CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2011 and 2010

CAPITOL AREA DEVELOPMENT AUTHORITY

For the Fiscal Years June 30, 2011 and 2010

Table of Contents

	Page(s)
Board of Directors	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (Unaudited)	4-13
Basic Financial Statements:	
Statements of Net Assets	14-15
Statements of Revenues, Expenses and Changes in Fund Net Assets	16
Statements of Cash Flows	17-18
Notes to the Financial Statements	19-37
Required Supplementary Information:	
Schedule of Funding Progress	38
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*	39-40

BOARD OF DIRECTORS OF THE CAPITOL AREA DEVELOPMENT AUTHORITY

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Board of Directors
Capitol Area Development Authority
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 1, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 and the schedule of funding progress on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Sacramento, California
December 1, 2011

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

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, 2011 and 2010.

The Authority was created by a joint powers agreement between the City of Sacramento and the State of California in 1978. The Authority's primary mission is to implement the residential and commercial component of the State's Capitol Area Plan and the City's R Street Corridor Master Plan. Additionally, the Authority contributes to the on-going vibrancy and diversity of the Sacramento urban core by creating a neighborhood at its center that is environmentally, socially and fiscally sustainable through its development activities and by providing professional property management services for the mixed-use, mixed-income properties that it manages. This mission is funded by rental income generated through the Authority's management of state-owned property and with tax increment revenue generated within the Authority's project area. While not a redevelopment agency, the Authority has legislative powers to collect tax increment from development in the project area.

Readers are encouraged to consider the following information in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights for the year ended June 30, 2011 include:

- During the year, the Authority had revenues of approximately $10.6 million consisting primarily of $7.3 million in rental and other revenues, $2.8 million in tax increment revenue and $0.5 million in interest income.

- The Authority had expenses totaling approximately $9.2 million consisting primarily of $3.4 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, $0.5 million for development projects and $1.0 million in depreciation expense.

- The Authority expended nearly $0.32 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $ 0.26 million was capitalized.

- The Authority purchased four sites (East End Gateway Site 1 through 4) in 2005, financed partially through the issuance of debt 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 by January 1, 2011. As of June 30, 2011, the Authority has incurred a total of $563,823 of approved related costs. The remaining unused credits of $1,478,046 were added back to the outstanding principal and land value. The note for East End Gateway Site 1, extended the date for allowable expenses to January 1, 2012, but still increased the principal due by the current unused credit balance.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

- During the prior fiscal year, the Authority initiated the implementation of a new property management software system that integrates with the current financial software system; integration was completed by June 30, 2011.

- During the fiscal year Sukna Global Holdings was selected for the East End Gateway Site 4 project (16th and P Street).

- In order to ensure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is reviewed at least annually. A key element of the Authority's financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and meet its projected planning and pre-development demands for redevelopment projects. The Authority's $16.1 million in net assets, as of June 30, 2011, meets this demand.

Financial highlights for the year ended June 30, 2010 include:

- During the year, the Authority had revenues and contributions of approximately $10.42 million consisting primarily of $6.9 million in rental revenue, $2.8 million in tax increment revenue and $0.5 million in interest income.

- The Authority had expenses totaling approximately $9.4 million consisting primarily of $3.4 in employee services and benefits, $3.2 million related to property management operations, $1.0 million of interest expense on the Authority's debt service, $0.8 million for development projects and $1.0 million in depreciation expense.

- The Authority expended nearly $1.3 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $1.2 million was capitalized.

- In July 2009 the CADA Maintenance Facility was moved from a leased space to a purchased building at 701 S Street.

- The renovation of 1400-4 O Street, a building that houses Bistro Michael Restaurant and 17 residential units, was completed in November 2009 for approximately $533,000.

- During the fiscal year, the Authority initiated the implementation of a new property management software system that integrates with the current financial software system. The project completion is estimated to be in Spring of 2011.

FINANCIAL HIGHLIGHTS (CONTINUED)

- The Authority completed the renovation and renting of the Fremont Wilshire Apartments (14^{th} and P Streets) as an affordable housing project.

- The Authority elected to participate in the California Employers' Retiree Benefit Trust administered by CalPERS to address the Authority's unfunded post-employment health benefit liabilities. In the fiscal year the annual required contribution (ARC) of $398,000 was funded to the trust.

- During the fiscal year new proposals were submitted for the East End Gateway Site 4 project (16^{th} and P Street), and a new developer was selected in the next fiscal year.

- During the fiscal year the Authority leased a vacant lot from a private owner at 15^{th} and Q Streets and constructed a temporary parking lot with a five year term lease with an option for a two year extension.

- In order to ensure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is reviewed at least annually. A key element of the Authority's financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and meet its projected planning and pre-development demands for redevelopment projects. The Authority's $14.7 million in net assets, as of June 30, 2010, meets this demand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2011 and 2010

OVERVIEW OF THE FINANCIAL STATEENTS (CONTINUED)

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.

Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's improving or declining financial position. In the case of the Authority, assets exceeded liabilities by $16,114,995 at June 30, 2011.

Condensed Statements of
Net Assets at June 30, 2011 and 2010

			Change	
	2011	**2010**	**$**	**%**
Assets:				
Current and other assets	$ 24,419,475	$ 22,784,048	$ 1,635,427	7.18%
Capital assets, net	12,845,912	12,081,582	764,330	6.33%
Total assets	**37,265,387**	**34,865,630**	**2,399,757**	**6.88%**
Liabilities:				
Accounts payable and other current liabilities	2,183,271	2,036,252	147,019	7.22%
Non-current liabilities	18,967,121	18,085,599	881,522	4.87%
Total liabilities	**21,150,392**	**20,121,851**	**1,028,541**	**5.11%**
Net assets:				
Invested in capital assets, net of related debt	(2,784,033)	(2,526,972)	(257,061)	10.17%
Restricted for insurance and reserves	567,896	534,816	33,080	6.19%
Unrestricted	18,331,132	16,735,935	1,595,197	9.53%
Total net assets	**$ 16,114,995**	**$ 14,743,779**	**$ 1,371,216**	**9.30%**

Analysis of Net Assets:

Total net assets increased during the current year by $1,371,216, as a result of an increase in assets offset by an increase in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which decreased by ($257,061), consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased over $1,790,257 as a result of acquisitions of land, equipment and improvements to buildings, including the increase in land value from the unused credits for the East End Gateway properties. Depreciation expense reduced the carrying value of the total capital assets by $1,025,927, for a net increase in the net value of capital assets of $764,330.

Debt related to the acquisition of capital assets, which affects both current and non-current liabilities increased $1,021, 391. This was the result of additional debt of $1,478,046 for the increase to East End Gateway 1 – 4 due to the unused credits, and other adjustments in the amount of $430 and the expensing of $15,222 of deferred amount on refunding net of $471,448 of principal payments on outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED

Government-Wide Financial Statements (Continued)

The net changes to capital assets and debt related to capital assets lead to the ($257,061) decrease in the portion of net assets - invested in capital assets, net of related debt.

Condensed Statements of
Net Assets at June 30, 2010 and 2009

	2010	2009	Change $	Change %
Assets:				
Current and other assets	$ 22,784,048	$ 22,449,706	$ 334,342	1.49%
Capital assets, net	12,081,582	10,514,570	1,567,012	14.90%
Total assets	**34,865,630**	**32,964,276**	**1,901,354**	**5.77%**
Liabilities:				
Accounts payable and other current liabilities	2,036,252	1,860,247	176,005	9.46%
Non-current liabilities	18,085,599	17,392,950	692,649	3.98%
Total liabilities	**20,121,851**	**19,253,197**	**868,654**	**4.51%**
Net assets:				
Invested in capital assets, net of related debt	(2,526,972)	(3,274,285)	747,313	-22.82%
Restricted for insurance and reserves	534,816	579,282	(44,466)	-7.68%
Unrestricted	16,735,935	16,406,082	329,853	2.01%
Total net assets	**$ 14,743,779**	**$ 13,711,079**	**$ 1,032,700**	**7.53%**

Analysis of Net Assets:

Total net assets increased during the prior year by $1,032,700, as a result of an increase in assets offset by an increase in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which increased by $747,313, consists of the cost basis of assets acquired, less depreciation, deferred bond issuance costs and defeasance and related debt, net of unspent proceeds.
The historical cost of capital assets increased over $2,570,836 as a result of acquisitions of land, equipment and improvements to buildings, including the purchase of the property at 701 S Street. Depreciation expense reduced the carrying value of the total capital assets by $1,003,824, for a net increase in the net value of capital assets of $1,567,012.

Debt related to the acquisition of capital assets, which affects both current and non-current liabilities increased $843,172. This was the result of further expenditure of $97,145 of previously unexpended 2004 Tax Allocation Bond proceeds, new debt of $1,150,000 for the purchase of 701 S Street, the expensing of $38,696 of deferred amount on refunding and issuance costs, net of $442,669 of principal payments on outstanding debt. These factors lead to the $747,313 increase in the portion of net assets - invested in capital assets, net of related debt.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

			Change	
	2011	**2010**	**$**	**%**
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,065,352	$ 6,927,963	$ 137,389	1.98%
Miscellaneous	217,623	172,418	45,205	26.22%
Non-operating revenues				
Interest income	501,300	522,137	(20,837)	-3.99%
Intergovernmental	2,805,096	2,813,717	(8,621)	-0.31%
Total revenues	**10,589,371**	**10,436,235**	**153,136**	**1.47%**
Expenses:				
Operating expenses				
Employee services and benefits	3,402,479	3,349,847	52,632	1.57%
Development projects	524,703	844,487	(319,784)	-37.87%
Other	4,297,954	4,206,182	91,772	2.18%
Non-operating expenses	993,019	1,003,019	(10,000)	-1.00%
Total expenses	**9,218,155**	**9,403,535**	**(185,380)**	**-1.97%**
Change in net assets	**1,371,216**	**1,032,700**	**338,516**	
Net assets, beginning of year	14,743,779	13,711,079	1,032,700	7.53%
Net assets, end of year	**$ 16,114,995**	**$ 14,743,779**	**$ 1,371,216**	**9.30%**

Net assets increased by $1,371,216 as a result of fiscal year ended June 30, 2011 operations. This represents an increase of $338,516 from the $1,032,700 net assets increase reflected in fiscal year ended June 30, 2010.

Revenue reflects an increase from the prior year, mainly as a result of the net effect of three revenue sources. Tax increment decreased by ($8,621) as compared to the decrease of ($367,826) between fiscal year 2009 to fiscal year 2010. This reflects a net decrease in property taxes due to continual reductions to property values made by the County Assessor's Office to properties within the Authority's boundaries, although a smaller reduction the in the prior year. Net rental revenue increased almost 2%. Gross rental revenue increased by $232,360 but this was offset by decreases in low income subsides of $10,770 and increases in vacancy losses and loss to lease for a total of ($105,741). 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 $153,136 in total revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Expenses decreased during the fiscal year ended June 30, 2011, mainly due to decreases in development project expenses and smaller increases in other operating expenses.

Development project expenses were $524,703 during fiscal year ended June 30, 2011 versus $844,487 during fiscal year 2009/2010. This decrease is due to $500,000 of infrastructure development expenses occurring in the prior year but not in the current year, offset by increases of $182,000 for site improvements, environmental expenses, and professional services in the current year compared to the prior year.

The majority of the increases in other operating expenses are an increase totaling $81,000 for services and supplies expense mainly comprised of increases to utilities and property taxes.

Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

			Change	
	2010	**2009**	**$**	**%**
Revenues:				
Operating revenues				
Rental revenue, net	$ 6,927,963	$ 6,920,291	$ 7,672	0.11%
Miscellaneous	172,418	105,745	66,673	63.05%
Non-operating revenues				
Interest income	522,137	588,769	(66,632)	-11.32%
Intergovernmental				
Tax increment	2,813,717	3,181,543	(367,826)	-11.56%
Total revenues	**10,436,235**	**10,796,348**	**(360,113)**	**-3.34%**
Expenses:				
Operating expenses				
Employee services and benefits	3,349,847	2,928,240	421,607	14.40%
Development projects	844,378	1,047,897	(203,519)	-19.42%
Other	4,206,291	4,095,704	110,587	2.70%
Non-operating expenses	1,003,019	929,025	73,994	7.96%
Total expenses	**9,403,535**	**9,000,866**	**402,669**	**4.47%**
Change in net assets	**1,032,700**	**1,795,482**	**(762,782)**	
Net assets, beginning of year	13,711,079	11,915,597	1,795,482	15.07%
Net assets, end of year	**$ 14,743,779**	**$ 13,711,079**	**$ 1,032,700**	**7.53%**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Net assets increased by $1,032,700 as a result of fiscal year ended June 30, 2010 operations. This represents a decrease of ($762,782) from the $1,795,482 net assets increase reflected in fiscal year ended June 30, 2010.

Revenue reflects a decrease from the prior year, mainly as a result of three revenue sources. Tax increment decreased by ($367,826) as compared to the increase of $247,644 between fiscal year 2008 to fiscal year 2009. This reflects a net decrease in property taxes due to reductions to property values made by the County Assessor's Office to properties within the Authority's boundaries. Net rental revenue increased less than 1%. Gross rental revenue increase by $170,000 but this was offset by increases in vacancy losses and low income subsidy for a total of $162,953. 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 ($360,113) in total revenue.

Expenses increased during the fiscal year ended June 30, 2010 mainly in the employee services & benefits category due to the creation of a California Employers' Retiree Benefit Trust to address the Authority's unfunded post-employment health benefit liabilities. In the current fiscal year the Authority paid the $398,000 annual required contribution. This increase was offset by a reduction in activity on development projects, $844,378 during 2009/2010 versus $1,047,897 during 2008/2009. This is due to environmental and infrastructure development expenses occurring in the prior but not in the current year. There was a net increase in interest expense of $74,000 due to interest on the new debt from the purchase of 701 S Street.

The majority of the increase in other operating expenses is an increase totaling $105,000 for property management repairs and maintenance expense which is mainly comprised of non-capitalized repairs to the building stock for both residential and commercial properties.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statement of Net Assets above, the Authority's investment in capital assets were $12,845,912 and $12,081,582 (net of accumulated depreciation) at June 30, 2011 and 2010, 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, 2011 and 2010 totaled $1,790,686 and $2,570,837 respectively, included land, building improvements, machinery and equipment, and construction in progress. Depreciation on capital assets totaled $1,025,928 and $1,003,824, respectively, for the years ending June 30, 2011 and 2010.

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

Notes and bonds payable: Also reflected in the Statement of Net Assets above, the Authority is responsible for notes and bonds payable, net of deferred amounts, totaling $19,324,463 and $18,302,642 as of June 30, 2011 and June 30, 2010. During the year ended June 30, 2011, $1,478,046 of additional debt was assumed for the unused remediation credits added back to the principal in the East End Gateway Site 1 – 4 notes. In addition, during the year ended June 30, 2010, $1,150,000 of additional debt was assumed for the purchase of the 701 S Street. During the years ended June 30, 2011 and 2010, principal payments reduced notes payable by $251,447 and $232,669 respectively and bonds payable by $220,000 and $210,000 respectively. Amortization of deferred amount on refunding and costs of issuance totaled $23,473 for the years ended June 30, 2011 and 2010.

Additional information on the Authority's Long-Term Debt can be found in Note F and G 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. 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 regularly requires more than one fiscal year to complete. Consequently, the Authority operates using both annual General Operations Budgets and multi-year Capital Investment Program Budgets.
The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2012:

- No increases were budgeted for tax increment revenue due to the net effect of anticipated adjustments and appeals by the county assessor office.
- No increases were budgeted for residential rental revenue, due to the anticipated activity in the rental market.
- Increased debt expenses for the additional debt service on the East End Gateway notes for the unused credits added back to the principal as of January 2011.
- Low to Moderate bond proceeds were budgeted for a development grant to Bridge Housing for the East End Gateway Site 5 development project on the 1614 N Street property.
- Budgeted current development projects of $482,000 and major construction of $729,000 will be funded through the fiscal year ending June 30, 2012 General Operations Budget.
- Remaining bond proceeds are available to provide development project funding for the East End Gateway Site 5, Capitol Lofts, R Street development, and the development of low to moderate income housing in both the Capitol and R Street Areas.

ECONOMIC FACTORS AND BUDGET PROCESS (CONTINUED)

- The Authority will continue to maintain its current housing stock through its major construction program.

- The Authority budgeted $422,000 to fund the current year's ARC to the California Employers' Retiree Benefit Trust administered by CalPERS for the Authority's unfunded post-employment health benefit liabilities.

- The Authority will continue to move forward with development site investments previously budgeted through prior year Capital Investment Program budgets, primarily the East End Gateway Sites, R Street, Mercury Cleaners and Capitol Lofts.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

- The Authority continues to proceed with the development of 16th Street, O Street and the R Street Corridor. These pursuits will place a high demand on the Authority to fund pre-development activities, potential toxic remediation and site aggregation activities.

- East End Gateway Sites 2 & 3 (16th & O St) is in the process of closing escrow. Construction is planned to begin in 2012 with 84 apartment units and 12,000 SF of retail space.

- The Authority will continue exploring options for the development of other sites, including but not limited to Block 222, Site 21, R Street, and Site 9B.

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

- During the next fiscal year the State is attempting to reduce the statewide government property footprint. The land leased by CADA from the State is included in this evaluation.

- Continued downturn in the condominium sales market, property values, reduced development financing ability, volatile interest rates and any further major increases in costs affecting construction materials will continue to negatively impact the pace of redevelopment and the Authority's projections for tax increment revenue. The overall national economy and the regional economy will directly affect growth opportunities.

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 Assets
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and investments	$ 18,621,788	$ 17,223,145
Accounts receivable, net	152,755	109,665
Interest receivable	595,949	427,524
Prepaid expenses	107,280	95,220
Notes receivable, current portion	1,670,225	8,604
Restricted cash:		
Tenant & event security deposits	387,934	375,728
Debt covenant reserves	854,165	854,165
Insurance impounds	45,825	44,667
Total restricted cash	1,287,924	1,274,560
Total current assets	22,435,921	19,138,718
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	222,071	190,149
Insurance risk reserve	300,000	300,000
Total restricted cash	522,071	490,149
Notes receivable, net	921,592	2,591,817
Deferred charge, net	539,891	563,364
Capital assets:		
Non-depreciable	4,689,172	3,279,969
Depreciable, net	8,156,740	8,801,613
Total capital assets	12,845,912	12,081,582
Total noncurrent assets	14,829,466	15,726,912
Total assets	$ 37,265,387	$ 34,865,630

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Assets (Continued)
June 30, 2011 and 2010

	2011	2010
Liabilities		
Current liabilities:		
Accounts payable	$ 367,594	$ 552,274
Prepaid rent	77,019	31,052
Due to state - HCD	80,473	87,404
Accrued benefits payable	50,165	46,808
Accrued interest payable	175,385	179,354
Tenant security deposits	387,934	375,728
Developer deposits	449,250	307,408
Notes payable, current portion	380,673	251,446
Bonds payable, current portion	214,778	204,778
Total current liabilities	2,183,271	2,036,252
Noncurrent liabilities:		
Accrued interest payable	45,474	43,474
Notes payable	7,934,458	6,837,086
Bonds payable	10,794,554	11,009,332
Compensated absences payable	192,635	195,707
Total noncurrent liabilities	18,967,121	18,085,599
Total liabilities	21,150,392	20,121,851
Net Assets		
Invested in capital assets, net of related debt	(2,784,033)	(2,526,972)
Restricted for insurance and reserves	567,896	534,816
Unrestricted	18,331,132	16,735,935
Total net assets	$ 16,114,995	$ 14,743,779

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues		
Rental revenue, net	$ 7,065,352	$ 6,927,963
Other revenues:		
Development projects	160,574	132,255
Miscellaneous	57,049	40,163
Total operating revenues	7,282,975	7,100,381
Operating expenses		
Employee services and benefits	3,402,479	3,349,847
Services and supplies	2,150,032	2,069,234
Development projects	524,703	844,487
Repairs and maintenance	1,082,249	1,109,651
Allowance for Uncollectibles	16,272	-
Amortization	23,473	23,473
Depreciation	1,025,928	1,003,824
Total operating expenses	8,225,136	8,400,516
Operating loss	(942,161)	(1,300,135)
Non-operating revenues (expenses)		
Interest income	501,300	522,137
Interest expense	(993,019)	(1,003,019)
Intergovernmental	2,805,096	2,813,717
Total non-operating revenues	2,313,377	2,332,835
Change in net assets	1,371,216	1,032,700
Net assets, beginning of year	14,743,779	13,711,079
Net assets, end of year	$ 16,114,995	$ 14,743,779

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	**2010**
Cash flows from operating activities:		
Rental receipts	$ 7,051,957	$ 6,857,423
Other development and operating receipts	359,465	196,126
Tenant security deposits received	180,806	212,461
Payroll and related costs paid	(3,402,194)	(3,342,792)
Services and supplies expenses paid	(2,346,772)	(1,942,383)
Development project expenses paid	(524,703)	(844,378)
Operating and maintenance expenses paid	(1,082,249)	(1,109,651)
Tenant security deposits paid	(168,600)	(206,522)
Net cash (used for) provided by operating activities	67,710	(179,716)
Cash flows from noncapital financing activities:		
Intergovernmental	2,798,165	2,774,389
Cash flows from capital and related financing activities:		
Principal payment on debt	(456,225)	(427,446)
Interest paid on debt	(994,988)	(1,003,908)
Acquisition of capital assets	(312,212)	(1,420,836)
Net cash used for capital and related financing activities	(1,763,425)	(2,852,190)
Cash flows from investing activities:		
Proceeds from long term investment	-	851,063
Repayment of notes receivable	8,604	2,773
Interest receipts	332,875	357,483
Net cash provided by investing activities:	341,479	1,211,319
Net increase in cash	1,443,929	953,802
Cash and cash equivalents, beginning of year	18,987,854	18,034,052
Cash and cash equivalents, end of year	$ 20,431,783	$ 18,987,854
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and investments	$ 18,621,788	$ 17,223,145
Restricted cash :		
Tenant security deposits	387,934	375,728
Debt covenant reserves	854,165	854,165
Insurance impounds	45,825	44,667
Reserve for replacements	222,071	190,149
Insurance risk reserve	300,000	300,000
Total cash and cash equivalents	$ 20,431,783	$ 18,987,854

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	$ (942,161)	$ (1,300,135)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Amortization	23,473	23,473
Depreciation	1,025,928	1,003,824
Changes in assets and liabilities:		
Accounts receivable	(43,090)	(92,567)
Prepaid expenses	(12,060)	(628)
Accounts payable	(184,680)	127,479
Prepaid rent	45,967	22,136
Accrued benefits payable	3,357	(1,358)
Tenant security deposits payable	12,206	5,939
Developer deposits payable	141,842	23,708
Compensated absences payable	(3,072)	8,413
Net cash (used for) provided by operating activities	$ 67,710	$ (179,716)
Noncash investing, capital and financing activities:		
Interest revenue financed through issuances of notes receivable	$ -	$ 11,612
Acquisition of capital assets through debt financing	$ 1,478,046	$ 1,150,000

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 30 leases); management of ground leases involving privately developed housing (approximately 140 units); developing new housing and commercial projects, including neighborhood amenities; and development of new state office and parking facilities upon request and approval of the State.

Basis of Presentation

The Authority is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenue of the Authority is rental income from tenants of its housing units. Operating expenses for the Authority include employee services, administrative expenses, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Intergovernmental Revenues

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments

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

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

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

Capital Assets

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

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

Compensated Absences Payable

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 $192,635 and $195,707 as of June 30, 2011 and 2010 respectively.

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

Compensated Absences Payable and Sick Leave (Continued)

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

Risk Management

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

Use of Estimates

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

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)**

Custodial Credit Risk (Continued)

The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. In addition, the Authority maintains interest-bearing impound deposits with the California Housing Finance Agency (CalHFA) as required by the Authority's note payable with the Agency. All such impound deposits are entirely insured or collateralized with securities held by the mortgagor in the Authority's name.

At June 30, 2011 and 2010, the carrying amount of the Authority's deposits were $3,151,990 and $1,581,354, respectively. The bank balances at June 30, 2011 and 2010 were $3,209,021 and $1,607,762, respectively. Of these amounts $250,000 was covered by federal depository insurance both at June 30, 2011 and 2010, 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 it's exposure to interest rate risk by investing the majority of its resources with the City Treasurer, which purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the pool is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment pool is unrated and the weighted average maturity is 1.42 years and 1.41 years as of June 30, 2011 and 2010, respectively.

Credit Risk

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

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011 and 2010

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

Credit Risk (Continued)

As of June 30, 2011, 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	$ -	$ 16,334,408	$ 16,334,408
Money market mutual funds	AAA/Aaa	854,165	-	854,165
CalHFA impound accounts	NA	-	-	91,220
Deposits	NA	-	-	3,151,990
Total cash and invsestments		$ 854,165	$ 16,334,408	$ 20,431,783

As of June 30, 2010, 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	$ -	$ 16,473,426	$ 16,473,426
Money market mutual funds	AAA/Aaa	854,165	-	854,165
CalHFA impound accounts	NA	-	-	78,909
Deposits	NA	-	-	1,581,354
Total cash and investments		$ 854,165	$ 16,473,426	$ 18,987,854

NOTE C - NOTES RECEIVABLE

	June 30, 2011	June 30, 2010
From 15th & Q Limited Partnership:		
Interest-free promissory note for $500,000 for the development of multifamily residential rental housing. Principal shall be due and payable upon the earlier to occur: (i) sale of all or any part of the property by maker, or (ii) ten (10) years following the first day of the first calendar month following the date the improvements achieve a ninety percent (90%) physical occupancy rate for all units (March 1, 2016).	$ 500,000	$ 500,000
From 15th & Q Limited Partnership:		
Promissory note for up to $400,000 for the development of multifamily residential rental housing. Interest shall accrue commencing the first of the month following the date improvements first achieve a ninety percent (90%) physical occupancy rate (interest accrual date). Interest rates shall increase annually by 1% to a maximum of 5% for years 5 through maturity. Unpaid interest shall be added to principal and bear interest at the note rate. Payments started on March 1, 2010 the beginning of year 5 following the interest accrual date.	430,636	439,240
From Capitol Lofts-Sacramento, LLC:		
Promissory note for certain site development and construction costs associated with the Capitol Lofts, a mixed-use development project. As of October 26, 2007 the financial structure of the development project and promissory note were renegotiated. The promissory note was repositioned as a unsercured loan up to $2.7 million with a term not to exceed four (4) years from the execution date. Interest will accrue from the date of execution at the rate of 10%	1,661,181	1,661,181
Total	$ 2,591,817	$ 2,600,421

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 - CAPITAL ASSETS

Information on changes in capital assets is presented below:

	June 30, 2010	Increases	Transfers	Decreases	June 30, 2011
Capital assets not being depreciated:					
Land	$ 2,861,724	$ 1,478,046	$ -	$ -	$ 4,339,770
Construction in progress	418,245	49,624	(118,467)	-	349,402
Total capital assets not being depreciated	3,279,969	1,527,670	(118,467)	-	4,689,172
Capital assets being depreciated:					
Buildings and improvements	22,013,241	251,666	118,467	-	22,383,374
Machinery and equipment	672,940	10,921	-	(245,504)	438,357
	22,686,181	262,587	118,467	(245,504)	22,821,731
Less accumulated depreciation for:					
Buildings and improvements	(13,308,839)	(964,799)	-	-	(14,273,638)
Machinery and equipment	(575,729)	(61,129)	-	245,504	(391,353)
	(13,884,568)	(1,025,928)	-	245,504	(14,664,991)
Total capital assets being depreciated, net	8,801,613	(763,341)	118,467	-	8,156,740
Capital assets, net	$ 12,081,582	$ 764,329	$ -	$ -	$ 12,845,912

	June 30, 2009	Increases	Transfers	Decreases	June 30, 2010
Capital assets not being depreciated:					
Land	$ 1,886,724	$ 975,000	$ -	$ -	$ 2,861,724
Construction in progress	189,378	342,597	(113,730)	-	418,245
Total capital assets not being depreciated	2,076,102	1,317,597	(113,730)	-	3,279,969
Capital assets being depreciated:					
Buildings and improvements	20,671,606	1,227,905	113,730	-	22,013,241
Machinery and equipment	647,606	25,334	-	-	672,940
	21,319,212	1,253,239	113,730	-	22,686,181
Less accumulated depreciation for:					
Buildings and improvements	(12,372,956)	(935,883)	-	-	(13,308,839)
Machinery and equipment	(507,788)	(67,941)	-	-	(575,729)
	(12,880,744)	(1,003,824)	-	-	(13,884,568)
Total capital assets being depreciated, net	8,438,468	249,415	113,730	-	8,801,613
Capital assets, net	$ 10,514,570	$ 1,567,012	$ -	$ -	$ 12,081,582

NOTE F - NOTES PAYABLE

Notes payable consists of the following:

	June 30, 2011	June 30, 2010
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	$ 15,968	$ 20,038
Non-interest bearing note with annual principal payments of not less than $40,000 annually, plus accrued interest at 2% beginning March, 2012 and maturing March, 2016, secured by the pledge of tax increment funds on the Capital Lofts project	200,000	200,000
To 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	47,324	65,835
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.	1,122,319	1,138,461
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.	1,100,251	185,817

NOTE F - NOTES PAYABLE (CONTINUED)

	June 30, 2011	June 30, 2010
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 $23,033. Secured by pledge of tax increment revenue.	345,921	216,646
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.	545,279	420,451
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.	562,927	302,796
To California Housing Finance Agency:		
Monthly installments of $17,303, including principal and interest at 9.95% to October 1, 2018, secured by 1500 N Street project.	1,077,775	1,172,962
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.	1,232,692	1,261,188

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

	June 30, 2011	June 30, 2010
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.	313,152	329,633
Non-interest bearing note with annual principal payments of not less than \$25,000 annually beginning July 1, 2013 and maturing on July 1, 2022, secured by the pledge of tax increment funds on the Capital Lofts project.	250,000	250,000
To Farmers and Merchant Bank:		
Monthly principal and interest installments of \$8,389 with a fixed interest rate of 6.5% to December 5, 2018. Note is secured by Fremont Wilshire Apartments at the corner of 15th & P Streets.	1,271,925	1,288,176
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.	29,598	36,529
Total Notes Payable	\$ 8,315,131	\$ 7,088,532

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

Future maturities on notes payable are as follows at June 30, 2011:

Years Ending June 30,	Principal	Interest	Total
2012	$ 380,673	$ 370,342	$ 751,015
2013	420,960	350,257	771,217
2014	424,201	329,267	753,468
2015	436,049	307,926	743,975
2016	447,560	285,483	733,043
2017-2021	3,941,068	1,514,183	5,455,251
2022-2026	1,146,021	281,940	1,427,961
2027-2031	923,469	122,880	1,046,349
2032-2034	195,130	12,428	207,558
	$ 8,315,131	$ 3,574,706	$ 11,889,837

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2011 and 2010:

Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Amounts due within one year
$ 7,088,532	$ 1,478,046	$ (251,447)	$ 8,315,131	$ 380,673

Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amounts due within one year
$ 6,171,201	$ 1,150,000	$ (232,669)	$ 7,088,532	$ 251,446

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 of 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 $2,805,096 and $2,813,717 for the year ended June 30, 2011 and June 30, 2010. The principal and interest payments for these four properties were $71,668 for the years ended June 30, 2011 and June 30, 2010.

NOTE G - **BONDS PAYABLE**

On July 29, 2004, the Authority issued 2004 Tax Allocation Bonds. The Authority's remaining obligations with respect to previously issued 1994 Tax Allocation Revenue Bonds were fully 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, 2011:

Years Ending June 30,	Principal	Interest	Total
2012	$ 230,000	$ 615,555	$ 845,555
2013	240,000	603,903	843,903
2014	255,000	591,519	846,519
2015	265,000	578,442	843,442
2016	280,000	563,981	843,981
2017-2021	1,650,000	2,560,467	4,210,467
2022-2026	2,190,000	1,999,188	4,189,188
2027-2031	2,940,000	1,230,380	4,170,380
2032-2035	3,005,000	325,275	3,330,275
Total requirements	$ 11,055,000	$ 9,068,710	$ 20,123,710

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2011 and 2010:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Amounts due within one year
2004 Tax Allocation Bonds	$ 11,275,000	$ -	$ (220,000)	$ 11,055,000	$ 230,000
Deferred amounts on refunding	$ (60,890)	$ -	$ 15,222	$ (45,668)	$ 15,222
Total 2004 Tax Allocation Bonds	$ 11,214,110	$ -	$ (204,778)	$ 11,009,332	$ 214,778

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

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amounts due within one year
2004 Tax Allocation Bonds	$ 11,485,000	$ -	$ (210,000)	$ 11,275,000	$ 22,000
Deferred amounts on refunding	$ (76,113)	$ -	$ 15,223	$ (60,890)	$ 15,223
Total 2004 Tax Allocation Bonds	$ 11,408,887	$ -	$ (194,777)	$ 11,214,110	$ 204,778

NOTE H **- COMPENSATED ABSENCES**

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2011 and 2010:

Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
$ 195,707	$ 135,210	$ (138,282)	$ 192,635

Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
$ 187,294	$ 133,340	$ (124,927)	$ 195,707

NOTE I **- 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 form 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 and the lease ended January 31, 2010 a total of $98,064 and $89,765 of operating lease rental expense was paid during the years ended June 30, 2011 and 2010, respectively.

NOTE I **- OPERATING LEASES (CONTINUED)**

In February 2010 the Authority moved to a new facility. Under the terms of the lease, a total of $98,064 and$51,912 of rental expense was paid during the years ended June 30, 2011 and June 30, 2010, respectively

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 and $7,000 of rental expense was paid during the years ended June 30, 2011 and 2010, respectively.

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

Year Ending June 30,	Office Space	15th & Q	Total
2012	$ 98,064	$ 36,000	$ 134,064
2013	98,064	36,000	134,064
2014	98,064	36,000	134,064
2015	98,064	29,000	127,064
2016	98,064	-	98,064
2017	98,064	-	98,064
2018	98,064	-	98,064
2019	98,064	-	98,064
2020	57,204	-	57,204
Total future minimum lease payments	$ 841,716	$ 137,000	$ 978,716

NOTE J - **PENSION PLAN**

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 4% were paid by the Authority. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates were 11.846% and 11.591% for the years ended June 30, 2011 and 2010, respectively. The Authority has been notified that the required employer contribution rate will be 12.836% for the year ending June 30, 2012. 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
6/30/09	$ 210,978	100%
6/30/10	$ 231,079	100%
6/30/11	$ 319,471	100%

NOTE K - 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 - $105 per month for calendar year 2010.

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 of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is $402,000.

NOTE K - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Annual OPEB Cost

For the year ended June 30, 2011, the Authority's annual OPEB cost (expenses) was $402,000. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2011 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability/Asset
6/30/2010	$ 398,000	100%	$ -
6/30/2011	$ 402,000	100%	$ -

Funded Status and Funding Progress

The Funded status of the plan as of June 30, 2011, was as follows:

Actuarial accrued liability (AAL)	$ 4,974,000
Actuarial value of plan assets	734,072
Unfunded actuarial accrued liability (UAAL)	$ 4,239,928
Funded ratio (actuarial value of plan assets/AAL)	14.76%
Covered payroll (active plan members)	$ 1,546,230
UAAL as a percentage of covered payroll	274%

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 K - 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 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return, (net of administrative expenses) and an annual blended healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 5 years. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value on the valuation date of prior service costs. For retirees, the AAL is the present value of all projected benefits.

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

NOTE L – POLLUTION REMEDIATION OBLIGATIONS

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

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

NOTE M – **SUBSUQENT EVENTS**

The Authority is negotiating a Third Revised and Restated Disposition and Development agreement with Capitol Lofts-Sacramento, LLC that includes the repositioning of a note receivable that was due and payable October 26, 2011. This note was for predevelopment costs associated with the Capitol Lofts, mixed-use development project. As of June 30, 2011, the outstanding balance is $1,661,181.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information (Unaudited)
Years Ended June 30, 2011 and 2010

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]
6/30/2010	$ 332,442	$ 4,644,000	$ 4,311,558	7%	$ 1,456,085	296%
6/30/2011	$ 734,072	$ 4,974,000	$ 4,239,928	15%	$ 1,546,230	274%

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.

Board of Directors
Capitol Area Development Authority
Sacramento, California

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

We have audited the financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated December1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is 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.

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Sacramento, California
December 1, 2011