CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2013 and 2012

CAPITOL AREA DEVELOPMENT AUTHORITY

For the Fiscal Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Capitol Area Development Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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, 2013 and 2012, and the changes in financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and the schedule of funding progress on page 37 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
December 10, 2013

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012.

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 tax increment revenue generated within the Authority's project area. While not a redevelopment agency, the Authority has legislative powers to collect tax increment from development in the 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, 2013:

- During the year, the Authority had revenues of approximately $10.2 million consisting primarily of $7.6 million in rental and other revenues, $2.4 million in tax increment revenue and $0.2 million in interest income.

- The Authority had expenses totaling approximately $10.5 million consisting primarily of $3.4 million in employee services and benefits, $3.3 million related to property management operations, $1.0 million of interest expense on the Authority's debt service, $1.8 million for development projects, and $1.0 million in depreciation expense.

- The Authority expended nearly $0.55 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $0.49 million was capitalized.

- The WAL project, formerly Capitol Lofts, closed escrow in January with Capitol Lofts-Sacramento, LLC paying the outstanding note receivable of $500,000 and the Authority contributing land of $300,000 and a development grant of $1.2 million. This project is a mixed use, mix-income project with a total of 116 apartment units (86 affordable units and 30 market rate units) and 13,000 SF of retail space. Construction started in January 2013 and is estimated to be complete by the end of 2014.

FINANCIAL HIGHLIGHTS (CONTINUED)

- The Authority has started work on the Strategic Growth Council grant on 16th Street to add environmentally sustainable components to the streetscape by working with the Developer of the East End Gateway Site 2 & 3 project. Completion of this project is estimated to occur by spring 2015.

- In the R Street Corridor, the first phase of streetscape enhancements was completed in January 2012. The Authority received tentative approval of $2.7 million from SACOG for the second phase with construction expected to start early 2015.

- The Authority sold the Site 9B (1610 17th Street) lot for the development of a two-family residential project. Construction is estimated to start December 2013 and finish by the end of the following year.

- In order to ensure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is reviewed and revised at least annually. A key element of the Authority's approach to managing its financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and to meet its projected planning and pre-development demands for redevelopment projects. The Authority's $13.0 million in net position, as of June 30, 2013, meets this objective.

<u>Financial Highlights for the Year Ended June 30, 2012:</u>

- During the year, the Authority had revenues of approximately $10.5 million consisting primarily of $7.4 million in rental and other revenues, $2.7 million in tax increment revenue and $0.4 million in interest income.

- The Authority had expenses totaling approximately $13.2 million consisting primarily of $3.4 million in employee services and benefits, $3.3 million related to property management operations, $1.0 million of interest expense on the Authority's debt service, $2.9 million for development projects, $1.6 million in a note receivable write-off, and $1.0 million in depreciation expense.

- The Authority expended nearly $0.94 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $ 0.87 million was capitalized.

- The Authority negotiated a Revised and Restated Disposition and Development agreement with Capitol Lofts-Sacramento, LLC which restructured a note receivable that was due and payable in October 2011. This note was for predevelopment costs associated with The WAL mixed-use development project; it was written down from $1,661,181 to $500,000, payable at the time the project commences.

- For East End Gateway Site 2 & 3 (16th & O St) land in the amount of $946,551 and a development grant of $1.58 million was contributed to the project at the start of construction in January 2012. Completion is planned by January 2014 with 84 apartment units and 12,000 SF of retail space.

FINANCIAL HIGHLIGHTS (CONTINUED)

- The Authority was awarded a grant of $795,000 from the Strategic Growth Council for right-of way enhancements on 16th Street, between N and S streets, through the addition of environmentally sustainable components to the streetscape. Construction of Phase I of this project started in September 2013 and will be complete by spring 2015.

- To promote development along the R Street corridor, a new note receivable for $140,000 was awarded to a local business, resulting in expansion of its outdoor seating area.

- In the R Street Corridor, the first phase of streetscape enhancements started in September 2010 between 10th Street to 13th Street and was completed in January 2012.

- In order to ensure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is reviewed and revised at least annually. A key element of the Authority's approach to managing its financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and to meet its projected planning and pre-development demands for redevelopment projects. The Authority's $13.4 million in net assets, as of June 30, 2012, meets this objective.

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 include two components: the government-wide financial statements and 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 *statements of net position* present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or declining.

The *statements of revenues, expenses, and changes in fund net position* present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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 these statements for some items that will only result in cash flows in future fiscal periods.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

As noted earlier, net position 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 $13,038,023 as of June 30, 2013.

Condensed Statements of
Net Position at June 30, 2013 and 2012

	2013	2012	Change $	Change %
Assets:				
Current and other assets	$ 21,902,856	$ 22,144,024	$ (241,168)	-1.09%
Capital assets, net	11,023,104	11,787,023	(763,919)	-6.48%
Total assets	**32,925,960**	**33,931,047**	**(1,005,087)**	**-2.96%**
Liabilities:				
Accounts payable and other current liabilities	2,235,383	2,191,023	44,360	2.02%
Non-current liabilities	17,652,554	18,322,117	(669,563)	-3.65%
Total liabilities	**19,887,937**	**20,513,140**	**(625,203)**	**-3.05%**
Net Position:				
Net investment in capital assets	(4,435,727)	(4,292,548)	(143,179)	3.34%
Restricted for insurance and reserves	699,095	623,019	76,076	12.21%
Unrestricted	16,774,655	17,087,436	(312,781)	-1.83%
Total net position	**$ 13,038,023**	**$ 13,417,907**	**$ (379,884)**	**-2.83%**

Analysis of Net Position:

The Agency's net position decreased during the current year by $379,884, as a result of a decrease in assets from contributions of land and grants to development projects. A portion of the Authority's net position is invested in capital assets. This category, which decreased by $143,179, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets decreased by $236,454 as a result of acquisitions of land, equipment and improvements to buildings for a total of $536,454, net of the contribution of land for $300,000 to the WAL project. Depreciation expense reduced the carrying value of the total capital assets by $1,000,373, for a net decrease in the net value of capital assets of $763,919. Additional information on the Authority's capital assets can be found in Note F to the Financial Statements. Debt related to the investment in capital assets, which affects both current and non-current liabilities; increased the net investment in capital assets category by $620,738. This was the result of a reduction of the expensing of $15,223 of deferred amount on debt refunding, net of $635,961 of principal payments on outstanding debt.

The net changes of a decrease of $763,919 in capital assets and an increase of $620,740 in debt related to capital assets led to the $143,179 decrease in the net position category of net investment in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Condensed Statements of
Net Position at June 30, 2012 and 2011

			Change	
	2012	**2011**	**$**	**%**
Assets:				
Current and other assets	$ 22,144,024	$ 24,419,475	$ (2,275,451)	-9.32%
Capital assets, net	11,787,023	12,845,912	(1,058,889)	-8.24%
Total assets	**33,931,047**	**37,265,387**	**(3,334,340)**	**-8.95%**
Liabilities:				
Accounts payable and other current liabilities	2,191,023	2,183,271	7,752	0.36%
Non-current liabilities	18,322,117	18,967,121	(645,004)	-3.40%
Total liabilities	**20,513,140**	**21,150,392**	**(637,252)**	**-3.01%**
Net Position:				
Investment in capital assets	(4,292,548)	(2,784,033)	(1,508,515)	54.18%
Restricted for insurance and reserves	623,019	567,896	55,123	9.71%
Unrestricted	17,087,436	18,331,132	(1,243,696)	-6.78%
Total net position	**$ 13,417,907**	**$ 16,114,995**	**$ (2,697,088)**	**-16.74%**

Analysis of Net Position:

Total net position decreased during the current year by ($2,697,088), as a result of a decrease in assets from contributions of land and grants to development projects and the write-down of a development note receivable. A portion of the Authority's net position is invested in capital assets, net of related debt. This category, which decreased by $1,508,515, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets decreased by $52,310 as a result of acquisitions of land, equipment and improvements to buildings for a total of $894,241, net of the contribution of land for $946,551 to the East End Gateway Site 2 & 3 project. Depreciation expense reduced the carrying value of the total capital assets by $1,006,579, for a net decrease in the net value of capital assets of $1,058,889. Additional information on the Authority's capital assets can be found in Note E to the Financial Statements.

Debt related to the acquisition of capital assets, which affects both current and non-current liabilities increased by $449,626. This was the result of a reduction of the unspent bond proceeds of $1,041,078, and the expensing of $15,223 of deferred amount on refunding net of $606,675 of principal payments on outstanding debt.

The net changes to capital assets and debt related to capital assets led to the $1,508,515 decrease in the portion of net position - net investment in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,455,919	$ 7,260,340	$ 195,579	2.7%
Miscellaneous	164,309	159,648	4,661	2.9%
Non-operating revenues				
Interest income	237,313	409,072	(171,759)	-42.0%
Intergovernmental	2,360,217	2,717,130	(356,913)	-13.1%
Total revenues	**10,217,758**	**10,546,190**	**(328,432)**	**-3.1%**
Expenses:				
Operating expenses				
Employee services and benefits	3,377,813	3,383,211	(5,398)	-0.2%
Development projects	1,848,002	2,916,071	(1,068,069)	-36.6%
Other	4,405,577	5,930,449	(1,524,872)	-25.7%
Non-operating expenses	966,250	1,013,547	(47,297)	-4.7%
Total expenses	**10,597,642**	**13,243,278**	**(2,645,636)**	**-20.0%**
Change in net position	**(379,884)**	**(2,697,088)**	**2,317,204**	
Net Position, beginning of year	13,417,907	16,114,995	(2,697,088)	-16.7%
Net Position, end of year	**$ 13,038,023**	**$ 13,417,907**	**$ (379,884)**	**-2.8%**

The Authority's net position decreased by $379,884 as a result of fiscal year ended June 30, 2013 operations. This represents an increase of $2,317,204 from the $2,697,088 net position decrease reflected in fiscal year ended June 30, 2012.

Revenue reflects a net decrease from the prior year, mainly as a result of the net effect of three revenue sources. Tax increment portion of Intergovernmental revenue decreased by $356,913 as compared to the decrease of $87,966 between fiscal year 2011 to fiscal year 2012. This reflects a net decrease in property taxes due to continued reductions to assessed property values made by the County Assessor's Office in response to appeals by property owners of properties within the Authority's boundaries, mainly with the R Street Area. Gross rental revenue increased by $194,320 and low income subsidies increased by $14,823. This was offset by decreases in vacancy losses and loss to lease for a total of $13,564. Interest income is lower as a result of decreases in the investment earnings on funds held with the City Treasurer. The overall impact on revenue was a decrease of $328,432 in total revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Expenses decreased during the fiscal year ended June 30, 2013, mainly due to decreases in development project expenses and decreases to the Allowance for Uncollectible Receivables. Development project expenses were $1,848,002 during the fiscal year ended June 30, 2013 versus $2,916,071 during fiscal year 2012. This decrease is due to the Authority's contribution in fiscal year 2012 of $2.4 million to the East End Gateway Site 2 & 3 project compared to the fiscal year 2013 contribution to the WAL project of land valued at $300,000 and $1.2 million in subsidies.

The majority of the decreases in other operating expenses reflect the $1,596,104 to Allowance for Uncollectible Receivables to write down the Capitol Lofts note receivable in fiscal year 2012.

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,260,340	$ 7,065,352	$ 194,988	2.76%
Miscellaneous	159,648	217,623	(57,975)	-26.64%
Non-operating revenues				
Interest income	409,072	501,300	(92,228)	-18.40%
Intergovernmental	2,717,130	2,805,096	(87,966)	-3.14%
Total revenues	**10,546,190**	**10,589,371**	**(43,181)**	**-0.41%**
Expenses:				
Operating expenses				
Employee services and benefits	3,383,211	3,402,479	(19,268)	-0.57%
Development projects	2,916,071	524,703	2,391,368	455.76%
Other	5,930,449	4,297,954	1,632,495	37.98%
Non-operating expenses	1,013,547	993,019	20,528	2.07%
Total expenses	**13,243,278**	**9,218,155**	**4,025,123**	**43.67%**
Change in net position	**(2,697,088)**	**1,371,216**	**(4,068,304)**	
Net position, beginning of year	16,114,995	14,743,779	1,371,216	9.30%
Net position, end of year	**$ 13,417,907**	**$ 16,114,995**	**$ (2,697,088)**	**-16.74%**

Net position decreased by ($2,697,088) as a result of fiscal year ended June 30, 2012 operations. This represents a decrease of ($4,068,304) from the $1,371,216 net position increase reflected in the fiscal year ended June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Revenue reflected a net increase from June 30, 2011, mainly as a result of the net effect of three revenue sources. Tax increment decreased by $87,966 as compared to the decrease of $8,621 between fiscal year 2010 to fiscal year 2011. This reflects a net decrease in property taxes due to continued reductions to assessed property values made by the County Assessor's Office in response to appeals by property owners of properties within the Authority's boundaries, mainly with the R Street Area. Net rental revenue increased 2.8%. Gross rental revenue increased by $240,685 and low income subsidies increased by $27,342. This was offset by increases in vacancy losses and loss to lease for a total of $73,039. Interest income was lower as a result of no longer accruing interest for the Capitol Lofts note receivable. The overall impact on revenue was a decrease of $43,181 in total revenue.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statements of Net Position above, the Authority's investments in capital assets were $11,023,104 and $11,787,023 (net of accumulated depreciation) at June 30, 2013 and 2012, 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, 2013 and 2012 which totaled $536,454 and $894,241 respectively, included land, building improvements, machinery and equipment, and construction in progress. Disposition of capital assets for the year ending June 30, 2013 totaled $300,000 for land contributed to the WAL projects. Depreciation on capital assets totaled $1,000,373 and $1,006,579, respectively, for the years ending June 30, 2013 and 2012.

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

Notes and bonds payable: Also reflected in the Statements of Net Position above, the Authority is responsible for notes and bonds payable, net of deferred amounts, totaling $18,112,269 and $18,733,009 as of June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, principal payments reduced notes payable by $395,960 and $376,675, respectively, and bonds payable by $240,000 and $230,000, respectively. Amortization of deferred amount on refunding and costs of issuance totaled $15,220 and $15,223 for the years ended June 30, 2013 and 2012.

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

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. At mid-year, the Authority reassesses its budgetary estimates.

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

ECONOMIC FACTORS AND BUDGET PROCESS (CONTINUED)

The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2013:

- A decrease to the Capital Area tax increment revenue was budgeted due to the current year receipts and anticipated tax levels for FY 2013-2014. Decreases were budgeted for tax increment revenue in the R Street Area due to the net effect of anticipated adjustments and appeals by the county Assessor Office.

- A net decrease was budgeted for rental revenue, to reflect the current rental revenue level and the planned loss of two residential building for the East End Gateway Site 1 and Site 4 projects and the sale of the Authority's ground leased property and various commercial buildings.

- As part of close of escrow, the WAL project paid the $500,000 note receivable due at closing. These funds have been budgeted into a reserve for future property acquisition.

- Budgeted current development projects of $422,579 will be funded as part of fiscal year ending June 30, 2013 General Operations Budget. Development funding outlays have been significantly decreased due to the need of funding in the prior year for the R Street Streetscape project and the grant for the Capitol Lofts B&G project.

- Remaining bond proceeds are available to provide development project funding for East End Gateway Site 1, 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 a budget of $705,000 to be funded through the General Operation Budget.

- The Authority budgeted $260,000 to fund the current year's annual required contribution (ARC) to the California Employers' Retiree Benefit Trust administered by CalPERS for the Authority's unfunded post-employment health benefit liabilities. This is a decrease from the prior year due to the allowable reduction to the required ARC by the estimated reimbursable retiree medical costs.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

- The Legato de Ravel building (the East End Gateway Site 2 & 3 project) will open in January 2014 adding 84 apartment units and 12,000 SF of retail space on the 16th Street corridor.

- With the WAL project now under construction, the Developer will commence the development of the adjacent building, the B & G Building, developing a commercial building with 9,000 SF of retail and commercial space with an improved parking lot in the rear, construction estimated to begin November 2013 with completion by the end of 2014.

- The East End Gateway Site 1 project (16th and P Street) is in the process of securing its financing package. The developer anticipates construction of 118 apartment units, 133 parking spaces, and 5,200 SF of retail space will begin in January 2014.

- The East End Gateway Site 4 project (16th and P Street) closed escrow and began construction of 50 apartment units, and 7,700 SF of retail space in August 2013. The Authority is in the process of securing a loan to complete infrastructure improvements on 16th street and in the alley abutting this project. The estimated completion date is November 2014.

- The Authority will continues exploring options for the development of other sites, including but not limited to, Block 222, Site 21, Site 5/6 and R Street.

- The Authority will continue to research possible development projects for the development of low income housing for the R Street Corridor.

- The State continues to attempt to reduce the statewide government property footprint. The land leased by CADA from the State is included in this effort. CADA has presented a proposal to assist the State in this effort by assuming ownership of the state-owned residential properties it currently manages. A response from the California Department of General Services is pending.

- As the Authority continues to precede with future development projects this will place a high demand on the Authority to fund pre-development activities, grant matching funds, potential toxic remediation and site aggregation activities.

REQUEST 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 Noelle Mussen, Controller at 1522 – 14th Street, Sacramento, CA 95814.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and investments	$ 18,192,561	$ 17,861,178
Accounts receivable, net	87,067	49,944
Interest receivable	2,600	2,263
Prepaid expenses	137,550	288,526
Notes receivable, current portion	9,992	509,507
Restricted cash:		
Tenant & event security deposits	394,827	386,919
Debt covenant reserves	854,126	854,165
Insurance impounds	44,309	43,424
Total restricted cash	1,293,262	1,284,508
Total current assets	19,723,032	19,995,926
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	354,786	279,595
Insurance risk reserve	300,000	300,000
Total restricted cash	654,786	579,595
Notes receivable, net	1,032,093	1,052,085
Deferred charge, net	492,945	516,418
Capital assets:		
Non-depreciable	3,293,101	3,638,258
Depreciable, net	7,730,003	8,148,765
Total capital assets	11,023,104	11,787,023
Total noncurrent assets	13,202,928	13,935,121
Total assets	$ 32,925,960	$ 33,931,047

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Position (Continued)
June 30, 2013 and 2012

	2013	2012
Liabilities		
Current liabilities:		
Accounts payable	$ 614,464	$ 586,460
Prepaid rent	38,597	53,127
Due to state - HCD	19,943	83,988
Accrued benefits payable	51,086	53,020
Accrued interest payable	180,685	185,814
Tenant security deposits	394,827	386,919
Developer deposits	256,581	195,958
Notes payable, current portion	424,200	420,960
Bonds payable, current portion	239,775	224,777
Total current liabilities	2,220,158	2,191,023
Noncurrent liabilities:		
Accrued interest payable	49,474	47,474
Notes payable	7,118,294	7,517,495
Bonds payable	10,330,000	10,569,777
Compensated absences payable	170,011	187,371
Total noncurrent liabilities	17,667,779	18,322,117
Total liabilities	19,887,937	20,513,140
Net Position		
Net investment in capital assets	(4,435,727)	(4,292,548)
Restricted for insurance and reserves	699,095	623,019
Unrestricted	16,774,655	17,087,436
Total net position	$ 13,038,023	$ 13,417,907

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Rental revenue, net	$ 7,455,919	$ 7,260,340
Other revenues:		
Development projects	97,250	97,217
Miscellaneous	67,059	62,431
Total operating revenues	7,620,228	7,419,988
Operating expenses		
Employee services and benefits	3,377,813	3,383,211
Services and supplies	2,221,599	2,086,848
Development projects	1,848,002	2,916,071
Repairs and maintenance	1,109,324	1,201,173
Bad debt expense	50,808	1,612,376
Amortization	23,473	23,473
Depreciation	1,000,373	1,006,579
Total operating expenses	9,631,392	12,229,731
Operating loss	(2,011,164)	(4,809,743)
Non-operating revenues (expenses)		
Interest income	237,313	409,072
Interest expense	(966,250)	(1,013,547)
Intergovernmental	2,360,217	2,717,130
Total non-operating revenues	1,631,280	2,112,655
Change in net position	(379,884)	(2,697,088)
Net position, beginning of year	13,417,907	16,114,995
Net position, end of year	$ 13,038,023	$ 13,417,907

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Rental receipts	$ 7,353,458	$ 7,243,513
Other development and operating receipts	224,932	146,856
Tenant security deposits received	209,110	178,613
Payroll and related costs paid	(3,397,107)	(3,385,620)
Services and supplies expenses paid	(2,042,619)	(2,049,228)
Development project expenses paid	(1,548,002)	(1,997,720)
Operating and maintenance expenses paid	(1,109,324)	(1,201,173)
Tenant security deposits paid	(201,202)	(179,628)
Net cash used for operating activities	(510,754)	(1,244,387)
Cash flows from noncapital financing activities:		
Intergovernmental	2,296,172	2,720,645
Net cash provided by noncapital financing activities	2,296,172	2,720,645
Cash flows from capital and related financing activities:		
Principal payment on debt	(635,963)	(606,677)
Interest paid on debt	(954,156)	(985,895)
Acquisition of capital assets	(536,454)	(866,041)
Net cash used for capital and related financing activities	(2,126,573)	(2,458,613)
Cash flows from investing activities:		
Issuance of notes receivable	-	(140,000)
Repayment of notes receivable	519,507	9,044
Interest receipts	236,976	406,809
Net cash provided by investing activities:	756,483	275,853
Net increase (decrease) in cash	415,328	(706,502)
Cash and cash equivalents, beginning of year	19,725,281	20,431,783
Cash and cash equivalents, end of year	$ 20,140,609	$ 19,725,281
Reconciliation of cash and cash equivalents to the Statements of Net Position:		
Cash and investments	$ 18,192,561	$ 17,861,178
Restricted cash :		
Tenant security deposits	394,827	386,919
Debt covenant reserves	854,126	854,165
Insurance impounds	44,309	43,424
Reserve for replacements	354,786	279,595
Insurance risk reserve	300,000	300,000
Total cash and cash equivalents	$ 20,140,609	$ 19,725,281

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	$ (2,011,164)	$ (4,809,743)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Amortization	23,473	23,473
Depreciation	1,000,373	1,006,579
Loss on disposition of land	300,000	946,551
Write off of notes receivable	-	920,681
Write off of notes receivable interest	-	595,949
Changes in assets and liabilities:		
Accounts receivable	(37,123)	102,811
Prepaid expenses	150,976	(181,246)
Accounts payable	28,004	190,666
Prepaid rent	(14,530)	(23,892)
Accrued benefits payable	(1,934)	2,855
Tenant security deposits	7,908	(1,015)
Developer deposits	60,623	(12,792)
Compensated absences payable	(17,360)	(5,264)
Net cash used for operating activities	$ (510,754)	$ (1,244,387)
Noncash investing, capital and financing activities:		
Acquisition of capital assets through debt financing	$ -	$ -

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

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 782 units) and commercial structures (approximately 32 leases); management of ground leases involving privately developed housing (approximately 136 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.

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.

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.

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 and 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 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 of 90 days or less.

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 one 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 unused vacation, employees with 3-10 years of service may carry a maximum of 240 hours of unused vacation and employees with 10 years or more of service may carry a maximum of 320 hours of unused 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 $170,011 and $187,371 as of June 30, 2013 and 2012 respectively.

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.

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.

Implementation of New Governmental Accounting Standards

During the fiscal year ending June 30, 2013, the Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement provides certain accounting and financial reporting standards for the financial statements of state and local governments.

During the fiscal year ending June 30, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This statement incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net positions, rather than net assets.

Future Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that are currently reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that are currently reported as assets and liabilities. This statement is effective for the Authority's fiscal year ending June 30, 2014.

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

Future Pronouncements (continued)

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement will require the Authority to record a net pension liability related to its defined benefit pension plans, as defined by the standard. This statement is effective for the Authority's fiscal year ending June 30, 2015.

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.

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 a depository regulated under state 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, 2013 and 2012, the carrying amounts of the Authority's deposits were $2,802,079 and $2,319,184, respectively. The bank balances at June 30, 2013 and 2012 were $2,913,948 and $2,528,613, respectively. Of these amounts $250,000 was covered by federal depository insurance both at June 30, 2013 and 2012, respectively.

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

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 it's 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 2.01 years and 1.89 years as of June 30, 2013 and 2012, 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.

As of June 30, 2013, the Authority's deposits, investments and credit ratings are as follows:

		Maturities		
	Credit Rating	Under 30 days	1-5 years	Fair Value
Cash and investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 16,373,121	$ 16,373,121
Money market mutual funds	AAA/Aaa	854,126	-	854,126
CalHFA impound accounts	NA	-	-	111,283
Deposits	NA	-	-	2,802,079
Total cash and investments		$ 854,126	$ 16,373,121	$ 20,140,609

As of June 30, 2012, the Authority's deposits, investments and credit ratings are as follows:

		Maturities		
	Credit Rating	Under 30 days	1-5 years	Fair Value
Cash and Investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 16,455,833	$ 16,455,833
Money market mutual funds	AAA/Aaa	854,165	-	854,165
CalHFA impound accounts	NA	-	-	96,099
Deposits	NA	-	-	2,319,184
Total cash and investments		$ 854,165	$ 16,455,833	$ 19,725,281

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

NOTE C - NOTES RECEIVABLE

	June 30, 2013	June 30, 2012
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. Payments started on March 1, 2010, the beginning of year 5 following the interest accrual date.	412,085	421,592
From Allyson Dalton		
Promissory note for $140,000 for property improvements. Interest shall accrue at 2% per year on the unpaid principal balance. Annual minimum payments will be made in the amount of the accrued interest with the entire outstanding principal balance due on October 20, 2021.	130,000	140,000
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, 2011, the financial structure of the development project and promissory note was renegotiated. The promissory note was written down to $500,000 which is payable on the start of construction. The Authority recognized bad expense in the amount of $920,681 for the unpaid principal. In addition, the related unpaid interest receivable in the amount of $595,949 was also written off and included in bad debt expense.	-	500,000
Total	$ 1,042,085	$ 1,561,592

NOTE C - NOTES RECEIVABLE (CONTINUED)

At the close of escrow on the Warehouse Artist Lofts (WAL) project, the Authority entered into five residual receipts loans in exchange for property and project assistance for the development of a mix-income multifamily residential rental housing project. According to the loan terms, the developer will pay 30% of residual receipts to the Authority after the first of either occurs: repayment in full of any deferred developer fee or twelve years after receipt of a Certificate of Occupancy for the Warehouse & Parking Project. These loans will only be repaid from residual receipts and in no event shall the payment to the Authority exceed 30%. Due to the nature of these loans, the Authority determined that these notes have no carrying value; therefore they are not reflected on the Statements of Net Position. If payment is received in the future for these loans, those payments will be recognized as revenue to the Authority.

Residual receipt loans consist of the following:

	June 30, 2013
From R Street LP for the WAL project:	
Warehouse residual receipt loan in the amount of $3,600,000 amortized over 40 years at a 1% interest rate, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	$ 3,600,000
Lots 3&4 residual receipt loan, property adjacent to the Warehouse, in the amount of $973,000 amortized over 40 years at a 1% interest rate, secured by Lots 3&4 but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	973,000
Authority Contstruction residual receipt loan in the amount of $1.2 million amortized over 40 years at a 1% interest rate, secured by the Warehouse and Lots 3&4 but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	1,200,000
Remediation residual receipt loan in the amount of $774,000 amortized over 40 years at a 1% interest rate, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	774,000
HCD Grant residual receipt loan in the amount of $4,946,080 amortized over 55 years with zero interest, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	4,946,080
Total	$ 11,493,080

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.

NOTE E - **OPERATING LEASES**

The Authority leases office space (approximately 6,172 square feet) through the State of California Department of General Services (DGS). In January 2010, a new lease was negotiated with DGS for the currently leased space for a term of ten years from February 1, 2010 to January 31, 2020 for a monthly rental amount of $8,172, with no annual rate adjustments. Under the terms of the current lease ending January 1, 2020, a total of $98,064 of operating lease rental expense was paid in each of the years ended June 30, 2013 and 2012.

Effective April 20, 2010, the Authority entered into a lease for a vacant lot at 15th and Q streets for the purpose of constructing a temporary parking lot. The lease is a five year fixed term with an option to extend the term for two additional years. Monthly rent for the first five years is $3,000. If the two year option is exercised, the monthly rent will increase to $3,500. Under the terms of the lease, a total of $36,000 of rental expense was paid in each of the years ended June 30, 2013 and 2012.

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

Year Ending June 30,	Office Space	15th & Q	Total
2014	$ 98,064	$ 36,000	$ 134,064
2015	98,064	29,000	127,064
2016	98,064	-	98,064
2017	98,064	-	98,064
2018	98,064	-	98,064
2019	98,064	-	98,064
2020	57,204	-	57,204
Total future minimum lease payments	$ 645,588	$ 65,000	$ 710,588

NOTE F - CAPITAL ASSETS

Information on changes in capital assets is presented below:

	June 30, 2012	Increases	Transfers	Decreases	June 30, 2013
Capital assets not being depreciated:					
Land	$ 3,393,219	$ -	$ -	$ (300,000)	$ 3,093,219
Construction in progress	245,039	20,357	(65,514)	-	199,882
Total capital assets not being depreciated	3,638,258	20,357	(65,514)	(300,000)	3,293,101
Capital assets being depreciated:					
Buildings and improvements	23,358,250	496,399	65,514	-	23,920,163
Machinery and equipment	462,085	19,698	-	-	481,783
	23,820,335	516,097	65,514	-	24,401,946
Less accumulated depreciation for:					
Buildings and improvements	(15,243,994)	(982,430)	-	-	(16,226,424)
Machinery and equipment	(427,576)	(17,943)	-	-	(445,519)
	(15,671,570)	(1,000,373)	-	-	(16,671,943)
Total capital assets being depreciated, net	8,148,765	(484,276)	65,514	-	7,730,003
Capital assets, net	$ 11,787,023	$ (463,919)	$ -	$ (300,000)	$ 11,023,104

	June 30, 2011	Increases	Transfers	Decreases	June 30, 2012
Capital assets not being depreciated:					
Land	$ 4,339,770	$ -	$ -	$ (946,551)	$ 3,393,219
Construction in progress	349,402	71,179	(175,542)	-	245,039
Total capital assets not being depreciated	4,689,172	71,179	(175,542)	(946,551)	3,638,258
Capital assets being depreciated:					
Buildings and improvements	22,383,374	799,334	175,542	-	23,358,250
Machinery and equipment	438,357	23,728	-	-	462,085
	22,821,731	823,062	175,542	-	23,820,335
Less accumulated depreciation for:					
Buildings and improvements	(14,273,638)	(970,356)	-	-	(15,243,994)
Machinery and equipment	(391,353)	(36,223)	-	-	(427,576)
	(14,664,991)	(1,006,579)	-	-	(15,671,570)
Total capital assets being depreciated, net	8,156,740	(183,517)	175,542	-	8,148,765
Capital assets, net	$ 12,845,912	$ (112,338)	$ -	$ (946,551)	$ 11,787,023

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

NOTE G - **NOTES PAYABLE**

Notes payable consists of the following:

	June 30, 2013	June 30, 2012
To Sacramento Housing and Redevelopment Agency:		
Monthly installments of $415 including principal and interest at 5% to June 10, 2015, secured by 1421 15th Street, Biele Place Project.	$ 7,191	$ 11,689
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.	120,000	160,000
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 16th Street.	5,836	27,362
To D'Ambrosia Properties:		
Monthly principal and interest installments of $6,519 with a fixed interest rate of 5.5% to September 1, 2019. Note is secured by the 701 S Street property.	1,087,251	1,105,266
To State of California Department of General Services (DGS):		
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $73,260. Secured by pledge of tax increment revenue.	996,282	1,048,776
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $23,033. Secured by pledge of tax increment revenue.	313,234	329,738
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $36,307. Secured by pledge of tax increment revenue.	493,753	519,769

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

NOTE G - NOTES PAYABLE (CONTINUED)

	June 30, 2013	June 30, 2012
To State of California Department of General Services (DGS):		
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $37,482. Secured by pledge of tax increment revenue.	509,733	536,591
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.	856,622	972,672
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 17th Street Commons project.	1,171,019	1,202,663
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 17th Street Commons project.	280,190	296,671
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	250,000
To Farmers and Merchant Bank:		
Monthly principal and interest installments of $8,389 with a fixed interest rate of 6.5% to December 5, 2018. Note is secured by Fremont Wilshire Apartments at the corner of 15th & P Streets.	1,236,286	1,254,802
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.	15,097	22,456
Total Notes Payable	$ 7,542,494	$ 7,938,455

NOTE G - NOTES PAYABLE (CONTINUED)

Future maturities on notes payable are as follows at June 30, 2013:

Years Ending June 30,	Principal	Interest	Total
2014	$ 424,200	$ 329,267	$ 753,467
2015	436,049	307,926	743,975
2016	447,560	285,483	733,043
2017	431,317	260,927	692,244
2018	456,894	294,834	751,728
2019-2023	3,533,607	1,088,848	4,622,455
2024-2028	1,182,449	220,513	1,402,962
2029-2033	607,118	66,105	673,223
2034	23,300	204	23,504
	$ 7,542,494	$ 2,854,107	$ 10,396,601

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2013 and 2012:

Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amounts due within one year
$ 7,938,455	$ -	$ (395,961)	$ 7,542,494	$ 424,200

Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amounts due within one year
$ 8,315,131	$ -	$ (376,676)	$ 7,938,455	$ 420,960

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 a credit for the estimated costs of future vacating costs, remediation costs and site characterization costs that could possibly be incurred against the underlying property. Estimated costs totaling $2,041,869 can be incurred on or before January 1, 2011. At that time, any estimated cost not incurred will be treated as an increase to the notes. As of June 30, 2011, the Authority has incurred a total $567,656 of which only $563,823 was for approved related remediation costs. The remaining unused credits of $1,478,046 were added back to the outstanding principal balances and will be amortized over the remaining term of the four notes. In addition, these four sites are secured by tax increment revenue which totaled $2,360,217 and $2,717,130 for the year ended June 30, 2013 and June 30, 2012. The principal and interest payments for these five properties were $170,082 and $268,659, which included $121,872 and $214,081 in principal payments, respectively, for the years ended June 30, 2013 and June 30, 2012.

NOTE H - 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 refunded 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.

Future debt service requirements to maturity are as follows at June 30, 2013:

Years Ending June 30,	Principal	Interest	Total
2014	$ 255,000	$ 591,519	$ 846,519
2015	265,000	578,442	843,442
2016	280,000	563,981	843,981
2017	295,000	548,006	843,006
2018	310,000	531,182	841,182
2019-2023	1,845,000	2,359,221	4,204,221
2024-2028	2,465,000	1,718,229	4,183,229
2029-2033	3,290,000	874,744	4,164,744
2034	1,580,000	83,928	1,663,928
	$ 10,585,000	$ 7,849,252	$ 18,434,252

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2013 and 2012:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amounts due within one year
2004 Tax Allocation Bonds	$ 10,825,000	$ -	$ (240,000)	$ 10,585,000	$ 255,000
Deferred amounts on refunding	(30,445)	-	15,220	(15,225)	15,225
Total 2004 Tax Allocation Bonds	$ 10,794,555	$ -	$ (224,780)	$ 10,569,775	$ 239,775

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amounts due within one year
2004 Tax Allocation Bonds	$ 11,055,000	$ -	$ (230,000)	$ 10,825,000	$ 240,000
Deferred amounts on refunding	(45,668)	-	15,223	(30,445)	15,223
Total 2004 Tax Allocation Bonds	$ 11,009,332	$ -	$ (214,777)	$ 10,794,555	$ 224,777

NOTE I - **COMPENSATED ABSENCES PAYABLE**

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2013 and 2012:

Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
$ 187,371	$ 127,460	$ (144,820)	$ 170,011

Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
$ 192,635	$ 122,090	$ (127,354)	$ 187,371

NOTE J - **R STREET PROPERTY AND IMPROVEMENT DISTRICT**

In June 2012, the Authority established the R Street Property and Business Improvement District (District) for a five year term with the approval of the District property owners in accordance with the Property and Business Improvement District Law of 1994. The District will fund services such as security, street maintenance, marketing and advocacy for economic and neighborhood development within the proposed boundaries of the District.

Financing of the District will be provided by the levy of assessments upon real property that benefits from improvements and activities. The Authority expended consultant fees to help the property owners establish the District and the Authority was authorized to be reimbursed out of the levied assessments in the amount of $5,000 per year for a total of $25,000 over the five year term.

The Authority will act as a pass-through of the levied assessments from the County of Sacramento to the managing non-profit. For the year ended June 30, 2013, the receipt and disbursement of the levied assessment was netted within Intergovernmental Revenue and the approved reimbursement of consultant fees was netted against the current year's consultant expenses. Future reimbursement of past consultant fees will be recognized as Intergovernmental Revenue.

NOTE K - **PENSION PLAN**

Plan Description

The Authority contributes to the California Public Employees Retirement System (CalPERS), a 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 (CAFR) may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE K - **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. 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 rates were 13.001% and 12.836% for the years ended June 30, 2013 and 2012, respectively. The Authority has been notified that the required employer contribution rate will be 13.592% for the year ending June 30, 2014. 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
6/30/11	$ 391,471	100%
6/30/12	$ 272,779	100%
6/30/13	$ 320,734	100%

NOTE L - **POST-EMPLOYMENT HEALTHCARE PLAN**

Plan Description

The Authority's defined benefit postemployment healthcare plan, provides medical benefits to eligible retired employees and eligible family members. The Authority established the irrevocable trust to prefund the other post employment benefits annual required contribution through the California Employer's Retiree Benefits Trust Program (CERBT), an agent multiple-employer plan. Benefit provisions are established and may be amended by the Authority's Board of Directors. The Authority's Other Postemployment Benefits (OPEB) financial statements are included in the CalPERS CAFR. Copies of CalPERS' CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

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).

NOTE L - **POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

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 **-** $115 per month for calendar year 2013.

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, for those employees with a minimum of ten (10) years of service, five (5) of those ten (10) years performed at the Authority. 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. The Authority also provides 90% of the health benefit contribution for the retiree's eligible family members.

Funding Policy

The obligation of the Authority to contribute to the plan is established and may be amended by the Board of Directors. Employees are not required to contribute to the plan. The Authority is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is $353,789 and is based on a July 1, 2011 actuarial valuation.

Annual OPEB Cost

For the year ended June 30, 2013, the Authority's annual OPEB cost (expenses) was $354,000. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and 2013 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability/Asset
6/30/2011	$ 402,000	100%	$ -
6/30/2012	$ 343,000	100%	$ -
6/30/2013	$ 354,000	100%	$ -

NOTE L - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	$ 3,996,286
Actuarial value of plan assets	1,350,506
Unfunded actuarial accrued liability (UAAL)	$ 2,645,780
Funded ratio (actuarial value of plan assets/AAL)	33.79%
Covered payroll (active plan members)	$ 1,204,819
UAAL as a percentage of covered payroll	220%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2011 actuarial valuation, the entry age normal cost method was used. Some of the actuarial assumptions previously reported in the 2008 valuation have changed. The investment rate of return was reduced from 7.75 percent to 7.50 percent, (net of administrative expenses). The new annual blended healthcare cost trend rate is 7.0 percent initially and will be reduced by decrements to an ultimate rate of 4.5 percent after 4 years. The previously reported blended healthcare cost trend rate of 7.0 percent was projected to be reduced by decrements to an ultimate rate of 5.0 percent after 5 years. There were revised assumptions about mortality, termination and retirement based on the most recent CalPERS experience

NOTE L - **POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

study covering CADA employees. There were also adjustments to assumption about CADA's future contributions for covered employees and assumptions about disability retirements and dependent children.

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value on the valuation date of prior service costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL over a thirty (30) year period. The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

NOTE M – **POLLUTION REMEDIATION OBLIGATIONS**

The Authority has obligated itself to commence environmental assessment and remediation activities on one project. The nature and source of pollutants on this project are soil contamination of polynuclear aromatic hydrocarbons and lead. The total cost the Authority has obligated itself is up to $240,000, of which the Authority has been approved for a Brownfield Cleanup Grant, on a reimbursement basis, from the Environmental Protection Agency (EPA) for a total of $200,000. Any additional remediation costs exceeding $240,000 will be the responsibility of the developer of the project. The Authority has not recognized any remediation obligations in the financial statements as the actual expected cost can not be determined and will be reimbursed by the EPA grant.

The remediation activities assumes that any soil that is contaminated to a level that requires remediation, if it is not capped by the building to be constructed or by an approved hardscape, will be aggregated with the clean soil on the site following demolition during the site excavation process and then tested. Given the relatively low levels of contamination and the small number of contamination concentrations that have been identified, the remediation plan assumes that the tested soil will be clean enough to permit it to be disposed of in a Class III landfill.

NOTE N – **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 10, 2013, the date these financial statements were available to be issued. The Authority is in the process of securing a loan with the California Infrastructure and Economic Development Bank (I-Bank) through the Infrastructure State Revolving Fund Program. The loan is for $600,000 amortized over 20 years with an interest rate of 3%. These funds are for ally improvements located between 16/17th and P/Q Streets.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information (Unaudited)
Years Ended June 30, 2013 and 2012

SCHEDULE OF FUNDING PROGRESS

Other Post Employment Benefits

	A	B	C	D	E	F
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) [B - A]	Funded Ratio [A/B]	Covered Payroll	UAAL as Percentage of Covered Payroll [(B-A)/E]
6/30/2008	$ -	$ 4,146,000	$ 4,146,000	0%	$ 1,870,000	222%
6/30/2011	$ 734,072	$ 3,658,759	$ 2,924,687	20%	$ 1,950,403	150%

As required by GASB Statement No. 45, the Authority will report three years of data in the above table, as the information becomes available in subsequent years.

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Seattle

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*

Board of Directors
Capitol Area Development Authority
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Macias Gini & O'Connell LLP

Sacramento, California
December 10, 2013