McGladrey & Pullen
Certified Public Accountants

Parking Facilities Fund of the City of Norfolk, Virginia

Financial and Compliance Report
Year Ended June 30, 2007

Contents

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

The Honorable Members of the City Council
Parking Facilities Fund of the City of Norfolk, Virginia
Norfolk, Virginia

We have audited the accompanying statements of net assets of the Parking Facilities Fund of the City of Norfolk, Virginia as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the Parking Facilities Fund and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. Furthermore, management has chosen not to present a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not be part of, the basic financial statements.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Parking Facilities Fund of the City of Norfolk, Virginia as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of the Parking Facilities Fund'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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Parking Facilities Fund, taken as a whole. The supplemental material on page 18 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Greensboro, North Carolina
December 20, 2007

Parking Facilities Fund of the City of Norfolk, Virginia

Statements of Net Assets
June 30, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 13,869,155	$ 11,286,485
Investments	2,075,000	2,050,000
Receivables:		
Unbilled	1,146,146	1,081,977
Accrued investment income	7,672	7,672
Due From Capital Project Fund	412,899	-
Inventories	366,247	338,183
Other assets	284,301	272,844
Restricted cash held with fiscal agent	2,610,835	2,540,327
Total current assets	20,772,255	17,577,488
Restricted assets:		
Certificates of deposit	2,526,000	2,396,000
Investments	3,008,383	4,124,330
	5,534,383	6,520,330
Capital assets:		
Land and construction in progress	30,803,220	30,679,143
Buildings, improvements and equipment, net of accumulated depreciation	98,723,908	99,678,382
	129,527,128	130,357,525
Total assets	155,833,766	154,455,343
Liabilities		
Current liabilities:		
Vouchers payable	583,508	338,208
Contract retainage	49,226	27,337
Accrued payroll	66,532	70,626
Due to other funds	26,521	22,783
Contribution to Employees Retirement System	359,557	373,073
Current portion of bonds payable	3,306,797	3,175,933
Accrued interest	2,552,503	2,285,644
Compensated absences	107,184	108,163
Total current liabilities	7,051,828	6,401,767
Noncurrent liabilities:		
General obligation bonds payable	4,896,739	5,512,608
Revenue bonds payable	87,540,770	89,372,144
Compensated absences	148,015	143,380
Total noncurrent liabilities	92,585,524	95,028,132
Total liabilities	99,637,352	101,429,899
Commitments and contingencies (Notes 4, 5, 7 and 8)		
Net Assets		
Invested in capital assets, net of related debt	36,791,205	36,421,170
Restricted	2,526,000	2,396,000
Unrestricted	16,879,209	14,208,274
Total net assets	$ 56,196,414	$ 53,025,444

See Notes to Financial Statements.

Parking Facilities Fund of the City of Norfolk, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Charges for services	$ 21,599,413	$ 20,911,127
Operating expenses:		
Personal services	7,144,607	6,694,856
Parking operations	631,853	869,628
Depreciation	3,784,987	3,664,991
Retirement contribution	359,552	373,073
Administrative expenses	377,727	369,363
Other	846,069	1,186,005
Total operating expenses	13,144,795	13,157,916
Operating income	8,454,618	7,753,211
Nonoperating revenue (expenses):		
Interest income	749,100	912,233
Interest expense and fiscal charges	(5,716,593)	(5,197,486)
Loss on sale or disposal of capital assets	-	(1,310)
Total nonoperating expenses	(4,967,493)	(4,286,563)
Income before transfers	3,487,125	3,466,648
Transfer out	(316,155)	(250,466)
Change in net assets	3,170,970	3,216,182
Net assets:		
Beginning	53,025,444	49,809,262
Ending	$ 56,196,414	$ 53,025,444

See Notes to Financial Statements.

Parking Facilities Fund of the City of Norfolk, Virginia

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Receipts from customers	$ 21,535,244	$ 21,068,144
Payments to suppliers	(1,633,133)	(2,685,439)
Payments to employees	(7,518,113)	(6,991,653)
Other payments	(39,521)	(12,990)
Net cash provided by operating activities	12,344,477	11,378,062
Cash Flows From Noncapital Financing Activities		
Internal activity, payments to other funds	(386,378)	(192,898)
Transfers out	(316,155)	(250,466)
Net cash used in noncapital financing activities	(702,533)	(443,364)
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(2,932,700)	(1,271,865)
Principal paid on capital debt	(3,175,933)	(3,286,610)
Interest paid on capital debt	(4,590,180)	(4,663,420)
Net cash used in capital and related financing activities	(10,698,813)	(9,221,895)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	1,115,947	1,088,557
Purchase of certificates of deposit	(155,000)	(329,000)
Interest and dividends	749,100	912,234
Net cash provided by investing activities	1,710,047	1,671,791
Net increase in cash and cash equivalents	2,653,178	3,384,594
Cash and cash equivalents:		
Beginning	13,826,812	10,442,218
Ending	$ 16,479,990	$ 13,826,812

(Continued)

Parking Facilities Fund of the City of Norfolk, Virginia

Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Operating Income to Net Cash		
Provided By Operating Activities		
Operating income	$ 8,454,618	$ 7,753,211
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation expense	3,784,987	3,664,991
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(64,169)	157,017
Inventories	(28,064)	(26,697)
Other assets/prepaid expenses	(11,457)	13,241
Increase (decrease) in:		
Accounts/vouchers payables	222,517	(259,977)
Accrued payroll	(4,094)	(17,286)
Other liabilities	(9,861)	93,562
Net cash provided by operating activities	$ 12,344,477	$ 11,378,062
Reconciliation of Cash and Cash Equivalents		
to the Statement of Net Assets		
Cash and cash equivalents	$ 13,869,155	$ 11,286,485
Restricted cash held with fiscal agent	2,610,835	2,540,327
Total cash and cash equivalents per statements of net assets	$ 16,479,990	$ 13,826,812
Supplemental Schedule of Noncash Investing, Capital and Financing Activities		
Loss on disposal of capital assets	$ -	$ 1,310
Acquisition of capital assets though the incurrence of contract retainage	$ 49,226	$ 27,337

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

The Parking Facilities Fund (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1990. The Fund accounts for the operation of City-owned parking facilities, including operations, maintenance, financing, and related debt service, and billing and collection. The cost of providing services on a continuing basis are financed or recovered through parking charges to the City's residents and nonresidents. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as an Enterprise Fund.

A summary of the Fund's significant accounting policies follows:

Basis of accounting: The financial statements are presented on the accrual-basis of accounting, wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liabilities are incurred. The Fund adopted Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Accordingly, the Fund has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

Cash equivalents and investments: All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Such Investments are stated at cost, which approximates fair value.

Investments: The Fund reports investments at fair value. Investment income includes both realized and unrealized gain and loss components.

Unbilled receivables: Unbilled accounts, net are estimated at each fiscal year end based on parking usage by customers for which billings have not yet been processed.

Inventories: Inventories are stated at the lower of cost (using the first-in, first-out method) or market.

Restricted assets: Certain unspent proceeds of the revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets: Capital assets are recorded at cost, less accumulated depreciation. Assets acquired prior to July 1985, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10 - 40
Furniture, fixtures and equipment	3 - 15

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation is eliminated from the accounts and any resulting gain or loss is reflected as nonoperating revenue or expense.

Note 1. Summary of Significant Accounting Policies (Continued)

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds.

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

Net assets: Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statutes.

Operating and nonoperating revenues: The Fund reports as operating revenues all charges for services generated through parking fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as nonoperating.

Allocated expenses from other funds: The General Fund of the City provides administrative services to the Fund, which totaled $576,720 and $514,042 for the years ended June 30, 2007 and 2006, respectively. Charges for these services are treated as expenses by the Fund and as revenue by the General Fund.

Bond discount or premium: Discount or premium on bonds is amortized, using the effective interest method, over the life of the debt and is included in interest expense.

Deferred gain (loss) on advance refundings: Gain or (loss) on advance refunding is amortized, using the effective interest method, over the shorter of the life of the refunded bonds or the life of the new bonds.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: The Fund's policy is to reclassify certain amounts reported in prior years' financial statements when necessary for conformity with classifications adopted in the current year. These reclassifications did not have an effect on the prior year's change in net assets or total net assets.

Note 2. Cash and Investments

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

The Fund had $12,500,000 and $10,500,000 invested in the State Treasurer's Local Government Investment Pool ("LGIP"), included in cash and cash equivalents, at June 30, 2007 and 2006, respectively, which carries a Standard & Poor's rating of AAAm.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, the State Treasurer's LGIP, certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

The Fund's investments for the years ended June 30, 2007 and 2006, other than LGIP, are categorized below to give an indication of the level of interest rate risk for each investment type by the entity at year-end.

Concentration of credit risk: Certain cash and investments of the Fund are combined with other City monies for investment purposes. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further cash and investment disclosures.

Fiscal Year 2007:

Investment Type	Fair Value	Less Than 1 Year	1-5 Years
Virginia AIM Mutual Fund	$ 454,698	$ 454,698	$ -
SNAP Mutual Fund	722,593	49,702	672,891
Certificates of deposit	4,601,000	4,601,000	-
U. S. Government securities	1,831,092	1,831,092	-
Total	$ 7,609,383	$ 6,936,492	$ 672,891

Fiscal Year 2006:

Investment Type	Fair Value	Less Than 1 Year	1-5 Years
Virginia AIM Mutual Fund	$ 1,598,918	$ 1,598,918	$ -
SNAP Mutual Fund	713,412	54,443	658,969
Certificates of deposit	4,446,000	4,446,000	-
U. S. Government securities	1,812,000	1,812,000	-
Total	$ 8,570,330	$ 7,911,361	$ 658,969

Note 2. Cash and Investments (Continued)

The Fund's rated debt investments, other than LGIP, as of June 30, 2007 and 2006 were rated by Standard & Poor's and the credit ratings are presented below using the Standard & Poor's rating scale.

Fiscal Year 2007:

Investment Type	AAA	A-1+	A-1	A+	Total
Virginia AIM Mutual Fund	$ 77,753	$ 316,469	$ 48,198	$ 12,278	$ 454,698
SNAP Mutual Fund	677,017	36,879	5,219	3,478	722,593
U. S. Government securities	1,831,092	-	-	-	1,831,092
	$ 2,585,862	$ 353,348	$ 53,417	$ 15,756	$ 3,008,383

Fiscal Year 2006:

Investment Type	AAA	A-1+	A-1	A+	Total
Virginia AIM Mutual Fund	$ 510,055	$ 642,765	$ 386,938	$ 59,160	$ 1,598,918
SNAP Mutual Fund	661,705	45,802	4,606	1,299	713,412
U. S. Government securities	1,812,000	-	-	-	1,812,000
	$ 2,983,760	$ 688,567	$ 391,544	$ 60,459	$ 4,124,330

Certificates of deposit are not considered to have custodial credit risk. The Fund's investments in certificates of deposit are uninsured and unregistered investments for which the securities are held in the Fund's name.

The following is a reconciliation of investments, other than LGIP, held at year-end to the statements of net assets:

	2007	2006
Current assets	$ 2,075,000	$ 2,050,000
Restricted	5,534,383	6,520,330
	$ 7,609,383	$ 8,570,330

The City's Parking Fund has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the statements for the Parking Fund. These amounts are not available to meet obligations arising from the operating activities of the fund.

Note 3. Capital Assets

Capital assets at June 30, 2007 and 2006 are comprised of the following:

	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Nondepreciable assets:					
Land	$ 30,651,806	$ 23,877	$ -	$ -	$ 30,675,683
Construction-in-progress	27,337	127,537	-	(27,337)	127,537
Nondepreciable assets	30,679,143	151,414	-	(27,337)	30,803,220
Depreciable assets:					
Buildings and building improvements	134,826,342	2,535,609	-	27,337	137,389,288
Furniture, fixtures and equipment	611,617	267,567	(29,539)	-	849,645
Total depreciable assets	135,437,959	2,803,176	(29,539)	27,337	138,238,933
Less accumulated depreciation:					
Buildings and building improvements	(35,338,569)	(3,656,883)	-	-	(38,995,452)
Furniture, fixtures and equipment	(421,008)	(128,104)	29,539	-	(519,573)
Total accumulated depreciation	(35,759,577)	$ (3,784,987)	$ 29,539	$ -	(39,515,025)
Depreciable assets, net	99,678,382				98,723,908
Total capital assets, net	$ 130,357,525				$ 129,527,128

	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Nondepreciable assets:					
Land	$ 30,651,806	$ -	$ -	$ -	$ 30,651,806
Construction-in-progress	207,463	868,446	(180,126)	(868,446)	27,337
Nondepreciable assets	30,859,269	868,446	(180,126)	(868,446)	30,679,143
Depreciable assets:					
Buildings and building improvements	132,780,321	334,924	(95,246)	1,806,343	134,826,342
Furniture, fixtures and equipment	1,596,276	64,345	(111,107)	(937,897)	611,617
Total depreciable assets	134,376,597	399,269	(206,353)	868,446	135,437,959
Less accumulated depreciation:					
Buildings and building improvements	(31,388,284)	(3,589,304)	92,595	(453,576)	(35,338,569)
Furniture, fixtures and equipment	(915,494)	(75,687)	116,597	453,576	(421,008)
Total accumulated depreciation	(32,303,778)	$ (3,664,991)	$ 209,192	$ -	(35,759,577)
Depreciable assets, net	102,072,819				99,678,382
Total capital assets, net	$ 132,932,088				$ 130,357,525

Note 4. Long -Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30, 2007 and 2006 follows:

	2007	2006
General obligation bonds outstanding at July 1	$ 6,777,974	$ 8,114,584
Bonds retired	(1,160,933)	(1,336,610)
Bonds outstanding at June 30	5,617,041	6,777,974
Unamortized discount/premium	(461,495)	104,433
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	6,078,536	6,673,541
Less current portion	(1,181,797)	(1,160,933)
	$ 4,896,739	$ 5,512,608

Parking facilities general obligation bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Parking Facilities General Obligation Bonds Outstanding
Series 1998 Refunding	06/15/1998	$ 49,190,000	4.25 - 5.00%	$ 2,556,715
Series 2002 Refunding	02/01/2002	47,200,000	2.00 - 5.00%	471,489
Series 2002 B Refunding	11/01/2002	39,890,000	5.00 - 5.25%	1,148,722
Series 2004 Refunding	03/01/2004	96,395,000	2.00 - 5.00%	1,440,115
Total Parking Facilities General Obligation Bonds				$ 5,617,041

A summary of the requirement to amortize general obligation bonds outstanding at June 30, 2007 is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2008	$ 1,181,797	$ 257,854
2009	1,081,782	207,150
2010	1,015,957	153,188
2011	1,023,614	103,298
2012	682,885	51,791
2013 - 2017	631,006	43,428
	$ 5,617,041	$ 816,709

Note 4. Long -Term Obligations (Continued)

General obligation bonds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City are pledged to the payment of the principal and interest on all general obligation bonds. There are no sinking fund requirements.

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30, 2007 and 2006 follows:

	2007	2006
Revenue bonds outstanding at July 1	$ 96,774,000	$ 98,724,000
Bonds retired	(2,015,000)	(1,950,000)
Bonds outstanding at June 30	94,759,000	96,774,000
Less unamortized discount/premium	5,093,230	5,386,856
Revenue bonds outstanding at June 30 adjusted for unamortized discount/premium	89,665,770	91,387,144
Less current portion	(2,125,000)	(2,015,000)
	$ 87,540,770	$ 89,372,144

Parking revenue bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Parking Facilities Revenue Bonds Outstanding
Series 1999 Parking System Revenue	02/15/1999	$ 54,450,000	4.00 - 5.00%	$ 14,220,000
Series 2000A Variable Rate Parking System Revenue	10/26/2000	10,180,000	Variable	1,680,000
Series 2000B Parking System Revenue and Refunding	10/01/2000	17,860,000	5.50 - 5.67%	15,155,000
Series 2003I Subordinate Parking System Revenue	07/11/2003	1,474,000	4.50%	904,000
Series 2003II Subordinate Parking System Revenue	07/11/2003	435,000	4.50%	245,000
Series 2004A Variable Rate Parking System Revenue	10/28/2004	6,695,000	Variable	6,510,000
Series 2004B Parking System Revenue	10/28/2004	30,905,000	2.50 - 5.00%	30,115,000
Series 2005 Parking System Revenue Refunding	06/15/2005	26,045,000	2.50 - 5.00%	25,930,000
Total Parking Facilities General Obligation Bonds				$ 94,759,000

Note 4. Long -Term Obligations (Continued)

A summary of the requirement to amortize revenue bonds outstanding at June 30, 2007 is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2008	$ 2,125,000	$ 4,642,248
2009	2,230,000	4,529,987
2010	2,560,000	4,437,657
2011	2,635,000	4,349,049
2012	2,755,000	4,220,647
2013 - 2017	15,019,000	19,055,085
2018 - 2022	18,775,000	15,282,353
2023 - 2027	23,985,000	10,190,586
2028 - 2032	21,560,000	3,793,954
2033 - 2036	3,115,000	293,394
	$ 94,759,000	$ 70,794,960

Parking revenue bonds are payable solely from the revenues of the Parking Facilities Fund. The most restrictive covenant of the Parking revenue bonds requires the Parking Facilities Fund net revenue to not be less than the greater of (i) the sum of 1.25 times Senior Debt Service and 1.0 times Subordinated Debt service for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Bond Fund, the Parity Debt Service Fund, the Repair and Replacement Reserve Fund, the Surety Bond Interest Fund and the Subordinate Debt Service Fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted investments and cash held with fiscal agent on the Statement of Net Assets because their use is limited by applicable bond covenants. A summary of the past ten years of Parking Facilities Fund, Revenue Bond Debt Service Coverage is presented in a supplemental schedule.

Bonds authorized and unissued as of June 30, 2007 were approximately $27,409,000.

Note 5. Retirement Obligations

The Fund contributes to the Employee's Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. Reference should be made to the Comprehensive Annual Financial Report of the System for further description of the plan. The retirement expense for June 30, 2007 and 2006 was $359,552 and $373,073, respectively.

Note 6. Commitments

Commitments for completion of capital projects authorized at June 30, 2007 were approximately $2,411,000.

Note 7. Litigation

From time to time the City is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

Note 8. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors and officers' liability. The Fund's coverage is provided though the City of Norfolk's combination of purchased insurance policies and self-insurance plans.

Note 9. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2007 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Fund.

- GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of expenses/expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information in the financial reports of state and local government employers on other post employment benefits ("OPEB"). The Fund is required to adopt this Statement in the same year as the City of Norfolk.
- GASB Statement 47, *Accounting for Termination Benefits*. This Statement requires financial statements prepared on the accrual basis of accounting to recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the Authority to commit the entity to the plan, the plan has been communicated to employees, and the amount can be estimated. The Fund is required to adopt portions of this Statement for termination benefits provided through an existing OPEB plan at the same time it adopts GASB Statement 45 mentioned above.

Note 10. Accounting Pronouncements Issued But Not Yet Implemented (Continued)

- GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

  This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred.

  This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

- GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued in November 2006. GASB 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. GASB 49 specifies five obligating events, which upon the occurrence of one such event, the government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are required. In government-wide and proprietary fund financial statements, the liability should be recorded at the current value of the costs the government expects to incur to perform the work. GASB 49 also requires re-measurement of the liability (and its components) when new information indicates increases or decreases in estimated outlays. GASB 49 is effective for financial statements for periods beginning after December 15, 2007 (the City's fiscal year ended June 30, 2009). The City has not yet determined the impact that implementation of GASB 49 will have on its financial statements.

Note 10. Accounting Pronouncements Issued But Not Yet Implemented (Continued)

- GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27* was issued in May 2007. GASB 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances the information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. GASB 50 conforms note disclosure and RSI requirements with the requirements of GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 50 is effective for periods beginning after June 15, 2007 (the City's fiscal year ended June 30, 2008). The City has not yet determined the impact that implementation of GASB 50 will have on its financial statements.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007. GASB 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Additionally, GASB 51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized. GASB 51 is effective for periods beginning after June 15, 2009 (the City's fiscal year ended June 30, 2010) and generally requires its provisions to be applied retroactively. The City has not yet determined the impact that implementation of GASB 51 will have on its financial statements.

Parking Facilities Fund of the City of Norfolk, Virginia

Supplementary Schedule
Debt Capacity Information - Revenue Bonds Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation and Amortization (2)	Income Available for Debt Service	Debt Service Principal	Debt Service Interest (3)	Debt Service Total	Coverage
1998	$ 11,193,681	$ 3,666,490	$ 7,527,191	$ -	$ 2,888,783	$ 2,888,783	2.61
1999	12,632,071	4,190,415	8,441,656	-	2,888,783	2,888,783	2.92
2000	15,820,975	5,495,665	10,325,310	935,000	3,686,053	4,621,053	2.23
2001	17,246,291	5,706,458	11,539,833	1,285,000	3,679,744	4,964,744	2.32
2002	18,427,725	7,309,883	11,117,842	1,010,000	4,673,455	5,683,455	1.96
2003	18,879,428	7,481,301	11,398,127	1,080,000	4,324,816	5,404,816	2.11
2004	21,614,695	8,503,800	13,110,895	1,155,000	4,226,082	5,381,082	2.44
2005	21,329,936	9,984,289	11,345,647	1,225,000	4,219,772	5,444,772	2.08
2006	21,823,360	9,493,391	12,329,969	1,760,000	4,252,397	6,012,397	2.05
2007	22,348,513	9,359,808	12,988,705	1,825,000	4,653,189	6,478,189	2.00

(1) Includes operating revenue plus interest income not capitalized.

(2) Includes operating expenses less depreciation and amortization.

(3) Excludes subordinate debt service.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's 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 Honorable Members of the City Council
Parking Facilities Fund of the City of Norfolk, Virginia
Norfolk, Virginia

We have audited the financial statements of the Parking Facilities Fund (the "Fund") of the City of Norfolk, Virginia as of and for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit 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 the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described below is a material weakness:

Amortization of Bond Premiums and Discounts

We noted through audit procedures performed over debt of the Fund that bond premiums and discounts related to some of the Fund's debt issuances were recorded on the financial statements and were not being amortized as prescribed by generally accepted accounting principles. We consider the lack of controls to ensure proper amortization to be material to the financial statements and suggest that the Fund establish procedures, including required review of financial records after issuance of bonds, to ensure that related premiums and discounts are properly amortized in a timely manner.

Recommendation: We recommend that management review amortization accounts after issuance of debt to ensure related premiums and discounts have been appropriately amortized.

Views of responsible officials and planned corrective action: Management concurs with the finding. This relates to the amortization of discounts and premiums on several bond issues and has been corrected.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

Management's written response to and planned corrective action of the material weakness noted above, which was identified in our audit, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
December 20, 2007