

**INDEPENDENT ACCOUNTANT'S
AGREED UPON PROCEDURES REPORT
FOR THE CITY OF EL CERRITO
MASTER INSTALLMENT SALE AGREEMENT
COMPLIANCE WITH BOND COVENANTS
FOR THE 2008 SALES TAX REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2010**

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Honorable Mayor and Members
of the City Council
El Cerrito, California

We have performed the procedures described below, which were agreed to by the City of El Cerrito to determine compliance with the Master Installment Sale Agreement for the 2008 Sales Tax Revenue Bonds between the City and the Financing Authority for the year ended June 30, 2010. The activity for the 2008 Sales Tax Revenue Bonds is reported in the City's Comprehensive Annual Financial Report in the Street Improvement Capital Projects Fund and the Public Financing Authority Debt Service Fund. This engagement to apply agreed upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures are as follows:

1. We obtained the Master Installment Sale Agreement (Agreement) between the City and the Financing Authority dated June 1, 2008.
2. Section 2.03 of the Agreement – Improvement Fund – requires that the proceeds be used for acquisition and construction of the Projects (or to reimburse the City for costs paid by it) including the payment of interest on the Obligations upon receipt of a sequentially numbered “Request of the City” filed with the City Manager (see Attachment A to the Agreement), therefore we:
 - a. Obtained a listing of City Council-designated Projects for the fiscal year.
 - b. Obtained a listing of “Request of the City” filed with the City Manager for the fiscal year.
 - c. Selected a sample of seven expenditures charged to the Improvement Fund during the fiscal year.
 - d. Tested the above expenditures to determine that they were made in accordance with the City's purchasing policy.

- e. Determined that the expenditures were related to a City Council-designated project (2a above).
 - f. Inquired as to whether the projects were complete as of the end of the fiscal year and, if so, whether excess funds were available from the Improvement Fund. The Agreement indicates that excess funds in the Improvement Fund, when all Projects are complete, can be transferred to the City "for any lawful purpose of the City subject to the provisions of any Tax Certificate". However, Section 4.60.150 of the City's Municipal Code limits the use of funds for pothole repair and street improvement and maintenance services. We found that the Projects were not complete as of the end of the fiscal year.
3. We obtained a confirmation of Sales Tax Add-On Revenues for the fiscal year from the State Controller's Office to reconcile to the revenues recorded in the general ledger in the Street Improvement Capital Projects Fund.
- a. The State Controller's Office confirmation reconciled to the general ledger total in the Street Improvement Capital Projects Fund of \$1,334,628.
4. Section 4 of the Agreement – Covenants of the City – Based on the testing above, we obtained documentation of the City's compliance with the provisions of this Section which generally require that the City pay its bills timely and use the proceeds in accordance with the definition of "Projects" above, and complete the Projects in a timely manner.
- a. It appears that the City paid its bills timely and used the proceeds in accordance with the Agreement. The Projects were not complete as of the end of the fiscal year.
5. Section 7.01 of the Agreement – Liability Limited to Revenues – We inquired as to whether the City advanced funds for payment of the Obligations other than from the Revenues. If yes, we obtained documentation that the City was reimbursed from the Revenues as defined in the Agreement. (Other subsections of Section 7 do not appear to be of compliance significance, therefore only this covenant is being included in the agreed upon procedures).
- a. The City made payments of the Obligations only from the Revenues during the fiscal year. The City did not advance funds for payment of the Obligations during the fiscal year.
6. We obtained documentation of compliance with provisions of Section 2.02 of the Agreement – Revenue Fund; Pledge of Revenues:
- a. Were principal and interest payments made from the Revenue Fund for all parity obligations?
 - i. Not applicable – the City does not have any parity obligations outstanding at June 30, 2010.
 - b. Were excess revenue funds (after the payment of parity obligations) used for the payment of any supplemental or subordinate obligations?
 - i. Not applicable – the City does not have any supplemental or subordinate obligations outstanding at June 30, 2010.

- c. Revenues cannot be used for termination payments unless specific conditions are met as defined in 2.02(B)(1) – were any termination payments made with pledged revenues?
 - i. No termination payments were made during the fiscal year.
- 7. Section 3.01 of the Agreement -- Parity Obligations – We inquired as to whether the City issued any parity obligations during the fiscal year, and if yes, obtained documentation that the City complied with provisions of this Section.
 - a. The City did not issue any parity obligations during fiscal year 2010.
- 8. Section 3.02 of the Agreement – Subordinate Obligations – We inquired as to whether the City issued any subordinate obligations during the fiscal year, and if yes, obtained documentation that the City complied with the provisions of this Section.
 - a. The City did not issue any subordinate obligations during fiscal year 2010.
- 9. Section 3.03 of the Agreement – Execution of Supplemental Installment Sale Agreements (other than the First Supplement) – We inquired as to whether the City executed any supplemental installment sales agreements during the fiscal year, and if yes, obtained documentation that the City complied with the provisions of this Section.
 - a. The City did not execute any supplemental installment sales agreements during fiscal year 2010.
- 10. Section 5 of the Agreement – Events of Default and Remedies – We inquired as to whether any of the Events of Default, as defined in the Section, occurred during the fiscal year. If yes, we obtained documentation that the revenues were applied in the manner set forth in this Section.
 - a. No Events of Default, as defined in the Section, occurred during the fiscal year.
- 11. Section 6 of the Agreement – Discharge of Obligations – This Section is applicable only if the City pays all of the Obligations (debt to the Authority), therefore, we would obtain documentation of compliance with this Section if the City has repaid all of the Obligations during the fiscal year.
 - a. The City did not pay all of the debt to the Authority during the fiscal year.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or internal controls. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Mane & Associates

October 29, 2010