Summary Title: Public Improvement Corporation Board

Title: Approval of 2009-10 Public Improvement Corporation Financial Statement

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that the Board of Directors of the Public Improvement Corporation (PIC) approve the 2009-10 financial statements for the Public Improvement Corporation.

Background
The Public Improvement Corporation (PIC) is a nonprofit corporation formed by the City in 1983, allowing the City to issue Certificates of Participation (COPs) to fund capital improvements. The PIC, through a lease structure, finances the acquisition, improvement, and construction of City facilities. The PIC uses the lease payments by the City’s General Fund to pay the debt service on the COPs.

On July 13, 1998, Council adopted a resolution establishing itself as the Board of Directors of the PIC. The bylaws of the PIC require the Board of Directors of the Corporation to meet at least annually and approve the financial statements for the Corporation. Therefore, the City Council is required to meet annually as the Board of the PIC. The City has three outstanding COPs through the PIC. In 1983 and 1998, the City of Palo Alto issued Certificates of Participation (COPs) to fund improvements to the Civic Center and the Golf Course, respectively. In 2002, the Civic Center bonds were refinanced to obtain a lower interest rate. Also in 2002, a third series of COPs known as the Downtown Parking Improvement bonds were issued to finance the construction of commercial space adjacent to the new parking structure on Bryant/Florence Street.

The Golf Course bond proceeds were used to finance various improvements at the Palo Alto Public Golf Course, including upgrading five fairways and various traps, trees and greens, constructing new storm drain facilities, replacing the existing irrigation system, upgrading the driving range, and installing new cart paths. The Civic Center bonds were issued to undertake various improvements to the City's existing Civic Center. These improvements included a third elevator assembly and its installation in a pre-existing elevator shaft and strengthening of certain structural and decorative elements of the building for seismic purposes. In addition, funds were used for structural remodeling of the police headquarters and retrofitting of a
portion of the Civic Center for a fire sprinkler system. The Downtown Parking Improvement bonds were used to build a two story above-ground structure of approximately 7,638 square feet which was leased to a commercial tenant.

**Discussion**
The attached financial statements show the financial condition of the PIC. All debt service payments have been made on time and all financial requirements, such as the maintenance of reserves, have been met. At year-end, June 30, 2010, total outstanding debt principal on the COPs equaled $6.8 million as follows:

<table>
<thead>
<tr>
<th>COP Description</th>
<th>Principal Outstanding (millions)</th>
<th>Year Debt will be Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 Golf Course</td>
<td>$4.1</td>
<td>2018</td>
</tr>
<tr>
<td>2002A Civic Center Refinancing</td>
<td>$0.8</td>
<td>2012</td>
</tr>
<tr>
<td>2002B Downtown Parking Improvements</td>
<td>$1.9</td>
<td>2022</td>
</tr>
<tr>
<td><strong>Total COPs</strong></td>
<td><strong>$6.8</strong></td>
<td></td>
</tr>
</tbody>
</table>

Staff recommends that the Board of Directors of the Public Improvement Corporation (PIC) approve the 2009-10 financial statements for the Public Improvement Corporation.

**Resource Impact**
Approval of the Public Improvement Corporation's financial statements will have no resource impact.

**Policy Implications**
Approval of the Public Improvement Corporation's financial statements is consistent with prior Council policy direction and resolutions.

**Environmental Review**
This is not a project, as defined in Section 21065 of the California Environmental Quality Act (CEQA).

**Attachments:**
- Attachment A Public Improvement Corporation Fiscal Year 2010 Financial Statement (PDF)

Prepared By: Tarun Narayan, Senior Financial Analyst

Department Head: Lalo Perez, Director

City Manager Approval: James Keene, City Manager

May 09, 2011
CITY OF PALO ALTO
PUBLIC IMPROVEMENT CORPORATION

BASIC COMPONENT UNIT
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2010
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<td></td>
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</tbody>
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council of the
City of Palo Alto, California

We have audited the accompanying basic component unit financial statements of the governmental activities and the major fund of the Palo Alto Public Improvement Corporation, a component unit of the City of Palo Alto, as of and for the year ended June 30, 2010, as listed in the Table of Contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the governmental activities and the major fund of the Palo Alto Public Improvement Corporation as of June 30, 2010, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management’s Discussion and Analysis is not a required part of the basic component unit financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However we did not audit the information and we express no opinion on it.

October 22, 2010
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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Palo Alto Public Improvement Corporation, a component unit of the City of Palo Alto, follows the provisions of Government Accounting Standards Board Statement 34 (GASB 34), “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments.”

The Corporation is controlled by the City of Palo Alto and was organized to assist the City in financing public improvements. The Corporation issues debt and turns the proceeds of the debt over to the City under lease agreements that provide a revenue source for the repayment of this debt. The Corporation has three debt issues and has transferred the proceeds of these issues over to the City, which pledged certain lease payments as collateral for this debt as discussed in Note 4 to the financial statements.

FISCAL 2010 FINANCIAL HIGHLIGHTS: CORPORATE-WIDE BASIS AND FUND BASIS

GASB 34 requires the issuance of corporate-wide financial statements as well as fund financial statements. The corporate-wide financial statements report the balance of the Corporation’s long-term debt issues while the individual fund statements do not.

In fiscal year 2002, the Corporation issued its 2002A Civic Center Refinancing Certificates of Participation (COPs) in the amount of $3.5 million to refund its 1992 Civic Center Project COPs, reducing debt service requirements by $372 thousand and producing an account gain of $137 thousand. The Corporation also issued its 2002B Downtown Parking Improvements COPs in the amount of $3.6 million. In fiscal year 2005, a partial redemption was completed by placing excess construction and debt service reserve funds into an escrow account to defease $900 thousand of 2002B Downtown Parking Improvements COPs. These issues, including the 1998 Golf Course Capital Improvements COPs, comprise the Corporation’s outstanding debt.

Interest expense on these COP issues was $396 thousand for fiscal year 2010, a decrease of $41 thousand over the prior year. The interest for leases on the assets securing these COP issues was $374 thousand, a decrease of $63 thousand from the prior year. Program expenses exceeded lease revenues by $22 thousand, thereby resulting in a decrease in net assets of $22 thousand over the prior year.

The Corporation ended fiscal year 2010 with total assets of $7.0 million, a decrease of $0.9 million from the prior year. Total assets consist of $1.3 million in cash and $5.7 million of leases receivable (recorded at net present value) from the City of Palo Alto. Total liabilities were $6.9 million, a decrease of $0.8 million from the prior year, and included $1.0 million of current debt as well as $5.9 million of long-term debt.

At the fund level, the Corporation’s expenditures exceeded its revenues by $90 thousand whereas revenues had exceeded expenditures in the prior year by $22 thousand.

As of June 30, 2010, the Corporation had one fund, the Debt Service Fund, which reported a $1.3 million fund balance, reflecting a $0.1 million decrease over the prior year.
OVERVIEW OF THE CORPORATION'S BASIC FINANCIAL STATEMENTS

The Basic Financial Statements are in two parts:

(1) Management’s Discussion and Analysis (this part);
(2) The Basic Financial Statements, which include the corporate-wide and the fund financial statements, along with the notes to these financial statements.

The Basic Financial Statements

The Basic Financial Statements comprise the corporate-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the Corporation’s financial activities and financial positions, both short-term and long-term.

The corporate-wide Financial Statements provide a long-term view of the Corporation’s activities as a whole and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Corporation as a whole, including all its long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the Corporation’s revenues and expenses on the full-accrual basis with an emphasis on measuring the net revenues or expenses of the Corporation’s programs. The Statement of Activities explains in detail the change in net assets for the fiscal year.

The Fund Financial Statements report the Corporation’s operations in more detail than the corporate-wide statements and focus primarily on the short-term activities of the Debt Service Fund. Fund Financial Statements measure only current revenues and expenditures; current assets, liabilities, and fund balances; and they exclude capital assets and long-term debt.

Together, these statements are called the Basic Financial Statements.

DEBT ADMINISTRATION

The Corporation issues debt in the form of Certificates of Participation (termed COPs) for future lease receipts from the City of Palo Alto. Legally, these COPs issues are the Corporation’s debt only; the City is liable only for the payment of the amounts set forth in the lease securing each COPs issue.

The Corporation issued two COPs for the fiscal year ending June 30, 2002, one of which was refunded by an earlier issue.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City of Palo Alto and its major initiatives for the coming year are discussed in detail in the City’s Comprehensive Annual Financial Report.

CONTACTING THE AGENCY’S FINANCIAL MANAGEMENT

The Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency’s finances. Questions about these statements should be directed to the Finance Department of the City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301.
The Statement of Net Assets and the Statement of Activities summarize the entire Corporation’s financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Corporation’s assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis; the effect of all the Corporation’s transactions is taken into account, regardless of whether or when cash changes hands; but all material internal transactions between Corporation funds have been eliminated.

The Statement of Net Assets reports the difference between the Corporation’s total assets and the Corporation’s total liabilities, including all the Corporation’s capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format but presents it in a way that focuses the reader on the composition of the Corporation’s net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Corporation’s Governmental Activities in a single column that presents the financial position of the entire Corporation.

The Corporation’s Governmental Activities include the activities of its Debt Service Fund.

The Statement of Activities reports increases and decreases in the Corporation’s net assets. It is also prepared on the full accrual basis, which means it includes all the Corporation’s revenues and all its expenses, regardless of when cash changes hands. This differs from the “modified accrual” basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Corporation’s expenses and follows with program revenues. Revenues which are generated directly by these programs are deducted from program expenses to arrive at the net expense of the governmental program. The Corporation’s general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.
Palo Alto Public Improvement Corporation
A Component Unit of the City of Palo Alto
Statement of Net Assets
June 30, 2010

Assets
Cash and Investments Held by Trustee (Note 3) $1,275,699
Interest Receivable 10,455
Investment in Leases to City of Palo Alto (Note 2C) 5,748,558
Total Assets 7,034,712

Liabilities
Interest Payable 117,000
Long-Term Debt (Note 4):
Due in One Year 870,000
Due in More than One Year 5,895,000
Total Liabilities 6,882,000

Net Assets
Restricted (Note 5A) 152,712
Total Net Assets $152,712

See accompanying notes to financial statements
PALO ALTO PUBLIC IMPROVEMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

EXPENSES
Interest and fiscal agent charges $369,291
Total Program Expenses 369,291

REVENUES
Interest on leases from City of Palo Alto 374,335
Net Program Expenses 5,044

GENERAL REVENUES
Investment income 9,669
Change in Net Assets 14,713
Net assets at the beginning of year 137,999
Net assets at the end of year $152,712

See accompanying notes to financial statements
Major funds are defined generally as having significant activities or balances in the current year.

The Corporation has one fund in fiscal 2010.

*Debt Service Fund* - This fund accounts for debt service payments on the Corporation's long-term debt issues.
PAULO ALTO PUBLIC IMPROVEMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PALO ALTO
DEBT SERVICE FUND BALANCE SHEET
JUNE 30, 2010

ASSETS

Cash and investments held by trustee (Note 3) $1,275,699
Interest receivable 10,455
Investment in leases to City of Palo Alto (Note 2C) 5,748,558

Total Assets $7,034,712

LIABILITIES

Deferred revenue $5,748,558

Total Liabilities 5,748,558

FUND BALANCE (Note 5B)

Reserved for:
Debt service 1,286,154

Total Fund Balance 1,286,154

RECONCILIATION OF FUND BALANCE TO NET ASSETS:

Accrual adjustment to remove deferred revenue from the balance sheet $5,748,558
Deferred revenue 5,748,558

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds
Long-term debt:
Interest payable (117,000)
Due within one year (870,000)
Due in more than one year (5,895,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES $152,712

See accompanying notes to financial statements
PALO ALTO PUBLIC IMPROVEMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PALO ALTO
DEBT SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

REVENUES

Lease receipts from City of Palo Alto:

Principal $746,847
Interest 374,335
Investment income from cash and investments 9,669

Total Revenues 1,130,851

EXPENDITURES

Debt service:
Principal repayment 840,000
Interest and fiscal agent charges 381,291

Total Expenditures 1,221,291

NET CHANGE IN FUND BALANCE (90,440)

Fund balance at beginning of year 1,376,594

Fund balance at end of year $1,286,154

See accompanying notes to financial statements
PALO ALTO PUBLIC IMPROVEMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances-total governmental funds  ($90,440)

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Fund balance is increased by the amount of debt repayment  840,000

Some amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances reflect the collection of an asset which are not includable as revenues on the Statement of Activities

<table>
<thead>
<tr>
<th>Change in deferred revenue</th>
<th>(746,847)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in interest payable</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Change in net assets of governmental activities  $14,713

See accompanying notes to financial statements
NOTE 1 - DESCRIPTION OF REPORTING ENTITY

The Palo Alto Public Improvement Corporation (the Corporation) was incorporated in September 1983 under the General Nonprofit Corporation Law of the State of California to acquire, construct and lease capital improvement projects. The Corporation is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. The Corporation provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects which are leased to the City for lease payments which are sufficient in timing and amount to meet the debt service requirements of the COPs.

The Corporation is an integral part of the City of Palo Alto. It primarily services the City and its governing body is composed of the City Council. Therefore, the financial data of the Corporation has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2010.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Corporate-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the Corporation. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Corporation's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Corporation's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

B. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Corporation has one fund which is reported as a major governmental fund in the accompanying financial statements:
NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund - This fund accounts for debt service payments on the Corporation’s long-term debt issues.

C. Investment in Leases

Improvements financed by the Corporation are leased to the City for their entire estimated useful life and will become the City property at the conclusion of the lease. The Corporation therefore records the present value of the lease and considers the leased improvements to have been sold for this amount when leased.

NOTE 3 - CASH AND INVESTMENTS HELD BY TRUSTEE

A Trustee under the provisions of the Corporation’s COP issues, holds, and invests all the Corporation’s cash.

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Corporation’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Corporation’s investments by maturity:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Amount</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMP</td>
<td>$56,605</td>
<td>N/A</td>
</tr>
<tr>
<td>U.S. Agency Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FNMA</td>
<td>631,144</td>
<td>February 15, 2011</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>587,950</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Investments held by Trustee</td>
<td>$1,275,699</td>
<td></td>
</tr>
</tbody>
</table>

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2010, fair value approximated cost. At June 30, 2010, these investments have an average maturity of 48 days.
Money Market Mutual Funds are available for withdrawal on demand at June 30, 2010, and have an average maturity of 27 days.

B. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual ratings as of June 30, 2010 for all U.S. Agency Obligations and Money Market Mutual Funds are Aaa as provided by Moody’s Investment Rating system. As an external investment pool, the California Asset Management Program was rated Aaa-M as of June 30, 2010.

C. Investment Policy

The Corporation must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Corporation fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with bond indentures or State statute. All these funds have been invested as permitted under the Code. The Investment Policy is described in detail in the City of Palo Alto Comprehensive Annual Financial Report.

The table below identifies the investment types that are authorized by the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk and concentration of credit risk. The table addresses investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City rather than by the general provisions of the City’s investment policy.
<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity</th>
<th>Minimum Credit Quality</th>
<th>Maximum Percentage of Portfolio</th>
<th>Maximum Investment In One Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government Securities</td>
<td>10 years</td>
<td>N/A</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
<tr>
<td>U.S. Government Agencies</td>
<td>10 years</td>
<td>N/A</td>
<td>No Limit (A)</td>
<td>No Limit</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>10 years</td>
<td>N/A</td>
<td>20%</td>
<td>10% of the par value of portfolio</td>
</tr>
<tr>
<td>Bankers Acceptances</td>
<td>180 days</td>
<td>N/A</td>
<td>30%</td>
<td>$5 million</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>AAA</td>
<td>15%</td>
<td>$3 million (B)</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>N/A</td>
<td>N/A</td>
<td>No Limit</td>
<td>$40 million per account</td>
</tr>
<tr>
<td>Short-Term Repurchase Agreements</td>
<td>1 year</td>
<td>N/A</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
<tr>
<td>City of Palo Alto Bonds</td>
<td>N/A</td>
<td>N/A</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
<tr>
<td>Money Market Deposit Accounts</td>
<td>N/A</td>
<td>N/A</td>
<td>No Limit</td>
<td>10%</td>
</tr>
<tr>
<td>Mutual Funds (C)</td>
<td>N/A</td>
<td>N/A</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>10 years</td>
<td>N/A</td>
<td>10%</td>
<td>$5 million</td>
</tr>
<tr>
<td>Medium Term Corporate Notes</td>
<td>5 years</td>
<td>AA</td>
<td>10%</td>
<td>$5 million</td>
</tr>
</tbody>
</table>

(A) Callable and multi-step securities are limited to no more than twenty percent of the par value of the portfolio, provided that:
1) the potential call dates are known at the time of purchase.
2) the interest rates at which they "step-up" are known at the time of purchase.
3) the entire face value of the security is redeemed at the call date.

(B) The lesser of $3 million or 10% of outstanding commercial paper of any one institution.

Debt Agreements:

(C) Golf PIC COP 1998, University Avenue Parking Bond 2001 and University Avenue Parking Bond 2002 are allowed to invest in the California Asset Management Program.
The Corporation’s changes in long-term debt are presented below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of Participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998 Golf Course 4.00-5.00%, due 09/01/2018</td>
<td>$4,415,000</td>
<td>$355,000</td>
<td>$4,060,000</td>
<td>$370,000</td>
</tr>
<tr>
<td>2002A Civic Center Refinancing 2.00-4.00%, due 03/01/2012</td>
<td>1,175,000</td>
<td>380,000</td>
<td>795,000</td>
<td>390,000</td>
</tr>
<tr>
<td>2002B Downtown Parking Improvements 4.55-6.00%, due 03/01/2022</td>
<td>2,015,000</td>
<td>105,000</td>
<td>1,910,000</td>
<td>110,000</td>
</tr>
<tr>
<td></td>
<td>$7,605,000</td>
<td>$840,000</td>
<td>$6,765,000</td>
<td>$870,000</td>
</tr>
</tbody>
</table>

In August 1998, the Corporation issued the **Golf Course Capital Improvements and Refinancing Project Certificates of Participation, Series 1998**, in the amount of $7.8 million to refund and subsequently retire the 1978 Golf Course Lease Revenue Bonds issued by the City through the Palo Alto Golf Course Corporation and to finance various improvements at the Palo Alto Public Golf Course, including upgrading five fairways and various traps, trees and greens, constructing new storm drain facilities, replacing the existing irrigation system, upgrading the driving range, and installing new cart paths. Under the terms of the 1998 COPs, the Corporation transferred $473 thousand to an agent for the Golf Course Corporation which used the funds to retire the 1978 Bonds.

On January 16, 2002, the Corporation issued the **2002A Civic Center Refinancing Certificates of Participation** in the amount of $3.5 million to refund the City’s 1992 Civic Center Project Certificates of Participation. Principal payments for the 2002A COPs are due annually on March 1 and interest payments semi-annually on March 1 and September 1 and are payable from lease revenues from the City from available funds. During the year ended June 30, 2002, the 1992 Civic Center COPs were retired.

On January 16, 2002, the Corporation issued the **2002B Downtown Parking Improvements Certificates of Participation** in the amount of $3.6 million to finance the construction of certain improvements to the non-parking area contained in the City’s Bryant/Florence Garage complex. Principal payments are due annually on March 1 and interest payments semi-annually on March 1 and September 1 and are payable from lease revenue received from the City from available funds.
NOTE 4 - CERTIFICATES OF PARTICIPATION (Continued)

On January 25, 2005, the City defeased $900 thousand of the 2002B Downtown Parking Improvements Certificates of Participation. The City placed $1.0 million in surplus cash from the Civic Center Refinancing and Downtown Parking Improvement Project Construction account in an irrevocable trust to provide for future debt payments. Accordingly, the trust account assets and the liability for the defeased Bonds are not included on the financial statements. The outstanding amount of the defeased debt at June 30, 2010 is $700 thousand.

The COPs are payable and secured by lease revenues received by the Public Improvement Corporation from any City General Fund revenue source. Principal and interest are payable semi-annually on March 1 and September 1.

Future annual debt service on the COPs is expected to be provided by the lease receipts discussed above, and is shown below:

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>For the Year Ending June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
</tr>
<tr>
<td>2011</td>
<td>$870,000</td>
</tr>
<tr>
<td>2012</td>
<td>905,000</td>
</tr>
<tr>
<td>2013</td>
<td>530,000</td>
</tr>
<tr>
<td>2014</td>
<td>555,000</td>
</tr>
<tr>
<td>2015</td>
<td>590,000</td>
</tr>
<tr>
<td>2016-2020</td>
<td>2,890,000</td>
</tr>
<tr>
<td>2021-2022</td>
<td>425,000</td>
</tr>
<tr>
<td>Total</td>
<td>$6,765,000</td>
</tr>
</tbody>
</table>

NOTE 5 - NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets are described below:

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Corporation cannot unilaterally alter. These principally include debt proceeds received for debt service requirements.

B. Fund Balances

Fund balances consist of reserved fund balance representing that portion of fund balance which is legally segregated for debt service.