November 24, 2015

TO: CADA Board of Directors

SUBJECT: December 11, 2015, Board Meeting
AGENDA ITEM 6
AUDITED FINANCIAL STATEMENTS - FISCAL YEAR 2014-2015

CONTACT PERSON: Noelle Mussen, Controller

RECOMMENDED ACTION: Adopt resolution.

Staff recommends that the Board, by separate resolutions, accept the following five audited financial reports as prepared and released by Macias, Gini & O’Connell, LLP:

♦ Capitol Area Development Authority
  Independent Auditor’s Reports FY 2014-2015 (Attachment 1a)

♦ Somerset Parkside Apartments (Contract Number 80-RHC-007)
  Independent Auditor’s Reports FY 2014-2015 (Attachment 1b)

♦ Biele Place Apartments (Contract Number 80-RHC-032)
  Independent Auditor’s Reports FY 2014-2015 (Attachment 1c)

♦ Brannan Court Apartments (Contract Number 86-32-N)
  Independent Auditor’s Reports FY 2014-2015 (Attachment 1d)

♦ Seventeenth Street Commons (Contract Number 99-024-N)
  Independent Auditor’s Reports FY 2014-2015 (Attachment 1e)

BACKGROUND

The attached audited financial reports have been prepared in accordance with the interagency agreement between CADA and the City of Sacramento concerning accounting and audit services performed for CADA. In addition to the Independent Auditor’s Reports that consolidate the results of all operating funds, including the special management funds, four stand-alone reports have been prepared for residential facilities CADA manages under agreements with the Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA). The HCD properties are Somerset Parkside and Biele Place. The CalHFA properties are Brannan Court and 17th Street Commons. The HCD and CalHFA regulatory agreements require CADA’s audits to include certain supplemental reports and schedules that are not required to be included in standard independent auditor reports.
**POLICY ISSUES**

It should be noted that only four of CADA’s six special management properties are currently subject to stand-alone audits (Somerset Parkside, Biele Place, Brannan Court and 17th Street Commons). The financial position and activities of the remaining properties (Johnston House/Don Carlos Apartments and Fremont Wilshire Apartments) are maintained in separate special management funds, but are not presently required to be independently audited on an annual basis.

Audited financial statements are reported in accordance with generally-accepted accounting principles (GAAP). The monthly financial reports that are transmitted to the Board during the year and reviewed with the Operations Committee are presented in a modified “cash flow” format rather than in accordance with GAAP. Both on the revenue and expense side, there are factors that are either included in or excluded from GAAP financials but not in CADA’s internal reports. Additionally, Capital Investment Program (CIP) projects (both major construction and development) are budgeted on a multi-year basis and reported separately. Consequently, direct comparison of results between the General Operations monthly financials and the consolidated audited financials requires identification of reconciling factors. The audited financial statements for CADA and the special management funds are included as **Attachments 1a through 1e**. **Attachment 2** identifies “reconciling factors”, or differences, between GAAP and Budget Basis financial reporting. **Attachment 3** reflects CADA’s General Operations budget-to-actual results for fiscal year 2014-2015, exclusive of Capital Investment Program activities. Attachments 1a, 2 and 3 are more fully discussed below. Attachments 1b through 1e are financial reports for four individual buildings that operate under regulatory agreements with other agencies that require them to be submitted annually for review by them.

**STRATEGIC PLAN**

This action addresses CADA’s Strategic Plan goal of maintaining organizational excellence.

**FINANCIAL IMPACT**

During the 2014-2015 fiscal year, CADA implemented **GASB Statement No. 68, Accounting and Financial Report for Pensions** and **GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date** – an amendment of GASB 68. Implementation of this statement required a $3,381,493 restatement of Beginning Net Position for the year ended June 30, 2013 due to a Change in Account Principles. This restatement will reduce CADA’s net position. This creates the net pension liability as of the measurement date on the Statements of Net Position, and through the use of deferred inflows, deferred outflows and current pension expense we arrive at the net pension liability as of June 30, 2015, calculated by CalPERS. By adjusting the Beginning Net Position, this treats the net pension liability as if it has always shown on the Statements of Net Position, instead of posting the entire liability through pension expense and thereby creating a large net loss on the Statements of Revenues, Expenses and Changes in Fund Net Position.

*Management Discussion and Analysis (Pages 4 - 14 of Attachment 1a)*

A comprehensive overview of financial highlights and the audited financial statements is included in the Management Discussion and Analysis section of the auditor’s report where the report consolidates the results of all operating funds.
Statements of Revenues, Expenses and Changes in Fund Net Position (Pages 17 of Attachment 1a):

CADA’s audited financials reflect positive results for the year, with an increase of $1,322,771 to its Net Position. This compares to a decrease to Net Position of $812,818 reported in last year’s audit. The increase of $1,322,771 consists of Non-Operating Net Revenues of $1,986,950 less an Operating Loss of $664,179 from rental and development activities. The primary reason for the positive results in FY 2014-2015 compared to the loss in FY 2013-2014 is mainly due to increased development activity in fiscal year 13-14 and not expenses of ongoing operations. Considering the temporary nature of these development expenses, staff anticipated CADA’s financials would reflect positive results in this fiscal year and potentially in the next several years as it prepares for future development projects.

Non-Operating Revenues was $1,986,950, which is $189,944 more than last year’s revenue of $1,797,006. This reflects increases in Intergovernmental Revenue (Tax Increment) of $140,025 and a slight increase in Interest Income of $6,906. This overall increase was partially boosted by a decrease in interest expense of $42,983 as we pay down debt.

CADA’s Operating Loss was $664,179, which is $1,945,645 less than last year’s $2,609,824 loss. The change is primarily due to decreases in total Operating Expense of $2,084,363 but offset by a slight decrease in total Operating Revenue of $138,718. The most pertinent change was a $1,857,971 decrease in Development Projects expenses. The decreases in the prior year were mainly due to an additional grant and land contribution of land to the B&G project, a contribution of land and remediation-related funding to the East End Gateway Site 1 project late in the year, and offsite infrastructure and remediation costs associated with the East End Gateway Site 4 project. These decreases in expense are further reduced by smaller decreases of $89,263 in Services and Supplies. The major decrease to Operating Revenue reflects a net $53,820 decrease in rental revenues caused by the loss of a full year’s rental and parking income from the 1517 N Street Building, now the location of Eviva Midtown.

Statements of Cash Flow (pages 18-19 of Attachment 1a):

Total Cash and Cash Equivalents increased by $1,433,962, compared to the prior year increase of $1,018,634. The increase in cash flow was mainly due to an increase in tax increment revenue of $195,000 and funds held in trust for remediation of the old Orchard Supply site in the amount of $550,000. These decreases were offset by increases attributable to development project expenses, supplies and services and other operating receipts.

Budget Basis to GAAP Basis Net Income Reconciliation (Attachment 2):

Attachment 2 identifies the reconciling factors between the “GAAP Basis of accounting,” which is the required reporting basis for audited financial statements, and CADA’s “Budget Basis of Accounting,” or “Modified Cash Basis of Accounting”, which is the basis for staff’s monthly financial reporting to the Board. The Modified Cash Basis section of this attachment is presented as a cash flow report adjusting out inter-fund activity and includes the CIP Budgets which are usually reported separately from the monthly reports. The Audit Reconciliation section shows the differences between the adjusted cash flow report and the audited change in net assets, or net income, reported on the audited financial statements.

The major adjustments between the GAAP Basis and Cash Basis include the following:

- Removal of debt service from the cash flow expenses because this is a reduction of outstanding debt on the Statement of Net Position, not a yearly expense.
• The change in the net pension liability for the inclusion of the total net pension liability in the financial statement instead of only recording the annual pension expense. Previously the total net pension liability was only reported in the footnotes. Other adjustments to the net pension liability were made through Deferred Inflows/Outflows of Resources Related to Pensions.

• Inclusion of the Allowance for Uncollectibles, or bad debt expense. This removes an asset and increases expenses to recognize cash spent or an asset not received in the current year or a prior year.

• Reduction or capitalization of applicable major construction expenses within the Statement of Net Position, net of the related depreciation expense, allowing the recognition of the capitalized major construction expenses to be over the lifetime of the improved asset and not all in the year the cash was spent.

• Recognition of an increase in expenses for land given to developers of planned development projects.

 Budget Comparison:

As reflected in Attachment 3, CADA’s General Operations for FY 2014-2015 were well within budget, ending the year with favorable variances totaling $1,041,258.

 ENVIRONMENTAL REVIEW

Not applicable. The recommended action is not a project pursuant to the California Environmental Quality Act (CEQA) guidelines and does not require environmental review.

 CONTRACT CONSIDERATIONS

Macias Gini & O’Connell, LLP is a registered Small Business with the City of Sacramento and the State of California.

The audit contract with Macias Gini & O’Connell, LLP has been approved by the Board. The contract provides auditing services for the fiscal years ending 2010 through 2015. Costs of the audit are included in each year’s budget.

Approved for transmittal to the Board:

/s/ Noelle Mussen
Noelle Mussen, Controller

Attachments:

1. Independent Auditor’s Reports FY 2014-2015 (See forthcoming supplemental transmittal)  
   a. Capitol Area Development Authority  
   b. Somerset Parkside Apartments (Contract Number 80-RHC-007)  
   c. Biele Place Apartments (Contract Number 80-RHC-032)  
   d. Brannan Court Apartments (Contract Number 86-32-N)
e. Seventeenth Street Commons (Contract Number 99-024-N)
2. Reconciliation – Budget Basis to GAAP Net Income