

Parking Facilities Fund of the City of Norfolk, Virginia

Financial and Compliance Report
Year Ended June 30, 2008

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KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Parking Facilities Fund of the City of Norfolk, Virginia (the Fund) as of June 30, 2008, and the related statement of revenues, expenses and changes in fund net assets and cash flows for the year 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 audit.

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 *Specifications or Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 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 Fund'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 provides a reasonable basis for our opinion.

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 U.S. generally accepted accounting principles.

In our opinion, 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, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The Fund has not presented a Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Fund, taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is 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 financial statements taken as a whole.



In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2009 on our consideration of the Fund's internal control over financial reporting and 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 read in conjunction with this report in assessing the results of our audit.

KPMG LLP

February 3, 2009

Parking Facilities Fund of the City of Norfolk, Virginia

Statement of Net Assets
June 30, 2008

	2008
Assets	
Current assets:	
Cash and short term investments	\$ 14,546,896
Receivables:	
Billed (net)	1,023,534
Unbilled	334,178
Accrued investment income	1,579
Inventories	431,061
Other assets	343,716
Restricted cash and short term investments held with fiscal agent	2,051,511
Total current assets	<u>18,732,475</u>
Restricted assets:	
Certificates of deposit	2,506,000
Investments	2,661,566
	<u>5,167,566</u>
Capital assets:	
Land and construction in progress	42,508,834
Buildings, improvements and equipment, net of accumulated depreciation	95,864,755
	<u>138,373,589</u>
Total assets	<u>162,273,630</u>
Liabilities	
Current liabilities:	
Vouchers payable	1,701,732
Contract retainage	221,778
Accrued payroll	70,869
Due to other funds	5,033,311
Contribution to Employees Retirement System & OPEB Liability	400,866
Current portion of bonds payable	3,482,958
Accrued interest	2,019,550
Other liabilities	582,659
Compensated absences	119,899
Total current liabilities	<u>13,633,622</u>
Noncurrent liabilities:	
General obligation bonds payable	6,960,191
Revenue bonds payable	85,604,396
Compensated absences	158,937
Total noncurrent liabilities	<u>92,723,524</u>
Total liabilities	<u>106,357,146</u>
Net Assets	
Invested in capital assets, net of related debt	44,987,610
Restricted	2,506,000
Unrestricted	8,422,874
Total net assets	<u>\$ 55,916,484</u>

See Notes to Financial Statements.

Parking Facilities Fund of the City of Norfolk, Virginia

Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2008

	2008
Operating revenue-	
Charges for services	<u>\$ 20,425,125</u>
Operating expenses:	
Personal services	7,769,824
Parking operations	916,813
Depreciation	3,873,999
Retirement contribution	276,732
Administrative expenses	376,946
Other	1,214,656
Total operating expenses	<u>14,428,970</u>
Operating income	<u>5,996,155</u>
Nonoperating revenue (expenses):	
Interest income	913,536
Interest expense and fiscal charges	(4,997,032)
Loss on sale or disposal of capital assets	(2,113,172)
Total nonoperating expenses	<u>(6,196,668)</u>
Income before transfers	(200,513)
Transfer out	(79,417)
Change in net assets	<u>(279,930)</u>
Net assets:	
Beginning	56,196,414
Ending	<u>\$ 55,916,484</u>

See Notes to Financial Statements.

Parking Facilities Fund of the City of Norfolk, Virginia

Statement of Cash Flows
Year Ended June 30, 2008

	2008
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Cash Flows From Operating Activities:	
Receipts from customers	\$ 20,213,559
Payments to suppliers	(1,096,391)
Payments to employees	(7,977,273)
Other payments	(1,068,358)
Net cash provided by operating activities	<u>10,071,537</u>
Cash Flows From Noncapital Financing Activities:	
Internal activity, payments from other funds	5,419,689
Transfer out	(79,417)
Net cash provided by noncapital financing activities	<u>5,340,272</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds from capital debt	3,857,692
Purchases of capital assets	(13,428,092)
Principal paid on capital debt	(3,554,453)
Interest paid on capital debt	(5,529,985)
Net cash used in capital and related financing activities	<u>(18,654,838)</u>
Cash Flows From Investing Activities:	
Proceeds from sales and maturities of investments	5,401,977
Purchase of certificates of deposit	(5,035,160)
Interest and dividends	919,629
Net cash provided by investing activities	<u>1,286,446</u>
Net decrease in cash and short term investments	(1,956,583)
Cash and short term investments:	
Beginning	18,554,990
Ending	<u>\$ 16,598,407</u>

(Continued)

Parking Facilities Fund of the City of Norfolk, Virginia

Statement of Cash Flows (Continued)
Year Ended June 30, 2008

	2008
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Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 5,996,155
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	3,873,999
Change in assets and liabilities:	
Increase in:	
Accounts receivables (net), billed and unbilled	(211,566)
Inventories	(64,814)
Other assets/prepaid expenses	(59,415)
Increase (decrease) in:	
Vouchers payables	(114,764)
Accrued payroll	(54,851)
Other liabilities	706,793
Net cash provided by operating activities	<u><u>\$ 10,071,537</u></u>
Reconciliation of Cash and Short Term Investments:	
to the Statement of Net Assets	
Cash and short term investments	\$ 14,546,896
Restricted cash and short term investments held with fiscal agent	2,051,511
Total cash and cash equivalents per statement of net assets	<u><u>\$ 16,598,407</u></u>
Supplemental Schedule of Noncash Investing, Capital and Financing Activities	
Transfer of land and related debt from Capital projects fund	<u><u>\$ 3,500,000</u></u>
Loss on disposal of capital assets	<u><u>\$ (2,113,172)</u></u>
Acquisition of capital assets though the incurrence of contract retainage	<u><u>\$ 172,552</u></u>
Acquisition of capital assets though vouchers payable	<u><u>\$ (1,232,988)</u></u>

Parking Facilities Fund of the City of Norfolk, Virginia

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 a major 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 Statement No. 20 of the Governmental Accounting Standards Board ("GASB"), *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.

Deposits and investments: The Fund's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments of the Fund are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The fair value of the State Treasurer's Local Government Investment Pool (LGIP) is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. Other investments are stated at their fair value; these investments are reported in the accompanying financial statements as cash and short-term investments, unless the original investment period exceeded three months, in which case they are reported as investments. 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.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

	<u>Years</u>
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 non operating revenue or expense.

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 non-operating 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 non-operating.

Due to/from other funds: The General Fund of the City provides administrative services to the Fund, which totaled \$694,423 for the year ended June 30, 2008. Charges for these services are treated as expenses by the 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.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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 and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("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 had \$9,800,000 invested in the State Treasurer's LGIP, included in cash and short term investments, at June 30, 2008, which carries a Standard and Poor's rating of AAAM.

The Fund's investments for the year ended June 30, 2008, 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. Included in the \$9,367,077 investments in Note 2a are \$5,167,566 of restricted assets at June 30, 2008.

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.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Note2a				
Fiscal Year 2008:				
Investment Type	Fair Value	Less than 1 Yr	1-5 Years	
Virginia AIM Mutual Fund	\$ 2,013	\$ 2,013	\$ -	
SNAP Mutual Fund	771,502	97,768	673,734	
Certificates of deposit	4,654,000	4,654,000	-	
U. S. Government securities	1,888,051	1,888,051	-	
Money Market Funds	2,051,511	2,051,511	-	
Total	\$ 9,367,077	\$ 8,693,343	\$ 673,734	

The Fund's rated debt investments, other than LGIP, as of June 30, 2008 were rated by Standard and Poor's and the credit ratings are presented below using the Standard and Poor's rating scale.

Note2b					
Fiscal Year 2008:					
Investment Type	AAA	A-1+	AA+	AA-	Total
Virginia AIM Mutual Fund	\$ 437	\$ 1,272	\$ 169	\$ 135	\$ 2,013
SNAP Mutual Fund	687,030	79,681	2,542	2,249	771,502
U. S. Government securities	1,888,051	-	-	-	1,888,051
Money Market Funds	2,051,511	-	-	-	2,051,511
Total	\$ 4,627,029	\$ 80,953	\$ 2,711	\$ 2,384	\$ 4,713,077

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

At June 30, 2008 the Fund's cash and investment consists of the following:

Note2c

	<u>2008</u>
Investments in LGIP	\$ 9,800,000
Other investments	9,367,077
Cash	<u>2,598,896</u>
Total cash and investments	<u><u>\$ 21,765,973</u></u>

	<u>2008</u>
Cash and short-term investments	\$ 14,546,896
Restricted cash and short-term investments held with fiscal agent	2,051,511
Other restricted assets	<u>5,167,566</u>
Total cash and investments	<u><u>\$ 21,765,973</u></u>

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 3. Capital Assets

Capital assets at June 30, 2008 are comprised of the following:

Note3					
	Balance				Balance
	June 30, 2007	Additions	Retirements	Transfers	June 30, 2008
Nondepreciable assets:					
Land	\$ 30,675,683	\$ 1,687,205	\$ -	\$ 3,500,000	\$ 35,862,888
Construction-in-progress	127,537	6,567,635	(49,226)	-	6,645,946
Nondepreciable assets	30,803,220	8,254,840	(49,226)	3,500,000	42,508,834
Depreciable assets:					
Buildings and building improvements	137,389,289	3,114,022	(5,487,320)	-	135,015,991
Furniture, fixtures and equipment	849,644	13,995	(29,308)	-	834,331
Total depreciable assets	138,238,933	3,128,017	(5,516,628)	-	135,850,322
Less accumulated depreciation:					
Buildings and building improvements	(38,995,452)	(3,796,572)	3,380,393	-	(39,411,631)
Furniture, fixtures and equipment	(519,573)	(77,427)	23,064	-	(573,936)
Total accumulated depreciation	(39,515,025)	(3,873,999)	3,403,457	-	(39,985,567)
Depreciable assets, net	98,723,908	(745,982)	(2,113,171)	-	95,864,755
Total capital assets, net	\$ 129,527,128	\$ 7,508,858	\$ (2,162,397)	\$ 3,500,000	\$ 138,373,589

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 4. Long -Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2008 follows:

Note4a

	2008
General obligation bonds outstanding at July 1	\$ 5,617,041
Bonds retired	(1,429,453)
Bonds issued/allocated to Fund	3,500,000
Bonds outstanding at June 30	7,687,588
Unamortized discount/premium	(525,561)
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	8,213,149
Less current portion	(1,252,958)
	<u><u>\$ 6,960,191</u></u>

In FY2008, \$3,500,000 of land and associated debt were transferred to the Fund from another City Fund. Parking facilities general obligation bonds outstanding are comprised of the following individual issues:

Note4b

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Parking Facilities General Obligation Bonds Outstanding
Series 1998 Refunding	6/15/1998	\$49,190,000	4.25 - 5.00%	\$2,111,238
Series 2002 Refunding	2/1/2002	\$47,200,000	2.00 - 5.00%	\$374,876
Series 2002 B Refunding	11/1/2002	\$39,890,000	5.00 - 5.25%	\$909,037
Series 2004 Refunding	3/1/2004	\$96,395,000	2.00 - 5.00%	\$1,040,093
Series 2006 New Money	11/15/2006	\$115,055,000	4.00 - 5.00%	\$3,252,344
Total Parking Facilities General Obligation Bonds				<u><u>\$7,687,588</u></u>

A summary of the requirement to amortize general obligation bonds outstanding at June 30, 2008 is as follows:

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 4c

Year Ending

June 30,

	Principal	Interest
2009	\$ 1,252,958	\$ 347,943
2010	1,187,133	285,421
2011	1,194,790	226,972
2012	854,061	166,907
2013	437,504	131,779
2014-2018	1,220,558	430,313
2019-2023	855,880	235,581
2024-2028	684,704	58,200
	<u>\$ 7,687,588</u>	<u>\$ 1,883,116</u>

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

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 year ended June 30, 2008 follows:

Note4d

	2008
Revenue bonds outstanding at July 1	\$ 94,759,000
Bonds retired	(2,125,000)
Bonds outstanding at June 30	92,634,000
Less unamortized discount	4,799,604
Revenue bonds outstanding at June 30	
adjusted for unamortized discount/premium	87,834,396
Less current portion	(2,230,000)
	<u>\$ 85,604,396</u>

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

Note4e

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Parking Facilities Revenue Bonds Outstanding
Series 1999 Parking System Revenue	2/15/1999	\$ 54,450,000	4.00 - 5.00%	\$ 14,220,000
Series 2000A Variable Rate Parking System Revenue	10/26/2000	\$ 10,180,000	2.50%	\$ 185,000
Series 2000B Parking System Revenue and Refunding	10/1/2000	\$ 17,860,000	5.50 - 5.67%	\$ 15,155,000
Series 2003I Subordinate Parking System Revenue	7/11/2003	\$ 1,474,000	4.50%	\$ 761,500
Series 2003II Subordinate Parking System Revenue	7/11/2003	\$ 435,000	4.50%	\$ 197,500
Series 2004A Variable Rate Parking System Revenue	10/28/2004	\$ 6,695,000	2.50%	\$ 6,410,000
Series 2004B Parking System Revenue	10/28/2004	\$ 30,905,000	2.50 - 5.00%	\$ 29,815,000
Series 2005 Parking System Revenue Refunding	6/15/2005	\$ 26,045,000	4.00 - 5.00%	\$ 25,890,000
Total Parking Facilities General Obligation Bonds				<u>\$92,634,000</u>

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 4. Long -Term Obligations (Continued)

A summary of the requirement to amortize revenue bonds outstanding at June 30, 2008 is as follows:

Note 4f

Year Ending June 30,	Principal	Interest
2009	\$ 2,230,000	\$ 4,529,987
2010	2,560,000	4,437,658
2011	2,635,000	4,349,049
2012	2,755,000	4,220,647
2013	2,840,000	4,086,138
2014 - 2018	15,564,000	18,355,157
2019 - 2023	19,740,000	14,388,158
2024 - 2028	24,475,000	8,996,391
2029 - 2033	17,710,000	2,643,468
2034 - 2037	2,125,000	146,059
	<u>\$ 92,634,000</u>	<u>\$ 66,152,712</u>

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 cash and investments on the Statement of Net Assets because their use is limited by applicable bond covenants. A supplementary schedule of past ten years of Parking Facilities Fund, Revenue Bond Senior Debt Service Coverage is included at the end of this report.

Bonds authorized and unissued as of June 30, 2008 were approximately \$84,407,000.

Note 5. Retirement & OPEB 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, 2008 was \$276,732.

The Fund adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB) in FY2008.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 5: Retirement & OPEB Obligations (Continued)

The City of Norfolk provides post-retirement health care benefits, in accordance with state statutes which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council.

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial valuation was performed as of July 1, 2007 with results projected for the fiscal year ended June 30, 2008.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. Under this Statement, governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The annual required contribution represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Fund used the pay as you go method to calculate the OPEB liability for June 30, 2008 as the City Council had not voted as June 2008 to put any OPEB money in a trust. Using the most recent OPEB Plan Valuation Date of July 1, 2007, prepared by Cheiron, the City's actuary, the City has allocated to the Fund an ARC cost of \$124,134 and total OPEB liability for 2008 of \$895,070. The allocation is based on recovered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk.

Note 6. Commitments

Commitments for completion of capital projects authorized at June 30, 2008 were approximately \$47,798,360.

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 through the City of Norfolk's combination of purchased insurance policies and self-insurance plans.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 9. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2008 that has 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 No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:
 - Pollution poses imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
 - A government has violated a pollution prevention-related permit or license
 - A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up
 - A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution
 - A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

GASB Statement No. 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period, so that beginning net assets can be restated.

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement 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, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized. This Statement is effective for periods beginning after June 15, 2009 (the Fund's fiscal year ended June 30, 2010) and generally requires its provisions to be applied retroactively.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments to manage specific risks or to make investments. A key provision of this statement is that derivative instruments covered in its scope with limited exception, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are

Notes to Financial Statements

Note 9. Accounting Pronouncements Issued But Not Yet Implemented (Continued)

developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments used for investment purposes are reported within the investment revenue classification. Alternatively, changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferred inflows or outflows. Effectiveness of the instruments is to be analyzed. Objectives, terms and risks of hedging derivative instruments are required disclosures. Disclosures also will include a summary of derivative instrument activity that provides an indication of the fair value amounts reported on the financial statements. The improvements under GASB 53, which becomes effective for periods beginning after June 15, 2009, should allow users of a government's financial statements to more fully understand resources available to provide services.

Parking Facilities Fund of the City of Norfolk, Virginia

Notes to Financial Statements

**Supplemental Debt Capacity Information
Revenue Bonds Debt Service Coverage
Parking Facilities Fund
Last Ten Fiscal Years**

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal (3)	Interest (3)	Total	
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	4,274,056	5,429,056	2.41
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
2008	21,338,661	10,554,971	10,783,690	1,935,000	4,592,680	6,527,680	1.65

Notes:

1. Includes operating revenue plus interest income not capitalized.
2. Includes operating expenses less depreciation and amortization.
3. Excludes subordinate debt service.



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

**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 Audit Standards***

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

We have audited the financial statements of the Parking Facilities Fund of the City of Norfolk, Virginia (the Fund) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 3, 2009. 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 U.S. generally accepted accounting principles. Our report also discusses that the Fund has not presented a Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the financial statements. 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.

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 opinions 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 purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

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.

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 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 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*.

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

KPMG LLP

February 3, 2009