

**CAPITOL AREA DEVELOPMENT AUTHORITY  
SACRAMENTO, CALIFORNIA**

Independent Auditor's Reports,  
Financial Statements and Required Supplementary Information

For the Fiscal Years Ended June 30, 2008 and 2007

**CAPITOL AREA DEVELOPMENT AUTHORITY**

**For the Fiscal Years June 30, 2008 and 2007**

*Table of Contents*

	<i>Page(s)</i>
<b>Board of Directors</b> .....	1
<b>Independent Auditor's Report</b> .....	2-3
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	4-13
<b>Financial Statements:</b>	
Statements of Net Assets .....	14-15
Statements of Revenues, Expenses and Changes in Fund Net Assets .....	16
Statements of Cash Flows .....	17-18
Notes to Financial Statements.....	19-34
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	35-36

BOARD OF DIRECTORS OF THE CAPITOL AREA DEVELOPMENT AUTHORITY

Ann Bailey  
Chair

Charles J. Dalldorf  
Vice-Chair

Ron Alvarado

William Ishmael

Page Robbins

Paul Schmidt  
Executive Director

Leyne Milstein  
Finance Director  
City of Sacramento

Robert Murphy  
Legal Counsel  
Kronick Moskowitz  
Tiedemann & Girard

Russell Fehr  
Treasurer  
City of Sacramento



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

SACRAMENTO  
3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 28, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The management's discussion and analysis on pages 4 through 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macian Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 28, 2008

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

As management of the Capitol Area Development Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority and its financial activities for the fiscal years ended June 30, 2008 and 2007.

The Authority was created by a joint powers agreement between the City of Sacramento and the State of California in 1978. The Authority's primary mission is to implement the residential and commercial component of the State's Capitol Area Plan and the City's R street Corridor Master Plan. Additionally, the Authority contributes to the on-going vibrancy and diversity of the Sacramento urban core by creating a neighborhood at its center that is environmentally, socially and fiscally sustainable through its development activities and by providing professional property management services for the mixed-use, mixed-income properties that it manages. This mission is funded by rental income generated through the Authority's management of state-owned property and with redevelopment tax increment revenue generated within the Authority's project area.

Readers are encouraged to consider the following information in conjunction with the Authority's Financial Statements.

**FINANCIAL HIGHLIGHTS**

Financial highlights for the year ended June 30, 2008 include:

- During the year, the Authority had revenues and contributions of approximately \$10.5 million consisting primarily of \$6.7 million in rental revenue, \$2.9 million in tax increment revenue and \$0.9 million in interest income.
- The Authority had expenses totaling approximately \$8.3 million consisting primarily of \$4.2 million related to property management operations, \$0.9 million of interest expense on the Authority's debt service, \$0.3 million for development projects.
- The Authority provided approximately \$100,000 in loans to a developer during the year to facilitate housing development in the Capitol Area.
- The Authority expended nearly \$1.2 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area of which \$1.1 million was capitalized.
- During the fiscal year the renovation of the 1330 O Street Building which houses Sam's Market and two residential flats was completed.
- During the fiscal year the developer options for East End Gateway Site 1 & 4 were terminated, so the Authority requested submittals of new proposals for both sites.
- The Capitol Lofts promissory note was renegotiated to an amount not to exceed \$2.7 million due in four (4) years from date of execution with an interest rate of 10%. The note is unsecured.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

- In order to assure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is periodically reviewed at least annually. A key element of the Authority's financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and meet its projected planning and pre-development demands for redevelopment projects. The Authority's \$11.9 million in net assets as of June 30, 2008 meets this demand.

Financial highlights for the year ended June 30, 2007 include:

- During the year, the Authority had revenues and contributions of approximately \$9.9 million consisting primarily of \$6.6 million in rental revenue, \$2.5 million in tax increment revenue and \$0.8 million in interest income.
- The Authority had expenses totaling approximately \$8.4 million consisting primarily of \$3.7 million related to property management operations, \$1.0 million of interest expense on the Authority's debt service, \$0.9 million for development projects.
- The Authority provided \$0.3 million in loans to a developer during the year to facilitate housing development in the Capitol Area.
- The Authority expended nearly \$0.7 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area of which \$0.5 million was capitalized.
- During the fiscal year the Fremont Community Garden project was completed and transferred to the City of Sacramento Parks and Recreation Department.
- During the year, the Authority received \$0.8 million from the developer of the Fremont Building as a negotiated settlement for payment in full on the outstanding note receivable balance for the project.
- The final lot in the Capitol Park Homes development project was sold and all financial obligations between the developer and the Authority were settled.
- The Capitol Lofts pre-development promissory note for up to \$1.5 million was in default as of June 30, 2007. Subsequent to June 30, the project and promissory note are being renegotiated and the note is being repositioned as a \$2.7 million unsecured loan payable in four (4) years from date of execution with an interest rate of 10%.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority's annual report consists of Management's Discussion and Analysis (this section) and the basic financial statements.

The Authority's financial statements are comprised of two components: 1) the government-wide financial statements, and 2) notes to the financial statements.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements report on the function of the Authority that is principally supported by property management revenue and intergovernmental revenues.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or declining.

The *statement of revenues, expenses, and changes in fund net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.



**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements**

As noted earlier, net assets may serve over time as a useful indicator of a government's improving or declining financial position. In the case of the Authority, assets exceeded liabilities by \$11,915,597 at June 30, 2008.

**Condensed Statements of  
Net Assets at June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Assets:</b>				
Current and other assets	\$ 21,164,068	\$ 19,419,985	\$ 1,744,083	8.98%
Capital assets, net	8,706,778	8,485,343	221,435	2.61%
<b>Total assets</b>	<b><u>29,870,846</u></b>	<b><u>27,905,328</u></b>	<b><u>1,965,518</u></b>	<b><u>7.04%</u></b>
<b>Liabilities:</b>				
Accounts payable and other current liabilities	1,481,495	1,419,760	61,735	4.35%
Non-current liabilities	16,473,754	16,796,382	(322,628)	-1.92%
<b>Total liabilities</b>	<b><u>17,955,249</u></b>	<b><u>18,216,142</u></b>	<b><u>(260,893)</u></b>	<b><u>-1.43%</u></b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	(2,439,564)	(2,885,622)	446,058	-15.46%
Restricted for insurance and reserves	614,222	557,528	56,694	100.00%
Unrestricted	13,740,939	12,017,280	1,723,659	14.34%
<b>Total net assets</b>	<b><u>\$ 11,915,597</u></b>	<b><u>\$ 9,689,186</u></b>	<b><u>\$ 2,226,411</u></b>	<b><u>22.98%</u></b>

**Analysis of Net Assets:**

Total net assets increased during the year by \$2,226,411, consisting of an increase in assets and a decline in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which declined by \$446,058, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased over \$1,146,963 as a result of acquisitions for equipment and improvements to buildings. Accumulated depreciation reduced the carrying value of the total capital assets by \$925,528, for a net increase in the net value of capital assets of \$221,435.

Related debt decreased \$224,263. This was the result of further expenditure of \$76,375 of previously unexpended 2004 Tax Allocation Bond proceeds, the expensing of \$23,473 of deferred bond issuance costs, net of \$324,471 of principal payments on outstanding debt.

These factors - the increase in net capital assets, and the decrease in related debt - resulted in the overall decrease of \$446,058 in the portion of Net Assets invested in capital assets, net of related debt.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

**Condensed Statements of  
Net Assets at June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Assets:</b>				
Current and other assets	\$ 19,419,985	\$ 18,309,225	\$ 1,110,760	6.07%
Capital assets, net	8,485,343	8,706,947	(221,604)	-2.55%
<b>Total assets</b>	<b><u>27,905,328</u></b>	<b><u>27,016,172</u></b>	<b><u>889,156</u></b>	<b><u>3.29%</u></b>
<b>Liabilities:</b>				
Accounts payable and other current liabilities	1,419,760	1,660,561	(240,801)	-14.50%
Non-current liabilities	16,796,382	17,125,598	(329,216)	-1.92%
<b>Total liabilities</b>	<b><u>18,216,142</u></b>	<b><u>18,786,159</u></b>	<b><u>(570,017)</u></b>	<b><u>-3.03%</u></b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	(2,885,622)	(1,800,592)	(1,085,030)	60.26%
Restricted for insurance and reserves	557,528	554,084	3,444	100.00%
Unrestricted	12,017,280	9,476,521	2,540,759	26.81%
<b>Total net assets</b>	<b><u>\$ 9,689,186</u></b>	<b><u>\$ 8,230,013</u></b>	<b><u>\$ 1,459,173</u></b>	<b><u>17.73%</u></b>

**Analysis of Net Assets:**

Total net assets increased during the year by \$1,459,173, consisting of an increase in assets and a decline in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which declined by \$1,085,030, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased over \$626,408 as a result of acquisitions for equipment and improvements to buildings. Accumulated depreciation reduced the carrying value of the total capital assets by \$848,012, for a net decrease in the net value of capital assets of \$221,604.

Related debt increased \$863,426. The increase was the result of further expenditure of \$1,151,254 of previously unexpended 2004 Tax Allocation Bond proceeds, the expensing of \$23,473 of deferred bond issuance costs, net of \$311,301 of principal payments on outstanding debt.

These factors - the decrease in net capital assets, and the increase in related debt - resulted in the overall decrease of \$1,085,030 million in the portion of Net Assets invested in capital assets, net of related debt.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Revenues:</b>				
Operating revenues				
Rental revenue, net	\$ 6,646,121	\$ 6,459,357	\$ 186,764	2.89%
Miscellaneous	80,600	162,272	(81,672)	-50.33%
Non-operating revenues				
Interest income	888,933	784,450	104,483	13.32%
Intergovernmental				
Incremental property taxes	2,933,899	2,387,840	546,059	22.87%
Other	-	95,225	(95,225)	-100.00%
<b>Total revenues</b>	<b><u>10,549,553</u></b>	<b><u>9,889,144</u></b>	<b><u>660,409</u></b>	<b><u>6.68%</u></b>
<b>Expenses:</b>				
Operating expenses				
Employee services and benefits	2,873,870	2,805,654	68,216	2.43%
Development projects	290,042	919,253	(629,211)	-68.45%
Other	4,249,700	3,778,347	471,353	12.48%
Non-operating expenses	909,530	926,717	(17,187)	-1.85%
<b>Total expenses</b>	<b><u>8,323,142</u></b>	<b><u>8,429,971</u></b>	<b><u>(106,829)</u></b>	<b><u>-1.27%</u></b>
<b>Change in net assets</b>	<b><u>2,226,411</u></b>	<b><u>1,459,173</u></b>	<b><u>767,238</u></b>	
Net assets, beginning of year	9,689,186	8,230,013	1,459,173	17.73%
<b>Net assets, end of year</b>	<b><u>\$ 11,915,597</u></b>	<b><u>\$ 9,689,186</u></b>	<b><u>\$ 2,226,411</u></b>	<b><u>22.98%</u></b>

Net assets increased by \$2,226,411 as a result of fiscal year ended June 30, 2008 operations. This represents an increase of \$767,238 from the \$1,459,173 net assets increase reflected in fiscal year ended June 30, 2007.

Revenue reflects an increase from the prior year primarily as a result of four revenue sources. Tax increment (incremental property taxes) increased by \$546,059 and reflects an increase in properties values with the Authority's boundaries. Rental revenue increased as a result of rental rate adjustments and a decrease in vacancy loss. Interest income is higher primarily as a result of investment earnings on temporarily unexpended bond proceeds that are anticipated to be spent in the near future on development projects and as a result of an increase in the investment earnings rate. Miscellaneous revenue decreased \$81,672 due to a one time development fees and delay damages received in the prior year from the Capital Park Homes project. The overall impact on revenue was an increase of \$660,409 in total revenue.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

Expenses decreased during the fiscal year ended June 30, 2008 mainly due to reduced activity on development projects, \$290,042 during 2007/2008 versus \$919,253 during 2006/2007. In the prior year over 60% of the year's project costs were expended on two projects - \$266,222 for R Street Streetscape grant matching and \$312,416 for remediation work done on East End Gateway Sites 2 & 3. There were slight declines in interest expense of \$17,187 due to the related reduction in principal amounts and a slight increase in employee services and benefits of \$68,216 due to budgeted salary and related benefits increases.

There was a larger increase totaling \$0.4 million for other operating expenses which is mainly comprised of services and supplies totaling \$2.1 million and repairs and maintenance totaling \$1.2 million. This increase of \$471,353 offset the decrease in development projects as discussed above.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Revenues:</b>				
Operating revenues				
Rental revenue, net	\$ 6,459,357	\$ 6,183,863	\$ 275,494	4.46%
Miscellaneous	162,272	41,131	121,141	294.52%
Non-operating revenues				
Interest income	784,450	600,451	183,999	30.64%
Intergovernmental				
Incremental property taxes	2,387,840	1,630,204	757,636	46.47%
Other	95,225	26,786	68,439	255.50%
<b>Total revenues</b>	<b><u>9,889,144</u></b>	<b><u>8,482,435</u></b>	<b><u>1,406,709</u></b>	<b><u>16.58%</u></b>
<b>Expenses:</b>				
Operating expenses				
Employee services and benefits	2,805,654	2,665,950	139,704	5.24%
Development projects	919,253	545,408	373,845	68.54%
Other	3,778,347	4,005,887	(227,540)	-5.68%
Non-operating expenses	926,717	974,152	(47,435)	-4.87%
<b>Total expenses</b>	<b><u>8,429,971</u></b>	<b><u>8,191,397</u></b>	<b><u>238,574</u></b>	<b><u>2.91%</u></b>
<b>Change in net assets</b>	<b><u>1,459,173</u></b>	<b><u>291,038</u></b>	<b><u>1,168,135</u></b>	
Net assets, beginning of year	8,230,013	7,938,975	291,038	3.67%
Net assets, end of year	<b><u>\$ 9,689,186</u></b>	<b><u>\$ 8,230,013</u></b>	<b><u>\$ 1,459,173</u></b>	<b><u>17.73%</u></b>

Net assets increased by \$1,459,173 as a result of fiscal year ended June 30, 2007 operations. This represents an increase of \$1,168,135 from the \$291,038 net assets increase reflected in fiscal year ended June 30, 2006.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

Revenue reflects an increase from the prior year primarily as a result of four revenue sources. Tax increment (incremental property taxes) increased by \$757,636 and reflects an increase in properties values with the Authority's boundaries. Rental revenue increased as a result of rental rate adjustments and a decrease in vacancy loss. Interest income is higher primarily as a result of investment earnings on temporarily unexpended bond proceeds that are anticipated to be spent in the near future on development projects and as a result of an increase in the investment earnings rate. Miscellaneous revenue increased \$121,141 due to development fees and delay damages received from the Capital Park Homes project. The overall impact on revenue was an increase of \$1.4 million in Total Revenue.

Expenses increased during the fiscal year 2006/2007 mainly due to activity on development projects, \$919,253 in 2006/2007 versus \$545,408 in 2005/2006. Over 60% of this year's project costs were expended on two projects - \$266,222 for R Street Streetscape grant matching and \$312,416 for remediation work done on East End Gateway Sites 2 & 3. There were slight declines in interest expense totaling \$47,435 and other operating expenses totaling \$227,540 that offset the increases in employee services and benefits and development projects.

**Capital Asset and Debt Administration**

**Capital assets:** As reflected in the Statement of Net Assets above, the Authority's investment in capital assets (capital assets, net) were \$8,706,778 and \$8,485,343 (net of accumulated depreciation) at June 30, 2008 and 2007, respectively. This investment in capital assets includes land, construction in progress, building and improvements, and machinery and equipment. Additions during the year ending June 30, 2008 and 2007 totaled \$1,146,963 and \$626,408 respectively. Machinery and equipment, building improvements and construction in progress were added in both years, Depreciation on capital assets totaled \$925,528 and \$848,012, respectively, for the years ending June 30, 2008 and 2007.

Additional information on the Authority's capital assets can be found in Note E to the Financial Statements.

**Notes and bonds payable:** Also reflected in the Statement of Net Assets above, the Authority is responsible for notes and bonds payable, net of deferred amounts, totaling \$16,617,524 and \$16,941,995 as of June 30, 2008 and June 30, 2007. During the year ended June 30, 2007, \$2,060 of additional debt was assumed for the Brownfield site remediation loan. During the years ended June 30, 2008 and 2007, principal payments reduced notes payable by \$146,753 and \$136,523 respectively and bonds payable by \$195,000 and \$190,000 respectively. Amortization of deferred amount of defeasance totaled \$15,222 for the years ended June 30, 2008 and 2007.

Additional information on the Authority's Long-Term Debt can be found in Note F and G to the Financial Statements.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**ECONOMIC FACTORS AND BUDGET PROCESS**

The Authority adheres to a balanced budget directive, such that budgeted revenues will always equal budgeted expenses. Budgets are prepared using a modified cash flow concept. Consequently, debt principal payments and capitalized expenditures are included, and non-cash items, such as depreciation and amortization, are not included. Mid-year, the Authority reassesses its budgetary estimates.

The Authority has become deeply involved in the development of sites within the Capitol Area. Site prep and development regularly requires more than one fiscal year to complete. Consequently, the Authority operates using both annual General Operations Budgets and multi-year Capital Investment Program Budgets.

The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2009:

- Tax increment revenues of approximately \$3 million are projected, reflecting a conservative incorporation of a 2% increase on the prior year's tax base.
- Estimated \$788,160 in development projects and \$1,145,000 in major construction will be funded through the 2008/2009 General Operations Budget.
- Remaining bond issue proceeds are available to provide development project funding for the East End Gateway sites 2 & 3, R Street development, and the development of low to moderate income housing in both the Capitol and R Street areas.
- The Authority will continue to maintain its current housing stock through its major construction program, with \$1.2 million of new projects planned.
- The Authority will continue to move forward with development site investment previously budgeted through prior year Capital Investment Program budgets, primarily the East End Gateway sites, R Street, Mercury Cleaners and Capitol Lofts.

**FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY**

- Tax increment revenue is expected to continue to grow as a result of progress on several construction projects within the R Street Area and Capitol Area boundaries. Development of independent developer projects currently in progress within the Authority's redevelopment project area will also generate additional tax increment revenue.
- The Authority continues to proceed with the development of 16<sup>th</sup> Street and the R Street Corridor. These pursuits will place a high demand on the Authority to fund pre-development activities, toxic remediation and site aggregation activities.

**CAPITOL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Years Ended June 30, 2008 and 2007**

**FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY (CONTINUED)**

- The Authority will continue to research possible purchase sites for the development of low income housing for the R Street Corridor.
- The Authority will continue exploring options for the development of other sites, including but not limited to Block 222, East End Gateway Site 1 & 4, Site 21, R Street, and Site 9B.
- Continued downturn in the condominium sales market, property values, reduced development financing ability, volatile interest rates and any further major increases in cost affecting construction materials will continue to negatively impact the pace of redevelopment and our projections for increased tax increment revenue. The overall national economy and the regional economy will directly affect growth opportunities in the area.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 1522 – 14<sup>th</sup> Street, Sacramento, CA 95814.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Statements of Net Assets**  
**June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 16,075,577	\$ 14,629,398
Accounts receivable	36,665	9,340
Interest receivable	114,220	201,644
Prepaid expenses	51,156	57,311
Restricted cash:		
Tenant security deposits	352,535	333,397
Debt covenant reserves	865,605	834,310
Insurance impound	49,584	41,205
Total restricted cash	1,267,724	1,208,912
Total current assets	17,545,342	16,106,605
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	264,638	216,323
Insurance risk reserve	300,000	300,000
Total restricted cash	564,638	516,323
Notes receivable, net	2,443,778	2,163,274
Deferred charge, net	610,310	633,783
Capital assets:		
Non-depreciable	1,503,757	1,603,477
Depreciable, net	7,203,021	6,881,866
Total capital assets	8,706,778	8,485,343
Total noncurrent assets	12,325,504	11,798,723
Total assets	\$ 29,870,846	\$ 27,905,328

See accompanying notes to financial statements.



**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Statements of Net Assets (Continued)**  
**June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 246,413	\$ 360,910
Prepaid rent	5,853	25,333
Due to state - HCD	108,726	91,981
Accrued benefits payable	70,559	14,412
Accrued interest payable	185,009	210,625
Security deposits	352,535	333,397
Developer deposits	156,350	41,350
Notes payable, current portion	151,050	146,752
Bonds payable, current portion	205,000	195,000
Total current liabilities	1,481,495	1,419,760
Noncurrent liabilities:		
Accrued interest payable	39,474	37,474
Notes payable	4,867,809	5,016,800
Bonds payable	11,485,000	11,690,000
Compensated absences payable	172,806	158,665
Deferred amount on defeasance, net	(91,335)	(106,557)
Total noncurrent liabilities	16,473,754	16,796,382
Total liabilities	17,955,249	18,216,142
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(2,439,564)	(2,885,622)
Restricted for insurance and reserves	614,222	557,528
Unrestricted	13,740,939	12,017,280
Total net assets	\$ 11,915,597	\$ 9,689,186

See accompanying notes to financial statements.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating revenues</b>		
Rental revenue, net	\$ 6,646,121	\$ 6,459,357
Other revenues:		
Development projects	35,532	118,685
Miscellaneous	45,068	43,587
Total operating revenues	<u>6,726,721</u>	<u>6,621,629</u>
 <b>Operating expenses</b>		
Employee services and benefits	2,873,870	2,805,654
Services and supplies	2,102,008	1,881,130
Development projects	290,042	919,253
Repairs and maintenance	1,198,691	984,522
Forgiveness of note	-	41,210
Amortization	23,473	23,473
Depreciation	925,528	848,012
Total operating expenses	<u>7,413,612</u>	<u>7,503,254</u>
 Operating loss	<u>(686,891)</u>	<u>(881,625)</u>
 <b>Non-operating revenues (expenses)</b>		
Interest income	888,933	784,450
Interest expense	(909,530)	(926,717)
Intergovernmental	2,933,899	2,483,065
Total non-operating revenues	<u>2,913,302</u>	<u>2,340,798</u>
 Change in net assets	2,226,411	1,459,173
 Net assets, beginning of year	<u>9,689,186</u>	<u>8,230,013</u>
 Net assets, end of year	<u><u>\$ 11,915,597</u></u>	<u><u>\$ 9,689,186</u></u>

See accompanying notes to financial statements.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
Cash flows provided by (used for) operating activities:		
Rental receipts	\$ 6,599,316	\$ 6,457,732
Other development and operating receipts	195,600	131,612
Tenant security deposits received	185,766	102,140
Payroll and related costs paid	(2,803,582)	(2,830,834)
Services and supplies expenses paid	(2,210,350)	(2,064,075)
Development project expenses paid	(290,042)	(919,253)
Operating and maintenance expenses paid	(1,198,691)	(984,522)
Tenant security deposits paid	(166,628)	(92,128)
Net cash provided by (used for) operating activities	311,389	(199,328)
Cash flows from noncapital financing activities:		
Intergovernmental	2,950,644	2,514,228
Cash flows from capital and related financing activities:		
Principal payment on debt	(341,753)	(326,523)
Proceeds of notes payable	2,060	-
Interest paid on debt	(917,924)	(888,333)
Acquisition of capital assets	(1,146,963)	(718,493)
Net cash used for capital and related financing activities	(2,404,580)	(1,933,349)
Cash flows from investing activities:		
Issuance of notes receivable	(107,239)	(284,316)
Repayment of notes receivable	-	783,839
Interest receipts	770,885	668,141
Net cash provided by investing activities:	663,646	1,167,664
Net increase in cash	1,521,099	1,549,215
Cash and cash equivalents, beginning of year	15,525,484	13,976,269
Cash and cash equivalents, end of year	\$ 17,046,583	\$ 15,525,484
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and investments	\$ 16,075,577	\$ 14,629,398
Restricted cash :		
Tenant security deposits	352,535	333,397
Debt covenant reserves	865,605	834,310
Insurance impounds	49,584	41,205
Reserve for replacements	264,638	216,323
Insurance risk reserve	300,000	300,000
Total cash and investments	17,907,939	16,354,633
Less long term investments not meeting definition of cash and cash equivalents	(861,356)	(829,149)
Total cash and cash equivalents	\$ 17,046,583	\$ 15,525,484

See accompanying notes to financial statements.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Statements of Cash Flows (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (686,891)	\$ (881,625)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Forgiveness of note	-	41,210
Amortization	23,473	23,473
Depreciation	925,528	848,012
Changes in assets and liabilities:		
Accounts receivable	(27,325)	17,133
Prepaid expenses	6,155	(24,007)
Accounts payable	(114,497)	(158,938)
Prepaid rent	(19,480)	(608)
Accrued benefits payable	56,147	(20,493)
Security deposits payable	19,138	10,012
Developer deposits payable	115,000	(48,810)
Compensated absences payable	14,141	(4,687)
Net cash provided by (used for) operating activities	\$ 311,389	\$ (199,328)
Noncash investing, capital and financing activities:		
Interest revenue financed through issuances of notes receivable	\$ 173,265	\$ 5,384

See accompanying notes to financial statements.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

The Capitol Area Development Authority (Authority) was created by a joint powers agreement between the City of Sacramento (City) and the State of California (State) in July 1978. The Authority is governed by a five-member board of directors appointed by the City and the State. The Authority is responsible for management, maintenance and renovation of state-owned apartments (approximately 750 units) and commercial structures (approximately 30 leases); management of ground leases involving privately developed housing (approximately 140 units); developing new housing and commercial projects, including neighborhood amenities; and development of new state office and parking facilities upon request and approval of the State.

Basis of Presentation

The Authority is accounted for using the economic resources measurement focus and the 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. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenue of the Authority is rental income from tenants of its housing units. Operating expenses for the Authority include employee services, administrative expenses, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the Authority has not elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after restricted resources are depleted.

Intergovernmental Revenues

Pursuant to Government Code Sections 8160 and 8180 through 8193, the Authority annually receives from the County of Sacramento property tax increments collected within the redevelopment project area. During the fiscal year ended June 30, 2003, legislation was passed that expanded the southern boundary of the Authority's redevelopment project area to include a segment of the R Street corridor. Additionally, the Authority regularly receives annuity payments from other governmental agencies, which provide subsidies for a portion of the low-income households served by the Authority.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Investments

The Authority participates in the City's investment pool. The City Treasurer pools cash with other City funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment policy. The City, as a charter city, has adopted its own investment guidelines to guide investment of City funds by the Treasurer. These guidelines are consistent with the requirements of Government Code Section 53601. The City Council provides regulatory oversight of the City's investment pool and reviews its investment policy on a quarterly basis. The estimated fair value of investments in the pool is the quoted market price. However, the value of the pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. The Authority also invests in US Treasury notes and money market mutual funds through a fiscal agent that are restricted by debt covenants.

Restricted cash and cash equivalents include tenant security deposits, reserves required by debt covenants, insurance impounds, replacement reserves and insurance risk reserves.

For purposes of the statements of cash flows, the Authority considers cash and cash equivalents to include all pooled cash and investments, including restricted account balances, as these pooled balances have the general characteristic of a demand deposit account and investments with initial maturities under 90 days.

Capital Assets

Capital assets, which are defined by the Authority as assets with an initial, individual cost of more than \$3,000 and an estimated useful life beyond 1 year, are stated at cost. Depreciation is calculated using the straight-line method based on the following estimated useful lives:

Building and improvements	5-30 years
Machinery and equipment	3-10 years

Compensated Absences Payable and Sick Leave

Employee vacation benefits earned, but not used, are recognized as liabilities of the Authority. Fulltime employees accrue annual leave at rates based on length of service. Full-time employees with less than 3 years of service are allowed to carry a maximum of 160 hours of vacation, employees with 3-10 years of service may carry a maximum of 240 hours of vacation and employees with 10 years or more of service may carry a maximum of 320 hours of vacation. Part-time employees working more than, or are on paid status of, 50% a month are eligible to earn and use vacation time at their pro-rata rate according to the percentage of the month they work. Compensated absence accruals are considered long-term in nature and totaled \$172,806 and \$158,665 as of June 30, 2008 and 2007 respectively.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Compensated Absences Payable and Sick Leave (Continued)

Sick leave benefits are earned and accumulated for each full-time employee at a rate of 8 hours per month. A part-time employee earns a prorated share of sick leave, depending on the employee's percentage of full-time service. There is no limit to the number of hours of sick leave that an employee may accumulate, however, upon termination an employee is not paid for unused sick leave. As such, accumulated sick leave benefits are not recognized as liabilities of the Authority.

Risk Management

The Authority participates in a local government agency excess insurance liability pool to meet its commercial general liability, workers' compensation, umbrella liability, municipality and governmental authorities errors and omissions, and employment practices liability insurance needs. The Authority is self-insured for these coverages to the extent that claim expenses are below the self-insured retention level set by the excess insurance liability carrier. The Authority has primary insurance policies for property, boiler & machinery, flood, fidelity/crime, site-specific pollution liability and automobile physical damage coverage. Public official bonds required by the joint powers agreement that established the Authority are in place. Funds are set-aside by the Authority to cover potential losses and deductibles.

Use of Estimates

The preparation of 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. Actual results could differ from these estimates.

Reclassifications

Certain amounts represented in the prior year have been reclassified in order to be consistent with the current year's presentation

**NOTE B - CASH AND INVESTMENTS**

**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 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.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE B - CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk (Continued)**

The California Government Code and the Authority's 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 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 depository regulated under stated law. 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. In addition, the Authority maintains interest-bearing impound deposits with the California Housing Finance Agency (CalHFA) as required by the Authority's note payable with the Agency. All such impound deposits are entirely insured or collateralized with securities held by the mortgagor in the Authority's name.

At June 30, 2008 and 2007, the carrying amount of the Authority's deposits was \$117,484 and \$52,651, respectively. The bank balances at June 30, 2008 and 2007 were \$90,687 and \$147,191, respectively. Of these amounts \$100,000 was covered by federal depository insurance both at June 30, 2008 and 2007.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority manages its exposure to interest rate risk by investing the majority of its resources with the City Treasurer, which purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the pool is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment pool is unrated and the weighted average maturity is 1.4 years and 1.0 year at June 30, 2008 and 2007, respectively.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investments in US Treasuries, impound accounts and deposits are not subject to these ratings (NA). It is the Authority's policy to purchase investments with the minimum ratings required by the California Government Code.



**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE B - CASH AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

As of June 30, 2008, the Authority's deposits, investments and credit ratings are as follows:

	Credit Rating	Maturities			Fair Value
		No Maturity	Under 30 days	1-5 years	
Cash and investments:					
City of Sacramento investment pool	Not Rated	\$ -	\$ -	\$ 16,847,856	\$ 16,847,856
US Treasury notes	NA	-	-	861,356	861,356
Money market mutual funds	AAA/Aaa	-	4,249	-	4,249
CalHFA impound accounts	NA	76,994	-	-	76,994
Deposits	NA	117,484	-	-	117,484
Total cash and investments		<u>\$ 194,478</u>	<u>\$ 4,249</u>	<u>\$ 17,709,212</u>	<u>\$ 17,907,939</u>

As of June 30, 2007, the Authority's deposits, investments and credit ratings are as follows:

	Credit Rating	Maturities			Fair Value
		No Maturity	Under 30 days	1-5 years	
Cash and Investments:					
City of Sacramento investment pool	Not Rated	\$ -	\$ -	\$ 15,410,131	\$ 15,410,131
US Treasury notes	NA	-	-	829,149	829,149
Money market mutual funds	AAA/Aaa	-	5,161	-	5,161
CalHFA impound accounts	NA	57,541	-	-	57,541
Deposits	NA	52,651	-	-	52,651
Total cash and investments		<u>\$ 110,192</u>	<u>\$ 5,161</u>	<u>\$ 16,239,280</u>	<u>\$ 16,354,633</u>

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE C - NOTES RECEIVABLE**

	June 30,	
	2008	2007
From 15th & Q Limited Partnership:		
Interest-free promissory note for \$500,000 for the development of multifamily residential rental housing. Principal shall be due and payable upon the earlier to occur: (i) sale of all or any part of the property by maker, or (ii) ten (10) years following the first day of the first calendar month following the date the improvements achieve a ninety percent (90%) physical occupancy rate for all units (March 1, 2016).	\$ 500,000	\$ 500,000
From 15th & Q Limited Partnership:		
Promissory note for up to \$400,000 for the development of multifamily residential rental housing. Interest shall accrue commencing the first of the month following the date improvements first achieve a ninety percent (90%) physical occupancy rate (interest accrual date). Interest rates shall increase annually by 1% to a maximum of 5% for years 5 through maturity. Unpaid interest shall be added to principal and bear interest at the note rate. No payments are required until the beginning of year 5 following the interest accrual date (March 1, 2011).	416,311	406,719
From Capitol Lofts-Sacramento, LLC:		
Promissory note for certain site development and construction costs associated with the Capitol Lofts, a mixed-use development project. As of October 26, 2007 the financial structure of the development project and promissory note were renegotiated. The promissory note was repositioned as a unsecured loan up to \$2.7 million with a term not to exceed four (4) years from the execution date. Interest will accrue from the date of execution at the rate of 10%	1,527,467	1,256,555
Total	\$ 2,443,778	\$ 2,163,274

**NOTE D - LEASE OF STATE-OWNED REAL AND PERSONAL PROPERTY**

The Authority leases and manages real and personal property located in the City of Sacramento from the State under a sixty-year operating lease terminating on October 31, 2038. The related cost of these properties is not included in the Authority's financial statements nor does the Authority pay rent on these properties. The State may terminate the lease in whole or as to any portion at any time by giving the Authority notice in writing at least 180 days prior to the date that any such termination shall be effective.

Exceptions to the 180-day notice of termination are the separate 60-year ground lease(s), which the Authority enters into with the State for the purposes of long-term development. In these instances, the Authority can develop the property itself or enter into a 59-year developmental ground lease with a developer for a specific project. These leases are used as security for the development of the property. Should the ground lease between the Authority and the State be terminated, the developmental ground leases will be honored by the State on behalf of the Authority.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE E - CAPITAL ASSETS**

Information on additions and disposals of capital assets is presented below:

	<u>June 30, 2007</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>June 30, 2008</u>
Capital assets not being depreciated:					
Land	\$ 1,474,131	\$ -	\$ -	\$ -	\$ 1,474,131
Construction in Progress	129,346	29,626	(129,346)	-	29,626
	<u>1,603,477</u>	<u>29,626</u>	<u>(129,346)</u>	<u>-</u>	<u>1,503,757</u>
Capital assets being depreciated:					
Buildings and improvements	17,300,703	1,069,277	129,346	-	18,499,326
Machinery and equipment	609,840	48,060	-	(50,140)	607,760
	<u>17,910,543</u>	<u>1,117,337</u>	<u>129,346</u>	<u>(50,140)</u>	<u>19,107,086</u>
Less accumulated depreciation for:					
Buildings and improvements	(10,601,817)	(839,816)	-	-	(11,441,633)
Machinery and equipment	(426,860)	(85,712)	-	50,140	(462,432)
	<u>(11,028,677)</u>	<u>(925,528)</u>	<u>-</u>	<u>50,140</u>	<u>(11,904,065)</u>
Capital assets being depreciated, net	<u>6,881,866</u>	<u>191,809</u>	<u>129,346</u>	<u>-</u>	<u>7,203,021</u>
Capital assets, net	<u>\$ 8,485,343</u>	<u>\$ 221,435</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,706,778</u>
	<u>June 30, 2006</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>June 30, 2007</u>
Capital assets not being depreciated:					
Land	\$ 1,474,131	\$ -	\$ -	\$ -	\$ 1,474,131
Construction in Progress	99,303	129,346	(99,303)	-	129,346
	<u>1,573,434</u>	<u>129,346</u>	<u>(99,303)</u>	<u>-</u>	<u>1,603,477</u>
Capital assets being depreciated:					
Buildings and improvements	16,795,488	405,912	99,303	-	17,300,703
Machinery and equipment	541,588	91,150	-	(22,898)	609,840
	<u>17,337,076</u>	<u>497,062</u>	<u>99,303</u>	<u>(22,898)</u>	<u>17,910,543</u>
Less accumulated depreciation for:					
Buildings and improvements	(9,784,908)	(816,909)	-	-	(10,601,817)
Machinery and equipment	(418,655)	(31,103)	-	22,898	(426,860)
	<u>(10,203,563)</u>	<u>(848,012)</u>	<u>-</u>	<u>22,898</u>	<u>(11,028,677)</u>
Capital assets being depreciated, net	<u>7,133,513</u>	<u>(350,950)</u>	<u>99,303</u>	<u>-</u>	<u>6,881,866</u>
Capital assets, net	<u>\$ 8,706,947</u>	<u>\$ (221,604)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,485,343</u>

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE F - NOTES PAYABLE**

Notes payable consists of the following:

	June 30,	
	2008	2007
To Sacramento Housing and Redevelopment Agency:		
Monthly installments of \$415 including principal and interest at 5% to June 10, 2015, secured by 1421 15 <sup>th</sup> Street, Biele Place Project	\$ 27,595	\$ 31,099
Non-interest bearing note with annual principal payments of not less than \$40,000 annually, plus accrued interest at 2% beginning March, 2012 and maturing March, 2016, secured by the pledge of tax increment funds on the Capital Lofts project	200,000	200,000
To Wells Fargo Bank:		
Monthly installments including principal and interest at 12.75% adjustable annually for the percentage difference between 9.676% and the monthly weighted average cost of funds for Eleventh District Savings and Loans not to exceed 4% (8.75% at June 30, 2008 and 2007) to September 1, 2008, secured by Somerset Parkside commercial space at 1607, 1623, and 1627 10th Street.	4,702	15,313
To Cal Fed:		
Monthly principal and interest installments of \$1,905 with a fixed interest rate of 7.57% to October 1, 2013. Note is secured by Stanford Park commercial spaces at 1520 and 1530 16 <sup>th</sup> Street	98,918	113,679
To State of California Department of General Services (DGS):		
Issued December 2005: No payment of principal or interest due and no interest accrued the first year (2006). In 2007 and 2008, no payment of principal is due, with interest due and payable at 1.98%. Thereafter, the principal amount of the loan increases by the amount of any interest deferred and decreases by any principal payments made. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 1 development project.	193,810	193,810

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE F - NOTES PAYABLE (CONTINUED)**

	June 30,	
	2008	2007
<b>To State of California Department of General Services (DGS):</b>		
<p>Issued December 2005: No payment of principal or interest due and no interest accrued the first year (2006). In 2007 and 2008, no payment of principal is due, with interest due and payable at 1.98%. Thereafter, the principal amount of the loan increases by the amount of any interest deferred and decreases by any principal payments made. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 2 development project.</p>	225,965	225,965
<p>Issued December 2005: No payment of principal or interest due and no interest accrued the first year (2006). In 2007 and 2008, no payment of principal is due, with interest due and payable at 1.98%. Thereafter, the principal amount of the loan increases by the amount of any interest deferred and decreases by any principal payments made. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 3 development project.</p>	438,536	438,536
<p>Issued December 2005: No payment of principal or interest due and no interest accrued the first year (2006). In 2007 and 2008, no payment of principal is due, with interest due and payable at 1.98%. Thereafter, the principal amount of the loan increases by the amount of any interest deferred and decreases by any principal payments made. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 4 development project.</p>	315,820	315,820

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE F - NOTES PAYABLE (CONTINUED)**

	June 30,	
	2008	2007
To California Housing Finance Agency:		
Monthly installments of \$17,303, including principal and interest at 9.95% to October 1, 2018, secured by 1500 N Street project.	1,337,244	1,407,953
Principal and accrued interest at 1% due on October 1, 2018, secured by 1500 N Street project.	200,000	200,000
Monthly installments of \$7,836, including principal and interest at 5.25% to August, 2033, secured by 17 <sup>th</sup> Street Commons project.	1,313,891	1,338,243
To Sacramento Housing Finance Agency:		
Non-interest bearing note with annual principal payments of \$16,481 beginning December, 2003 and maturing in the year 2028, secured by 17 <sup>th</sup> Street Commons project.	362,595	379,076
Non-interest bearing note with annual principal payments of not less than \$25,000 annually beginning July 1, 2013 and maturing on July 1, 2022, secured by the pledge of tax increment funds on the Capital Lofts project.	250,000	247,940
To State of California Department of Housing and Community Development (HCD):		
Monthly installments of \$661 including principal and interest at 3% to July 1, 2015, secured by 1506-10 O Street project.	49,783	56,118
Total Notes Payable	\$ 5,018,859	\$ 5,163,552

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE F - NOTES PAYABLE (CONTINUED)**

Future maturities on notes payable are as follows at June 30, 2008:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 151,050	\$ 230,901	\$ 381,951
2010	205,914	219,671	425,585
2011	219,056	206,528	425,584
2012	273,352	196,232	469,584
2013	313,913	179,872	493,785
2014-2018	1,802,422	684,877	2,487,299
2019-2023	791,946	288,167	1,080,113
2024-2028	727,323	183,569	910,892
2029-2033	510,583	64,195	574,778
2034	23,300	204	23,504
	<u>\$ 5,018,859</u>	<u>\$ 2,254,216</u>	<u>\$ 7,273,075</u>

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2008 and 2007:

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 5,163,552</u>	<u>\$ 2,060</u>	<u>\$ (146,753)</u>	<u>\$ 5,018,859</u>	<u>\$ 151,050</u>
<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 5,300,075</u>	<u>\$ -</u>	<u>\$ (136,523)</u>	<u>\$ 5,163,552</u>	<u>\$ 146,753</u>

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE F - NOTES PAYABLE (CONTINUED)**

The Authority purchased four sites (East End Gateway Site 1 through 4) on December 30, 2005 financed partially through the issuance of debt totaling \$1,174,131 and through credit for the estimated costs of future remediation costs to be incurred against the underlying property. Estimated remediation costs totaling \$2,041,869 shall be incurred on or before January 1, 2009. At that time, any estimated cost not incurred will be amended to increase the notes. As of June 30, 2008, the Authority has incurred a total \$584,461 of related remediation costs.

**NOTE G - BONDS PAYABLE**

On July 29, 2004, the Authority issued 2004 Tax Allocation Bonds. The Authority's remaining obligations with respect to previously issued 1994 Tax Allocation Revenue Bonds were fully discharged upon the issuance of the bonds. In addition, a portion of the bond proceeds was used to prepay two 1999 notes from the State of California Department of General Services with outstanding principal and interest balances totaling \$1,516,967 and \$106,999, respectively. This issue increased debt service payments by approximately \$2,485,460 and resulted in an economic gain of \$43,000 after accounting for costs of issuance.

Future debt service requirements to maturity are as follows at June 30, 2008:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 205,000	\$ 644,926	\$ 849,926
2010	210,000	636,341	846,341
2011	220,000	626,613	846,613
2012	230,000	615,555	845,555
2013	240,000	603,903	843,903
2014-2018	1,405,000	2,813,130	4,218,130
2019-2023	1,845,000	2,359,221	4,204,221
2014-2028	2,465,000	1,718,229	4,183,229
2029-2033	3,290,000	874,744	4,164,744
2034-2035	1,580,000	83,928	1,663,928
Total requirements	<u>\$ 11,690,000</u>	<u>\$ 10,976,590</u>	<u>\$ 22,666,590</u>



**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE G - BONDS PAYABLE (CONTINUED)**

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2008 and 2007:

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>within one year</u>
\$ 11,885,000	\$ -	\$ (195,000)	\$ 11,690,000	\$ 205,000

  

<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts due</u> <u>within one year</u>
\$ 12,075,000	\$ -	\$ (190,000)	\$ 11,885,000	\$ 195,000

**NOTE H - COMPENSATED ABSENCES**

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2008 and 2007:

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>within one year</u>
\$ 158,665	\$ 115,120	\$ (100,979)	\$ 172,806	\$ -

  

<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts due</u> <u>within one year</u>
\$ 163,352	\$ 73,056	\$ (77,743)	\$ 158,665	\$ -

**NOTE I - PENSION PLAN**

Plan Description

The Authority contributes to the California Public Employees Retirement System (CalPERS), cost-sharing defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE I - PENSION PLAN (CONTINUED)**

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 3% were paid by the Authority in both 2008 and 2007. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate was 11.601% and 11.563% for the years ended June 30, 2008 and 2007, respectively. The Authority has been notified that the required employer contribution rate will be 11.698% for the year ending June 30, 2009. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS based on actuarial valuations performed by CalPERS actuaries.

The Authority's required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years is as follows:

Fiscal Year Ended	Required Contributions	Percentage of Required Contributions Made
6/30/06	\$ 192,823	100%
6/30/07	\$ 213,013	100%
6/30/08	\$ 225,083	100%

**NOTE J - BUILDING LEASE COMMITMENT**

The Authority leases office space (approximately 6,172 square feet) through the State of California Department of General Services. Monthly rent in the amount of \$6,986 is due and payable, with annual cost of living adjustments. Under the terms of the lease that ends January 31, 2010, a total of \$83,832 of operating lease rental expense was paid during each the years ended June 30, 2008 and 2007.

Effective June 1, 2003, the Authority entered into a lease of maintenance operation space at 800 R Street, including options to lease up to 14,000 square feet of additional space, at a rate of \$2,500 per month. The lease includes two options to extend, each for an additional period of five years, with annual cost of living adjustments. Effective March 1, 2004, the Authority exercised its option to increase its space from 2,000 square feet to 4,400 square feet and to add a small parking lot, increasing the monthly rental rate to \$5,566 per month, with annual cost of living adjustments. Effective November 2006, the Authority agreed to an interim monthly increase of \$233 for 41 months for a roof replacement, increasing the monthly rate to \$6,149. Effective June 1, 2008, a cost of living adjustment increased the monthly rate to \$6,533. The lease expires May 31, 2009. Under the terms of the lease, a total of \$76,251 and \$73,977 of rental expense was paid during the years ended June 30, 2008 and 2007, respectively.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE J - BUILDING LEASE COMMITMENT (CONTINUED)**

Future minimum lease payments required under the leases are as follows:

<u>Year Ending June 30,</u>	<u>Office Space</u>	<u>Maintenance Location</u>	<u>Total</u>
2009	\$ 83,832	\$ 71,863	\$ 155,695
2010	41,916	-	41,916
Total future minimum lease payments	<u>\$ 125,748</u>	<u>\$ 71,863</u>	<u>\$ 197,611</u>

**NOTE K - POST-EMPLOYMENT HEALTH INSURANCE**

The Authority provides postretirement health insurance coverage in accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA) to employees through the California Public Employees Retirement System (CalPERS).

Employees hired prior to May 1, 2005 are eligible for postretirement health insurance coverage under Government Code Section 22892 unless they elect to be covered under Government Code Section 22893. Under Code Section 22892, the retiree and their qualified family members are eligible for health benefits after five (5) years of service for 100% of the annual health benefit contribution adopted by the Authority's Board of Directors. The calendar year employer contribution may not be less than an amount stipulated by the Government Code - \$97 per month for calendar year 2008.

All employees hired on or after May 1, 2005, as well as those hired prior to May 1, 2005 are eligible for postretirement health insurance coverage under Government Code Section 22893. Coverage under Code Section 22893 is based on the employee's completed years of service at retirement. The Authority contributes 50% of the weighted average of the four basic health benefit plans that had the largest state enrollment in the previous benefit year for a minimum of ten (10) years of service, with five (5) of those ten (10) years performed at CADA. With each additional year of service after 10 years, the retiree will receive an additional 5% of the contribution up to 20 years of service which then entitles them to 100% of the contribution rate. CADA also provides 90% of the health benefit contribution for the retiree's eligible family members.

As of June 30, 2008 and 2007, the Authority provided coverage for 13 retirees and/or families under Code Section 22892; none under Code Section 22893. The Authority contributed \$84,642 and \$84,896 for the fiscal years ended June 30, 2008 and 2007, respectively, on a pay-as-you-go basis for current retirees.

**NOTE L - COMMITMENTS**

The Authority awarded two major construction contracts as of June 2008 for two special management properties consisting of a roof replacement contract in the amount of \$68,841 for Biele Place and an exterior painting contract in the amount of \$67,840 for 17<sup>th</sup> Street Commons. The projects were completed at the end of October 2008.

**CAPITOL AREA DEVELOPMENT AUTHORITY**  
**Notes to the Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

**NOTE M - SUBSEQUENT EVENT**

On November 7<sup>th</sup>, 2009 the Authority purchased State owned property located at 1610 17<sup>th</sup> Street in the amount \$105,228 for development purposes. The purchase was made using existing cash resources of the Authority.

**NOTE N - NEW ACCOUNTING PRONOUNCEMENTS**

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however the unfunded actuarial liability is required to be amortized over future periods.

This statement also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement will be effective for the Authority's fiscal year ended June 30, 2010.



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

SACRAMENTO  
3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

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

We have audited the financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated November 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Maclean Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 28, 2008