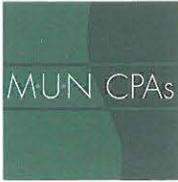

**SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF
THE CITY OF PINOLE, CALIFORNIA)**

**WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2013**

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SACRAMENTO, CA 95833**

CITY OF PINOLE
TABLE OF CONTENTS
JUNE 30, 2013

	<u>Page</u>
Independent Auditor's Report on Basic Financial Statements	1 - 2
Basic Financial Statements:	
Statement of Fiduciary Net Position	3
Statement of Changes in Fiduciary Net Position	4
Notes to Basic Financial Statements	5 - 14
Other Reports:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15



INDEPENDENT AUDITOR'S REPORT

To the City Council
Oversight Board of the Successor Agency
to the Pinole Redevelopment Agency
Pinole, California

We have audited the accompanying basic financial statements of the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole as of and for the year ended June 30, 2013, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, except for the omission of the information discussed in the "Other Matters" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole as of June 30, 2013, and the results of its operations for the year ended June 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Successor Agency to the Pinole Redevelopment Agency of the City of Pinole's internal control over financial reporting and compliance.



Sacramento, CA
December 9, 2013

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR PERIOD ENDED JUNE 30, 2013

	<u>Private- Purpose Trust Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	\$ 5,648,734
Cash and investments with fiscal agents (Note 2)	3,061,566
Accounts receivables	8,184
Notes receivable (net of allowance) (Note 3)	1,368,529
Due from City (Note 6)	2,500,000
Land held for redevelopment (Note 4)	418,666
Capital assets, net of accumulated depreciation (Note 5)	17,669,926
Debt issuance costs (net of amortization)	<u>744,959</u>
Total Assets	<u>\$ 31,420,564</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 19,121
Due to City	4,291,575
Interest Payable	872,753
Notes payable (Note 7)	812,137
Bonds payable (Note 7)	<u>42,380,000</u>
Total Liabilities	<u>48,375,586</u>
<u>NET POSITION</u>	
Held in trust for private purposes	<u>\$ (16,955,022)</u>

See accompanying notes to the basic financial statements.

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Private- Purpose Trust Fund
<u>ADDITIONS</u>	
Property taxes	\$ 4,200,395
Investment earnings	5,027
Other revenues	<u>88,643</u>
Total Additions	<u>4,294,065</u>
<u>DEDUCTIONS</u>	
Operating costs	1,571,750
Debt interest	<u>2,436,198</u>
Total Deductions	<u>4,007,948</u>
Change in Net Position	286,117
NET POSITION - JULY 1, 2012	<u>(17,241,139)</u>
NET POSITION - JUNE 30, 2013	<u>\$ (16,955,022)</u>

See accompanying notes to the basic financial statements.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Pinole Redevelopment Agency (the "former RDA") was formed in 1972 to finance redevelopment projects in the Agency of Pinole pursuant to the State of California Health and Safety Code, Section 3300. On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California as of February 1, 2012, at which time the City of Pinole elected to take over as the Successor Agency (the "Agency").

The asset and liabilities of the former RDA were transferred to the Successor Agency on February 1, 2012 as a result of the dissolution. The Successor Agency acts in a fiduciary capacity to wind down affairs of the former RDA which includes disposing of the assets and liabilities, and its activities are reported in the fiduciary private-purpose trust fund.

B. Basis of Presentation

Fiduciary Funds:

Private-Purpose Trust Funds - Private Purpose Trust Funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. As a Successor Agency, this fund is used to track the activity by the Oversight Board and the Department of Finance to dissolve the Agency.

C. Basis of Accounting

The financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

D. Cash and Investments

The Agency maintains a cash and investments pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Investments held at June 30, 2013 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be stated at fair value are stated at cost or amortized cost.

E. Capital Assets

Capital assets with a historical cost over \$1,000 are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Equipment	5-10 years
Vehicles	5-10 years
Streets and roads	50 years
Bridges	75 years
Street drainage	100 years
Parks	70 years

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

	Cash	Investments	Total
Fiduciary activities	\$ 5,648,734	\$ 3,061,566	\$ 8,710,300

Investments Authorized by Debt Agreements

Investment of debt issuances held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
State or Municipal Bonds or Notes rated "AA" or better	None	None	None
Repurchase Agreements rated "A" or better	30 days	None	None
Investment Agreements and Contracts	None	None	None
Money Market Funds rated "AA-m" or better	N/A	None	None
Certificates of Deposit	None	None	None
Commercial Paper rated "A-1" or better	None	None	None
Federal Funds or Bankers Acceptances	1 year	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity as of June 30, 2013:

	Remaining Maturity			Fair Value
	12 months or less	1-5 years	More than 5 years	
Cash and investments held by fiscal agent				
Federal agency securities	\$ -	\$ 391,399	\$ -	\$ 391,399
Municipal bonds	-	1,160,658	-	1,160,658
Corporate notes	-	434,841	-	434,841
Certificates of deposit	-	699,499	-	699,499
Money market mutual funds	<u>375,169</u>	<u>-</u>	<u>-</u>	<u>375,169</u>
	<u>\$ 375,169</u>	<u>\$ 2,686,397</u>	<u>\$ -</u>	<u>\$ 3,061,566</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Minimum Legal Rating	Rating as of Fiscal Year End		
			S&P	Moody's	N/A
Cash and investments held by fiscal agent:					
Agency Bonds	\$ 391,399	N/A	AA+	AAA	
Certificates of Deposit	699,499	N/A			Not Rated
Corporate Notes	168,717	N/A	A+	A2	
Corporate Notes	266,124	N/A	AA+	A1	
Municipal Bonds	796,043	N/A	A	A1	
Municipal Bonds	157,177	N/A	AA-		
Municipal Bonds	207,438	N/A	AA-	A3	
Mutual Funds	<u>375,169</u>	N/A			Not Rated
	<u>\$ 3,061,566</u>				

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are disclosed in the notes to the basic financial statements of the Agency of Pinole.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City of Pinole investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013, the carrying amount of the Successor Agency's deposits and bank balances were \$5,648,734, of which \$250,000 was insured.

Investment in State and County Investment Pools

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California and the CalTrust Joint Powers Authority under the oversight of the Wachovia Portfolio Services. The fair value of the Agency's investment in these pools are reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest. Interest is allocated quarterly based on the average ending cash balances for the previous three months in each fund receiving interest.

NOTE 3: NOTES AND LOANS RECEIVABLE

The former RDA engaged in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to businesses, homeowners or developers who agree to spend these funds in accordance with the Agency's terms.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3: NOTES AND LOANS RECEIVABLE (CONTINUED)

These notes and loans receivable, including interest, comprised the following at June 30, 2013 and are explained in detail below:

	Notes Receivable	Less: Allowance for Doubtful Notes	Total
Commercial Rehabilitation	\$ 904,513	\$ (845,630)	\$ 58,883
Mixed-Use	255,080	-	255,080
Bridge Housing Loan	946,566	-	946,566
Happy Sashimi Restaurant Project	18,475	(18,475)	-
Pinole Bay LLC	108,000	-	108,000
	<u>2,232,634</u>	<u>(864,105)</u>	<u>1,368,529</u>
Total	<u>\$ 2,232,634</u>	<u>\$ (864,105)</u>	<u>\$ 1,368,529</u>

A. Commercial Rehabilitation Notes Receivable

The former RDA provided loans to various businesses for rehabilitation of property. These loans are secured by the deeds of trust on the property and have a range of interest rates from 0% to 2% with a maximum fifteen-year term. The balance of these notes receivable totaled \$904,513 at June 30, 2013.

B. Mixed-Use Notes Receivable

In 1998, the City and former RDA implemented a mixed-use property rehabilitation loan program. These loans are secured by the deeds of trust on the property. For loans that bear no interest the term of the loan is 10 years. For the loans that bear 2% and 6% interest rates, the term is 15 years. As of June 30, 2013, one loan was outstanding with a balance of \$255,080.

C. Bridge Housing Loan

The former RDA assisted Bridge Housing Corporation with its acquisition and development of the Pinole Grove Senior Housing Project by providing \$900,000 in the form of land and cash in return for a Note bearing simple interest at a rate of 4% per year, secured by a deed of trust on the Project.

Principal and interest are due annually, but are payable only from surplus cash flow as defined in the Note. The Project is not expected to generate a surplus cash flow and under the terms of the Note, any unpaid principal and interest remaining at the expiration of the Note in the year 2024 will be forgiven if Bridge Housing maintains the affordability of the project for an additional nineteen years. As of June 30, 2013, the outstanding balance was \$946,566.

D. Happy Sashimi Restaurant Project

In August 2006, the former RDA and Happy Sashimi, LLC entered into a loan for building improvements. The loan is secured by a Financing statement. The loan accrues interest at 5 percent simple interest for 7 years. On each anniversary of the date of the note while the property is operated by the borrower as a restaurant, one-seventh of the original amount of the note, together with accrued interest, will be forgiven by the Agency and deemed to have been paid by the borrower. As of June 30, 2013, the outstanding balance including accrued interest was \$18,475.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3: NOTES AND LOANS RECEIVABLE (CONTINUED)

E. Pinole Bay LLC

In October 2010, the former RDA and Pro2 Solutions, Inc. and their affiliated holding company, Pinole Bay, LLC entered into an Economic Development Incentive Loan in the amount of \$144,000. The loan agreement is to complete the purchase and improvements of Building C and Building D at the Pinole Shores Business Park. The loan accrues interest at 2% simple interest for 8 years. Upon payment of property tax each year the interest is forgiven. As of June 30, 2013, the outstanding balance including accrued interest was \$108,000.

F. Allowance for Doubtful Notes

The former RDA had several programs under which it extended loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The former RDA had provided a 100% allowance for all notes receivable subject to long-term deferral and/or payment from future refinancing as well as all notes receivable having subordination provisions except for those accounts that have current payment activity and are not delinquent at June 30, 2013.

NOTE 4: LAND HELD FOR REDEVELOPMENT

At June 30, 2013, the Successor Agency held the follow property for resale or redevelopment:

- a) 870 San Pablo Avenue

On February 24, 2011 the former Pinole Redevelopment Agency adopted Resolution 5-2011 authorizing the transfer of all agency rights in land held for redevelopment to the City of Pinole pursuant to the Disposition and Development Agreements and Assignment Agreements by and between the City and the former Pinole Redevelopment Agency. All land held for redevelopment properties except for the property located at 870 San Pablo Avenue were transferred to the City. The balance of these properties for resale or redevelopment at June 30, 2013 was \$418,666.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5: CAPITAL ASSETS

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Fiduciary activities:				
Capital assets not being depreciated				
Land	\$ 3,161,879	\$ -	\$ (100,566)	\$ 3,061,313
Construction-in-progress	<u>526,514</u>	<u>-</u>	<u>(133,696)</u>	<u>392,818</u>
Total capital assets not being depreciated	<u>3,688,393</u>	<u>-</u>	<u>(234,262)</u>	<u>3,454,131</u>
Capital assets being depreciated				
Buildings and improvements	14,783,130	20,200	-	14,803,330
Equipment	234,811	-	(1,464)	233,347
Vehicles	44,631	-	-	44,631
Streets and roads	4,307,630	-	-	4,307,630
Storm drains	51,511	-	-	51,511
Bridges	433,276	-	-	433,276
Parks	<u>107,013</u>	<u>-</u>	<u>-</u>	<u>107,013</u>
Total capital assets being depreciated	<u>19,962,002</u>	<u>20,200</u>	<u>(1,464)</u>	<u>19,980,738</u>
Less accumulated depreciation				
Buildings and improvements	(4,340,770)	(440,707)	-	(4,781,477)
Equipment	(290,041)	(49,871)	575	(339,337)
Vehicles	(36,051)	(6,039)	-	(42,090)
Streets and roads	(428,378)	(87,498)	-	(515,876)
Storm drains	(2,118)	(687)	-	(2,805)
Bridges	(23,108)	(5,777)	-	(28,885)
Parks	<u>(46,732)</u>	<u>(7,741)</u>	<u>-</u>	<u>(54,473)</u>
Total accumulated depreciation	<u>(5,167,198)</u>	<u>(598,320)</u>	<u>575</u>	<u>(5,764,943)</u>
Fiduciary activities capital assets, net	<u>\$ 18,483,197</u>	<u>\$ (578,120)</u>	<u>\$ (235,151)</u>	<u>\$ 17,669,926</u>

NOTE 6: ADVANCES TO CITY

On May 6, 2008 the City Council and former Pinole Redevelopment Agency approved a resolution for the former Pinole Redevelopment Agency to advance the City \$2,500,000 to provide sufficient working capital to address the structural deficit in the City's General Fund. The terms of the advance, as amended in April of 2011, provide for the payment of interest at the rate of 3.8% over 15 years and additional one-year deferral of commencement of payments to fiscal year 2014. The agreement terms allow for a capitalized interest payment deferral period of three years followed by amortization of the principal and interest in equal annual payments of \$263,300 for the succeeding twelve years. As of June 30, 2013 the balance outstanding on the advance was \$2,500,000.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions related to governmental activities of the Agency for the year ended June 30, 2013:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Tax Allocation Bonds:					
2004 Series A Subordinate Bonds	\$ 21,515,000	\$ -	\$ (35,000)	\$ 21,480,000	\$ 25,000
2004 Series B Subordinate Bonds	7,365,000	-	(375,000)	6,990,000	395,000
2003 Series A Subordinate Bonds	4,445,000	-	(665,000)	3,780,000	690,000
1999 Subordinate Bonds	4,000,000	-	(705,000)	3,295,000	755,000
1998 Series A Bonds	4,685,000	-	(690,000)	3,995,000	725,000
1998 Series B Bonds	<u>3,305,000</u>	<u>-</u>	<u>(465,000)</u>	<u>2,840,000</u>	<u>495,000</u>
Total Bonds Payable	<u>45,315,000</u>	<u>-</u>	<u>(2,935,000)</u>	<u>42,380,000</u>	<u>3,085,000</u>
Mortgages:					
613-635 Tennent Avenue	313,063	-	(48,352)	264,711	51,556
2810 Pinole Valley Road	221,842	-	(54,186)	167,656	167,656
648 Tennent Avenue	112,426	-	(18,004)	94,422	19,054
612 Tennent Avenue	<u>339,755</u>	<u>-</u>	<u>(54,407)</u>	<u>285,348</u>	<u>57,582</u>
Total Mortgages	<u>987,086</u>	<u>-</u>	<u>(174,949)</u>	<u>812,137</u>	<u>295,848</u>
Governmental activities long-term liabilities	<u>\$ 46,302,086</u>	<u>\$ -</u>	<u>\$ (3,109,949)</u>	<u>\$ 43,192,137</u>	<u>\$ 3,380,848</u>

A description of the long-term liabilities related to fiduciary activities at June 30, 2013 follows:

A. 2004 Series A and B Tax Allocation Bonds

In September 2005 the former Pinole Redevelopment Agency authorized the issuance of \$21,600,000 of 2004A and \$8,395,000 of 2004B Subordinate Tax Allocation Bonds. The 2004A bonds were issued for the following purposes:

- 1) \$3,215,000 of Taxable Subordinate Housing Set Aside Tax Allocation Bonds to provide for financing of certain capital improvements within the former RDA's Pinole Vista Redevelopment Project Area. The Bonds were to be repaid from Housing Set-Aside revenue of the former RDA. Principal payments are due annually on August 1 until 2019. The interest rate on the Bonds range from 5.40% to 5.60% annually. Interest is due semiannually on August 1 and February 1 through 2019.
- 2) \$7,195,000 of Tax-Exempt Second-Subordinate Tax Allocation Bonds to finance and refinance certain public capital improvements within the former RDA's Pinole Vista Redevelopment Project Area. The Bonds were to be repaid from tax increment revenues allocated to the former RDA from the Project Area. Principal payments are due annually on August 1 until 2022. The interest rate on the Bonds range from 4.25% to 4.50% annually. Interest is due semiannually on August 1 and February 1 through 2022.
- 3) \$11,190,000 of Third-Subordinate Tax Allocation Bonds to finance public capital improvements within the Pinole Vista Redevelopment Project Area. The Bonds were to be repaid from tax increment revenues allocated to the former RDA from the Project Area. Principal payments are due annually on August 1 until 2023. The interest rate on the Bonds range from 3.75% to 4.50% annually. Interest is due semiannually on August 1 and February 1 through 2023.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

The 2004B Taxable Second-Subordinate Tax Allocation Bonds in the aggregate principal of \$8,395,000 were issued by the former RDA to finance and refinance certain public capital improvements within the Pinole Vista Redevelopment Project Area. Repayment on the Bonds were from tax increment revenues allocated to the former RDA from the Project Area. Principal payments are due semiannually in February and August until 2020. The interest rate on the Bonds range from 4.54% to 5.60% annually. Interest is due annually on February 1 through 2020.

B. 2003 Series A Tax Allocation Bonds

In 2003 the former RDA issued \$8,830,000 of Subordinate Tax Allocation Bonds for the purpose of financing and refinancing public capital improvements within the Pinole Vista Redevelopment Project Area as well as the refunding of the outstanding principal amount of the Series 1993A Bonds. The 2003A Bonds were to be repaid from tax increment revenues allocated to the former RDA from the Project Area. Principal payments are due annually on August 1 until 2018. The Bonds bear interest at 2.0% and 4.5% annually. Interest is due semi-annually on February 1 and August 1 through 2018.

C. 1999 Subordinate Tax Allocation Bonds

In 1999, the former RDA issued \$10,800,000 of Subordinate Tax Allocation Bonds, Series 1999 for the purpose of making a loan to Pinole Assisted Living Community to aid in the construction of an assisted living facility, known as Pinole Valley Assisted Living located in the former RDA. The 1999 Bonds were to be repaid from the subordinated pledged tax revenues of the former RDA as defined in the bond indenture. Principal payments are due annually on August 1 until 2016. The Bonds bear interest between 4.0% and 5.25% annually. Interest is due semi-annually on August 1 and February 1 through 2016.

D. 1998 Series A and Series B Tax Allocation Bonds

In 1998, the former RDA issued \$11,920,000 of Tax Allocation Refunding Bonds, Series 1998A and \$7,725,000 of Tax Allocation Refunding Bonds, Series 1998B for the purpose of refunding the Series 1992A and Series 1992B Tax Allocation Bonds, issued in 1992 to fund certain capital improvements. The 1998 Bonds were to be repaid from pledged tax revenues of the former RDA. Principal payments are due annually on August 1 until 2017. The Bonds bear interest between 4.0% and 6.75% annually. Interest is due semi-annually on August 1 and February 1 through 2017.

E. Bonds Payable Debt Service Requirements

Debt service requirements are shown below for bonds payable long-term debt:

For the Year Ending, June 30	Principal	Interest
2014	\$ 3,085,000	\$ 2,010,513
2015	3,245,000	1,845,273
2016	3,770,000	1,672,797
2017	3,960,000	1,478,600
2018	4,165,000	1,298,726
2019 - 2023	20,660,000	3,583,130
2024 - 2028	<u>3,495,000</u>	<u>157,275</u>
Total	<u>\$ 42,380,000</u>	<u>\$ 12,046,314</u>

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

F. Mortgage Payables

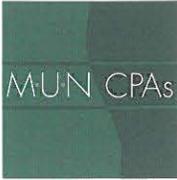
In September 2002, the former RDA acquired the property adjacent to Memorial Hall at Tennent Avenue for \$650,000 to construct a community center in Old Town Pinole with indoor access to the Memorial Hall. The entire purchase price was carried back by the sellers in a note. Principal and interest on the note at 6.5% are due semi-annually for fifteen years in March and September.

The former RDA signed a promissory note for \$560,000 in connection with the purchase of land at 2810 Pinole Valley Road in March 2004. Payments are \$4,500 - \$5,500 per month including interest at 4.5% - 5.5%. Final balloon principal payment of \$129,909 is due March 2014.

G. Mortgage Payables Debt Service Requirements

Debt service requirements are shown below for all mortgage payables:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 295,847	\$ 42,164
2015	136,123	27,982
2016	144,545	19,559
2017	153,490	10,614
2018	<u>82,132</u>	<u>1,928</u>
Total	<u>\$ 812,137</u>	<u>\$ 102,247</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
Oversight Board of the Successor Agency
to the Pinole Redevelopment Agency
Pinole, California

We have audited, 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, the financial statements the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued our report thereon dated December 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Pinole's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pinole's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole'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*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sacramento, California
December 9, 2013