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**PINOLE REDEVELOPMENT AGENCY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH  
INDEPENDENT AUDITOR'S REPORT**

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**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP  
2515 VENTURE OAKS WAY, SUITE 135  
SACRAMENTO, CA 95833**

**PINOLE REDEVELOPMENT AGENCY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the Pinole Redevelopment Agency  
Pinole, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pinole Redevelopment Agency (the Agency), a component unit of the City of Pinole, as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. 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, the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 respective financial position of the governmental activities and each major fund of the Pinole Redevelopment Agency as of June 30, 2011, and the respective changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 12, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the results of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-7 and the budgetary comparison information on page 35 be presented to supplement the basic 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### PRINCIPALS

Chris A. Mann, CPA , CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pinole Redevelopment Agency taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Agency. Such information has not been subjected to the auditing procedures applied in the audit of the Agency-wide and fund financial statements and, accordingly, we express no opinion on them.

*Man Unt. Rd CPAs*

Sacramento, California  
December 7, 2011

**CITY OF PINOLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

The management of the Pinole Redevelopment Agency (the Agency) offers readers of the Agency's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2011.

Fiscal 2011 marks the tenth year the Agency has issued its financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). GASB 34 represents an effort to make governmental reporting clearer and more understandable to readers. This document provides an overview of the Agency's financial activities for the fiscal year, and should be read in conjunction with the accompanying Financial Statements and notes to those statements.

### **THE PURPOSE OF THE AGENCY**

The Agency is a component unit of the City of Pinole; it is controlled by the City, which appoints the Agency's Board of Directors. City employees perform all the duties and functions required of the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City of Pinole; it is given certain powers under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances prescribed by the law and it may incur indebtedness to finance redevelopment of property. The Agency may not assess property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base year). The increases are called Property Tax Increments. One-fifth of the property tax increments received must be used to increase supply of low and moderate-income housing.

### **FISCAL 2011 FINANCIAL HIGHLIGHTS**

During this fiscal period, the Agency completed the Heritage Park Cottage housing project located on Buena Vista Drive. Additionally, during this fiscal period the Agency transferred substantially all of its real estate holdings (Land Held for Resale) to the City of Pinole, the 2011 financial highlights are, as follows:

- The Agency's entity-wide net assets decreased by \$26,014,145 in fiscal 2011.
- The Agency's entity-wide net assets balance at June 30, 2011 totaled \$(9,047,618).
- At June 30, 2011, the total of all the Agency's fund balances were \$16,229,737, representing a decrease of \$30,154,334 from fiscal 2010.
- Total Agency revenues were \$12,035,621.
- Agency expenditures totaled \$13,963,296 of which \$2,453,235 was spent on interest on long-term debt and related costs. The Agency also spent \$3,697,526 in general administrative activities, which included a cash transfer of \$732,708 to the Contra Costa County Supplemental Educational Revenue Augmentation Fund (S.E.R.A.F.) pursuant to state law AB 26x4.
- The General Fund's revenues of \$2,036,497 were \$335,190 lower than the prior year, while expenditures and transfers out of \$5,073,917 were \$586,420 less than the prior year. Ending fund balance decreased to \$11,737,438.
- The Debt Service Fund's revenues and transfers in of \$5,194,382 were \$347,390 higher than the prior year, while expenditures of \$5,142,974 were \$100,316 less than the prior year. Ending fund balance increased \$51,408, to \$4,934,010.
- The Capital Projects Fund's revenues of \$9,907,204 were \$1,471,709 higher than the prior year, likewise expenditures and transfers out of \$38,765,111 were \$33,887,918 greater than the prior year. Ending fund balance decreased \$29,165,865 to \$(441,711).

### **The Basic Financial Statements**

The Basic Financial Statements comprise the Agency-wide Financial Statements and the fund Financial Statement; these two sets of financial statements provide two different views of the Agency's financial activities and financial position.

The Agency-wide Financial Statements provide a longer-term view of the Agency'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 Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of activities provides information about all the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues

**CITY OF PINOLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

or expenses of each the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the Agency's activities are grouped into Governmental Activities.

The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's three Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major funds account for the major financial activities of the Agency and are presented individually. The Agency reports all three of its Funds as Major Funds; their purpose is explained in Note 1A to the financial statements.

*The Agency-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the Agency's **Governmental Activities** – All of the Agency's basic services are considered to be governmental activities, including general administration, public services, recreation, community development and debt service. General Agency revenues such as property tax increments support these services. These financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

*Fund Financial Statements*

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Because of their relative importance the Agency has designated all three of its funds to be major funds.

All the agency's funds are Governmental Funds; financial statements for these funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of budget and Actual financial information are presented only for the General Fund.

**FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE**

This analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

The Agency's net assets decreased significantly to \$(9,047,618) in 2011 from \$16,966,527 in 2010. This decrease in the Change in Net Assets is reflected in the Statement of Activities, as explained below:

- Cash available decreased significantly by the amount \$4,754,608, reflecting the combined effects of: the redemption (\$2,189,124) of a loan guarantee for a Mixed Used Development Project (Fernandez Corners located at 2401 San Pablo Avenue), completion (\$624,716) of an affordable housing project (Heritage Park Cottages located on Buena Vista Drive), reimbursement (\$294,500) of tenant improvements for a restaurant (Tina's Place), provision of local matching funds (\$437,598) for a state funded creek restoration project coupled with payment (\$732,807) of a transfer of accumulated (residual) Housing Set-Aside funds to the Contra Costa County Supplemental Educational Revenue Augmentation Fund (S.E.R.A.F.) pursuant to the provisions of state law AB 26x4.
- Accounts and interest receivable increased by 59,368, reflecting a "surplus cash flow" distribution from a Housing Development Partnership (Eastbluff Associates) not earned in the prior reporting period.
- Notes and loans receivable decreased \$384,817, reflecting redemptions and payoffs of both commercial rehabilitation and housing assistance notes.
- Land held for redevelopment (resale) declined by \$25,973,052 reflecting the transfer of real estate assets from the Redevelopment Agency to the City for disposition and further economic development.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

In consideration for transfer of the ownership of these real estate properties from the Agency to the City, the City was required to enter into assignment agreements accepting responsibility under all lease, restrictive covenants, and other agreements that affect the properties. In addition, ***the City will be restricted to using any proceeds from lease and or sale of the properties for public improvements, economic development activities and capital improvements to facilities within the geographical boundaries of the Redevelopment Project Area***, or for affordable housing activities within the City of Pinole.

- Capital assets (net of accumulated depreciation) increased \$1,783,631, reflecting the completion (and capitalization) of the infrastructure improvements related to the renovation and rehabilitation of Pinole Creek and the Pinole Creek Trail.
- Long-term debt decreased \$2,761,146, reflecting principal reductions from debt service repayments of outstanding Tax Allocation Bonds.

Unrestricted net assets are normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. At June 30, 2011, the Agency's net unrestricted balance was \$(21,755,804). This amount is significantly less than the cash and capital assets on hand, as the Agency has provided funding through debt issues for redevelopment projects in advance of collecting tax increment revenue.

#### **Fiscal Year 2011 Governmental Activities**

The Agency's fiscal 2011 on-going revenue came primarily from property tax increments, which amounted to \$8,649,076, a significant (4.1%) decrease of \$367,828 compared the prior year; coupled with a significant reduction in amounts collected from investment earnings revenues (\$578,235) coupled with a significant increase (\$1,575,572) in Intergovernmental reflecting state grant funding for the renovation and restoration of Pinole Creek and the Creek Trail along with a local grant matching contribution (\$437,598) contribution towards completion of Creek Project.

Agency expenses of \$13,963,296 decreased by \$1,886,226 in fiscal 2011. Interest expenditures on debt financing (\$2,453,235) remained essentially unchanged from the previous year, and there was a significant (\$3,374,801) decrease in general administration expenditures reflecting payment of a major reduction (from \$3,558,867 down to \$732,708) to school districts' Supplemental Educational Revenue Augmentation Fund. This decline in administrative expenditures was offset by a significant (\$1,137,633) decline in economic and community development program activities. This decline in expenditures reflects a decline in both economic development expenditures and related staffing support accompanying the erosion of the property assessment values within the Agency's Project Areas following declines in the commercial real estate values.

#### **The Agency's Fund Financial Statements**

At June 30, 2011, the Agency's governmental funds reported combined fund balances of \$16,229,737, which is a decrease of \$30,154,334 compared with last year.

Revenues increased \$1,070,080 this year to a total of \$12,035,621, reflecting receipt of state grant funding (\$1,575,572) offset by a decline in investment earnings (declining interest rates and smaller investment corpus) of \$578,235. Expenditures decreased \$1,886,226 in fiscal 2011, reflecting a decline in administrative costs (\$3,374,801) resulting from a significant reduction in the Agency's mandatory tax transfer to the Supplemental Education Revenue Augmentation Fund (S.E.R.A.F.) offset by an increase (\$1,137,633) in community development program expenditures and an increase (\$432,136) in capital outlay expenditures.

#### **Analysis of Major Governmental Funds**

##### **General Fund**

This fund accounts for the portion of Redevelopment Agency property tax increment required under California law to be set aside to fund low and moderate-income housing expenditures. The Agency's residential and commercial loan programs for low and moderate-income residents and similar loans to non-profit corporations developing such housing are accounted for in this Fund (further details on these programs may be found in Note 4. In this Fund, new loans are accounted for as expenditures and repayments on loans are accounted for as revenues.

Principal payments and in many cases interest payments are deferred on these low and moderate income loans until the property is sold or re-financed, and are not considered revenues until they are received. Principal and interest on

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

loans to non-profit developers of such properties typically are at below-market rates and payments are deferred for a considerable number of years to assist these non-profit organizations in their efforts to develop such housing. All these loans are secured by deeds of trust on the underlying property, and if the facilities constructed with these loans are not used for the purposes intended, the loans become due and payable immediately.

Expenditures decreased significantly (\$2,437,660) as compared to the prior year reflecting the second mandatory payment of residual funds to local schools (S.E.R.A.F.). Revenues in fiscal 2011 declined (\$335,190) primarily reflecting a continued decline in tax increment and investment earnings revenues. Interest income from inactive funds decreased (\$214,156) markedly this fiscal period, reflecting the impact of an overall deterioration in fixed income market rates of interest accompanying the Global Recession of 2008. The aggregate investment rate (for the Pooled Treasury) declined during the fiscal year from 1.56% to 1.31%.

The Fund's fiscal year end fund balance of \$11,737,438 is committed to fund future low and moderate-income housing expenditures; however, some portion (estimated to be between \$2.5 million and \$3 million) of these funds will be required to repair construction defects and/or liquidate the Agency's debt financing of the Pinole Assisted Living Center. At 06/30/2011 the amount held in trust for the repairs was \$6,009,433.

The balance of outstanding loans is recorded as a receivable, with an offsetting credit for that portion of the loans that have subordination provisions resulting in extended deferral of debt payments. At the end of fiscal 2011, the outstanding balances of such loans were \$25,477,100, against which a subordination allowance of \$25,169,598 has been established.

**Debt Service Fund**

This fund accounts for payments of principal and interest on the City's Tax Allocation Bonds. These Bonds were issued by the Redevelopment Agency to finance improvements in blighted areas in the Agency's project areas, and are serviced out of property tax increments received by the Agency. Financial resources are transferred into the fund from the Agency funds collecting those increments in sufficient amounts to service this debt. The reserves required under the Tax Allocation Bond indentures are also accounted for in this Fund.

In fiscal 2011, \$2,675,000 in principal and \$2,453,235 in interest and fiscal charges were paid out of this Fund to service these Bonds. Transfers of \$5,102,462 into the Fund provided the resources for these payments. The fund ended fiscal 2011 with \$4,934,010 fund balance, \$51,408 more than fiscal 2010. Maintaining fund balance at this level reflects requirements of the Agency's indentures for funding of debt service reserve accounts, in amounts sufficient to cover one year's anticipated debt service payments.

**Capital Projects Fund**

This Fund accounts for capital improvement projects and loans to developers in the Agency's project areas.

- The Agency expended the remainder (\$1,216,766) of its "cash with fiscal agents" project account to partially (50%) fund the payoff of a loan guarantee (with The Mechanics Bank) for redemption of a mixed use affordable housing project (Fernandez Corners located at 2401 San Pablo Avenue).
- Land held for redevelopment decreased by \$22,584,146, reflecting the transfer (February 2011) of commercial real estate from the Agency to the City for disposition and/or future economic development. The transfer of these assets was effectuated for public purposes, and all conditions and restrictions on the property and its uses will be enforced by the City. These transfers ensure that the City remains in control of development of these land assets in a manner that is in the best interests for economic development and affordable housing activities within the City of Pinole.

***The transfer of these real estate properties from the Agency to the City is contingent upon the existing development restrictions required by the respective disposition and development agreements, reciprocal easements, ground leases and grant deeds.*** Thus, the transfer of ownership of the properties will ensure the preservation of the Agency's original Redevelopment Plan goals, such as:

1. Promote and assist the development of commercial activities;
2. Beautify and eliminate visual blight within the Redevelopment Project Areas;
3. Preserve existing housing stock and provide a choice for a variety of new rehabilitated housing opportunities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The intent of these property transfers is for retention of local agency control of these real estate assets for future use within the designated project area, and in accordance with the intent of the Redevelopment Plan adopted by the Agency Board of Directors.

- Liabilities (\$4,291,575) were recorded for Housing Program Loans to the Redevelopment Agency for payment of mandatory payments for both fiscal 2010 and 2011 to the Contra Costa county Supplemental Education Revenue Augmentation Fund.

Property tax revenues for the Fund were \$6,919,047 in fiscal 2011, down \$294,051 from fiscal 2010, as assessed valuations declined in fiscal 2011, reflecting negligible sales of existing and limited new construction activity of privately owned properties combined with downward reassessment of commercial property values within the project area. Rents and ground leases remained largely unchanged from the prior year.

Fund expenditures (\$8,642,975) increased by \$2,333,553 for fiscal 2011, up from \$6,309,422 in fiscal 2010, primarily reflecting the extraordinary payoff (\$2,189,124) of a mortgage loan guarantee to The Mechanics Bank for redemption of a mixed use development project (Fernandez Corners) that went into default.

**CAPITAL ASSETS**

GASB 34 requires the Agency to record all its capital assets including infrastructure, which was not recorded in years prior to the implementation of the new reporting pronouncement. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. GASB 34 also allows the Agency four years to record all its infrastructure assets in its financial statements.

Capital assets amounted to \$19,472,813 as of June 30, 2011, principally consisting of \$15,207,396 (net of depreciation) of buildings and improvements and \$4,265,417 of land (which is not subject to depreciation).

**DEBT ADMINISTRATION**

Each of the City's debt issues is discussed in detail in Note 8 to the financial statements. At June 30, the Agency's debt comprised six Tax Allocation Bond issues with interest rates of from 2.0% to 6.75%, all secured by a pledge of future property tax increment revenues. No additional debt was incurred, during the 2011 fiscal period.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Component Unit Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, at 2131 Pear Street, Pinole, CA 94564.

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## STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all of the Agency's assets and liabilities, as well as its revenues and expenses. This is known as the full accrual basis of accounting. All of the Agency's transactions are taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Agency funds have been eliminated.

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency'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 Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's governmental activities in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency'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 reflects only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Agency's expenses first, listed by program. Program revenues are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the change in net assets is computed and reconciled with the Statement of Net Assets.

**PINOLE REDEVELOPMENT AGENCY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

**ASSETS**

Cash and investments (Note 2)	\$	3,523,687
Cash and investments with fiscal agents (Note 2)		10,455,398
Receivables:		
Accounts		85,560
Interest		184
Notes and loans receivable, net of allowance of \$26,334,697 (Note 4)		4,290,355
Prepaid bond issuance costs		890,043
Prepaid expenses and supplies		5,546
Due from other governmental funds of the City (Note 3)		2,789,325
Land held for redevelopment (Note 5)		418,665
Capital assets (Note 6)		
Land and construction in progress		4,265,417
Other capital assets, net of accumulated depreciation		<u>15,207,396</u>
Total capital assets		<u>19,472,813</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>41,931,576</u></b>

**LIABILITIES**

Accounts payable and accrued expenses	\$	309,885
Accrued Interest		992,564
Deposits		23,002
Mortgage notes on land held for redevelopment (Note 7):		
Due within one year		263,565
Due in more than one year		452,181
Long-term liabilities (Note 8):		
Due within one year		2,959,758
Due in more than one year		<u>45,978,239</u>
<b>Total Liabilities</b>		<u>50,979,194</u>

**NET ASSETS**

Invested in capital assets, net of related debt		7,774,176
Restricted for:		
Debt service		4,934,010
Unrestricted		<u>(21,755,804)</u>
<b>Total Net Assets</b>		<u>(9,047,618)</u>
<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b><u>41,931,576</u></b>

See accompanying notes to the component unit financial statements.

**PINOLE REDEVELOPMENT AGENCY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General administration	\$ 3,890,496	\$ -	\$ -	\$ -	\$ (3,890,496)
Community development	3,114,164	564,391	-	2,013,170	(536,603)
Interest on long-term debt	<u>2,482,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,482,227)</u>
Total Governmental Activities	<u>\$ 9,486,887</u>	<u>\$ 564,391</u>	<u>\$ -</u>	<u>\$ 2,013,170</u>	<u>\$ (6,909,326)</u>
General revenues:					
Tax increment				\$ 8,649,076	
Investment earnings				376,401	
Miscellaneous				96,363	
Loss on sale of land held for redevelopment				(324,000)	
Transfers to other funds of the City (Note 3)				<u>(27,902,659)</u>	
Total general revenues and transfers					<u>(19,104,819)</u>
Change in net assets					(26,014,145)
Net assets - beginning					<u>16,966,527</u>
Net assets - ending					<u>\$ (9,047,618)</u>

See accompanying notes to the component unit financial statements.

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## GOVERNMENTAL FUND FINANCIAL STATEMENTS

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GASB No. 34 revised the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

The Pinole Redevelopment Agency determined all funds to be major funds in fiscal year 2011:

### General Fund

This is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except for those required to be accounted for in another fund. The Agency's Housing Program activities are accounted for in the General Fund.

### Capital Projects Fund

This fund is used to account for the acquisition and construction of capital facilities by the Agency.

### Debt Service

This fund is used to account for the payment of interest and principal on the general long-term debt of the Agency.

**PINOLE REDEVELOPMENT AGENCY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Totals</b>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 2,297,379	\$ 1,226,304	\$ 4	\$ 3,523,687
Cash and investments with fiscal agents	5,504,315	5,742	4,945,341	10,455,398
Accounts receivables	69,465	16,095	-	85,560
Interest receivables	-	184	-	184
Notes and loans receivable	307,502	3,982,853	-	4,290,355
Due from other funds	4,291,575	11,335	-	4,302,910
Due from other governmental funds	-	2,789,325	-	2,789,325
Prepaid expenses and supplies	4,167	1,379	-	5,546
Land held for redevelopment	-	418,665	-	418,665
<b>Total Assets</b>	<b><u>\$ 12,474,403</u></b>	<b><u>\$ 8,451,882</u></b>	<b><u>\$ 4,945,345</u></b>	<b><u>\$ 25,871,630</u></b>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES:**

Accounts payable and accrued liabilities	\$ 38,368	\$ 271,517	\$ -	\$ 309,885
Mortgage notes on land held for redevelopment	391,096	324,650	-	715,746
Deferred revenue	307,501	3,982,849	-	4,290,350
Deposits payable	-	23,002	-	23,002
Due to other funds	-	4,291,575	-	4,291,575
Due to other governmental funds	-	-	11,335	11,335
<b>Total Liabilities</b>	<b><u>736,965</u></b>	<b><u>8,893,593</u></b>	<b><u>11,335</u></b>	<b><u>9,641,893</u></b>

**FUND BALANCES:**

Nonspendable	4,167	3,209,369	-	3,213,536
Restricted	11,733,271	-	4,934,010	16,667,281
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	(3,651,080)	-	(3,651,080)
<b>Total Fund Balances</b>	<b><u>11,737,438</u></b>	<b><u>(441,711)</u></b>	<b><u>4,934,010</u></b>	<b><u>16,229,737</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 12,474,403</u></b>	<b><u>\$ 8,451,882</u></b>	<b><u>\$ 4,945,345</u></b>	

Amounts reported for governmental activities in the Statement of Net Assets are different due to:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds (net of accumulated depreciation of \$4,559,971)	19,472,813
Revenues which are deferred on the fund balance sheets because they are not available currently are taken into revenue in the Statement of Activities	4,290,350
Prepaid bond issuance costs are not capitalized and are therefore not reported in the governmental funds	890,043
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(48,115,000)
Loans and mortgages payable	(631,866)
Non-current portion of compensated absences	(191,131)
Accrued interest	<u>(992,564)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ (9,047,618)</u></b>

See accompanying notes to the component unit financial statements.

**PINOLE REDEVELOPMENT AGENCY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 1,730,029	\$ 6,919,047	\$ -	\$ 8,649,076
Intergovernmental	-	1,575,572	-	1,575,572
Loan repayments	69,565	266,655	-	336,220
Contributions	-	437,598	-	437,598
Investment earnings	205,815	78,666	91,920	376,401
Rents and ground leases	-	564,391	-	564,391
Other revenues	<u>31,088</u>	<u>65,275</u>	<u>-</u>	<u>96,363</u>
Total Revenues	<u>2,036,497</u>	<u>9,907,204</u>	<u>91,920</u>	<u>12,035,621</u>
 <b><u>EXPENDITURES</u></b>				
Current operations:				
General administration	150,154	3,532,633	14,739	3,697,526
Community development	-	2,266,556	-	2,266,556
Debt service:				
Principal	-	87,930	2,675,000	2,762,930
Interest and fiscal charges	27,193	54,570	2,453,235	2,534,998
Capital outlay	<u>-</u>	<u>2,701,286</u>	<u>-</u>	<u>2,701,286</u>
Total Expenditures	<u>177,347</u>	<u>8,642,975</u>	<u>5,142,974</u>	<u>13,963,296</u>
Excess (deficiency) of revenues over expenditures	<u>1,859,150</u>	<u>1,264,229</u>	<u>(5,051,054)</u>	<u>(1,927,675)</u>
 <b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers to other funds of the City	(2,090,728)	(25,811,931)	-	(27,902,659)
Loss on sale of property	-	(324,000)	-	(324,000)
Transfers in	315,740	16,042	5,102,462	5,434,244
Transfers out	<u>(1,124,039)</u>	<u>(4,310,205)</u>	<u>-</u>	<u>(5,434,244)</u>
Total Other Financing Sources (Uses)	<u>(2,899,027)</u>	<u>(30,430,094)</u>	<u>5,102,462</u>	<u>(28,226,659)</u>
Net change in fund balance	(1,039,877)	(29,165,865)	51,408	(30,154,334)
Fund balances - beginning	<u>12,777,315</u>	<u>28,724,154</u>	<u>4,882,602</u>	<u>46,384,071</u>
Fund balances - ending	<u>\$ 11,737,438</u>	<u>\$ (441,711)</u>	<u>\$ 4,934,010</u>	<u>\$ 16,229,737</u>

See accompanying notes to the component unit financial statements.

**PINOLE REDEVELOPMENT AGENCY**  
**RECONCILIATION OF THE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$ (30,154,334)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital asset purchases capitalized	2,390,802
Depreciation expense	(572,515)
Disposal of capital asset	(34,656)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:</p>	
Bond principal payments	2,675,000
Loan and mortgage payments	87,930
<p>Issuance costs and discounts related to the issuance of long-term liabilities is an expenditure in the governmental funds, but increases the assets in the Statement of Net Assets.</p>	
Amortization of prepaid bond issuance costs	(72,542)
<p>Receipts of payments and disbursements of funds related to notes and loans receivable are reported as revenues and expenditures, respectively, in governmental funds, but as increases and decreases, respectively, in notes receivable in the Statement of Net Assets</p>	
Loan program receipts	(70,824)
Loans made during the year, including accrued interest	1,539,547
Loans written off and forgiven	(3,045,840)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>	
Change in accrued compensated absences	(1,784)
Change in interest payable on long-term debt	52,771
Change in allowance for notes receivable	<u>1,192,300</u>
Change in net assets of governmental activities	<u>\$ (26,014,145)</u>

See accompanying notes to the component unit financial statements.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Pinole Redevelopment Agency (the "Agency") was formed in 1972 to finance redevelopment projects in the City of Pinole (the "City"). The Agency is a component unit of the City and is accounted for as separate funds of the City in the City's financial statements. All members of the Agency's governing body are also members of the governing body of the City of Pinole. The Agency has no employees and all staff services are performed by the City personnel. The City also performs substantial other services for the Agency. Costs incurred by the City to provide such services are reimbursed by the Agency.

The original Redevelopment Plan and Redevelopment Project Areas, consisting of approximately 880 acres, were adopted in 1972. The Plan was amended in December 1981, adding 325 acres to the Project Area.

The Agency's primary source of revenue is the investment in property taxes derived from any increments in assessed value occurring in the Project Area after the adoption of the Redevelopment Plan. The Agency has no power to levy and collect taxes and any legislative property tax reduction could lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions could increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City. The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuances of Agency debt.

The accounting policies of the Pinole Redevelopment Agency conform with generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the significant policies:

**A. Basis of Presentation**

The Agency's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities include the activities of the overall Agency government. 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 Agency's governmental 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, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. 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 Agency. 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. The Agency considers all its funds to be major funds. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The funds of the financial reporting entity are described below:

*Governmental Funds*

General Fund - The General Fund is the general operating fund of the Agency and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. The Agency's Housing Program activities are accounted for in the General Fund.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the Agency other than debt service payments made by enterprise funds.

Capital Project Fund - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by enterprise funds.

**B. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

The government-wide financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Expenditures are also generally recognized under the modified accrual basis of accounting. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due. Financial resources usually are appropriated in funds responsible for repaying debt for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Thus, the liability is recognized by the fund responsible for paying the debt, not the debt service fund.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Cash and Investments**

The Agency pools the cash of all funds with the City, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investment balance in each fund represents that fund's equity share of the City's cash and investment pool.

The Agency's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. The Local Agency Investment Fund (LAIF) determines the fair value of their portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. This amount is included in cash and investments in the balance sheet of governmental funds. Changes in fair value are allocated to each participating fund.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on month-end balances. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

**D. Account and Notes Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Federal and state grants are considered receivable and accrues as revenue when reimbursable costs are incurred.

For fund financial statements, expenditures related to long-term notes receivables arising from mortgage subsidy programs are charged to operations upon funding and the loans receivable are recorded. The loans are offset with deferred revenue to indicate they are not current financial resources. Repayments of the loans are recorded as program income. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

**E. Capital Assets**

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital assets with an 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.

With the implementation of GASB Statement 34, the Agency has recorded all its public domain (infrastructure) capital assets, which include streets, bridges, roads, storm drains, and parks.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation on all assets 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
Streets and roads	50 years
Parks	70 years

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**F. Bond Issuance Costs and Premiums/Discounts**

Government-wide Statements

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Unamortized bond issuance costs are reported on the Statement of Net Assets and amortized over the term of the related debt.

Fund Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**G. Revenues**

The Agency's primary source of revenue is property taxes. Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.
- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

**H. Property Taxes**

Contra Costa County assesses properties and bills, collects, and distributes property taxes to the Agency. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the county, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed provided they become available as defined above.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Equity Classifications**

Government-wide Statements

Net Assets are the excess of all the Agency's assets over all its liabilities, regardless of fund. Net assets are divided into three categories under GASB Statement 34. These categories apply only to net assets, which is determined at the Government-wide level, and are described below:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund.

Further detail about the Agency's fund balance classification is described in Note 10.

**J. Estimates**

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

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments as of June 30, 2011 were classified in the accompanying financial statements as follows:

	Cash	Investments	Total
Governmental activities	\$ <u>3,523,687</u>	\$ <u>10,455,398</u>	\$ <u>13,979,085</u>
Total cash and investments	\$ <u>3,523,687</u>	\$ <u>10,455,398</u>	\$ <u>13,979,085</u>

Cash and investments were carried at fair value as of June 30, 2011 and consisted of the following:

Cash in investment pools	\$ 59,043
Deposits with financial institutions	3,362,796
Certificates of deposit	101,848
Cash and investments held by fiscal agent	
Federal agency securities	5,496,609
Money market funds	3,565,392
Certificates of deposit	<u>1,393,397</u>
Total cash and investments	\$ <u>13,979,085</u>

Authorized Investments of the Agency

The table below identifies the investment types that are authorized by the Agency's investment policy. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	40%	None
Repurchase Agreements	30 days	10%	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper (Minimum rating of "A" or higher)	180 days	15%	None
Medium-term Corporate Notes (Minimum rating of "AA" or higher)	5 years	30%	None
Negotiable Certificates of Deposit issued in California	5 years	10%	None
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Insured savings account or money market account	N/A	None	None
Mutual Funds	N/A	15%	None

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

Investments Authorized by Debt Agreements

Investments of debt proceeds 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 trustee. 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 may 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.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) 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, 2011:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Cash in investment pools	\$ 59,043	\$ -	\$ 59,043
Certificates of deposit	101,848	-	101,848
Cash and investments held by fiscal agent			
Federal agency securities	-	5,496,609	5,496,609
Money market funds	-	3,565,392	3,565,392
Certificates of deposit	-	1,393,397	1,393,397
	<u>\$ 160,891</u>	<u>\$ 10,455,398</u>	<u>\$ 10,616,289</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency had no investments (including investments held by bond trustees) that were adversely sensitive to interest rate fluctuations as of June 30, 2011.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

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	Rating as of Fiscal Year End		N/A
		S&P	Moody's	
State Investment Pool (LAIF)	\$ 32,724			Not rated
CalTrust Investment Pool	26,319	AAf / S1+		
Certificates of Deposit	101,848			Not rated
Cash and investments held by fiscal agent:				
1st American Treasury Obligation Fund	3,565,392	AAAm	Aaa	
Certificates of Deposit	1,393,397			Not rated
Federal Farm Credit Banks Funding Corporation	1,820,704	AAA	Aaa	
Federal Home Loan Bank	3,210,141	AAA	Aaa	
CA Statewide Communities Development Authority	211,086	A-	A1	
University of California Medical Center	<u>254,678</u>	AA-	Aa2	
	<u>\$ 10,616,289</u>			

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Agency investments were as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal agency securities	\$ 3,210,141
Federal Farm Credit Bank	Federal agency securities	1,820,704

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 Agency 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 the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, the Agency's bank balances were \$2,918,243, of which \$2,447,126 was insured.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

Investment in State and County Investment Pool

The Agency is a voluntary participant in the Cal Trust Joint Powers Authority and Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Wachovia Portfolio Services and Treasurer of the State of California. 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 the Cal Trust Joint Powers Authority and 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 the Cal Trust Joint Powers Authority and 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: INTERFUND TRANSACTIONS**

Transfers Between Funds

Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

<u>Transfers From</u>	<u>Transfer To</u>	<u>Description of Transfer</u>	<u>Amount Transferred</u>
General Fund	Debt Service Fund	Retirement of debt	\$ 1,107,997
General Fund	Capital Projects Fund	Reimbursement of expenses.	16,042
Capital Projects Fund	Debt Service Fund	Retirement of debt	3,994,465
Capital Projects Fund	General Fund	Reimbursement of expenses	246,265
Capital Projects Fund	General Fund	Reimbursement of expenses	<u>69,475</u>
			<u>\$ 5,434,244</u>

Interfund Receivables/Payables

<u>Due From</u>	<u>Due To</u>	<u>Description of Due From/Due To</u>	<u>Amount</u>
Debt Service Fund	Capital Projects Fund	To cover deficit cash balance	<u>\$ 11,335</u>

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3: INTERFUND TRANSACTIONS (CONTINUED)**

Transactions with the City of Pinole

The City of Pinole entered into a collateralized investment agreement with the Agency in May 2008 to provide sufficient working capital. The authorized investment amount is \$2,500,000 and provides for a capitalized interest period of three years followed by amortization of the investment principal and interest in equal payments for the succeeding twelve years. The term of the agreement is 15 years with an interest rate of 4.5%. The investment agreement is fully collateralized by real property owned by the City. As of June 30, 2011, the total amount due from the City to the Agency was \$2,789,325.

On February 24, 2011 the 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 Agency and the City. All land held for redevelopment properties except for the property located at 870 San Pable Avenue were transferred to the City. As of June 30, 2011, the total amount of land held for redevelopment transferred from the Agency to the City was \$27,902,659.

**NOTE 4: NOTES AND LOANS RECEIVABLE**

The Agency engages in programs designed to encourage business enterprises, and construction and 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.

The balance of notes and loans receivable, net of allowance, has been offset in the fund financial statements by deferred revenue as they are not expected to be repaid during fiscal year 2012.

These notes and loans receivable, including interest, were comprised of the following at June 30, 2011 and are explained in detail below:

	Notes Receivable	Less: Allowance for Doubtful Notes	Total
Housing Rehabilitation	\$ 279,453	\$ (166,951)	\$ 112,502
Commercial Rehabilitation	1,085,837	(583,550)	502,287
First Time Home-Buyer	669,175	(474,175)	195,000
Mixed-Use	390,608	(166,413)	224,195
Bridge Housing Loan	1,498,376	(1,498,376)	-
Alvarez Court	1,377,777	(1,377,777)	-
Eastbluff Apartment Loan	2,158,191	(2,158,191)	-
Pinole Valley Shopping Center	369,268	(369,268)	-
Sunnyview Plaza	812,371	-	812,371
Pinole Assisted Living Community	19,494,128	(19,494,128)	-
Pinole Shores Business Park Project	2,300,000	-	2,300,000
Happy Sashimi Restaurant Projects	45,868	(45,868)	-
Pinole Bay LLC	144,000	-	144,000
	<u>\$ 30,625,052</u>	<u>\$ (26,334,697)</u>	<u>\$ 4,290,355</u>
Total			

**A. Housing Rehabilitation Notes Receivable**

The Agency has provided loans to various homeowners for rehabilitation of property. These loans are secured by second deeds of trust on the property and have a range of interest rates from 2% to 6% with a maximum fifteen-year term. The gross balance of these notes receivable totaled \$279,453 at June 30, 2011.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4: NOTES AND LOANS RECEIVABLE (CONTINUED)**

**B. Commercial Rehabilitation Notes Receivable**

The Agency has 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 gross balance of these notes receivable totaled \$1,085,837 at June 30, 2011.

**C. First Time Home-Buyer Loans Receivable**

In 1995, the Agency implemented a first time homebuyer program designed to encourage home ownership among low-income persons by providing down payment assistance. Under this program, loans are provided at no interest and are due upon sale or transfer of the property, refinance or payoff of the first mortgage, recordation of a third mortgage or default of the first mortgage. At the time of the loan repayment, the Agency shares in equity appreciation based on the Agency's loan share of the original purchase price. The gross balance of the notes receivable arising from this program at June 30, 2011 was \$669,175.

**D. Mixed-Use Notes Receivable**

In 1998, the Agency implemented a mixed-use property rehabilitation loan program. These loans are secured by the deeds of trust on the properties. 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, 2011, two loans were outstanding with a gross balance of \$390,608.

**E. Bridge Housing Loan**

The Agency 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, 2011, the outstanding gross balance was \$1,498,376.

**F. Alvarez Court**

In August 2000, the Agency approved a loan of up to \$609,000 to assist the Resources for Community Development with the development of a housing project for persons with disabilities. In August 2002, the Agency amended the loan agreement increasing the loan amount to \$988,000. The term of the loan is 40 years from the date of final closing by the Housing and Urban Development, bearing a simple interest rate of 4% and secured by a first deed of trust. As of June 30, 2011, the total outstanding balance was \$1,377,777.

**G. Eastbluff Apartments Loan**

In 1996, the Pinole Redevelopment Agency assisted Eastbluff Associates with its development of the Eastbluff Apartments by providing \$975,000 in exchange for a note. The note was renegotiated in June 1998 and is secured by a deed of trust. The note bears an annual compound interest rate of 7.5% for a term of 55 years or until the property is sold. Payments are the greater of \$63,375 per year or 50% of the surplus cash flow as defined in the terms of the note. Payments are only received if surplus cash flow exists. As of June 30, 2011, the outstanding gross balance was \$2,158,191.

**H. Pinole Valley Shopping Center**

The Agency owns the Pinole Valley Shopping Center and its land. On June 28, 2001, the Redevelopment Agency signed a ground lease with The Kivel Stadt Group (TKG) Pinole Valley, LLC to operate the Shopping Center. Under the agreement, TKG is authorized to manage and make improvements to the Shopping Center, and to share lease revenue generated from the Shopping Center. The lease lasts for 50 years with 2 ten-year options. After 20 years,

**PINOLE REDEVELOPMENT AGENCY**  
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**NOTE 4: NOTES AND LOANS RECEIVABLE (CONTINUED)**

the Shopping Center may be sold if both the Agency and TKG agree. Ground lease payments (base rent) due to the Redevelopment Agency are determined on the basis of the Redevelopment Agency's investment in acquiring the Shopping Center, but are deferred (without interest penalty) when the center's net cash flows are not sufficient to pay base rent. As of June 30, 2011, the Agency's investment in the Shopping Center was \$7,555,020, and the amount of deferred rent owed to the Agency was \$369,268 which represents the minimum amount due under the agreement.

**I. Sunnyview Plaza**

The Agency acquired property and constructed new buildings at the corner of Sunnyview and San Pablo Avenue for a light industrial business center. The project was part of an economic plan to facilitate the development of underutilized parcels along the West San Pablo Corridor to strengthen the City's industrial base. The City has loans outstanding for three of the consolidated land parcels comprising the majority of the business center. Two of the loans are held by D&B Western Properties in the amounts of \$244,000 (920 San Pablo Avenue) and \$340,000 (930 San Pablo Avenue) both loans accrue interest at the rate of 5% and will be fully amortized over 15 years (2025). The third loan is held by Pinole Premier, LLC (dba Crockett Premium Auto Body at 940 San Pablo Avenue). This loan accrues interest at the rate of 6% and will also be fully amortized over 15 years (2016). As of June 30, 2011, the outstanding gross balance including accrued interest was \$812,371.

**J. Pinole Assisted Living Community**

Pinole Assisted Living Community (PALC) is a tax-exempt non-profit corporation that constructed and operates a 72-unit-assisted-living facility for the elderly known as Pinole Senior Village. PALC is governed by a five-member Board of Directors; two of these members are Agency representatives.

The PALC facility is located on land leased from the Redevelopment Agency under the terms of a lease signed in 1999. The cost of the facility was borne by the Agency out of the proceeds of its 1999 Subordinate Tax Allocation Bonds issue. Under the terms of the PALC lease and related agreements, PALC is to reimburse the Agency for these costs and to pay for the lease and for emergency services rendered by the Agency. Unpaid amounts accrue interest at rates set forth in the agreements.

The facility was opened in early 2001 and until recently occupancy rates had not reached levels that covered operating costs. As a result, PALC has made limited payments required under its lease or other agreements with the Agency. In the event that PALC cannot make the payments required, ownership of the entire facility passes to the Agency.

At June 30, 2011, PALC owed the Agency the following amounts:

Construction cost advances	\$ 16,273,402
Advances for operating expenses	2,338,611
Lease payments	742,535
Emergency services	139,580
	<u>\$ 19,494,128</u>

In 2007 PALC settled a legal dispute with the builder to make needed repairs to the building. Once the repairs are completed, it is anticipated that PALC will sell the building and repay the Agency with the proceeds from the sale. The Agency has provided a 100% allowance for the balance of the PALC note receivable due to the uncertainty of collectibility.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 4: NOTES AND LOANS RECEIVABLE (CONTINUED)**

**K. Pinole Shores Business Park Project**

In August 2006, the Agency loaned \$2,697,000 to Pinole Shores, LLC for the Pinole Shores Business Park. During the year ending June 30, 2008, an additional \$2,300,000 was loaned by the Agency. The loan assisted with the acquisition and development of the 850 - 870 San Pablo Avenue property. The loan accrues interest at 7% simple interest for 31 years but is forgiven upon repayment of principal. The loan principal was originally going to be repaid from revenues received by the City from special taxes derived from the formation of a Community Facilities District. However, in November 2009, the City Council approved to dissolve the Community Facilities District and the special taxes to repay the remaining portion of the loan. The developer will repay the \$2,300,000 loan upon purchase of the phase II property. As of June 30, 2011, the outstanding gross balance was \$2,300,000.

**L. Happy Sashimi Restaurant Project**

In August 2006, the Agency 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% 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, 2011, the outstanding gross balance including accrued interest was \$45,868.

**M. Pinole Bay LLC**

In October 2010, the Agency 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, 2011, the outstanding gross balance including accrued interest was \$144,000.

**N. Allowance for Doubtful Notes**

The Agency has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the Agency's housing stock and/or its supply of low-and-moderate income housing. Certain 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 Agency has provided a 100% allowance for all notes receivable subject to long-term deferral and/or payment from future refinancing as well as all note receivables having subordination provisions except for those accounts that have current payment activity and are not delinquent at June 30, 2011.

**NOTE 5: LAND HELD FOR REDEVELOPMENT**

At June 30, 2011, the Agency held one property for resale or redevelopment. The property is located at 870 San Pablo Avenue. The balance of the property at June 30, 2011 was \$418,665.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 6: CAPITAL ASSETS**

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2011</u>
Governmental activities:					
Capital assets not being depreciated					
Land	\$ 3,674,324	\$ -	\$ -	\$ -	\$ 3,674,324
Construction-in-progress	<u>545,653</u>	<u>125,950</u>	<u>-</u>	<u>(80,510)</u>	<u>591,093</u>
Total capital assets not being depreciated	<u>4,219,977</u>	<u>125,950</u>	<u>-</u>	<u>(80,510)</u>	<u>4,265,417</u>
Capital assets being depreciated					
Buildings and improvements	12,437,768	2,264,852	-	80,510	14,783,130
Equipment	239,905	-	-	-	239,905
Vehicles	86,290	-	(41,659)	-	44,631
Streets and roads	4,107,901	-	-	-	4,107,901
Storm drains	51,511	-	-	-	51,511
Bridges	433,276	-	-	-	433,276
Parks	<u>107,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,013</u>
Total assets being depreciated	<u>17,463,664</u>	<u>2,264,852</u>	<u>(41,659)</u>	<u>80,510</u>	<u>19,767,367</u>
Less accumulated depreciation					
Buildings and improvements	(3,506,244)	(390,889)	-	-	(3,897,133)
Equipment	(201,471)	(49,907)	7,003	-	(244,375)
Vehicles	(26,973)	(6,039)	-	-	(33,012)
Streets and roads	(216,225)	(111,475)	-	-	(327,700)
Storm drains	(744)	(687)	-	-	(1,431)
Bridges	(11,554)	(5,777)	-	-	(17,331)
Parks	<u>(31,248)</u>	<u>(7,741)</u>	<u>-</u>	<u>-</u>	<u>(38,989)</u>
Total accumulated depreciation	<u>(3,994,459)</u>	<u>(572,515)</u>	<u>7,003</u>	<u>-</u>	<u>(4,559,971)</u>
Governmental activities capital assets, net	<u>\$ 17,689,182</u>	<u>\$ 1,818,287</u>	<u>\$ (34,656)</u>	<u>\$ -</u>	<u>\$ 19,472,813</u>

Depreciation was charged to functions as follows:

Governmental Activities:	
General administration	\$ 55,946
Community development	<u>516,569</u>
Total governmental activities depreciation expense	<u>\$ 572,515</u>

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7: MORTGAGE NOTES ON LAND HELD FOR REDEVELOPMENT**

The long-term mortgage notes associated with land purchased for redevelopment are reported on the fund financial statements. These mortgages are explained in detail below:

The Agency executed a promissory note for \$195,235 in connection with the purchase of land at 870 San Pablo Avenue in March 2004. This property is the site of the Pinole Shores Business Park. The Agency is required to make interest only payments for ninety-six (96) months. Interest is computed at the rate of 5% with a final balloon payment of the principal due in April 2012. As of June 30, 2011 the balance outstanding on the note payable was \$195,235.

The Agency executed a promissory note for \$181,500 in connection with the purchase of land at 648 Tennent Avenue in November 2007. The Agency is required to make principal and interest payments for 120 months. Interest is computed at the rate of 5.75%. The loan maturity date is November 2017. As of June 30, 2011 the balance outstanding on the note payable was \$129,415.

The Agency executed a promissory note for \$548,500 in connection with the purchase of land at 612 Tennent Avenue in November 2007. The Agency is required to make principal and interest payments for 120 months. Interest is computed at the rate of 5.75%. The loan maturity date is November 2017. As of June 30, 2011 the balance outstanding on the note payable was \$391,096.

Debt service requirements are shown below for the mortgages on land held for redevelopment:

<b>For the Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 263,565	\$ 35,150
2013	72,363	24,094
2014	76,636	19,522
2015	81,161	14,998
2016	85,952	10,205
2017- 2021	136,069	5,701
Total	\$ 715,746	\$ 109,670

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8: LONG-TERM LIABILITIES**

Governmental Activities

The following is a summary of long-term liabilities transactions related to governmental activities of the Agency for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
<b>Tax Allocation Bonds:</b>					
2004 Series A Subordinate Bonds	\$ 21,600,000	\$ -	\$ (45,000)	\$ 21,555,000	\$ 40,000
2004 Series B Subordinate Bonds	8,070,000	-	(345,000)	7,725,000	360,000
2003 Series A Subordinate Bonds	5,705,000	-	(620,000)	5,085,000	640,000
1999 Subordinate Bonds	5,290,000	-	(625,000)	4,665,000	665,000
1998 Series A Bonds	5,965,000	-	(625,000)	5,340,000	655,000
1998 Series B Bonds	<u>4,160,000</u>	<u>-</u>	<u>(415,000)</u>	<u>3,745,000</u>	<u>440,000</u>
<b>Total Bonds Payable</b>	<u>50,790,000</u>	<u>-</u>	<u>(2,675,000)</u>	<u>48,115,000</u>	<u>2,800,000</u>
<b>Mortgage Payables:</b>					
613-635 Tennent Avenue	400,982	-	(42,554)	358,428	45,365
2810 Pinole Valley Road	<u>318,814</u>	<u>-</u>	<u>(45,376)</u>	<u>273,438</u>	<u>51,596</u>
<b>Total mortgages</b>	<u>719,796</u>	<u>-</u>	<u>(87,930)</u>	<u>631,866</u>	<u>96,961</u>
Compensated Absences	<u>189,347</u>	<u>1,784</u>	<u>-</u>	<u>191,131</u>	<u>62,797</u>
Governmental activities long-term liabilities	<u>\$ 51,699,143</u>	<u>\$ 1,784</u>	<u>\$ (2,762,930)</u>	<u>\$ 48,937,997</u>	<u>\$ 2,959,758</u>

A description of the long-term liabilities related to governmental activities at June 30, 2011 follows:

**A. 2004 Series A and B Tax Allocation Bonds**

In September 2005 the Agency authorized the issuance of the \$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 Agency's Pinole Vista Redevelopment Project Area. The Bonds will be repaid from Housing Set-Aside revenue. Principal payments are due semiannually in February and August until 2019. The interest rate on the Bonds range from 5.40% to 5.60% annually. Interest is due annually on 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 Agency's Pinole Vista Redevelopment Project Area. The Bonds will be repaid from Housing Set-Aside revenue. Principal payments are due semiannually in February and August until 2022. The interest rate on the Bonds range from 4.25% to 4.50% annually. Interest is due annually on 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 will be repaid from Housing Set-Aside revenue. Principal payments are due semiannually in February and August until 2023. The interest rate on the Bonds range from 3.75% to 4.50% annually. Interest is due annually on February 1 through 2023.

The 2004B Taxable Second-Subordinate Tax Allocation Bonds in the aggregate principal of \$8,395,000 were issued to finance and refinance certain public capital improvements within the Agency's Pinole Vista Redevelopment Project Area. Repayment on the Bonds will be from tax increment revenues allocated to the Agency 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.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8: LONG-TERM LIABILITIES (CONTINUED)**

**B. 2003 Series A Tax Allocation Bonds**

In 2003 the Agency 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 refunding the outstanding principal amount of the Series 1993A Bonds. The 2003A Bonds will be repaid from tax increment revenues allocated to the Agency 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 Agency 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 Agency. The 1999 Bonds will be repaid from the subordinated pledged tax revenues defined in the bond indenture. Commencing on August 1, 2002, 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 Agency 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 will be repaid from pledged tax revenues. 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. Tax Allocation Bonds Debt Service Requirements**

Debt service requirements are shown below for bonds payable:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,800,000	\$ 2,304,043
2013	2,935,000	2,163,874
2014	3,085,000	2,010,513
2015	3,245,000	1,845,273
2016	3,770,000	1,672,797
2017- 2021	20,835,000	5,510,318
2022- 2026	<u>11,445,000</u>	<u>1,007,413</u>
Total	<u>\$ 48,115,000</u>	<u>\$ 16,514,231</u>

**F. Mortgage Payables**

In September 2002, the Agency acquired the property adjacent to Memorial Hall at Tennent Avenue for \$650,000 to construct a youth 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 Agency 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%. A final balloon principal payment of \$129,909 is due March 2014.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8: LONG-TERM LIABILITIES (CONTINUED)**

**G. Mortgage Payables Debt Service Requirements**

Debt service requirements are shown below for mortgage payables:

<u>For the Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 96,961	\$ 36,986
2013	102,548	31,399
2014	219,212	22,642
2015	54,962	12,984
2016	58,593	9,354
2017- 2021	<u>99,590</u>	<u>6,841</u>
Total	<u>\$ 631,866</u>	<u>\$ 120,206</u>

**H. Compensated Absences**

Compensated absences comprise unused vacation leave and compensatory time off, which are accrued as earned. No compensation is payable for sick leave. The liability for compensated absences is determined annually. Amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

**NOTE 9: DEBT WITHOUT AGENCY COMMITMENT**

In 1998, the Pinole Redevelopment Agency assisted the Eastbluff Apartments in the issuance of \$4,959,000 of Multi-family Housing Revenue Bonds to rehabilitate the 144 unit Eastbluff Apartments. The City and Agency have no direct or contingent liability or moral obligation for the payment of this debt. The full payment of the debt is due on December 1, 2028 and will be paid from the the Eastbluff Apartments rental revenues. Therefore, this debt is not included in long-term liabilities of the City or Agency.

**NOTE 10: FUND BALANCE**

Beginning with fiscal year 2011, the Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Pinole Redevelopment Agency has established the following fund balance policies:

**Committed Fund Balance:** Only the Agency may have the authority to create or change a fund balance commitment. Committing fund balance is accomplished by approval of a resolution by the Agency.

**Assigned Fund Balance:** The Agency delegates authority to the Finance Director to assign amounts to be used for a specific purpose. Assignments are less formal than commitments and can be changed by the Finance Director. An example of an assignment would be the encumbrance of funds for purchase orders approved but not fulfilled by the end of a fiscal year.

The accounting policies of the Agency consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 10: FUND BALANCE (CONTINUED)**

As of June 30, 2011, fund balances consisted of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Nonspendable:				
Prepays	\$ 4,167	\$ 1,379	\$ -	\$ 5,546
Land held for redevelopment	-	418,665	-	418,665
Advances to the City	-	2,789,325	-	2,789,325
Restricted:				
Redevelopment	11,733,271	-	-	11,733,271
Debt service	-	-	4,934,010	4,934,010
Unassigned	<u>-</u>	<u>(3,651,080)</u>	<u>-</u>	<u>(3,651,080)</u>
Total	<u>\$ 11,737,438</u>	<u>\$ (441,711)</u>	<u>\$ 4,934,010</u>	<u>\$ 16,229,737</u>

**NOTE 11: CONTINGENT LIABILITIES AND COMMITMENTS**

Contingent Liabilities

The Agency has received federal and state grants for specific purposes that are subject to review and audit by the federal and state government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

The Agency is subject to litigation arising in the normal course of business. In the opinion of the Agency's attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Agency.

**NOTE 12: RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Pinole intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. Consistent with the Health and Safety Code Section 34194.3, the Agency determined the necessity to reduce the allocation to the Low and Moderate Income Housing Fund by the sum of \$732,708. The amounts to be paid after fiscal year 2011-12 and 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had

**PINOLE REDEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 12: RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES  
(CONTINUED)**

previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On December 20, 2011, the City Council will discuss the adoption of AB1X 26 and ABX1 27 "Voluntary Alternative Redevelopment Program" and possible authorization of payment of voluntary contributions to the State of California to permit the continued existence of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state.

**REQUIRED SUPPLEMENTAL INFORMATION**

**PINOLE REDEVELOPMENT AGENCY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Taxes increment	\$ 1,865,856	\$ 1,784,829	\$ 1,730,029	\$ (54,800)
Loan program receipts	20,492	20,492	69,565	49,073
Investment earnings	52,328	52,328	205,815	153,487
Rents and ground leases	7,886	7,886	-	(7,886)
Other revenues	<u>-</u>	<u>-</u>	<u>31,088</u>	<u>31,088</u>
Total Revenues	<u>1,946,562</u>	<u>1,865,535</u>	<u>2,036,497</u>	<u>170,962</u>
<b><u>EXPENDITURES</u></b>				
Current operations:				
General administration	318,393	318,393	150,154	168,239
Debt service:				
Principal	42,554	42,554	-	42,554
Interest and fiscal charges	<u>28,892</u>	<u>28,892</u>	<u>27,193</u>	<u>1,699</u>
Total Expenditures	<u>389,839</u>	<u>389,839</u>	<u>177,347</u>	<u>(212,492)</u>
Excess (deficiency) of revenues over expenditures	<u>1,556,723</u>	<u>1,475,696</u>	<u>1,859,150</u>	<u>383,454</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	-	-	315,740	315,740
Transfers out	<u>-</u>	<u>(1,316,000)</u>	<u>(3,214,767)</u>	<u>(1,898,767)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,316,000)</u>	<u>(2,899,027)</u>	<u>(1,583,027)</u>
Net change in fund balance	1,556,723	159,696	(1,039,877)	(1,199,573)
Fund balances - beginning	<u>12,777,315</u>	<u>12,777,315</u>	<u>12,777,315</u>	<u>-</u>
Fund balances - ending	<u>\$ 14,334,038</u>	<u>\$ 12,937,011</u>	<u>\$ 11,737,438</u>	<u>\$ (1,199,573)</u>



**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**

Members of the Governing Board  
of the Pinole Redevelopment Agency  
Pinole, California

We have audited the financial statements of Pinole Redevelopment Agency, a component unit of the City of Pinole, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pinole Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pinole Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pinole Redevelopment Agency's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other matters

As part of obtaining reasonable assurance about whether the 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. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Public Accountants. 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*.

This report is intended solely for the information and use of the Agency Board, City Council, others within the entity, the State Controller, federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mann Urrutia Nelson CPAs*

Sacramento, California  
December 7, 2011

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

**SUPPLEMENTARY INFORMATION**

**PINOLE REDEVELOPMENT AGENCY**  
**PRINCIPAL PROPERTY TAXPAYERS**  
 JUNE 30, 2011

<u>Owner</u>	<u>Fiscal Year 2010-2011 Assessed Value</u>	<u>Percentage of Total Assessed Value</u>
PINOLE REDEVELOPMENT AGENCY	\$ 60,469,018	6.3%
KAISER FOUNDATION HEALTH PLAN	31,859,575	3.3%
PINOLE VISTA LLC	23,316,885	2.4%
PINOLE DUNDEE ONE LLC	19,850,491	2.1%
KW PINOLE LLC	17,760,000	1.9%
DAYTON HUDSON CORPORATION	16,775,808	1.8%
JACKSON RETAIL VENTURE LLC	15,263,738	1.6%
APPIAN ASSOCIATES	14,698,386	1.5%
ALPHA BETA COMPANY	14,216,728	1.5%
THOMAS J. FITZGERALD TRUST	13,213,614	1.4%
	<u>\$ 227,424,243</u>	<u>23.8%</u>
TOTAL REDEVELOPMENT AREA SECURED ASSESSED VALUATION	<u><u>\$954,556,328</u></u>	

Source: HdI Coren & Cone

**PINOLE REDEVELOPMENT AGENCY**  
**PLEDGED TAX REVENUES AND COVERAGE RATIO FOR THE SENIOR BONDS**  
**JUNE 30, 2011**

Pledged Tax Revenues (1)	\$	6,919,048
Debt Service on Bonds (2)		
Series 2003		837,675
Series 1998		1,578,975
Total Debt Service	<u>\$</u>	<u>2,416,650</u>
Debt Service Coverage for the Bonds		286%

**Notes:**

- (1) Net of housing set-aside.
- (2) Actual debt service on the outstanding 1998A and 1998B Series Bonds, and the Series 2003A Bond and excluding the Series 1999 Bond, which is paid by the housing set-aside fund.

**PINOLE REDEVELOPMENT AGENCY**  
**TAXPAYERS APPEALS INFORMATION**  
 JUNE 30, 2011

Year	Total No. of Appeals Filed
2005-06	2
2006-07	3
2007-08	2
2008-09	20
2009-10	33
2010-11	13

Source: Hdl, Coren & Cone

Notes:		Projected Revenue Loss	
[ 1 ]	Pending Appeals	FY 2005-06	1      \$1,378
		FY 2006-07	0      \$0
		FY 2007-08	0      \$0
		FY 2008-09	0      \$0
		FY 2009-10	5      \$75,344
		FY 2010-11	12      \$155,104
		Open Appeals	18      \$231,826

**PINOLE REDEVELOPMENT AGENCY**  
**DESCRIPTION OF OUTSTANDING INDEBTEDNESS PAYABLE FROM PLEDGED TAX REVENUES**  
**JUNE 30, 2011**

Ending									
Year	Series 1999	Series 1998A	Series 1998B	Series 2003A	Series 2004A	Series 2004B	Loan Payable	Mortgages Payable	Total
2012	890,190	903,426	675,369	837,675	1,018,202	779,181		133,947	5,237,990
2013	895,588	906,311	671,522	836,575	1,011,043	777,837		133,947	5,232,823
2014	907,980	906,625	669,994	832,750	999,152	779,012		241,854	5,337,367
2015	912,350	899,625	670,400	835,913	992,803	779,183		67,946	5,158,220
2016	923,906	900,875	668,444	834,500	1,336,722	778,350		67,947	5,510,744
2017	908,231	905,000	668,956	838,600	1,347,953	769,860		67,946	5,506,546
2018		902,000	666,768	836,400	2,282,997	775,560		38,486	5,502,211
2019					3,086,028	2,434,640			5,520,668
2020					3,090,522	2,433,400			5,523,922
2021					4,012,961	385,440			4,398,401
2022					4,400,162				4,400,162
2023					4,399,975				4,399,975
2024					3,652,275				3,652,275
	\$ 5,438,245	\$ 6,323,862	\$ 4,691,453	\$ 5,852,413	\$ 31,630,795	\$ 10,692,463	\$ -	\$ 752,073	\$ 65,381,304

Source: City of Pinole Finance

**PINOLE REDEVELOPMENT AGENCY**  
 STATEMENT OF THE ANNUAL REVIEW AND CALCULATION OF REMAINING PLEDGED TAX REVENUES  
 JUNE 30, 2011

Maximum limit on tax increment revenues (adopted 1987)	\$	140,424,384
CPI Adjustments to 06/30/2011		151,216,466
Adjusted limit on tax increment revenues		291,640,850
Cumulative tax increment revenues received		133,244,080
 Tax increment revenues yet to be received	 \$	 158,396,770
 Remaining Debt Service		
Series 1999	\$	5,438,245
Series 1998A		6,323,861
Series 1998B		4,691,453
Series 2003A		5,852,413
Series 2004A		31,630,795
Series 2004B		10,692,463
Mortgage Payable		752,073
Estimated future fees for Trustee		89,501
 Total	 \$	 65,470,804

**PINOLE REDEVELOPMENT AGENCY**  
 AGGREGATE ASSESSED VALUE OF THE PROJECT AREA  
 JUNE 30, 2011

<u>Assessed Value</u>	<u>Original Area</u>	<u>Added Area</u>	<u>Total</u>
Secured	543,395,287	371,138,044	914,533,331
Unsecured	29,397,512	10,342,235	39,739,747
Nonunitary Utility	212,435	70,815	283,250
Total Assessed Value	<u><u>573,005,234</u></u>	<u><u>381,551,094</u></u>	<u><u>954,556,328</u></u>

**PINOLE REDEVELOPMENT AGENCY**  
**PINOLE VISTA PROJECT AREA**  
**SECOND SUBORDINATE DEBT/PROJECTED DEBT SERVICE COVERAGE**  
**(2003 Indenture Covenants)**  
**JUNE 30, 2011**

<i>Year</i>	<i>Gross Revenues (1)</i>	<i>Pass-thrus &amp; County Admin</i>	<i>Housing Set- Aside</i>	<i>Available Revenues</i>	<i>Senior Bonds Debt Service (2)</i>	<i>Second Subordinate Pledged Revenues</i>	<i>Series 2003A Bond Debt Service</i>	<i>Second Subordinate Debt Service Coverage</i>
2011	9,092,830	440,566	1,730,453	6,921,811	1,608,583	5,313,228	850,625	6.25
2012	9,092,830	440,566	1,730,453	6,921,811	1,608,377	5,313,434	850,475	6.25
2013	9,092,830	440,566	1,730,453	6,921,811	1,609,214	5,312,597	849,875	6.25
2014	9,092,830	440,566	1,730,453	6,921,811	1,611,450	5,310,361	848,275	6.26
2015	9,092,830	440,566	1,730,453	6,921,811	1,606,787	5,315,024	852,225	6.24
2016	9,092,830	440,566	1,730,453	6,921,811	1,608,262	5,313,549	849,600	6.25
2017	9,092,830	440,566	1,730,453	6,921,811	1,615,375	5,306,436	854,400	6.21
2018	9,092,830	440,566	1,730,453	6,921,811	1,612,537	5,309,274	852,800	6.23
<b>Totals</b>	<b>\$ 72,742,640</b>	<b>\$ 3,524,528</b>	<b>\$ 13,843,624</b>	<b>\$ 55,374,488</b>	<b>\$ 12,880,585</b>	<b>\$ 42,493,903</b>	<b>\$ 6,808,275</b>	<b>6.24</b>

- (1) Assuming no growth in revenues  
(2) 1998 Series A and B

**PINOLE REDEVELOPMENT AGENCY**  
 Second Subordinate Debt Service Coverage Assuming Max New Bonds  
 Assuming No Growth in Revenues  
 (2004 Indenture Covenants)  
 JUNE 30, 2011

<i>Fiscal Year Ending 06/30</i>	<i>Available Revenues</i>	<i>Senior Bonds Debt Service (2)</i>	<i>Second Subordinate Pledged Revenue</i>	<i>Series 2003 A Debt Service(2)</i>	<i>Series 2004 Taxable Debt Service (1) &amp; (2)</i>	<i>Series 2004 Tax Exempt Debt Service (1) &amp;(2)</i>	<i>Combined Subordinate Debt Service (2)</i>	<i>Second Subordinate Debt Service Coverage</i>
2011	6,921,811	1,608,583	5,313,228	850,625	779,844	315,513	1,945,982	2.73
2012	6,921,811	1,608,377	5,313,434	850,475	779,181	315,513	1,945,169	2.73
2013	6,921,811	1,609,214	5,312,597	849,875	777,837	315,513	1,943,225	2.73
2014	6,921,811	1,611,450	5,310,361	848,275	779,012	315,513	1,942,800	2.73
2015	6,921,811	1,606,787	5,315,024	852,225	779,183	315,513	1,946,921	2.73
2016	6,921,811	1,608,262	5,313,549	849,600	778,350	315,513	1,943,463	2.73
2017	6,921,811	1,615,375	5,306,436	854,400	769,860	315,513	1,939,773	2.74
2018	6,921,811	1,612,537	5,309,274	852,800	775,560	315,513	1,943,873	2.73
2019	6,921,811	-	6,921,811	-	2,434,640	315,513	2,750,153	2.52
2020	6,921,811	-	6,921,811	-	2,433,400	315,513	2,748,913	2.52
2021	6,921,811	-	6,921,811	-	385,440	2,360,513	2,745,953	2.52
2022	6,921,811	-	6,921,811	-	-	2,748,600	2,748,600	2.52
2023	6,921,811	-	6,921,811	-	-	2,748,350	2,748,350	2.52
<b>Total</b>	<b>\$ 89,983,543</b>	<b>\$ 12,880,585</b>	<b>\$ 77,102,958</b>	<b>\$ 6,808,275</b>	<b>\$ 11,472,307</b>	<b>\$ 11,012,588</b>	<b>\$ 29,293,170</b>	

(1) Net of Capitalized Interest

(2) Bond Year Ending 07/31 (of previous fiscal year)

**PINOLE REDEVELOPMENT AGENCY**  
 Third Subordinate Debt Service Coverage Assuming Max New Bonds  
 Assuming No Growth in Revenues  
 JUNE 30, 2011

<i>Fiscal Year Ending 06/30</i>	<i>Available Revenues</i>	<i>1998 Bonds Debt Service (2)</i>	<i>Series 2003 A Debt Service (2)</i>	<i>Series 2004 Taxable Debt Service (1) &amp; (2)</i>	<i>Series 2004 Second Subordinate Tax Exempt Debt Service (1) &amp; (2)</i>	<i>2004 3rd Subordinate Debt Service(1) &amp; (2)</i>	<i>Pledge to Housing Set Aside Bonds</i>	<i>Total Debt Service (2)</i>	<i>3rd Subordinate Bonds Coverage</i>
2011	6,921,811	1,608,583	850,625	779,844	315,513	487,370	-	4,041,935	1.71
2012	6,921,811	1,608,377	850,475	779,181	315,513	487,370	-	4,040,916	1.71
2013	6,921,811	1,609,214	849,875	777,837	315,513	487,370	-	4,039,809	1.71
2014	6,921,811	1,611,450	848,275	779,012	315,513	487,370	-	4,041,620	1.71
2015	6,921,811	1,606,787	852,225	779,183	315,513	487,370	-	4,041,078	1.71
2016	6,921,811	1,608,262	849,600	778,350	315,513	847,370	-	4,399,095	1.57
2017	6,921,811	1,615,375	854,400	769,860	315,513	843,870	-	4,399,018	1.57
2018	6,921,811	1,612,537	852,800	775,560	315,513	844,995	-	4,401,405	1.57
2019	6,921,811	-	-	2,434,640	315,513	1,649,595	-	4,399,748	1.57
2020	6,921,811	-	-	2,433,400	315,513	1,650,370	-	4,399,283	1.57
2021	6,921,811	-	-	385,440	2,360,513	1,652,450	-	4,398,403	1.57
2022	6,921,811	-	-	-	2,748,600	1,651,563	-	4,400,163	1.57
2023	6,921,811	-	-	-	2,748,350	1,651,625	-	4,399,975	1.57
2024	6,921,811	-	-	-	-	3,652,275	-	3,652,275	1.90
<b>Total</b>	<b>\$ 96,905,354</b>	<b>\$ 12,880,585</b>	<b>\$ 6,808,275</b>	<b>\$ 11,472,307</b>	<b>\$ 11,012,588</b>	<b>\$ 16,880,963</b>	<b>\$ -</b>	<b>\$ 59,054,717</b>	

(1) Net of Capitalized Interest

(2) Bond Year Ending 07/31 (of previous fiscal year)

**PINOLE REDEVELOPMENT AGENCY**

Housing Set Aside Revenues &  
Series 1999 Debt Service Coverage  
Assuming No Growth in Revenues

JUNE 30, 2011

<i>Fiscal Year Ending 06/30</i>	<i>Housing Set Aside</i>	<i>Pledged 3rd Supplemental Tax Revenues</i>	<i>Releases Under 1999 Indentures</i>	<i>Combined Pledged Revenues</i>	<i>Series 1999 Debt Service (1) &amp; (2)</i>	<i>Subordinate Series 2004 Debt Service (1) &amp; (2)</i>	<i>Required Reserve Deposits under 1999 Indenture</i>	<i>Combined Debt Service (2)</i>	<i>Debt Service Coverage</i>
2011	1,730,453		1,542,366	3,272,819	897,752	222,750		1,120,502	2.92
2012	1,730,453			1,730,453	906,815	215,320		1,122,135	1.54
2013	1,730,453			1,730,453	913,565	208,160		1,121,725	1.54
2014	1,730,453			1,730,453	927,610	196,270		1,123,880	1.54
2015	1,730,453			1,730,453	933,350	189,920		1,123,270	1.54
2016	1,730,453			1,730,453	946,350	173,840		1,120,190	1.54
2017	1,730,453			1,730,453	931,463	188,570		1,120,033	1.55
2018	1,730,453			1,730,453		1,122,490		1,122,490	1.54
2019	1,730,453			1,730,453		1,120,920		1,120,920	1.54
2020	1,730,453			1,730,453		1,124,640		1,124,640	1.54
2021	1,730,453			1,730,453				-	
2022	1,730,453			1,730,453				-	
2023	1,730,453			1,730,453				-	
<b>Total</b>	<b>\$ 22,495,889</b>	<b>\$ -</b>	<b>\$ 1,542,366</b>	<b>\$ 24,038,255</b>	<b>\$ 6,456,905</b>	<b>\$ 4,762,880</b>	<b>\$ -</b>	<b>\$ 11,219,785</b>	

(1) Net of Capitalized Interest

(2) Bond Year Ending 07/31 (of previous fiscal year)