	6,819,146
Cash payments to employees for services	(21,078,176)
Cash payments to suppliers of goods and services	(28,600,780)
Other operating cash payments	(8,931,743)
Cash payments to landlords – HAP	(19,696,170)
Net cash provided by operating activities	8,416,860
Cash flows from capital and related financing activities:	
Proceeds from disposal of capital assets	45,399
Proceeds from issuance of debt	4,629,000
Purchases of capital assets	(15,949,661)
Capital grants received	5,874,361
Principal payments on debt	(1,653,048)
Interest payments on debt	(1,877,928)
Net cash used in capital and related financing activities	(8,931,877)
Cash flows from noncapital financing activities:	
Proceeds from issuance of debt	9,343,932
Principal payments on debt	(9,080,350)
Net cash provided by noncapital financing activities	263,582
Cash flows from investing activities:	
Sales of investments	13,694,665
Purchases of investments	(11,174,297)
Issuance of notes receivable	(1,825,457)
Principal receipts on notes receivable	613,289
Interest received	1,866,318
Capital distributions from limited partners	3,480,656
Net cash provided by investing activities	6,655,174
Net increase in cash and cash equivalents	6,403,739
Cash and cash equivalents at beginning of year	51,919,767
Cash and cash equivalents at end of year	$ 58,323,506
Reconciliation to statement of net assets of primary government:	
Current unrestricted cash and cash equivalents	$ 34,615,372
Current cash with fiscal agents	3,951,627
Restricted cash and cash equivalents	19,756,507
Cash and cash equivalents	$ 58,323,506

(Continued)

Exhibit C

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Cash Flows – Primary Government

Year ended June 30, 2010

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(3,325,758)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		8,406,411
Bad debt expense		459,654
Gain on disposal of assets held for sale		(90,619)
Changes in assets and liabilities:		
Change in receivables due from HUD		1,648,410
Change in receivables due from City of Norfolk		(584,853)
Change in receivables from tenants rent, net		(418,516)
Change in receivables from other, net		(45,907)
Change in inventories		(57,563)
Change in assets held for sale		(528,529)
Change in prepaid expenses and other assets		(334,645)
Change in other noncurrent assets		(179,692)
Change in accounts payable		410,751
Change in accrued salaries and benefits		73,012
Change in accrued compensated absences		(51,580)
Change in due to HUD and the City of Norfolk		(6,040)
Change in due to other governments		(58,646)
Change in tenant security deposits		(81,578)
Change in deferred revenue		1,281,920
Change in other current and noncurrent liabilities		1,900,628
Net cash provided by operating activities	$	8,416,860

Supplementary disclosures of noncash transactions:

The Authority forgave notes receivable under the Hope VI, Program Income, and Home Partnership Investment Program (HOME) programs in the amount of $300,645.

The Authority had a net decrease of $111,833 in accounts payable related to the acquisition of fixed assets.

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

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

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

The accompanying financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles 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 basic financial statements to be misleading or incomplete. The component unit is reported in a separate column in the financial statements to emphasize that they are legally separate from the Authority. NCCCC has a December 31 year-end.

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

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

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

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

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

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

GVLP, a Virginia limited partnership, was formed March 13, 2007 to acquire, construct, revitalize, and operate a low-income public housing complex, which is located in the City. NRHA Grandy Village 1, LLC is the sole general partner in the partnership. NRHA has a 79% ownership interest in NRHA Grandy Village 1, LLC and is therefore responsible for all business decisions. The Authority is also the managing agent for the partnership. GVLP is an intricate part of the daily operation of the Authority, as the two entities share personnel for daily operations and administrative support, they serve the same clientele, and also share in subsidy funding received from HUD under a single ACC. The Authority is not only responsible for all day-to-day business decisions of GVLP, but is also responsible for funding any operating deficits via an operating loan that will not bear interest and is nonrecourse to the other partners. The activity of GVLP is included in the accompanying financial statements as of June 30, 2010 and 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 basic financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statement of net assets. The Authority's statement of revenues, expenses, and changes in net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

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

(d) Revenue Recognition

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

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

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

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

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

Cash equivalents and investments are stated at fair value. Investments are held in certificates of deposit, U.S. government securities, commercial paper, and repurchase agreements, as authorized by the Code of Virginia, Sections 2.2-4501 through 2.2-4512. The Authority's investments in U.S. government securities and commercial paper are valued at amortized cost as they have maturity dates of less than one year. All of the Authority's other investments are short-term in nature such that cost and fair value are the same. Securities are held in safekeeping by the respective financial institutions. Repurchase agreements are collateralized by securities at market value sufficient to cover the face values of the investments.

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

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

(f) Inventories

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

(g) Restricted Cash and Cash Equivalents

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

(Continued)

(h) Assets Held for Sale and Extraordinary Maintenance

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

Extraordinary maintenance expenses include losses incurred to record assets held for sale at net realizable value and capital outlays with an acquisition cost less than $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 its basic financial statements.

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

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

(j) Bond Premiums, Discounts, and Issuance Costs

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

(k) Deferred Loss on Refunding

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

(l) Compensated Absences

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

(m) Income Taxes

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

(n) Use of Estimates

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

(o) Self-Insurance

The Authority participates in a self-insurance program with the City for commissioners' liability insurance. There are no limits set in this self-insurance program. All personal assets of the Board would be defended in civil actions arising from their duties. At June 30, 2010, there are no liabilities for unpaid claims.

(p) Other Postemployment Benefits

The Authority provides postretirement health and dental care benefits, in accordance with the federal COBRA law, which requires the Authority to extend access to healthcare benefits for 18 months after termination to any employee participating in the health and dental plan. The Authority has elected to provide access to healthcare for retirees until age 65 or until they are eligible for Medicare. There are 42 retirees participating at 100% of their own cost. The Authority's regular healthcare provider underwrites the retiree's policies. GAAP requires the plan sponsor to record the actuarial cost (net of employee and retiree contributions) of the plan as an expense in its financial statements

(Continued)

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

(2) Deposits and Investments

At June 30, 2010, the carrying value of the Authority’s deposits with banks and savings institutions was $27,172,550 and the bank balance was $30,292,930, which was either covered by Federal Depository Insurance Corporation (FDIC), collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), or held in trust accounts. During 2010, approximately $4,265,835 was held in trust accounts with financial institutions that were not listed on the state Department of the Treasury’s listing of qualified depositories.

(a) Custodial Credit Risk

Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100% of deposits in excess of FDIC limits. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool’s collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks and savings institutions) of the pool; therefore, these deposits are considered collateralized and as a result are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

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

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

(b) Concentration of Credit Risk

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.

(c) Interest Rate Risk

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

Investment type	Fair value	Investment maturities (in years) Less than 1	1 – 2	2 – 4
U.S. agency and discount notes	$ 25,378,440	25,378,440	—	—
Certificates of deposit	10,634,713	10,634,713	—	—
	$ 36,013,153	36,013,153	—	—

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	$ 27,172,550
Cash on hand	775
Letter of credit	600,000
Investments	36,013,153
	$ 63,786,478

Per Exhibit A:	
Cash and cash equivalents	$ 34,615,372
Cash with fiscal agents	3,951,627
Restricted cash and cash equivalents	19,756,507
Investments	5,462,972
	$ 63,786,478

(d) Foreign Currency Risk

The Authority does not have any foreign investments.

(e) Component Units

Norfolk Community College Campus Corporation

Credit Risk

Financial instruments that potentially subject NCCCC to credit risk consist principally of cash and bond escrow funds. The Corporation places its cash with high credit quality financial institutions and balances may, at times, exceed the FDIC-insured limits. At December 31, 2009, the Corporation had $11,999 in cash and $298,365 invested by the trustee in short-term money market instruments.

Investments

Corporate investments are stated at fair value.

(3) Receivables

The only receivables not expected to be collected within one year are the notes receivable. A summary of notes receivable at June 30, 2010, with specific payment terms, is as follows:

1% promissory notes, due from Community Ventures Investors, L.L.C. Monthly installments of interest only. Principal to be paid in full by January 1, 2015. The purpose of the loan is for Community Ventures Investors, L.L.C. to purchase new market tax credits for the Attucks Theater.	$	5,688,000
Allowance for doubtful accounts		(5,688,000)
	$	—
Notes receivable – Hope VI		
0% promissory notes receivable of the HOME program, due from local citizens on a deferred basis. The loans are made to qualifying homeowners and investors to make improvements to the property located in target neighborhoods in the City. The notes are secured by deeds of trust and are forgivable at varying rates provided that the borrower complies with the terms of the deed of trust. The notes are forgiven at different rates for homeowners than for investors, with investor forgiveness also depending upon the amount of the original note. The notes are fully reserved based on the history of forgiveness of the notes.	$	12,930,308
Allowance for doubtful accounts		(12,930,308)
	$	—
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.	$	1,851,514
Allowance for doubtful accounts		(1,851,514)
	$	—

Promissory note receivable due from The Community Builders (TCB) Marshall Manor II LP. The funds were provided for the construction of 66 units of rental housing, of which 56 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2044.	$	3,885,753
Promissory note receivable due from TCB. The funds were provided for approved costs of the Marshall Manor II development. The note bears no interest, principal payments to be made from cash flow and/or net proceeds of TCB Marshall Manor II that TCB receives.		51,370
Promissory note receivable due from TCB Bowling Green II LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2044.		2,754,168
Promissory note receivable due from TCB Marshall Manor III LP. The funds were provided for the construction of 58 units of rental housing, of which 46 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2045.		2,470,485
Promissory note receivable due from TCB. The funds were provided for approved costs of the Marshall Manor III development. The note bears no interest, principal payments to be made from cash flow and/or net proceeds of TCB Marshall Manor III that TCB receives.		131,211
Promissory note receivable due from TCB Bowling Green III LP. The funds were provided for the construction of 45 units of rental housing, of which 35 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2045.		2,020,387
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.		1,368,552
Promissory note receivable due from TCB Marshall Manor IV LP. The funds were provided for the construction of 38 units of rental housing, of which 38 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.85%. Interest and principal shall be due in December 2046.		1,531,494
Promissory note receivable due from TCB Bowling Green IV LP. The funds were provided for the construction of 43 units of rental housing, of which 34 units will be reserved for qualified low income tenants. The note earns interest at 5.36%. Interest and principal shall be due in December 2046.		650,000
Total notes receivable – Hope VI		15,513,420

Housing Opportunity – Fixed rate 5% to 6% promissory notes receivable due from local citizens in monthly installments of principal and interest. The loans are made to qualified home buyers in Wellington Oaks and Bell Diamond for the purchase and/or improvement of property. All notes are secured by deeds of trust.	$	37,328
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.		205,244
Broad Creek – 0% promissory notes receivable, due from local citizens on a deferred basis to purchase homes located in a targeted neighborhood. The notes are secured by a deed of trust and are partially forgivable.		39,525
EOV Note Initiatives – 0% promissory note for the purchase of a residence. The note is due when the signor vacates the residence or upon the homeowner's death. The note is secured by a deed of trust on certain real property.		195,000
Program Income – 0% to 8% fixed rate promissory notes receivable due from local citizens on a deferred basis, forgivable basis, or in monthly installments of principal and interest. Program income consists of gap financing, demo in lieu of acquisition, an ecumenical family shelter note, and other notes. Gap financing is issued to qualifying person(s) to provide second deeds of trust for down payments and closing costs. Demo in lieu of acquisition is issued to qualifying person(s) in which the Authority incurs the cost of demolition and takes a note to be paid at a future date. The ecumenical family shelter note is for the acquisition and renovation of a multiple family building, the "Dwelling Place." Other notes are issued to nonprofit agencies for land the Authority has "donated." The notes become payable if the use is no longer for "low to moderate income residential."		109,525
Rehabilitation Loans – 5% to 12% fixed rate promissory notes receivable, due from local citizens either on a deferred basis or in monthly installments of principal and interest. The loans are made to qualifying persons to make improvements to property located in certain redevelopment and rehabilitation areas as designated by the Authority and the City. The notes are secured by deeds of trust on the rehabilitation improvements made to the properties.		9,159,226
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.		714,785
Total notes receivable		25,974,053
Less current portion		858,544
	$	25,115,509

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 $1,400,000 and $600,000 in interest and fees. The capital lease is reflected as a sale of the facility with a note receivable of $12,410,000 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, 2010:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	$ 23,525,145	12,300	(53,017)	23,484,428
Construction in progress	12,971,228	9,951,508	(12,868,814)	10,053,922
Total capital assets not being depreciated	36,496,373	9,963,808	(12,921,831)	33,538,350
Other capital assets:				
Buildings and building improvements	161,209,540	15,117,719	—	176,327,259
Improvements other than buildings	55,514,608	5,106,313	—	60,620,921
Equipment	10,445,811	627,894	(1,145,788)	9,927,917
Total other capital assets	227,169,959	20,851,926	(1,145,788)	246,876,097
Less accumulated depreciation for:				
Buildings and building improvements	78,014,125	6,208,370	—	84,222,495
Improvements other than buildings	39,917,536	1,556,726	—	41,474,262
Equipment	6,264,271	584,196	(163,296)	6,685,171
Total accumulated depreciation	124,195,932	8,349,292	(163,296)	132,381,928
Other capital assets, net	102,974,027	12,502,634	(982,492)	114,494,169
	$ 139,470,400	22,466,442	(13,904,323)	148,032,519

The Authority has active construction projects as of June 30, 2010. Outstanding commitments related to construction in progress amounted to approximately $13.8 million at June 30, 2010.

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	$	8,406,411
Less amortization expense		(57,119)
Increase in accumulated depreciation	$	8,349,292

(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, 2010 is presented below:

		Amounts payable at July 1, 2009	Additions	Retirements and reductions	Amounts payable at July 1, 2010	Amounts due within one year
Notes payable:						
Granby Street office building	$	1,759,059	—	156,590	1,602,469	163,808
Federal Financing Bank		7,763,063	—	552,619	7,210,444	589,092
Renewal and replacement (line of credit)		7,175,825	4,175,705	7,319,814	4,031,716	822,226
Refinancing note		—	1,410,000	—	1,410,000	352,500
Grandy renovation		201,141	—	61,705	139,436	65,017
Park Terrace		838,639	—	77,407	761,232	84,646
NRHA Mission I		4,557,366	—	104,725	4,452,641	113,158
		22,295,093	5,585,705	8,272,860	19,607,938	2,190,447
Bonds payable:						
Property acquisition bonds		1,760,000	—	1,760,000	—	—
Grandy Partnership		10,050,000	4,629,000	—	14,679,000	14,679,000
Multifamily revenue bonds – Oakmont North		3,030,000	—	185,000	2,845,000	195,000
Revenue bonds – Merrimack Landing		2,885,000	—	515,000	2,370,000	550,000
Less:						
Unamortized bond discount		(47,193)	—	(10,685)	(36,508)	(10,685)
Unamortized loss on refunding		(89,426)	—	(26,173)	(63,253)	(26,173)
		17,588,381	4,629,000	2,423,142	19,794,239	15,387,142

		Amounts payable at July 1, 2009	Additions	Retirements and reductions	Amounts payable at July 1, 2010	Amounts due within one year
Loans payable:						
Mission Development	$	1,521,323	3,758,225	535	5,279,013	5,279,013
Accrued compensated absences		1,665,393	37,176	88,756	1,613,813	158,637
Total long- and short-term liabilities	$	43,070,190	14,010,106	10,785,293	46,295,003	23,015,239

The following summarizes the Authority's long-term note and bond obligations at June 30, 2010.

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.	$	7,210,444
4.95% renewal and replacement note due to a local bank, monthly installments of $35,428.63 through May 27, 2014. The note is secured by real property owned by the Authority.		1,508,716
Renewal and replacement note due to a local bank with quarterly installments of interest at 4.0%. One principal payment of $464,665.48 is due January 26, 2011. Final payment of principal and interest is due January 26, 2012. The note is secured by real property owned by the Authority.		2,523,000
Renewal and replacement note due to a local bank with four annual principal installments of $352,500. Final payment is due on September 1, 2013. Interest is calculated at prime + 5%. The note is secured by real property owned by the Authority.		1,410,000
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.		139,436
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.		1,602,469
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.		4,452,641
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.		761,232
Total notes payable		19,607,938

Bonds payable:	
Tax-exempt variable rate multi-family rental housing revenue bonds Series 1999. Interest is payable monthly, principal payments are due annually on March 1 through 2021. These bonds are secured by a letter of credit with a local bank. The interest rate at June 30, 2010 was 0.34% and is reset weekly based on LIBOR.	$ 2,845,000
Tax-exempt multi-family housing revenue draw down bonds series 2008. Interest is variable and payable monthly, principal due at maturity, June 1, 2011. The interest rate at June 30, 2010 was 2.6% and is reset monthly based on one-month LIBOR. The bonds are unsecured.	14,679,000
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.	2,370,000
	19,894,000
Less:	
Unamortized bond discount	(36,508)
Unamortized loss on refunding	(63,253)
Total bonds payable	19,794,239
Loan payable – Mission Development	5,279,013
Accrued compensated absences	1,613,813
Total long and short-term liabilities	$ 46,295,003

(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:				
2011	$ 7,469,459	1,240,357	15,424,000	524,463
2012	8,086,203	719,148	780,000	87,482
2013	1,702,191	543,498	820,000	69,110
2014	1,743,988	446,795	870,000	4,906
2015	1,077,313	369,091	240,000	4,400
2016 – 2020	4,807,797	776,144	1,425,000	13,420
2021 – 2025	—	—	335,000	737
	$ 24,886,951	4,095,033	19,894,000	704,518

Future maturities of accrued compensated absences are not determinable.

(b) Component Units

The Authority issued Educational Facility Revenue bonds dated September 1, 1999 for the Tidewater Community College downtown campus project in the amount of $9,115,000. At December 31, 2009, $5,685,000 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, 2009, $6,725,000 remained outstanding. Interest at rates from 2.00% to 5.25% is payable semiannually and principal payments are due annually in November. Also included in bonds payable is $175,228 of unamortized bond premium.

Principal maturities for the revenue bonds are as follows: 2011 – $1,455,000; 2012 – $1,515,000; 2013 – $1,580,000; 2014 – $1,650,000; 2015– $1,735,000; and 2016-2023 – $4,475,000.

(6) Pension Plan

(a) Plan Description

The Authority contributes to the Virginia Retirement System (VRS or the System), an agent multiple-employer, defined benefit pension plan administered by the VRS. All full-time, salaried permanent employees must participate in the VRS. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 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 adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% 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 5.00% of their annual reported compensation to the VRS. This 5.00% member contribution has been assumed by the employer. In addition, the employer is required to contribute the remaining amounts necessary to fund its participation in the System using the actuarial basis specified by statute and approved by the VRS board of trustees. The Authority's contribution rate for the fiscal year ended June 30, 2010 was 14.09% of annual covered payroll, including the member contribution of 5.00%.

(c) Annual Pension Cost

For the fiscal year ended June 30, 2010, the Authority's annual pension cost of $1,998,290 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.00% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.50% per year COLA. Both (a) and (b) included an inflation component of 2.50%. 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, 2010	$ 1,998,290	100%	None
June 30, 2009	1,940,531	100	None
June 30, 2008	2,293,238	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, 2010.

(8) Commitments and Contingencies

(a) Federal Award Programs

The Authority participates in a number of federal award programs. Although the Authority has been audited in accordance with the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for

(Continued)

expenditures disallowed under terms of the grant. Based on prior experience, the Authority believes such disallowances, if any, will not be significant.

(b) Litigation

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

(c) Waterside Limited Partnership

The Authority guarantees a note payable to BB&T (Branch Banking & Trust Co.). The outstanding balance of the note at June 30, 2010 was $5,073,718 and was with full recourse to the Authority.

(d) Letters of Credit

The Authority has nine letters of credit with a bank for $22,235,981. Monthly draws have been made against two of the letters of credit to pay interest on bonds issued by the bank. Those letters of credit are repaid from interest escrow accounts kept with the bank. No draws have been made against the other seven letters of credit.

(9) Conduit Debt

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

Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2010, there were 11 issues of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately $222,505,397.

(10) Related-Party Transactions

The Authority has entered into contracts with 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 Selden Arcade. The agreement is a limited liability of the Authority.

During the year, NRHA received a construction management fee of $315,000 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 $13,334 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 Postemployment Benefits (OPEB) Liability

(a) Plan Description

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

(b) Funding Policy

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

(c) Annual OPEB Cost and Net OPEB Obligation

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

		Year ended June 30	
		2010	**2009**
ARC:			
Normal cost	$	539,361	519,865
Adjustments to ARC		(20,798)	—
Interest		16,633	—
Total ARC		535,196	519,865
Contributions made		(119,481)	(104,047)
Increase in net OPEB obligation		415,715	415,818
Net OPEB obligation, beginning of year		415,818	—
Net OPEB obligation, end of year	$	831,533	415,818

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 and 2009 were as follows:

Year ended June 30		**Annual OPEB cost**	**Percentage of annual OPEB cost contributed**		**Net OPEB obligation**
2009	$	519,865	20.0%	$	415,818
2010		535,196	22.2		415,715

(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 ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at July 1, 2009 included a 4% investment rate of return and an annual healthcare cost trend rate increase of 14% grading down to 5% over 6 years. The Authority’s UAAL is being amortized on a closed level dollar amount basis over a period of 30 years.

(12) Subsequent Events

The Authority has evaluated subsequent events for potential recognition and/or disclosure through February 8, 2011 the date the financial statements were issued.

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

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2010

(Unaudited)

Actuarial valuation date		Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded actuarial accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 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
June 30, 2009		75,153,285	87,539,077	12,385,792	85.85		14,174,282	87.38

See accompanying independent auditors' report.

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2010

(Unaudited)

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

See accompanying independent auditors' report.

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SUPPLEMENTARY INFORMATION (UNAUDITED)

Exhibit F-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Community Development Block Grant Fund Expenditures by Program Year

Year ended June 30, 2010

(Unaudited)

	Site clearance	Administration	Site improvement	Site acquisition	Site disposition	Rehabilitation	Relocation	Miscellaneous	Total
Community Development (CD) Block Grant Fund:									
Program year 2002	$ 4,154	—	—	—	—	—	—	—	4,154
Program year 2003	3,451	—	2,203	83,782	—	—	—	—	89,436
Program year 2004	6,700	—	—	2,750	2,100	644	—	—	12,194
Program year 2005	6,699	—	478,168	—	—	233	—	—	485,100
Program year 2006	20,778	—	—	—	14,737	7,288	—	—	42,803
Program year 2007	5,268	—	175,915	283,790	18,412	5,663	1,100	—	490,148
Program year 2008	22,649	—	—	462,368	7,263	223,051	3,550	—	718,881
Program year 2009	—	665,000	—	—	260,312	2,390,644	—	75,000	3,390,956
Total CD	$ 69,699	665,000	656,286	832,690	302,824	2,627,523	4,650	75,000	5,233,672
Reconciliation to operating expenses:									
Project costs incurred	$ 69,699	665,000	656,286	832,690	302,824	2,627,523	4,650	75,000	5,233,672
Project costs incurred – Neighborhood Stabilization Program (NSP)									318,773
Total CD and NSP									5,552,445
Land held for resale – CDBG	(132,570)	—	—	—	—	—	—	—	(132,570)
Land held for resale – NSP	(221,980)	—	—	—	—	—	—	—	(221,980)
Operating expenses									$ 5,197,895

See accompanying independent auditors' report

Exhibit F-2

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Urban Renewal Fund Expenditures by Project

Year ended June 30, 2010

(Unaudited)

		Atlantic City VA R-1	Downtown North VA R-8	Downtown South VA R-9	Rosemont VA R-25	Ghent Neighborhood Conservation VA R-43	Huntersville VA R-70	Total
Classification of expenditures:								
Administrative costs	$	5,124	6,580,468	14,684	10,797	929,917	18,027	7,559,017
Legal services		26,512	385,808	66,185	27,170	9,023	2,229	516,927
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, 2010		(526,204)	4,879,506	3,336,850	1,463,535	1,356,527	165,787	10,676,001
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 project costs incurred during year ended June 30, 2010		—	10,937	—	—	—	—	10,937
Revenue earned during year ended June 30, 2010		12,000	62	—	—	—	—	12,062
Gross project costs incurred during year ended June 30, 2010	$	12,000	10,999	—	—	—	—	22,999

See accompanying independent auditors’ report

Exhibit F-3

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of Comprehensive Grant Program and Capital Fund Program Expenditures

Year ended June 30, 2010

(Unaudited)

	2001 – 2003	Bonus 2003	2004	2005	2006	2007	2008	2009	Total
Classification of expenditures:									
1406 Operations	$ —	—	—	—	—	8,240	—	1,200,000	1,208,240
1408 Management improvements	1,174,320	—	120,809	155,813	139,388	162,515	110,778	51,854	1,915,477
1410 Administration	1,511,813	—	510,444	674,998	573,446	612,754	547,660	507,655	4,938,770
1411 Audit	—	—	—	—	—	—	—	9,000	9,000
1430 Fees and costs	460,102	—	239,686	882,418	745,714	1,279,356	555,881	349,812	4,512,969
1440 Predevelopment costs	—	—	—	277,695	—	—	—	—	277,695
1450 Site improvements	544,750	—	230,178	246,471	347,580	778,594	374,355	5,944	2,527,872
1460 Dwelling structures	4,970,281	405,945	2,255,113	1,723,793	2,067,889	1,063,114	241,909	10,241	12,738,285
1465.1 Dwelling equipment – nonexpendable	387,683	—	167,565	202,280	—	93,004	75,241	—	925,773
1470 Nondwelling structures	962,858	826,004	—	639,147	556,366	—	—	1,115	2,985,490
1475 Nondwelling equipment	509,295	—	—	—	—	—	—	—	509,295
1495 Relocation costs	116,016	—	—	—	—	—	—	7,537	123,553
1490 Replacement reserves*	10,500,000	—	3,343,069	772,911	—	—	—	—	14,615,980
1498 Development activity	—	—	—	1,661,636	1,677,736	350,486	639,570	—	4,329,428
1460 Replacement housing factor funds	35,462	—	359,885	6,440	—	—	—	—	401,787
Cumulative project costs at June 30, 2010	21,172,580	1,231,949	7,226,749	7,243,602	6,108,119	4,348,063	2,545,394	2,143,158	52,019,614
Cumulative project costs at June 30, 2009	21,172,580	1,231,949	7,226,749	7,227,738	5,267,570	1,958,743	1,078,099	—	45,163,428
Project costs incurred during year ended June 30, 2010	—	—	—	15,864	840,549	2,389,320	1,467,295	2,143,158	6,856,186
* Classification of expenditures – replacement reserves:									
1410 Administration	253	—	6,737	15,339	—	—	—	—	22,329
1430 Fees and costs	237,917	—	24,564	68,290	—	—	—	—	330,771
1450 Site improvements	2,232,624	—	1,172,180	8,558	—	—	—	—	3,413,362
1460 Dwelling structures	7,647,031	—	1,368,991	27,692	—	—	—	—	9,043,714
1470 Nondwelling structures	990,229	—	1,033,925	—	—	—	—	—	2,024,154
1495 Relocation costs	59,768	—	—	—	—	—	—	—	59,768
1498 Development activity	258	—	—	697,643	—	—	—	—	697,901
Cumulative project costs at June 30, 2010	11,168,080	—	3,606,397	817,522	—	—	—	—	15,591,999
Cumulative project costs at June 30, 2009	11,093,345	—	3,605,013	799,265	—	—	—	—	15,497,623
Project costs incurred during year ended June 30, 2010	74,735	—	1,384	18,257	—	—	—	—	94,376
Total project costs incurred during year ended June 30, 2010	74,735	—	1,384	34,121	840,549	2,389,320	1,467,295	2,143,158	6,950,562
Increase in capital assets (not including depreciation):									
Ending balance	10,383,046	1,231,949	5,556,104	2,200,356	4,120,209	3,131,957	784,850	138,322	27,546,793
Transfers	(258)	—	—	—	485,905	63,969	639,570	—	1,189,186
Beginning balance	(10,308,311)	(1,231,949)	(5,554,720)	(2,174,890)	(3,774,853)	(1,191,095)	(310,208)	—	(24,546,026)
Increase in capital assets	74,477	—	1,384	25,466	831,261	2,004,831	1,114,212	138,322	4,189,953
Management improvements and administration	258	—	—	8,655	9,288	384,489	353,083	2,004,836	2,760,609
Administrative expenses transferred to central office cost center	—	—	—	—	—	—	(1,840)	—	(1,840)
Transfers to operations/prior year adjustments	(258)	—	—	—	—	68,523	—	(1,200,000)	(1,131,735)
Depreciation	557,551	72,669	400,364	147,291	69,552	12,638	7,227	—	1,267,292
Operating expenses	$ 557,551	72,669	400,364	155,946	78,840	465,650	358,470	804,836	2,894,326

* Replacement reserves expenditures

See accompanying independent auditors' report

Exhibit F-4

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ROSS Grants Program Expenditures

Year ended June 30, 2010

(Unaudited)

	Program year								
	2001 – 2002	**2003**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
Classification of expenditures:									
Program coordinator	$ 81,000	44,242	39,183	130,000	130,000	131,000	134,930	56,226	746,581
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	—	13,059	—	—	—	25,570
Administrative costs	9,600	31,120	14,602	—	50,000	—	—	—	105,322
Capacity building activities	—	42,560	—	—	—	—	—	—	42,560
Individual savings account	—	—	37,500	—	—	—	—	—	37,500
Market analysis	68	—	—	—	—	—	—	—	68
Stipend	—	—	—	—	26,570	—	—	—	26,570
Program expenses	40,619	83,401	19,657	—	88,786	—	—	—	232,463
Indirect costs	—	—	—	—	22,535	—	—	—	22,535
Salaries – training	32,482	—	145,764	—	229,864	—	—	—	408,110
Fringe benefits – training	9,419	16,835	29,236	—	57,067	—	—	—	112,557
Cumulative project costs at June 30, 2010	326,919	350,197	539,183	130,000	617,881	131,000	134,930	56,226	2,286,336
Cumulative project costs at June 30, 2009	326,919	350,197	539,183	130,000	321,930	131,000	8,887	—	1,808,116
Project costs incurred during year ended June 30, 2010	$ —	—	—	—	295,951	—	126,043	56,226	478,220
Current year depreciation									3,794
Operating expenses									$ 482,014

See accompanying independent auditors' report

Exhibit F-5

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

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

Year ended June 30, 2010

	Program year 2000	Total
Classification of expenditures:		
Management improvements	$ 4,113,581	4,113,581
Administration	3,982,458	3,982,458
Fees and costs	4,520,629	4,520,629
Site acquisition	68,475	68,475
Site improvement	1,125,692	1,125,692
Dwelling structures	14,062,469	14,062,469
Nondwelling equipment	25,000	25,000
Demolition	2,158,723	2,158,723
Relocation costs	1,537,747	1,537,747
Hope VI Section 8	2,059,099	2,059,099
Cumulative project costs at June 30, 2010	33,653,873	33,653,873
Cumulative project costs at June 30, 2009	33,006,204	33,006,204
Project costs incurred during year ended June 30, 2010	$ 647,669	647,669
Reconciliation to operating expenses:		
Project costs incurred		$ 647,669
Decrease in fixed assets:		
Ending balance	$ 1,680,193	
Depreciation	3,920	
Surveys	—	
Beginning balance	(1,746,008)	
Decrease in fixed assets		61,895
Decrease in notes receivable:		
Ending balance	17,332,728	
Beginning balance	(17,455,493)	
Decrease in notes receivable		122,765
Accrued compensated absences		839
Operating transfers out		(31,856)
Operating transfers in		368,585
OPEB expenses		4,677
Depreciation		3,920
Total operating expenses		$ 1,178,494

See accompanying independent auditors’ report

Exhibit F-6

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Summary Schedule of ARRA – Capital Fund Recovery Grant Expenditures

Year ended June 30, 2010

(Unaudited)

	Program year 2009	Total
Classification of expenditures:		
1410 Administration	$ 225,593	225,593
1430 Fees and costs	331,190	331,190
1450 Site improvements	1,132,674	1,132,674
1460 Dwelling structures	787,413	787,413
1485 Demolition	5,000	5,000
Cumulative project costs at June 30, 2010	2,481,870	2,481,870
Cumulative project costs at June 30, 2009	17,975	17,975
Project costs incurred during year ended June 30, 2010	$ 2,463,895	2,463,895
Reconciliation to operating expenses:		
Project costs incurred during year ended June 30, 2010		$ 2,463,895
Increase in fixed assets (not including depreciation):		
Ending balance		2,256,276
Beginning balance		—
Increase in fixed assets		2,256,276
Administration		207,619
Current year depreciation		—
Operating expenses		$ 207,619

See accompanying independent auditors’ report

Exhibit G-1

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Agency/program grant title	Pass-through agency	CFDA number		Expenditures
Department of housing and urban development:				
Low-income housing:				
Local housing authority:				
Public Housing Program (contract P-5540):				
VA6-2 through VA6-12 and VA6-18 through VA6-22 and VA6-24 annual subsidy		14.850	$	16,523,842
Section 8 Housing Assistance Payments Program:				
Housing Choice Vouchers (contract P-5523V) VA36-V006-001/4		14.871		21,231,635
New construction – Park Terrace Program (contract P-5512)	VHDA	14.182		337,735
Subtotal – Section 8 Housing Assistance Payments Program				21,569,370
Single Room Occupancy (SRO) Program: (VA36K401001)		14.249		338,215
VASH		14.VSH		39,884
Capital fund program:				
VA-36-P006-501 (2005)		14.872		132,263
VA-36-P006-501 (2006)		14.872		885,135
VA-36-P006-501 (2007)		14.872		2,392,966
VA-36-P006-501 (2008)		14.872		1,460,934
VA-36-P006-501 (2009)		14.872		2,143,854
Subtotal – capital fund program				7,015,152
ARRA – Capital Fund Recovery Grant – (VA-36-S006-501-09)		14.855		2,463,555
Resident Opportunity and Supportive Services (ROSS) Program:				
VA006REF034A006 (2007)		14.870		295,951
VA006RFS180A008 (2009)		14.870		126,043
VA006RFS193A009 (2010)		14.870		56,226
Subtotal – ROSS Program				478,220
Fire and Safety Grant (FEMA)				105,270
Community Development Block Grant:	City of Norfolk			
Program year 2002 (CDBG No. B02-MC-510016)		14.218		4,154
Program year 2003 (CDBG No. B03-MC-510016)		14.218		89,436
Program year 2004 (CDBG No. B04-MC-510016)		14.218		12,194
Program year 2005 (CDBG No. B05-MC-510016)		14.218		485,100
Program year 2006 (CDBG No. B06-MC-510016)		14.218		42,803
Program year 2007 (CDBG No. B07-MC-510016)		14.218		490,148
Program year 2008 (CDBG No. B08-MC-510016)		14.218		718,881
Program year 2009 (CDBG No. B08-MC-510016)		14.218		3,390,956
Neighborhood Stabilization Program				
Program year 2009		14.218		251,080
Subtotal – Community Development Block Grant				5,484,752
Home Investment Partnerships:	City of Norfolk			
Program year 2003 (HOME No. M03-MC-510203)		14.239		73,500
Program year 2005 (HOME No. M05-MC-510203)		14.239		33,702
Program year 2006 (HOME No. M06-MC-510203)		14.239		4,363
Program year 2007 (HOME No. M07-MC-510203)		14.239		17,551
Program year 2008 (HOME No. M08-MC-510203)		14.239		217,026
Program year 2009 (HOME No. M08-MC-510203)		14.239		878,162
Subtotal – Home Investment Partnerships				1,224,304
Urban Revitalization Program (HOPE VI) (VA-36-URD006-1100) (2000)		14.866		647,669
Total expenditures of federal awards			$	55,890,233

See accompanying notes to schedule of expenditures of federal awards.

COMPLIANCE SECTION

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) General

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

(2) Basis of Accounting

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

(3) Amounts Provided to Subrecipients

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

Plumb Line Ministries	$	30,000
Beacon Light Civic League		34,670
	$	64,670

(4) Loans Outstanding

The Authority had $7,210,443 of outstanding loans at June 30, 2010 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, 2010

(1) Summary of Auditors' Results

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

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

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

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

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

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

(g) Major programs: **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; and Urban Revitalization Program (HOPE VI) CFDA 14.866**

(h) Dollar threshold used to determine Type A programs: $1,668,498

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

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

None to be reported.

(3) Findings and Questioned Costs Relating to Federal Awards

None

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Commissioners
Norfolk Redevelopment and Housing Authority:

We have audited the financial statements of Norfolk Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 8, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mission College Apartments, L.P., Norfolk Community College Campus Corporation, Hampton Roads Ventures, L.L.C., and Hampton Roads Ventures Investors, L.L.C. as described in our report 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*.

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

February 8, 2011

KPMG LLP
Suite 1900
440 Monticello Avenue
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 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, 2010. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, Norfolk Redevelopment and Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

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

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

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

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

KPMG LLP

February 8, 2011