

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
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, 2014**

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

We have performed the procedures described below, which were agreed to by the City of El Cerrito solely to assist you with respect to determining 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, 2014. 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. Management is responsible for the accounting records. This agreed upon procedures engagement was conducted in accordance with attestation 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 and findings are as follows:

1. We obtained the Master Installment Sale Agreement (Agreement) between the City and the Financing Authority dated June 1, 2008.
2. We obtained a copy of Chapter 4.60 of the City's Municipal Code (Pothole Repair and Local Street Improvement and Maintenance and Use Transaction Tax).

3. We obtained the general ledger account activity summary for the fiscal year for Fund 211 (Street Improvement Fund) and summarized the expenditures for the fiscal year into the following categories, pursuant to Chapter 4.60 of the Municipal Code:

Maintenance and Improvement (Including Project Management, Engineering Costs, and Construction Services) - by Project:

C3027 - Street Resurfacing 2007, 2013-14 Pavement Rehab Program	\$102,037 (A)
C3061 - Moeser-Ashbury Avenue Pedestrian and Bike Program	105,232
C3070 - Traffic Safety and Management Program	38,075
C3071 - Arlington Blvd. and Brewster Drive Intersection Safety Improvements	50,000 (B)
C3072 - 2013 Street Improvement Program (SLPP)	698,716
C3074 - 2013-14 Pavement Rehabilitation Program - OBAG	88,216 (C)
Public Works Personnel Salaries and Benefits - Non-Project Related	52,869
Debt Service	745,481
Administrative Costs:	
Annual Agreed Upon Procedures Report	1,400
Other Administrative Costs	<u>6</u>
Total Expenditures and Transfers Out	<u><u>\$1,882,032</u></u>

(A) Includes transfer out to the Capital Improvement Capital Projects Fund of \$35,145 to fund fiscal year 2008 expenditures on project C3027. Expenditures on the project through the year ended June 30, 2008 had exceeded project funding in that amount. Although that phase of the project started prior to the February 2008 approval of the Pothole Repair and Local Street Improvement and Maintenance and Use Transaction Tax, City Council approved funding the project deficit in fiscal year 2014.

(B) Includes transfer out to the Capital Improvement Capital Projects Fund of \$50,000. \$17,462 of the funds were expended on project C3071 during fiscal year 2014, and \$32,538 remained unspent as of June 30, 2014.

(C) Project C3074 was not included in the list of Fund 211 projects in the Original 2014 Budget. City staff indicated that project C3073 (Busby Property Acquisition) was included in the Fund 211 budget in error and it instead should have been project C3074 (2013-14 Pavement Rehabilitation Program - OBAG).

4. 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. Principal and interest payments for the 2008 Sales Tax Revenue Bonds were made from the Revenue Fund. The City does not have any parity obligations outstanding at June 30, 2014.

- 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, 2014.
 - 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.
5. 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 the City Council-approved Expenditure Plan for the fiscal year (projects included in the capital improvement budget for Fund 211 – the Street Improvement Fund). We noted that there were no budget amendments for the Fund for the fiscal year.

The projects approved for Fund 211 (the Street Improvement Fund) in Table 12-2 of the 2013-2023 Capital Improvement Plan include:

- C3027/C3072/C3073 – Street Improvement Program
- C3061 – Moeser & Ashbury Ped/Bike Improvements
- C3063 – Central & Liberty Streetscape Improvements
- C3071 – Arlington Curve at Brewster Drive Safety Improvements
- C3070 – Traffic Safety & Management Program

City staff indicated that project C3073 (Busby Property Acquisition) was included in the Fund 211 (the Street Improvement Fund) budget in error and it instead should have been project C3074 (2013-14 Pavement Rehabilitation Program - OBAG).

- b. Selected a sample of ten expenditures (and transfers out) totaling \$1,408,474 charged to Fund 211 (the Street Improvement Fund) during the fiscal year, out of total capital improvement expenditures (and transfers out) of \$1,882,032.
- c. Tested the above samples to determine that they were made in accordance with the City’s purchasing policy.
- d. Determined that the samples were related to a City Council-approved expenditure (5a above). One of the transfers out was related to the prefunding of a project being constructed by the City and \$32,538 of the funds remained unspent and held by the City’s Capital Improvement Capital Projects Fund as of June 30, 2014.
- e. Determined that the samples tested were related to street improvement, maintenance, associated debt service or administrative costs, pursuant to Chapter 4.60 of the Municipal Code.

6. 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 2014.
7. 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 2014.
8. 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 2014.
9. 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 “Project” 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. Four Projects were completed during the fiscal year, but not all Projects were complete as of the end of the fiscal year.
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.

12. 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. Revenues, as defined in the Agreement include the Sales Tax Add-On Revenues and interest earned from the investment of those funds. If yes, we would obtain 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.
13. 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 (Fund 211).
 - a. The State Controller’s Office confirmation reconciled to the general ledger total in the Street Improvement Capital Projects Fund of \$1,453,527 .

We were not engaged to, and did not, conduct 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; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



Pleasant Hill, California
February 24, 2015

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