
**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, 2017**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017 and the related notes to the financial statements, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2017, and the results of its operations for the year ended June 30, 2017 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 March 12, 2018, 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
March 12, 2018

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	<u>Private- Purpose Trust Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	\$ 6,147,099
Accounts receivable	4,618
Notes receivable, net of allowance (Note 3)	399,237
Due from City (Note 6)	1,787,448
Land held for redevelopment (Note 4)	3,151,254
Capital assets, net of accumulated depreciation (Note 5)	<u>12,694,647</u>
Total Assets	<u>24,184,303</u>
<u>LIABILITIES</u>	
Accounts payable	5,857
Due to City	4,291,575
Due to County	11,756
Interest Payable	257,061
Notes payable (Note 7)	81,718
Bonds payable (Note 7)	<u>27,230,000</u>
Total Liabilities	<u>31,877,967</u>
<u>NET POSITION</u>	
Held in trust for private purposes	<u>\$ (7,693,664)</u>

See accompanying notes to the basic financial statements.

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private- Purpose Trust Fund</u>
<u>ADDITIONS</u>	
Property taxes	\$ 4,685,151
Investment earnings	6,380
Other revenues	<u>97,357</u>
Total Additions	<u>4,788,888</u>
<u>DEDUCTIONS</u>	
Operating costs	585,496
Debt interest	<u>611,034</u>
Total Deductions	<u>1,196,530</u>
Change in Net Position	3,592,358
NET POSITION - JULY 1, 2016	<u>(11,286,022)</u>
NET POSITION - JUNE 30, 2017	<u>\$ (7,693,664)</u>

See accompanying notes to the basic financial statements.

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 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

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 are classified in the accompanying financial statements as follows:

	Cash	Investments	Total
Fiduciary activities	\$ 6,147,099	\$ -	\$ 6,147,099

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.

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.

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.

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

These notes and loans receivable, including interest, comprised of the following at June 30, 2017 and are explained in detail below:

	Notes Receivable	Less: Allowance for Doubtful Notes	Total
Commercial Rehabilitation	\$ 399,237	\$ -	\$ 399,237
Pinole Bay LLC	36,000	(36,000)	-
Total	\$ 435,237	\$ (36,000)	\$ 399,237

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 \$399,237 at June 30, 2017.

B. 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, 2017, the outstanding balance including accrued interest was \$36,000.

C. 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, 2017.

NOTE 4: LAND HELD FOR REDEVELOPMENT

At June 30, 2017, the Successor Agency held the following properties for resale or redevelopment with a total value of \$ 3,151,254:

- a) 850 San Pablo Avenue
- b) 2301 San Pablo Avenue
- c) 870 San Pablo Avenue
- d) 600 Tennent Avenue

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Additions	Balance at June 30, 2017
Fiduciary activities:			
Capital assets not being depreciated			
Land	\$ 2,562,445	\$ -	\$ 2,562,445
Total capital assets not being depreciated	2,562,445	-	2,562,445
Capital assets being depreciated			
Buildings and improvements	9,583,453	-	9,583,453
Equipment	224,867	-	224,867
Vehicles	44,631	-	44,631
Streets and roads	4,307,631	-	4,307,631
Storm drains	51,511	-	51,511
Bridges	433,276	-	433,276
Parks	107,013	-	107,013
Total capital assets being depreciated	14,752,382	-	14,752,382
Less accumulated depreciation	(4,276,791)	(343,389)	(4,620,180)
Fiduciary activities capital assets, net	\$ 13,038,036	\$ (343,389)	\$ 12,694,647

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, 2017 the balance outstanding on the advance was \$1,787,448.

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: LONG-TERM LIABILITIES

The following is a summary of changes in the Agency's long-term liabilities related to governmental activities for the fiscal year ended June 30, 2017:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Tax Allocation Bonds:					
2015 Series A Bonds	19,810,000	-	(1,745,000)	18,065,000	1,680,000
2015 Series B Bonds	<u>9,925,000</u>	<u>-</u>	<u>(760,000)</u>	<u>9,165,000</u>	<u>1,945,000</u>
Total Bonds Payable	<u>19,810,000</u>	<u>-</u>	<u>(1,745,000)</u>	<u>27,230,000</u>	<u>3,625,000</u>
Mortgages:					
613 Tennent Avenue	99,600	-	(62,463)	37,137	37,137
648 Tennent Avenue	33,716	-	(22,632)	11,084	11,084
612 Tennent Avenue	<u>101,892</u>	<u>-</u>	<u>(68,395)</u>	<u>33,497</u>	<u>33,497</u>
Total Mortgages	<u>235,208</u>	<u>-</u>	<u>(153,490)</u>	<u>81,718</u>	<u>81,718</u>
Total long-term liabilities	<u>\$ 20,045,208</u>	<u>\$ -</u>	<u>\$ (1,898,490)</u>	<u>\$ 27,311,718</u>	<u>\$ 3,706,718</u>

A description of the long-term liabilities related to fiduciary activities at June 30, 2017 follows:

A. Bonds Payable

On August 6, 2015, the Successor Agency to the Pinole Redevelopment Agency issued \$29,735,000 of tax allocation refunding bonds to redeem bonds held by the former Pinole Redevelopment Agency (1998A, 1998B, 1999, 2003A, 2003B, 2004 (Housing), 2004B (2nd Subordinate), 2004A (2nd Subordinate), 2004A (3rd Subordinate). The 2015A Tax Allocation Refunding Bond (Tax-Exempt) in the amount of \$19,810,000 bears an interest rate of 2.270% which is payable semi-annually on February 1 and August 1 of each year through 2023. Principal payments are due annually on August 1 through 2023. The 2015B Tax Allocation Refunding Bond (Taxable) bears an interest rate of 2.340% which is payable semi-annually on February 1 and August 1 of each year through 2020. Principal payments are due annually on August 1 through 2020.

2015 Series A Tax Allocation Bond

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

<u>For the Year Ending, June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,680,000	\$ 391,008
2019	380,000	367,627
2020	1,430,000	347,083
2021	2,660,000	300,661
2022	4,125,000	223,652
2023 - 2024	<u>7,790,000</u>	<u>169,455</u>
Total	<u>\$ 18,065,000</u>	<u>\$ 1,799,486</u>

SUCCESSOR AGENCY TO THE PINOLE REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

2015 Series B Tax Allocation Bond

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

<u>For the Year Ending, June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,945,000	\$ 191,705
2019	3,385,000	129,344
2020	3,460,000	49,258
2021	375,000	4,387
2022	<u>-</u>	<u>4,387</u>
Total	<u>\$ 9,165,000</u>	<u>\$ 379,081</u>

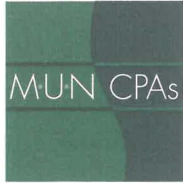
B. Mortgage Payable

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.

Mortgage Payable 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>
2018	<u>\$ 81,718</u>	<u>\$ 2,020</u>
Total	<u>\$ 81,718</u>	<u>\$ 2,020</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 the 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 of the Successor Agency to the Pinole Redevelopment Agency of the City of Pinole, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated March 12, 2018.

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. Accordingly, we do not express 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

The purpose of this report is 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.

A handwritten signature in black ink, reading "Max Uruba Nelson CPA". The signature is written in a cursive style with a large initial "M" and "U".

Sacramento, California
March 12, 2018