CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2014 and 2013

MGO Certified Public Accountants.

CAPITOL AREA DEVELOPMENT AUTHORITY
For the Fiscal Years June 30, 2014 and 2013

Table of Contents

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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, 2014 and 2013, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note A to the financial statements, during the year ended June 30, 2014, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 January 20, 2015 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* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
January 20, 2015

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013.

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

<u>Financial Highlights for the Year Ended June 30, 2014:</u>

- During the year, the Authority had revenues of approximately $10.5 million consisting primarily of $7.8 million in rental and other revenues, $2.5 million in tax increment revenue and $0.2 million in interest income.

- The Authority had expenses totaling approximately $11.4 million consisting primarily of $3.4 million in employee services and benefits, $3.2 million related to property management operations, $1.0 million of interest expense on the Authority's debt, $2.8 million for development projects, and $1.0 million in depreciation expense.

- The Authority expended nearly $390,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $395,000 was capitalized.

- Construction began in January 2013 on the WAL project, a mixed use, mix-income project with a total of 116 apartment units with 86 affordable units and 30 market rate units, and 13,000 SF of retail space. Construction is estimated to be complete by early 2015.

- The Authority has continued to implement environmentally sustainable streetscape features on 16th Street with grant funds provided by the Strategic Growth Council. The improvements are being completed in partnership with the East End Gateway Sites 1 – 4 projects and the City of Sacramento.

- The Legado de Ravel building (the East End Gateway Site 2 & 3 project at 16th and O Street) opened in late 2013 adding 84 apartment units and 13,000 SF of retail space on the 16th Street corridor.

FINANCIAL HIGHLIGHTS (CONTINUED)

- The East End Gateway Site 1 site (16^{th} and N Street) was transferred to the developer in mid-2014 and site remediation has been completed. The project includes 118 apartment units, 133 parking spaces, and 5,200 SF of retail space. Construction is expected to begin in spring of 2015 and be complete by late 2016.

- Escrow closed and construction began on the 16 Powerhouse project (16^{th} and P Street) closed in August 2013. The project includes 50 apartments and 7,700 SF of retail space. The Authority secured a $600,000 loan from the California Infrastructure Bank to pay for improvements on 16^{th} street and in the alley abutting this project. The project is expected to be complete in spring 2015.

- The first phase of streetscape enhancements in the R Street Corridor was completed in January 2012. The second phase of improvements was approved and the Authority will contribute $820,000 in matching funds. Construction started late 2014 with completion estimated in mid-2015. Phase three is currently in design, which is anticipated to be completed by the end of 2015. The Authority will be seeking SACOG grant funds to complete the improvements.

- The Authority sold the Site 9B (1610 17^{th} St) lot for the development of a two-family residential project. Construction is expected to be completed in early 2015.

- In order to ensure it has the financial resources to meet the demands of its mission, the Authority 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 projected planning and pre-development demands for development projects. The Authority's $11.7 million in net position, as of June 30, 2014, meets this objective.

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 $550,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $490,000 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 including 86 affordable and 30 market rate units, and 13,000 SF of retail space. Construction began 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 St) 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 it has the financial resources to meet the demands of its mission, the Authority 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.

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 the 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 $11,732,260 as of June 30, 2014.

Condensed Statements of Net Position at June 30, 2014 and 2013

	2014	Restated 2013	Change $	Change %
Assets:				
Current and other assets	$ 22,818,434	$ 21,409,911	$ 1,408,523	6.58%
Capital assets, net	8,585,285	11,023,104	(2,437,819)	-22.12%
Total assets	**31,403,719**	**32,433,015**	**(1,029,296)**	**-3.17%**
Deferred Outflows of Resources:				
Deferred loss on refunding	**-**	**15,225**	**(15,225)**	**-100.00%**
Liabilities:				
Accounts payable and other current liabilities	2,118,545	2,235,383	(116,838)	-5.23%
Non-current liabilities	17,552,914	17,667,779	(114,865)	-0.65%
Total liabilities	**19,671,459**	**19,903,162**	**(231,703)**	**-1.16%**
Net Position:				
Net investment in capital assets	(6,209,570)	(4,435,727)	(1,773,843)	39.99%
Restricted for insurance and reserves	865,388	699,095	166,293	23.79%
Unrestricted	17,076,442	16,281,710	794,732	4.88%
Total net position	**$ 11,732,260**	**$ 12,545,078**	**$ (812,818)**	**-6.48%**

Analysis of Net Position:

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2013 net position was restated by a decrease of $492,945 due to the writing off of unamortized bond issuance costs previously reported as an asset. The Authority's net position decreased during the current year by $812,818, 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 $1,773,843, 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 $1.4 million as a result of acquisitions of land, equipment and improvements to buildings for a total of $395,076, net of the sale and contribution of land for $1.8 million to the three development projects. Depreciation expense reduced the carrying value of the total capital assets by $1,022,061, for a net decrease in the net value of capital assets of $2.4 million. Additional information on the Authority's capital assets can be found in Note F to the Financial Statements. The decrease in the net investment in capital assets category of $1,773,843 is the net effect of a decrease from the $2,437,819 reduction in capital assets, an increase from debt repayments of $679,201, and a decrease from the final year of amortization for $15,225 of deferred amount on debt refunding.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

	Restated 2013	Restated 2012	Change $	Change %
Assets:				
Current and other assets	$ 21,409,911	$ 21,627,606	$ (217,695)	-1.01%
Capital assets, net	11,023,104	11,787,023	(763,919)	-6.48%
Total assets	**32,433,015**	**33,414,629**	**(981,614)**	**-2.94%**
Deferred Outflows of Resources:				
Deferred loss on refunding	**15,225**	**30,446**	**(15,221)**	**-49.99%**
Liabilities:				
Accounts payable and other current liabilities	2,235,383	2,206,246	29,137	1.32%
Non-current liabilities	17,667,779	18,337,340	(669,561)	-3.65%
Total liabilities	**19,903,162**	**20,543,586**	**(640,424)**	**-3.12%**
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	16,281,710	16,571,019	(289,309)	-1.75%
Total net position	**$ 12,545,078**	**$ 12,901,490**	**$ (356,412)**	**-2.76%**

Analysis of Net Position:

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2012 net position was restated by a decrease of $516,417 and its June 30, 2013 net position by a decrease of $492,945 due to the writing off unamortized bond issuance costs previously reported as an asset. Remaining decrease in the net position during the current year was 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 $15,225 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 $620,738 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 Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

		Restated	Change	
	2014	**2013**	**$**	**%**
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,273,968	$ 7,455,919	$ (181,951)	-2.4%
Miscellaneous	508,242	164,309	343,933	209.3%
Non-operating revenues				
Interest income	196,730	237,313	(40,583)	-17.1%
Intergovernmental	2,541,129	2,360,217	180,912	7.7%
Total revenues	**10,520,069**	**10,217,758**	**302,311**	**3.0%**
Expenses:				
Operating expenses				
Employee services and benefits	3,386,320	3,377,813	8,507	0.3%
Development projects	2,814,063	1,848,002	966,061	52.3%
Other	4,191,651	4,382,104	(190,453)	-4.3%
Non-operating expenses	940,853	966,250	(25,397)	-2.6%
Total expenses	**11,332,887**	**10,574,169**	**758,718**	**7.2%**
Change in net position	**(812,818)**	**(356,411)**	**(456,407)**	
Net Position, beginning of year	12,545,078	12,901,489	(356,411)	-2.8%
Net Position, end of year	**$ 11,732,260**	**$ 12,545,078**	**$ (812,818)**	**-6.5%**

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2013 net position was restated by a decrease or $492,945 due to writing off the unamortized bond issuance costs previously reported as an asset. The Authority's net position decreased by $812,818 as a result of fiscal year ended June 30, 2014 operations. This represents an increase of $456,407 from the $356,411 net position decrease reflected in fiscal year ended June 30, 2013.

Revenue reflects a net increase from the prior year, mainly as a result of the net effect of three revenue sources. Tax increment portion of Intergovernmental revenue increased by $180,912 as compared to the decrease of $356,913 between fiscal year 2012 to fiscal year 2013. This reflects a net increase in property taxes due compared to prior year reductions to assessed property values in response to appeals by property owners of properties within the Authority's boundaries. Miscellaneous revenue also increased by $343,933 due to the receipt of grant funds for the 16th Street improvement project. Gross rental revenue decreased by $214,280 and low income subsidies increased by $32,531, this was offset by decreases in vacancy losses and loss to lease for a total of $64,860. 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 an increase of $302,311 in total revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Expenses increased during the fiscal year ended June 30, 2014, mainly due to increases in development project expenses. Development project expenses were $2,814,063, during the fiscal year ended June 30, 2014 versus $1,848,002 during fiscal year 2013. This increase is due to the Authority's contribution in fiscal year 2013 of $1.5 million in land and subsidies to the WAL project compared to fiscal year 2014 of $1.2 million in contribution in land to the East End Gateway Site 1, Site 9B loss on sale and remediation credits given for 16 Powerhouse project along with $240,000 is remediation work for East End Gateway Site 1 and $500,000 is subsidies to the B&G building project.

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

	Restated 2013	Restated 2012	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,455,919	$ 7,260,340	$ 195,579	2.69%
Miscellaneous	164,309	159,648	4,661	2.92%
Non-operating revenues				
Interest income	237,313	409,072	(171,759)	-41.99%
Intergovernmental	2,360,217	2,717,130	(356,913)	-13.14%
Total revenues	**10,217,758**	**10,546,190**	**(328,432)**	**-3.11%**
Expenses:				
Operating expenses				
Employee services and benefits	3,377,813	3,383,211	(5,398)	-0.16%
Development projects	1,848,002	2,916,071	(1,068,069)	-36.63%
Other	4,382,104	5,906,976	(1,524,872)	-25.81%
Non-operating expenses	966,250	1,013,547	(47,297)	-4.67%
Total expenses	**10,574,169**	**13,219,805**	**(2,645,636)**	**-20.01%**
Change in net position	**(356,411)**	**(2,673,615)**	**2,317,204**	
Net position, beginning of year	12,901,489	15,575,104	(2,673,615)	-17.17%
Net position, end of year	**$ 12,545,078**	**$ 12,901,489**	**$ (356,411)**	**-2.76%**

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2012 net position was restated by a decrease of $516,418 and its June 30, 2013 net position was restated by a decrease or $492,945 due to writing off the unamortized bond issuance costs previously reported as an asset. The Authority's net position decreased by $356,411 as a result of fiscal year ended June 30, 2013 operations.

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 within the R Street Area.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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.

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 is subsidies

Capital Asset and Debt Administration

Capital assets: As reflected in the Statements of Net Position above, the Authority's investments in capital assets were $8,585,285 and $11,023,104 (net of accumulated depreciation) at June 30, 2014 and 2013, 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, 2014 and 2013 totaled $395,076 and $536,454 respectively, included land, building improvements, machinery and equipment, and construction in progress. Disposition of capital assets for the year ending June 30, 2014 totaled $1.8 million, of which $105,208 to purchased land for Site 9B project, $589,232 for land purchased through notes receivable for 16 Powerhouse project and $1,116,394 for land contributed to the Site 1 project. Depreciation on capital assets totaled $1,022,061 and $1,000,373, respectively, for the years ending June 30, 2014 and 2013.

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 $18,048,293 and $18,127,494 as of June 30, 2014 and 2013, respectively. During the years ended June 30, 2014 and 2013, principal payments reduced notes payable by $424,201 and $395,960, respectively, and bonds payable by $255,000 and $240,000, respectively. During the fiscal year the Authority entered into a new loan with the California Infrastructure and Economic Development Bank for a total note of $600,000 for infrastructure improvement related to the 16 Powerhouse project. As of June 30, 2014, the Authority has passed-through a total of $117,282 to the developer. Per GASB 65 amortization of the deferred amount on refunding was reclassified out of debt to deferred outflows totaling $0 and $15,225 for the years ended June 30, 2014 and 2013, respectively.

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.

The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2014:

- 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.

- 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 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 budgeted of $645,000 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 Authority is working with the City of Sacramento to implement site improvements for Roosevelt Park and Fremont Garden.

- The Authority will continue 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.

- In response to the State of California (State) Governor's 2011 stated desire to reduce the statewide government property footprint by selling off properties owned by the State, CADA presented a proposal for CADA to assume ownership of the residential properties it manages on behalf of the State. While officials at DGS were receptive to the proposal, efforts to put in place legislation to authorize implementation of the plan did not succeed. The Authority stands ready to respond should the State indicate a desire to move forward with the plan. The Authority has established a separate nonprofit entity to serve as a vehicle for implementation of the plan should it occur.

- As the Authority continues to proceed 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, 2014 and 2013

	2014	Restated 2013
Assets		
Current assets:		
Cash and investments	$ 19,046,419	$ 18,192,561
Accounts receivable, net	89,351	87,067
Interest receivable	21,111	2,600
Prepaid expenses	118,406	137,550
Notes receivable, current portion	13,217	9,992
Restricted cash:		
Tenant & event security deposits	393,310	394,827
Debt covenant reserves	854,126	854,126
Insurance impounds	49,826	44,309
Total restricted cash	1,297,262	1,293,262
Total current assets	20,585,766	19,723,032
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	399,562	354,786
Insurance risk reserve	416,000	300,000
Total restricted cash	815,562	654,786
Notes receivable, net	1,417,106	1,032,093
Capital assets:		
Non-depreciable	1,512,854	3,293,101
Depreciable, net	7,072,431	7,730,003
Total capital assets	8,585,285	11,023,104
Total noncurrent assets	10,817,953	12,709,983
Total assets	$ 31,403,719	$ 32,433,015
Deferred Outflows of Resources		
Deferred loss on refunding	$ -	$ 15,225

accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Position (Continued)
June 30, 2014 and 2013

	2014	Restated 2013
Liabilities		
Current liabilities:		
Accounts payable	$ 621,081	$ 614,464
Prepaid rent	37,502	38,597
Due to state - HCD	-	19,943
Accrued benefits payable	58,673	51,086
Accrued interest payable	179,372	180,685
Tenant security deposits	393,310	394,827
Developer deposits	104,700	256,581
Notes payable, current portion	458,907	424,200
Bonds payable, current portion	265,000	255,000
Total current liabilities	2,118,545	2,235,383
Noncurrent liabilities:		
Accrued interest payable	51,475	49,474
Notes payable	7,259,386	7,118,294
Bonds payable	10,065,000	10,330,000
Compensated absences payable	177,053	170,011
Total noncurrent liabilities	17,552,914	17,667,779
Total liabilities	19,671,459	19,903,162
Net Position		
Net investment in capital assets	(6,209,570)	(4,435,727)
Restricted for insurance and reserves	865,388	699,095
Unrestricted	17,076,442	16,281,710
Total net position	$ 11,732,260	$ 12,545,078

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, 2014 and 2013

	2014	Restated 2013
Operating revenues		
Rental revenue, net	$ 7,273,968	$ 7,455,919
Other revenues:		
Development projects	358,972	97,250
Miscellaneous	149,270	67,059
Total operating revenues	7,782,210	7,620,228
Operating expenses		
Employee services and benefits	3,386,320	3,377,813
Services and supplies	2,085,614	2,221,599
Development projects	2,814,063	1,848,002
Repairs and maintenance	1,062,838	1,109,324
Bad debt expense	21,138	50,809
Depreciation	1,022,061	1,000,373
Total operating expenses	10,392,034	9,607,920
Operating loss	(2,609,824)	(1,987,692)
Non-operating revenues (expenses)		
Interest income	196,730	237,313
Interest expense	(940,853)	(966,250)
Intergovernmental	2,541,129	2,360,217
Total non-operating revenues	1,797,006	1,631,280
Change in net position	(812,818)	(356,412)
Net position, beginning of year (restated)	12,545,078	12,901,490
Net position, end of year	$ 11,732,260	$ 12,545,078

accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2014 and 2013

		2014		2013
Cash flows from operating activities:				
Rental receipts	$	7,249,451	$	7,353,457
Other development and operating receipts		356,361		224,932
Tenant security deposits received		217,667		209,110
Payroll and related costs paid		(3,371,691)		(3,397,279)
Services and supplies expenses paid		(2,070,453)		(2,042,447)
Development project expenses paid		(811,459)		(1,548,002)
Operating and maintenance expenses paid		(1,062,838)		(1,109,324)
Tenant security deposits paid		(219,184)		(201,202)
Net cash provided by (used for) operating activities		287,854		(510,755)
Cash flows from noncapital financing activities:				
Intergovernmental		2,521,186		2,296,172
Net cash provided by noncapital financing activities		2,521,186		2,296,172
Cash flows from capital and related financing activities:				
Principal payment on debt		(679,201)		(635,961)
Interest paid on debt		(924,940)		(954,157)
Acquisition of capital assets		(384,476)		(536,454)
Net cash used for capital and related financing activities		(1,988,617)		(2,126,572)
Cash flows from investing activities:				
Repayment of notes receivable		19,992		519,507
Interest receipts		178,219		236,976
Net cash provided by investing activities:		198,211		756,483
Net increase in cash		1,018,634		415,328
Cash and cash equivalents, beginning of year		20,140,609		19,725,281
Cash and cash equivalents, end of year	$	21,159,243	$	20,140,609
Reconciliation of cash and cash equivalents to the statement of net position:				
Cash and investments	$	19,046,419	$	18,192,561
Restricted cash :				
Tenant security deposits		393,310		394,827
Debt covenant reserves		854,126		854,126
Insurance impounds		49,826		44,309
Reserve for replacements		399,562		354,786
Insurance risk reserve		416,000		300,000
Total cash and cash equivalents	$	21,159,243	$	20,140,609

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY

Statements of Cash Flows (Continued)

For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (2,609,824)	$ (1,987,692)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	1,022,061	1,000,373
Loss on disposition of land	1,402,604	300,000
Pass-through loan to developer	600,000	-
Changes in assets and liabilities:		
Accounts receivable	(2,284)	(37,123)
Prepaid expenses	19,144	150,976
Accounts payable	(3,983)	28,004
Prepaid rent	(1,095)	(14,530)
Accrued benefits payable	7,587	(1,934)
Tenant security deposits payable	(1,517)	7,908
Developer deposits payable	(151,881)	60,623
Compensated absences payable	7,042	(17,360)
Net cash provided by (used for) operating activities	$ 287,854	$ (510,755)
Supplemental schedule of non-cash investing, capital, and financing activities:		
Note receivable in exchange for land	$ 408,230	$ -
Capital asset additions through accounts payable	10,600	-

See accompanying notes to financial statements.

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 31 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. This revenue is recognized on the financial statements net of vacancy loss, low income subsidies, and loss to leases. Operating expenses for the Authority include employee services, development projects expenses, administrative expenses, maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the 2012-2013 fiscal year, which had little to no impact on its financial statements.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Settled claims have not exceeded coverage for the past three years.

Cash and Investments

The Authority participates in the City's external 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $177,053 and $170,011 as of June 30, 2014 and 2013 respectively.

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.

Deferred Loss on Refunding of Debt

The difference between reacquisition price of refunded debt and net carrying amount of refunded debt is deferred and amortized as a component of interest expense over the remaining life of the refunded debt or the life of the refunding debt, whichever is shorter. The unamortized deferred loss balance totaled $0 and $15,225 as of June 30, 2014 and 2013 respectively and are reported as deferred outflows of resources in accordance with GASB Statement No. 65.

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 2013-2014 fiscal year, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to the 2012-2013 fiscal year. This Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this statement required the restatement of beginning net position for the years ended June 30, 2013 and 2012 by $492,945 and $516,417, respectively, to write off the unamortized bond issuance cost that were previously reported as an asset. In addition, amortization for the year ended June 30, 2013 were restated and decreased by $23,473 which is the amortization expenses of debt issuance costs. On the Statement of Net Position, as of June 30, 2013, deferred charge was decreased to zero to write off unamortized bond issuance costs and long-term debt increased by $15,225 to eliminate the deferred loss on refunding, which was reclassified as a deferred outflow of resources.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In March 2012, GASB issued Statement No. 66, *Technical Corrections: 2012 – An Amendment of GASB Statements No. 10 and No. 62*. This statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. The implementation of this statement had no significant impact on the Authority's financial statements.

Future Implementation of Pronouncements

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.

NOTE B - CASH AND INVESTMENTS (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 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. The Authority's funds held with the City of Sacramento investment pool fall under the same requirements as noted above. In addition, the Authority maintains interest-bearing impound deposits in the amount of $124,122 and $111,283 as of June 30, 2014 and 2013, respectively 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, 2014 and 2013, the carrying amounts of the Authority's deposits with financial institution $3,600,230 and $2,802,079, respectively. The financial institution balances at June 30, 2014 and 2013 were $3,819,241 and $2,913,948, respectively.

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 2.27 years and 2.01 years as of June 30, 2014 and 2013, 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.

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Credit Risk

As of June 30, 2014, 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	$ -	$ 16,580,765	$ 16,580,765
Money market mutual funds	AAA/Aaa	854,126	-	854,126
Deposits	NA	-	-	3,724,352
Total cash and invsestments		$ 854,126	$ 16,580,765	$ 21,159,243

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
Deposits	NA	-	-	2,913,362
Total cash and investments		$ 854,126	$ 16,373,121	$ 20,140,609

NOTE C - NOTES RECEIVABLE

	June 30, 2014	June 30, 2013
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). In FY 13-14 the note amended the principal payment date from 10 years to 13 years, effectivly extended the maturity date to March 1, 2019	$ 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. Monthly payments are $2,531 and final maturity is March 2036. 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.	402,093	412,085
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	120,000	130,000
From 16 Powerhouse Investors, LLC Promissory note for $480,000 less $71,770 of remediation credit for the purchase of real property. Interest shall accrue at 5.5% per year on the unpaid principal beginning on the first day following close of escrow. Annual minimum payments will be made until the maturity date, which is seven years after the receipt of the Certificate of Occupancy for the project.	408,230	-
Total	$ 1,430,323	$ 1,042,085

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. During the 2013-2014 fiscal year the Authority entered into two additional residual receipts loans in exchange for the B&G property adjacent to the WAL project and project assistance for the development of a three story commercial building. 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 for the WAL project and eight years for the B&G building after receipt of a Certificate of Occupancy for each project. These loans will only be repaid from residual receipts and in no event shall the payment to the Authority exceed 30% for the WAL project and 15% for the B&G building. 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.

NOTE C - NOTES RECEIVABLE (CONTINUED)

Residual receipt loans consist of the following:

	June 30, 2014
From R Street LP for the Warehouse Artist Lofts 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.	$ 3,651,000
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.	986,784
Authority Construction 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.	1,217,000
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.	784,965
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
From B&G Building Investors, LLC	
Land residual receipt loan, property adjacent to the WAL project, in the amount of $260,000 amortized over 40 years at a 1% interest rate, secured by the property but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	261,517
Authority Construction residual receipt loan in the amount of $500,000 amortized over 40 years at a 1% interest rate, secured by the property but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	501,417
Total	$ 12,348,763

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 in operating lease rental expense was paid during the years ended June 30, 2014 and 2013.

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 then the monthly rent will increase to $3,500. Under the terms of the lease, a total of $36,000 in rental expense was paid during the years ended June 30, 2014 and 2013, respectively.

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

Year Ending June 30,	Office Space	15th & Q	Total
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	$ 547,524	$ 29,000	$ 576,524

NOTE F - CAPITAL ASSETS

Information on changes in capital assets is presented below:

	June 30, 2013	Increases	Transfers	Decreases	June 30, 2014
Capital assets not being depreciated:					
Land	$ 3,093,219	$ -	$ -	$ (1,810,834)	$ 1,282,385
Construction in progress	199,882	62,185	(31,598)	-	230,469
Total capital assets not being depreciated	3,293,101	62,185	(31,598)	(1,810,834)	1,512,854
Capital assets being depreciated:					
Buildings and improvements	23,920,163	300,746	31,598	-	24,252,507
Machinery and equipment	481,783	32,145	-	-	513,928
	24,401,946	332,891	31,598	-	24,766,435
Less accumulated depreciation for:					
Buildings and improvements	(16,226,424)	(1,003,784)	-	-	(17,230,208)
Machinery and equipment	(445,519)	(18,277)	-	-	(463,796)
	(16,671,943)	(1,022,061)	-	-	(17,694,004)
Total capital assets being depreciated, net	7,730,003	(689,170)	31,598	-	7,072,431
Capital assets, net	$ 11,023,104	$ (626,985)	$ -	$ (1,810,834)	$ 8,585,285

	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

NOTE G - NOTES PAYABLE

Notes payable consists of the following:

	June 30, 2014	June 30, 2013
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	$ 2,463	$ 7,191
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.	80,000	120,000
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
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.	1,068,220	1,087,251
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.	942,748	996,282
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.	296,403	313,234
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.	467,223	493,753

NOTE G - NOTES PAYABLE (CONTINUED)

	June 30, 2014	June 30, 2013
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.	482,344	509,733
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.	728,483	856,622
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.	1,137,674	1,171,019
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.	263,709	280,190
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.	225,000	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.	1,216,512	1,236,286
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.	7,514	15,097

NOTE G - NOTES PAYABLE (CONTINUED)

	June 30, 2014	June 30, 2013
California Infrastructure & Economic Development Bank		
Tax Allocation Loan for a total amount up to $600,000 secured by the Authority's tax increment. Average annual payments of principal, interest and annul fee's of $40,000 with a fixed interest rate of 2.77% to October 1, 2033.	600,000	-
Total Notes Payable	$ 7,718,293	$ 7,542,494

Future maturities on notes payable are as follows at June 30, 2014:

Years Ending June 30,	Principal	Interest	Total
2015	$ 458,907	$ 324,229	$ 783,136
2016	471,050	301,145	772,195
2017	455,458	275,929	731,387
2018	481,703	309,158	790,861
2019	1,663,547	188,983	1,852,530
2020-2024	2,258,031	1,027,084	3,285,115
2025-2029	1,373,646	224,518	1,598,164
2030-2034	555,951	55,020	610,971
	$ 7,718,293	$ 2,706,066	$ 10,424,359

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2014 and 2013:

Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
$ 7,542,494	$ 600,000	$ (424,201)	$ 7,718,293	$ 458,907

Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amounts due within one year
$ 7,938,455	$ -	$ (395,961)	$ 7,542,494	$ 424,201

NOTE G - 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 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 $2,506,526 and $2,360,217 for the year ended June 30, 2014 and June 30, 2013. The principal and interest payments for these five properties were $168,881 and $170,082, which included $124,284 and $121,872 in principal payments, respectively, for the years ended June 30, 2014 and June 30, 2013.

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, 2014:

Years Ending June 30,	Principal	Interest	Total
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	330,000	513,333	843,333
2020-2024	1,950,000	2,247,384	4,197,384
2025-2029	2,615,000	1,564,302	4,179,302
2030-2034	3,475,000	689,857	4,164,857
2035	810,000	21,246	831,246
	$ 10,330,000	$ 7,257,733	$ 17,587,733

NOTE H - BONDS PAYABLE (CONTINUED)

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2014 and 2013:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
Total 2004 Tax Allocation Bonds	$ 10,585,000	$ -	$ (255,000)	$ 10,330,000	$ 265,000

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amounts due within one year
Total 2004 Tax Allocation Bonds	$ 10,825,000	$ -	$ (240,000)	$ 10,585,000	$ 255,000

NOTE I - COMPENSATED ABSENCES

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2014 and 2013:

Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
$ 170,011	$ 119,064	$ (112,022)	$ 177,053

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

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.

NOTE J - R STREET PROPERTY AND IMPROVEMENT DISTRICT (CONTINUED)

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, 2014, 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.

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 3% was paid by the Authority in calendar year 2013 then reduced to 2% for calendar year 2014. 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 13.592% and 13.001% for the years ended June 30, 2014 and 2013, respectively. The Authority has been notified that the required employer contribution rate will be 14.591% for the year ending June 30, 2015. 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
6/30/2012	$ 272,779	100%
6/30/2013	$ 320,734	100%
6/30/2014	$ 311,778	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).

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 - $119 per month for calendar year 2014.

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 No. 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 ARC for the year ending June 30, 2015 is $342,538 and is based on a July 1, 2013 actuarial valuation.

NOTE L - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Annual OPEB Cost

For the year ended June 30, 2014, the Authority's annual OPEB cost (expenses) was $331,756. 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
6/30/2012	$ 343,000	100%	$ -
6/30/2013	$ 354,000	100%	$ -
6/30/2014	$ 332,000	100%	$ -

Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	$ 3,811,433
Actuarial value of plan assets	1,350,506
Unfunded actuarial accrued liability (UAAL)	$ 2,460,927
Funded ratio (actuarial value of plan assets/AAL)	35.43%
Covered payroll (active plan members)	$ 1,967,652
UAAL as a percentage of covered payroll	125%

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.

NOTE L - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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 2013 actuarial valuation, the entry age normal cost, level percent of pay method was used. Some of the actuarial assumptions previously reported in the 2011 valuation have changed. The investment rate of return remained the same at 7.5 percent, (net of administrative expenses). The new annual blended healthcare cost trend rate is 8.5 percent initially and will be reduced by decrements to an ultimate rate of 4.64 percent by 2025. The previously reported blended healthcare cost trend rate of 7.0 percent was projected to be reduced by decrements to an ultimate rate of 4.5 percent after 4 years. There were revised assumptions about mortality, termination and retirement based on the most recent CalPERS experience 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 closed thirty (30) year period with twenty seven (27) years remaining. 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 commenced environmental assessment and remediation activities on one project with the awarded Developer. 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 and spent is $240,000, of which the Authority has received 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 cannot be determined and will be reimbursed by the EPA grant. The contaminated soil was tested and was determined to be clean enough to permit it to be disposed of in a Class III landfill. This was in accordance with the remediation plan.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information
For the Fiscal Years Ended June 30, 2014 and 2013

SCHEDULE OF FUNDING PROGRESS

Other Post Employment Benefits

Actuarial Valuation Date	A Actuarial Asset Value	B Actuarial Accrued Liability (AAL) Entry Age	C Unfunded AAL (UAAL) [B - A]	D Funded Ratio [A/B]	E Covered Payroll	F 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%
6/30/2013	$ 1,350,506	$ 3,811,433	$ 2,460,927	35%	$ 1,967,652	125%

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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Oakland

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Newport Beach

San Diego

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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 20, 2015.

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 opinion 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
January 20, 2015