Capitol Area Development Authority

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

June 30, 2016 and 2015

CohnReznick
Accounting • Tax • Advisory

Capitol Area Development Authority

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Capitol Area Development Authority

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Independent Auditor's Report

To the Board of Directors
of the Capitol Area Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Capitol Area Development Authority ("Authority") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 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 Authority’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 Authority’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 Capitol Area Development Authority as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

We did not audit the financial statements of the Authority as of and for the year ended June 30, 2015. Such financial statements were audited by other auditors whose report dated December 3, 2015 expressed an unmodified opinion of these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the cost-sharing defined benefit pension plan schedule of the Authority's proportionate share of the net pension liability, the cost-sharing defined benefit pension plan schedule of the Authority's contributions, and the schedule of funding progress other post-employment benefits identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016 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 grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

CohnReznick LLP

Sacramento, California
December 6, 2016

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, 2016 and 2015.

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, 2016

- During the year, the Authority had revenues of approximately $11.4 million consisting primarily of $7.5 million in rental and other revenues, $3.7 million in tax increment revenue and $0.2 million in interest income.

- The Authority had expenses totaling approximately $8.8 million consisting primarily of $2.9 million in employee services and benefits, $3.3 million related to property management operations, $0.9 million of interest expense on the Authority's debt, $0.9 million for development projects, and $0.8 million in depreciation expense.

- The Authority expended nearly $246,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $140,000 was capitalized.

- The net pension liability required under GASB 68 has increased by about $111,000 to $2,868,163 as of June 30, 2016.

- Construction of the WAL project, a mixed use, mixed-income project with a total of 116 apartment units, including 86 affordable units and 30 market rate units, and 13,000 SF of retail space was completed in December 2014. Construction of the B&G building, the adjacent commercial building, began in the summer of 2014 and is estimated to be completed by early 2017.

- 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. It is estimated that improvements to Fremont Park along 16th street will start construction in the spring of 2016.

- Construction on the EVIVA project (East End Gateway Site 1 site at 16th and N Street) started in the summer of 2014; the project includes 118 apartment units, 133 parking spaces, and 5,200 SF of retail space. Construction is anticipated to be complete by the end of 2016.

- The first phase of streetscape enhancements in the R Street Corridor was completed in January 2012. The second phase of improvements was approved and funded by SACOG with the Authority contributing $820,000 in matching funds in 2012. Construction of phase two was substantially completed in fall of 2015. For phase three construction, the Authority applied for a SACOG grant with a match of $900,000. The Authority was awarded the SACOG grant in the amount $2.89 million with construction of phase three beginning in spring of 2017.

- In order to ensure it has the financial resources to meet the demands of its mission, the Authority maintains a rolling 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 $12.3 million in net position, as of June 30, 2016, meets this objective.

Financial Highlights for the Year Ended June 30, 2015

- Beginning net position was decreased by $3,381,493 reflecting the cumulative effects of changes in accounting principles for the implementation of Government Accounting Standards Board Statement No. 68 ("GASB 68"), Accounting and financial Reporting for Pensions - an amendment of GASB Statement No. 27 and GASB Statement No. 71 ("GASB 71"). Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement no. 68 (collectively, the "Statements"). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions.

- The net pension liability as of June 30, 2015 was $2,757,022 as a result of the implementation of GASB 68.

- During the year, the Authority had revenues of approximately $10.5 million consisting primarily of $7.6 million in rental and other revenues, $2.7 million in tax increment revenue and $0.2 million in interest income.

- The Authority had expenses totaling approximately $9.2 million consisting primarily of $3.4 million in employee services and benefits, $3.1 million related to property management operations, $0.9 million of interest expense on the Authority's debt, $0.9 million for development projects, and $0.9 million in depreciation expense.

- The Authority expended nearly $445,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $367,000 was capitalized.

- Construction of the WAL project, a mixed use, mixed-income project with a total of 116 apartment units, including 86 affordable units and 30 market rate units, and 13,000 SF of retail space was completed in December 2014. Construction of the B&G building, the adjacent commercial building, began in the summer of 2014 and is estimated to be completed by early 2017.

- 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. It is estimated that improvements to Fremont Park along 16th street will start construction in the spring of 2016.

- Construction on the EVIVA project (East End Gateway Site 1 site at 16th and N Street) started in the summer of 2014, the project includes 118 apartment units, 133 parking spaces, and 5,200 SF of retail space. Construction is expected to be complete by the end of 2016.

- Construction of the 16 Powerhouse project (16th and P Street), which includes 50 apartments and 7,700 SF of retail space project complete in early 2015. The project also included infrastructure improvements on 16th street and in the alley abutting the project, which were funded by a loan from the California Infrastructure Bank.

- The first phase of streetscape enhancements in the R Street Corridor was completed in January 2012. The second phase of improvements was approved and funded by SACOG with the Authority contributing $820,000 in matching funds in 2012. Construction of phase two was substantially completed in fall of 2015. For phase three construction, the Authority applied for a SACOG grant with a match of $900,000. The Authority was awarded a SACOG grant of $2.9 million and the construction of phase three will begin in spring of 2017.

- In order to ensure it has the financial resources to meet the demands of its mission, the Authority maintains a rolling 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 $9.7 million in net position, as of June 30, 2015, meets this objective.

- The Authority established a separate nonprofit entity Capitol Area Community Development Corporation to assist the City of Sacramento and the State of California in revitalizing the State Capitol Area by providing financing and assistance for the acquisition, development and managing residential and commercial projects, including affordable housing projects, along with development of public infrastructure.

Overview of the Financial Statements

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

The Authority's basic 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 deferred outflows of resources ("DOR"), and liabilities and deferred inflows of resources ("DIR"), with the difference between them 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 accompanying notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Supplementary information: The supplementary information accompanying the basic financial statements provides additional information on the Authority's pension plan and other post-employment benefit plan 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 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 and DOR exceeded its liabilities and DIR by $12,261,845 as of June 30, 2016.

Condensed Statements of Net Position at June 30, 2016 and 2015

	2016	2015	Change $	Change %
Assets				
Current and other assets	$ 25,247,296	$ 24,227,790	$ 1,019,506	4%
Capital assets, net	7,529,283	8,127,691	(598,408)	-7%
Total assets	$ 32,776,579	$ 32,355,481	$ 421,098	1%
Deferred Outflows of resources				
Deferred outflows related to pensions	$ 786,541	$ 282,032	$ 504,509	179%
Liabilities				
Current liabilities	$ 2,081,627	$ 2,535,524	$ (453,897)	-18%
Non-current liabilities	18,520,915	19,564,845	(1,043,930)	-5%
Total liabilities	$ 20,602,542	$ 22,100,369	$ (1,497,827)	-7%
Deferred Inflows of resources				
Deferred inflows related to pensions	$ 698,733	$ 863,606	$ (164,873)	-19%
Net Position				
Net investment in capital assets	$ (7,178,534)	$ (7,757,107)	$ 578,573	-7%
Restricted for insurance and reserves	1,082,925	992,635	90,290	9%
Unrestricted	18,357,454	16,438,010	1,919,444	12%
Total net position	$ 12,261,845	$ 9,673,538	$ 2,588,307	27%

Analysis of Net Position - June 30, 2016:

The Authority's net position increased during the current year by $2,588,307, as a result of a decrease in pension expenses due to GASB 68 calculation and significant increases in revenue. A portion of the Authority's net position is invested in capital assets. This category, which decreased by $578,573, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased as a result of acquisitions of equipment and improvements to buildings for a total of $197,436. Depreciation expense reduced the carrying value of the total capital assets by $795,845, for a net decrease in the net value of capital assets of $598,408. Additional information on the Authority's capital assets can be found in Note 6 to the Financial Statements.

The decrease in the net investment in capital assets category of $578,573 is the net effect of a decrease from the $598,408 reduction in capital assets, and a decrease in the related debt due to debt repayments of $1,176,981.

Condensed Statements of
Net Position at June 30, 2015 and 2014

	2015	2014	Change $	Change %
Assets				
Current and other assets	$ 24,227,790	$ 22,818,434	$ 1,409,356	6%
Capital assets, net	8,127,691	8,585,285	(457,594)	-5%
Total assets	$ 32,355,481	$ 31,403,719	$ 951,762	3%
Deferred Outflows of resources				
Deferred outflows related to pensions	$ 282,032	$ -	$ 282,032	100%
Liabilities				
Current liabilities	$ 2,535,524	$ 2,118,545	$ 416,979	20%
Non-current liabilities	19,564,845	17,552,914	2,011,931	11%
Total liabilities	$ 22,100,369	$ 19,671,459	$ 2,428,910	12%
Deferred Inflows of resources				
Deferred inflows related to pensions	$ 863,606	$ -	$ 863,606	100%
Net Position				
Net investment in capital assets	$ (7,757,107)	$ (6,209,570)	$ (1,547,537)	25%
Restricted for insurance and reserves	992,635	865,388	127,247	15%
Unrestricted	16,438,010	17,076,442	(638,432)	-4%
Total net position	$ 9,673,538	$ 11,732,260	$ (2,058,722)	-18%

Analysis of Net Position - June 30, 2015:

As a result of the Authority implementing GASB Statement No. 68, the Authority's beginning net position balance was restated by a decrease of $3,381,493 due to the cumulative effect of changes in accounting principles. As a result of this implementation net pension liability is $2,757,022, deferred outflow is $282,032 and deferred inflow is $863,606. The Authority's net position increased during the current year by $1,322,771, as a result of a decrease in development project expenses due to contributions of land and grants to development projects that occurred in the prior year. A portion of the Authority's net position is invested in capital assets. This category, which decreased by $1,547,537, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased as a result of acquisitions of equipment and improvements to buildings for a total of $407,906. Depreciation expense reduced the carrying value of the total capital assets by $865,500, for a net decrease in the net value of capital assets of $457,594. Additional information on the Authority's capital assets can be found in Note 6 to the Financial Statements.

The decrease in the net investment in capital assets category of $1,547,537 is the net effect of a decrease from the $457,594 reduction in capital assets, an increase from change in debt and debt repayments of $123,909, and a decrease from the expensing of deferred refunding of $489,943 and the reduction in unspent bond proceeds of $1,213,852.

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015	Change $	Change %
Revenues				
Operating Revenues				
Rental revenue, net	$ 7,338,295	$ 7,220,148	$ 118,147	2%
Other revenue	150,949	423,344	(272,395)	-64%
Non-Operating Revenues				
Interest income	204,892	203,666	1,226	1%
Intergovernmental	3,673,358	2,681,154	992,204	37%
Total revenues	$ 11,367,494	$ 10,528,312	$ 839,182	8%
Expenses				
Operating Expenses				
Employee services and benefits	$ 2,922,665	$ 3,372,419	$ (449,754)	-13%
Development projects	892,047	956,092	(64,045)	-7%
Other	4,107,458	3,979,160	128,298	3%
Non-Operating Expenses				
Interest expense	857,017	897,870	(40,853)	-5%
Total expenses	8,779,187	9,205,541	(426,354)	-5%
Change in net position	2,588,307	1,322,771	1,265,536	96%
Net position, beginning of year	9,673,538	11,732,260	(2,058,722)	-18%
Change in accounting principles	-	(3,381,493)	3,381,493	-100%
Net position, end of year	$ 12,261,845	$ 9,673,538	$ 2,588,307	27%

The Authority's net position increased by $2,588,307 as a result of fiscal year ended June 30, 2016 operations. This represents a $1,265,536 increase compared to the $2,058,722 decrease from prior year due to the GASB 68 pension adjustment restating the Authority's 2014 net position.

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 $992,204 and reflects a continued increase in property taxes within the Authority's boundaries. Miscellaneous revenue decreased by $272,395 due to the reduction in development fees received throughout the year. Rental rates increased and therefore, gross rental revenue increased by $136,644, offset by $18,497 in decreases to low-income subsidy, vacancy losses and loss to lease. Interest income is same as last year as a result of similar investment earnings as the prior year on funds held with the City Treasurer. The overall impact on revenue was an increase of $839,182 in total revenue.

Expenses decreased by $426,354 during the fiscal year ended June 30, 2016, mainly due to decreases in Employee Services and Benefits by a net of $449,754 mainly due to a decrease in pension expense which is a function of the net pension liability calculation required by GASB 68 that adjusted the timing of recognition of pension related items.

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014

			Change	
	2015	2014	$	%
Revenues				
Operating Revenues				
Rental revenue, net	$ 7,220,148	$ 7,273,968	$ (53,820)	-1%
Other revenue	423,344	508,242	(84,898)	-17%
Non-Operating Revenues				
Interest income	203,666	196,730	6,936	4%
Intergovernmental	2,681,154	2,541,129	140,025	6%
Total revenues	$ 10,528,312	$ 10,520,069	$ 8,243	0%
Expenses				
Operating Expenses				
Employee services and benefits	$ 3,372,419	$ 3,386,320	$ (13,901)	0%
Development projects	956,092	2,814,063	(1,857,971)	-66%
Other	3,979,160	4,191,651	(212,491)	-5%
Non-Operating Expenses				
Interest expense	897,870	940,853	(42,983)	-5%
Total expenses	9,205,541	11,332,887	(2,127,346)	-19%
Change in net position	1,322,771	(812,818)	2,135,589	-263%
Net position, beginning of year	11,732,260	12,545,078	(812,818)	-6%
Change in accounting principles	(3,381,493)	-	(3,381,493)	100%
Net position, end of year	$ 9,673,538	$ 11,732,260	$ (2,058,722)	-18%

As a result of the Authority implementing GASB Statement No. 68, the Authority's beginning net position balance was restated by a decrease of $3,381,493 due to the cumulative effect of changes in accounting principles. The Authority's net position increased by $1,322,771 as a result of fiscal year ended June 30, 2015 operations. This represents a $2,135,589 increase compared to the $812,818 decrease from prior year adjusted by the GASB 68 restatement for a net decrease in net position of 2,058,722.

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 $140,025 and reflects a continued increase in property taxes within the Authority's boundaries. Miscellaneous revenue also decreased by $84,898 due to the reduction in development fees received throughout the year. Rental rates increased and therefore, gross rental revenue increased by $10,026 and low-income subsidies increased by $13,151. This was offset by $76,997 in decreases due to vacancy losses and loss to lease. 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 $8,243 in total revenue.

Expenses decreased during the fiscal year ended June 30, 2015, mainly due to decreases in development project expenses. In the prior year development project expenses were $2,814,063 versus $956,092 in the current year. This decrease is due to project contributions made in the prior year that did not occur in the current year. In the fiscal year ended 2014, the Authority contributed land valued at $1.2 million to the East End Gateway Site 1 project, Site 9B loss on sale and remediation credits given for the 16 Powerhouse project, along with $240,000 in remediation work for East End Gateway Site 1 project and $500,000 is subsidies to the B&G building project.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statements of Net Position above, the Authority's investments in capital assets were $7,529,283 and $8,127,691 (net of accumulated depreciation) at June 30, 2016 and 2015, respectively. This investment in capital assets includes construction in progress, building and improvements, and machinery and equipment. Additions during the years ended June 30, 2016 and 2015 totaled $197,436 and $407,906, respectively. The 2016 additions included building improvements of $125,815, machinery and equipment of $26,923, and construction in progress of $44,698. Depreciation on capital assets totaled $795,845 and $865,500, respectively, for the years ending June 30, 2016 and 2015.

Additional information on the Authority's capital assets can be found in Note 6 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 totaling $16,147,403 and $17,324,384 as of June 30, 2016 and 2015, respectively. During the fiscal years ended June 30, 2016 and 2015, principal payments reduced notes payable by $896,981 and $458,909, respectively, and bonds payable by $280,000 and $265,000, respectively. The increase for principal payments compared to the prior year was mainly due to the Authority paying in full one outstanding note with the State of California Department of General Services.

Additional information on the Authority's Long-Term Debt can be found in Notes 7 and 8 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 is involved in the development of sites within the Capitol Area. Site preparation and development often 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, 2016:

- An increase to the Capital Area tax increment revenue was budgeted due to the current year receipts and anticipated tax levels for FY 2015-2016. The proposed increases appear to be due to increased sales and sales with higher capitalization rates than in previous years in the Authority's area.

- A net increase was budgeted for rental revenue, to reflect the current rental revenue level and partial recognition of the anticipated revenue increase due to the approved rent increase for fiscal year 2016-2017.

- Budgeted current development projects of $2 million will be funded as part of fiscal year ending June 30, 2016 General Operations Budget. Development funding outlays have been significantly increased due to the need of funding for the possible purchase of the 1717 S Street property for a low-income housing project on R Street.

- Remaining bond proceeds are available for R Street project 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 amount of $942,000 to be funded through the General Operation Budget.

- The Authority budgeted $248,000 to fund the current year's annual required contribution ("ARC") to the California Employers' Retiree Benefit Trust administered by the California Public Employees' Retirement System for the Authority's unfunded post-employment health benefit liabilities. This is a decrease from the prior year based on the new actuarial analysis.

Future Events that will Financially Impact the Authority

- The Authority is working with the City of Sacramento to complete construction drawings for improvements to Roosevelt Park.

- The Authority is exploring a possible affordable housing project in partnership with Westminster church located on church property at 13th and O Street.

- The Authority, through the Capital Area Community Development Corporation nonprofit, is conducting testing and possible remediation and purchase of a site for the development of a low-income housing project located on the 1700 block on S Street.

- The Authority has entered into a purchase agreement with the State for a possible condominium project for Site 21 located at 14th and N Streets.

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

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

- As the Authority continues to proceed with preparations for future development projects, there will be a high demand to fund pre-development activities, provide grant matching funds, to potentially pay for toxic remediation and, to pay for site preparation 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 Controller, Noelle Mussen, at 1522 - 14th Street, Sacramento, CA 95814.

Capitol Area Development Authority

Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 21,368,633	$ 19,789,644
Accounts receivable, net	122,583	97,312
Interest receivable	2,200	2,200
Prepaid expenses	233,231	125,254
Notes receivable, current portion	11,606	419,272
Restricted cash and cash equivalents		
Tenant and event security deposits	402,768	395,023
Debt covenant reserves	854,172	854,126
Insurance impounds	36,724	41,840
Employee benefits	9,942	11,792
Funds held for others	120,024	549,985
Total restricted cash and cash equivalents	1,423,630	1,852,766
Total current assets	23,161,883	22,286,448
Noncurrent assets		
Restricted cash and cash equivalents		
Reserve for replacements	395,046	404,795
Insurance risk reserve	675,000	546,000
Total restricted cash and cash equivalents	1,070,046	950,795
Net OPEB asset	36,426	-
Notes receivable, net of current portion	978,941	990,547
Capital assets		
Non-depreciable	1,529,946	1,485,249
Depreciable, net	5,999,337	6,642,442
Total capital assets	7,529,283	8,127,691
Total noncurrent assets	9,614,696	10,069,033
Total assets	$ 32,776,579	$ 32,355,481
Deferred Outflows of Resources		
Deferred outflows related to pensions	$ 786,541	$ 282,032

Capitol Area Development Authority

Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities		
Accounts payable	$ 511,050	$ 499,392
Prepaid rent	19,908	30,829
Due to state - HCD	50,448	34,370
Accrued benefits payable	61,637	62,293
Accrued interest payable	162,477	172,581
Tenant security deposits	402,768	395,023
Developer deposits	40,000	40,000
Funds held for others	111,930	549,985
Notes payable, current portion	426,409	471,051
Bonds payable, current portion	295,000	280,000
Total current liabilities	2,081,627	2,535,524
Noncurrent liabilities		
Accrued interest payable	55,473	53,474
Notes payable	5,935,994	6,788,333
Bonds payable	9,490,000	9,785,000
Net pension liability	2,868,163	2,757,022
Compensated absences payable	171,285	181,016
Total noncurrent liabilities	18,520,915	19,564,845
Total liabilities	$ 20,602,542	$ 22,100,369
Deferred inflows of resources		
Deferred inflows related to pensions	$ 698,733	$ 863,606
Net position		
Net investment in capital assets	$ (7,178,534)	$ (7,757,107)
Restricted for insurance and reserves	1,082,925	992,635
Unrestricted	18,357,454	16,438,010
Total net position	$ 12,261,845	$ 9,673,538

See Notes to Financial Statements.

Capitol Area Development Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Rental revenue, net	$ 7,338,295	$ 7,220,148
Other revenues		
Development projects	60,000	322,549
Water conservation grant	16,697	-
Miscellaneous	74,252	100,795
Total operating revenues	7,489,244	7,643,492
Operating expenses		
Employee services and benefits	2,922,665	3,372,419
Services and supplies	2,052,066	1,996,351
Development projects	892,047	956,092
Repairs and maintenance	1,222,859	1,064,079
Bad debt expense	36,688	53,230
Depreciation	795,845	865,500
Total operating expenses	7,922,170	8,307,671
Operating loss	(432,926)	(664,179)
Non-operating revenues (expenses)		
Interest income	204,892	203,666
Interest expense	(857,017)	(897,870)
Intergovernmental	3,673,358	2,681,154
Total non-operating revenues	3,021,233	1,986,950
Change in net position	2,588,307	1,322,771
Net position, beginning of year	9,673,538	8,350,767
Net position, end of year	$ 12,261,845	$ 9,673,538

See Notes to Financial Statements.

Capitol Area Development Authority

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Rental receipts	$ 7,265,415	$ 7,152,284
Other development and operating receipts	150,949	358,644
Tenant security deposits received	223,656	223,035
Payroll and related costs paid	(3,527,719)	(3,407,910)
Services and supplies expenses paid	(2,161,725)	(2,195,807)
Development project expenses paid	(891,231)	(956,092)
Operating and maintenance expenses paid	(1,218,429)	(1,064,079)
Tenant security deposits paid	(215,911)	(221,322)
Funds held for others	(429,961)	549,985
Net cash (used in) provided by operating activities	(804,956)	438,738
Cash flows from noncapital financing activities		
Intergovernmental	3,689,436	2,715,524
Net cash provided by noncapital financing activities	3,689,436	2,715,524
Cash flows from capital and related financing activities		
Principal payments on bonds and notes payable	(1,176,981)	(723,909)
Interest paid on bonds and notes payable	(865,122)	(902,662)
Acquisition of capital assets	(197,437)	(336,810)
Net cash used in capital and related financing activities	(2,239,540)	(1,963,381)
Cash flows from investing activities		
Repayment of notes receivable	419,272	20,504
Interest receipts	204,892	222,577
Net cash provided by investing activities:	624,164	243,081
Net increase in cash and cash equivalents	1,269,104	1,433,962
Cash and cash equivalents, beginning of year	22,593,205	21,159,243
Cash and cash equivalents, end of year	$ 23,862,309	$ 22,593,205

Capitol Area Development Authority

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	$ 21,368,633	$ 19,789,644
Restricted cash and cash equivalents		
Tenant security deposits	402,768	395,023
Debt covenant reserves	854,172	854,126
Insurance impounds	36,724	41,840
Employee benefits	9,942	11,792
Funds held for others	120,024	549,985
Reserve for replacements	395,046	404,795
Insurance risk reserve	675,000	546,000
Total cash and cash equivalents	$ 23,862,309	$ 22,593,205
Reconciliation of operating loss to net cash (used in) provided by operating activities		
Operating loss	$ (432,926)	$ (664,179)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities		
Depreciation	795,845	865,500
Pension expense	(558,241)	(42,897)
Changes in assets and liabilities		
Accounts receivable	(25,271)	(7,961)
Prepaid expenses	(107,977)	(6,848)
Net OPEB asset	(36,426)	-
Accounts payable	11,658	(192,785)
Prepaid rent	(10,921)	(6,673)
Accrued benefits payable	(656)	3,620
Tenant security deposits payable	7,745	1,713
Developer deposits payable	-	(64,700)
Funds held for others	(438,055)	549,985
Compensated absences payable	(9,731)	3,963
Net cash (used in) provided by operating activities	$ (804,956)	$ 438,738
Supplemental schedule of noncash investing, capital and financing activities		
Capital asset additions through accounts payable	$ -	$ 71,096

See Notes to Financial Statements.

Note 1 - Summary of significant accounting policies

The Financial reporting entity

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.

Accounting principles generally accepted in the United States of America ("GAAP") require that the component units be separated into blended, fiduciary or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the Authority's operations. Therefore, they are reported as part of the primary government. The primary government is financially accountable for these component units. Each blended and discretely presented component unit has a June 30th fiscal year-end.

The component unit blended in the Authority's financial statements is the Capital Area Community Development Corporation ("CACDC"). This component unit was established for the purpose of assisting the City and State in revitalizing the State Capitol Area by providing financing and assistance for the acquisition, development and managing residential and commercial projects, including affordable housing projects, along with development of public infrastructure.

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

Intergovernmental revenues

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

Risk management

The Authority participates in a local government agency excess insurance liability pool to meet its commercial general liability, workers' compensation, umbrella liability, municipality and governmental authorities errors and omissions, and employment practices liability insurance needs. The Authority is self-insured for these coverages to the extent that claim expenses are below the self-insured retention level set by the excess insurance liability carrier. The Authority has primary insurance policies for property, boiler & machinery, flood, fidelity/crime, site-specific pollution liability and automobile physical damage coverage. Public official bonds required by the joint powers agreement that established the Authority are in place. Funds are set-aside by the Authority to cover potential losses and deductibles. Settled claims have not exceeded coverage for the past three years.

Cash and cash equivalents

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.

Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2016 and 2015, the allowance for doubtful accounts is $241,126 and $204,106, respectively.

Notes receivable

The Authority makes loans and advances. Interest on the notes receivable is accrued at least annually. The Authority assesses the collectability of the amounts based upon the terms of the promissory notes and the capacity of the borrowers to repay the funds based upon expected future cash flows. As of June 30, 2016 and 2015, the Authority's management believes that the outstanding loans are collectible and that the borrowers will be able to repay the loans under the terms of the promissory notes; therefore, no allowance for loan losses was considered necessary.

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

The costs of normal maintenance and repair that do not materially extend asset lives, enhance its efficiency or increase or amend asset usefulness are not capitalized.

Impairment of capital assets

The Authority reviews its capital assets for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2016, there has been no impairment of the capital assets.

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 $171,285 and $181,016 as of June 30, 2016 and 2015, respectively.

Sick leave benefits are earned and accumulated for each full-time employee at a rate of eight 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.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's portion of the California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Bonds, notes payable and accrued interest

Bonds and notes payable consist of notes from commercial lenders, banks, local and state agencies. Interest on these notes is accrued at year end.

Income taxes

The Authority is exempt from federal and California income taxes.

Net position

Net position includes the net earnings from operations, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted - This component of net position consists of constraints imposed by external creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation reduced by liabilities relating to those restricted assets.

- Unrestricted - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Fair value

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

- Level 2: Unadjusted quoted market prices for similar assets or liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3: Significant unobservable inputs for the asset or liability.

New accounting pronouncements

During the year ended June 30, 2016, the Authority implemented the following new accounting standards issued by the GASB:

- Statement No. 72, "Fair Value Measurement and Application": Statement No. 72 provides guidance for determining fair value measurements for financial reporting purposes and for applying fair value to certain investments, and requires disclosures about fair value measurements, the level of the fair value hierarchy and valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value consistent with either the market, cost or income approach.

- Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68": This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68. The statement also clarifies the application of certain provisions of GASB Statement 68.

- Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments": GASB Statement No. 76 identifies the sources and accounting principles used to prepare financial statements of state and local governments in conformity with GAAP and the framework for selecting those principles.

- Statement No. 77, "Tax Abatement Disclosures": This Statement requires governments that enter into tax abatement agreements to make certain disclosures about those agreements.

- Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans": GASB Statement No. 78 amends the scope and applicability of Statement no. 68 to exclude pensions provided to employees of state and local government employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria.

- Statement No. 79, "Certain External Investment Pools and Pool Participants". GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement.

The adoption of the above GASB Statements did not have a significant effect on the Authority's financial statements for the year ended June 30, 2016.

The Authority is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions": Both GASB Statements No. 74 and 75 replace the requirements of GASB statements related to postemployment benefits other than pensions ("OPEB"). Statement 74 is intended to make the OPEB accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 67 and replaces Statement No. 43. Statement No. 74 is effective for the Authority's fiscal year ending June 30, 2017.

- Statement No. 75 is intended to make the OPEB accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 68 and replaces Statement No. 45. Statement No. 75 is effective for the Authority's fiscal year ending June 30, 2018.

- Statement No. 80, "Blending Requirements for Certain Component Units": This Statement establishes additional blending requirements for the financial statement presentation of component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2017.

- Statement No. 81, "Irrevocable Split-Interest Agreements": This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources from the inception of the agreement and revenues when the resources become applicable to the reporting period. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2018.

- Statement No. 82, "Pension Issues". GASB Statement No. 82 amends Statements 67, 68 and 73. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2017.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Note 2 - Cash, cash equivalents and investments

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. 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 $119,367 and $140,311 as of June 30, 2016 and 2015, respectively, with the California Housing Finance Agency ("CalHFA") as required by the Authority's note payable with CalHFA. All such impound deposits are entirely insured or collateralized with securities held by the mortgagor in the Authority's name.

At June 30, 2016 and 2015, the carrying amounts of the Authority's deposits with financial institution were $3,714,641 and $2,256,655, respectively. The financial institution balances at June 30, 2016 and 2015 were $3,794,242 and $2,312,926, 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 1.88 years and 2.15 years as of June 30, 2016 and 2015, respectively.

Credit risk

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

As of June 30, 2016, the Authority's deposits, investments and credit ratings are as follows:

		Maturities		
	Credit rating	Under 30 days	1 - 5 years	Total
Cash and cash equivalents				
City investment pool	Not rated	$ -	$ 19,273,381	$ 19,273,381
Money market mutual funds	AAA/Aaa	974,196	-	974,196
Deposits	N/A	-	-	3,614,732
Total		$ 974,196	$ 19,273,381	$ 23,862,309

As of June 30, 2015, the Authority's deposits, investments and credit ratings are as follows:

		Maturities		
	Credit rating	Under 30 days	1 - 5 years	Total
Cash and cash equivalents				
City investment pool	Not rated	$ -	$ 19,482,424	$ 19,482,424
Money market mutual funds	AAA/Aaa	854,126	-	854,126
Deposits	N/A	-	-	2,256,655
Total		$ 854,126	$ 19,482,424	$ 22,593,205

Fair value classification
The Authority has determined that the amounts in the City investment pool are reported at net asset value and are not included in the fair value hierarchy categories.

Note 3 - Notes receivable

Notes receivable consist of the following at June 30:

	2016	2015
<u>15th & Q Limited Partnership</u>		
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, effectively extended the maturity date to March 1, 2019.	$ 500,000	$ 500,000
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 five following the interest accrual date.	380,547	391,589
<u>Allyson Dalton</u>		
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.	110,000	110,000

	2016	2015
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. The note was paid in full during the year ended June 30, 2016.	-	408,230
Total	$ 990,547	$ 1,409,819

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.

Residual receipt loans consist of the following at June 30, 2016:

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 developer's construction loan and permanent loan, and to be repaid from residual receipts.	$ 3,723,000
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.	1,006,244
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.	1,241,000

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 developer's construction loan and permanent loan, and to be repaid from residual receipts.		80,445
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 developer's construction loan and permanent loan, and to be repaid from residual receipts.		4,946,080
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 developer's construction loan and permanent loan, and to be repaid from residual receipts.		269,317
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.		515,167
Total	$	11,781,253

Note 4 - 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 5 - 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 each of the years ended June 30, 2016 and 2015.

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 was originally 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. The Authority amended the original lease to become a ten year lease from the effective date instead of a five year lease. Under the amended terms of the lease, a total of $36,000 in rental expense was paid during the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments required under the leases are as follows subsequent to June 30, 2016:

	Office space	15th & Q	Total
2017	$ 98,064	$ 36,000	$ 134,064
2018	98,064	36,000	134,064
2019	98,064	36,000	134,064
2020	57,204	30,000	87,204
Total	$ 351,396	$ 138,000	$ 489,396

Note 6 - Capital assets

Information on changes in capital assets is presented below:

	Balance June 30, 2015	Increases	Transfers	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 1,282,385	$ -	$ -	$ 1,282,385
Constrution in progress	202,864	44,697	-	247,561
Total	1,485,249	44,697	-	1,529,946
Capital assets being depreciated				
Buildings and improvements	24,651,809	125,816	-	24,777,625
Machinery and equipment	550,137	26,924	-	577,061
	25,201,946	152,740	-	25,354,686
Less accumulated depreciation				
Buildings and improvements	(18,071,848)	(768,534)	-	(18,840,382)
Machinery and equipment	(487,656)	(27,311)	-	(514,967)
	(18,559,504)	(795,845)	-	(19,355,349)
Total capital assets being depreciated, net	6,642,442	(643,105)	-	5,999,337
Capital assets, net	$ 8,127,691	$ (598,408)	$ -	$ 7,529,283

	Balance June 30, 2014	Increases	Transfers	Balance June 30, 2015
Capital assets not being depreciated				
Land	$ 1,282,385	$ -	$ -	$ 1,282,385
Constrution in progress	230,469	34,580	(62,185)	202,864
Total	1,512,854	34,580	(62,185)	1,485,249
Capital assets being depreciated				
Buildings and improvements	24,252,507	337,117	62,185	24,651,809
Machinery and equipment	513,928	36,209	-	550,137
	24,766,435	373,326	62,185	25,201,946
Less accumulated depreciation				
Buildings and improvements	(17,230,208)	(841,640)	-	(18,071,848)
Machinery and equipment	(463,796)	(23,860)	-	(487,656)
	(17,694,004)	(865,500)	-	(18,559,504)
Total capital assets being depreciated, net	7,072,431	(492,174)	62,185	6,642,442
Capital assets, net	$ 8,585,285	$ (457,594)	$ -	$ 8,127,691

Note 7 - Notes payable

Notes payable consists of the following at June 30:

	2016	2015
Sacramento Housing and Redevelopment Agency		
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.	$ -	$ 40,000
D'Ambrosia Properties		
Monthly principal and interest installments of $6,519 with a fixed interest rate of 5.5% to maturity, September 1, 2019. Note is secured by the 701 S Street property.	1,026,877	1,048,116

	2016	2015
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.	832,480	888,154
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.	261,734	279,238
Is sued 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.	412,575	440,166
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.	-	454,413
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.	430,772	586,997
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.	1,065,507	1,102,535

	2016	2015
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.	230,747	247,228
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.	175,000	200,000
Farmers and Merchant Bank		
Monthly principal and interest installments of $8,389 with a fixed interest rate of 6.5% to December 5, 2018 when all unpaid amounts are due; secured by Fremont Wilshire Apartments at the corner of 15th & P Streets.	1,173,058	1,195,394
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 fees of $40,000 with a fixed interest rate of 2.77% to October 1, 2033.	533,653	577,143
Total	$ 6,362,403	$ 7,259,384

Future maturities on notes payable for years subsequent to June 30, 2016 are as follows:

	Principal	Interest	Total
2017	$ 426,409	$ 275,929	$ 702,338
2018	452,079	309,158	761,237
2019	1,633,321	188,983	1,822,304
2020	1,178,036	722,550	1,900,586
2021	227,676	85,602	313,278
2022 - 2025	1,150,598	331,045	1,481,643
2026 - 2030	982,988	150,279	1,133,267
2031 - 2035	311,296	17,145	328,441
	$ 6,362,403	$ 2,080,691	$ 8,443,094

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2016 and 2015:

Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Amounts due within one year
$ 7,259,384	$ -	$ (896,981)	$ 6,362,403	$ 426,409

Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Amounts due within one year
$ 7,718,293	$ -	$ (458,909)	$ 7,259,384	$ 471,051

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 could 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 in 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 $2,673,358 and $2,684,412 for the years ended June 30, 2016 and June 30, 2015, respectively. The principal and interest payments for these four properties were $571,092 and $168,852, which included $555,183 and $124,284 in principal payments, respectively, for the years ended June 30, 2016 and June 30, 2015. Included in the principal payments is $454,412 for the retirement of outstanding Site 4 note.

Note 8 - 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 for years subsequent to June 30, 2016 are as follows:

	Principal	Interest	Total
2017	$ 295,000	$ 548,006	$ 843,006
2018	310,000	531,182	841,182
2019	330,000	513,333	843,333
2020	350,000	494,340	844,340
2021	365,000	473,606	838,606
2022 - 2025	2,190,000	1,999,188	4,189,188
2026 - 2030	2,940,000	1,230,380	4,170,380
2031 - 2035	3,005,000	325,275	3,330,275
	$ 9,785,000	$ 6,115,310	$ 15,900,310

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2016 and 2015:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Amounts due within one year
Total 2004 Tax allocation	$ 10,065,000	$ -	$ (280,000)	$ 9,785,000	$ 295,000

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Amounts due within one year
Total 2004 Tax allocation	$ 10,330,000	$ -	$ (265,000)	$ 10,065,000	$ 280,000

Note 9 - Compensated absences

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2016 and 2015:

Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
$ 181,016	$ 12,730	$ (22,461)	$ 171,285

Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
$ 177,053	$ 124,753	$ (120,790)	$ 181,016

Note 10 - R Street Property and Business Improvement District

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

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

The Authority will act as a pass-through of the levied assessments from the County of Sacramento to the managing non-profit. For the year ended June 30, 2016, 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 11 - Agreements with the CACDC

The Authority entered into an administrative services agreement and development line of credit with the CACDC. The Authority will provide the CACDC with administrative and operation support services related to the nonprofit operations, facilities, supplies and equipment with no compensation to the Authority.

For development activities the CACDC received a revolving line of credit from the Authority up to the amount of $259,000. As of June 30, 2016 the CACDC has drawn down $83,442 leaving $175,558 remaining on the line of credit. This is a zero interest unsecured note with payment to be made based upon the nonprofit's available funds; currently the CACDC has no assets or income.

Note 12 - Funds held for others

The Authority acts as fiscal agent for the 17R Orchard Partners LP. These funds are disbursed in accordance with the trusts' instructions. Cash for this entity of $120,024 and $549,985 is reported as restricted cash and cash equivalents at June 30, 2016 and 2015, respectively.

Note 13 - Pension plan

Plan description

The Authority contributes to CalPERS, a cost-sharing defined benefit pension plan (the "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 Board Approval. 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.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" ("PEPRA") on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits provided
The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, military service credits, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The PEPRA created two benefit levels for the Authority's employees who qualify for membership in CalPERS. They are outlined below:

	Current Members*	New Members**
Retirement Formula	2% @ 55	2% @ 62
Retirement Contribution	7%	50% of Annual Normal Cost***
Final Compensation Method	Highest 1 Year Average	Highest 3 Year Average

*Current Member is defined as anyone who is or has been a member of CalPERS or another recognized public retirement system and who has not had more than a six-month break in service.

**New Member is defined as anyone who is or has been a member of CalPERS or another recognized public retirement system and who has not had more than a six-month break in service and was hired by the Authority after January 1, 2013.

***Annual Normal cost for New Members is determined annually by CalPERS and is dependent on the benefit levels, actuarial assumptions, and demographics of each plan. The Authority's New Member contribution for 2015 is 6.5%.

Funding policy
Active plan members are required to contribute 7% of their annual covered salary, of which 1% was paid by the Authority in calendar year 2015 then reduced to zero for calendar year 2016. 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 for classic members were 9.353% and 14.591% and for PERPA members were 6.7% and 0% for the years ended June 30, 2016 and 2015, respectively. The Authority has been notified that the required employer contribution rate for classic members will be 9.558% and PERPA members will be 6.93 % for the year ending June 30, 2017 and an annual payment on the Authority's unfunded liability of $175,060. 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.

Net pension liability
As of June 30, 2016, the Authority reported net pension liabilities for their proportionate share of the net pension liability of $2,868,163.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. GASB 68 requires cost sharing employers to establish an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relations through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations of individual plan accounts as of the valuation date are used where not available. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2015 for classic members was 0.00112527% and PEPRA members were 0.00000025%.

Pension expense and deferred outflows/inflows of resources related to pensions
For the year ended June 30, 2016, the Authority recognized pension expense (revenue) of $(230,512). At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflfows of resources	Inflows of resources
Differences between expected and actual	$ 18,171	$ -
Net difference between projected and actual earnings on pension plan investments	440,641	526,822
Change in assumptions	-	171,911
Employer contributions made subsequent the measurement date	327,729	-
Total	$ 786,541	$ 698,733

The $327,729 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years ending June 30,	
2017	$ (120,354)
2018	(120,354)
2019	(109,373)
2020	110,160
	$ (239,921)

Actuarial assumptions

For the measurement period ended June 30, 2015 (measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial method and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies (1)
Payroll Growth	3.00%
Investment Rate of Return	7.5% (2)
Mortality(3)	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.75%(4)

(1) Depending on entry age and service
(2) Net of pension plan investment and administrative expenses, including inflation
(3) The mortality table used was developed based on CalPERS specific data. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.
(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount rate

The discount rate used to measure the total pension liability was changed from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. An investment return excluding administrative expenses is 7.65%.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time when CalPERS may change its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset class	New strategic allocation	Real return years 1 - 10 (a)	Real return years 11+ (b)
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

(a) An expected inflation of 2.5% unused for this period
(b) An expected inflation of 3.0% unused for this period

Sensitivity of the Authority's proportionate share net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount rate - 1% (6.65%)	Current discount rate (7.65%)	Discount rate + 1% (8.65%)
Net pension liability	$ 4,810,109	$ 2,868,163	$ 1,264,861

Note 14 - 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 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 which is $125 per month for calendar year 2016.

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, 2017 was $393,013 and is based on a July 1, 2015 actuarial valuation.

Annual OPEB cost
For the year ended June 30, 2016, the Authority's annual OPEB cost (expenses) was $208,103, which is the Annual OPEB cost of $381,089 less the reimbursement of current retiree medical costs of 136,560 and the current year implicit subsidy of $36,426. The current implicit subsidy was not reimbursed from the trust in the current year creating an OPEB asset. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year ended	Annual OPEB cost	OPEB cost contributed	Net OPEB liability/(asset)
6/30/2014	$ 332,000	100%	$ -
6/30/2015	343,000	100%	-
6/30/2016	381,000	100%	(36,426)

Funded status and funding progress
The funded status of the plan as of June 30, 2015, was as follows:

Actuarial accrued liability ("AAL")	$ 4,886,663
Actuarial value of plan assets	2,029,024
Unfunded actuarial accrued liability ("UAAL")	$ 2,857,639
Funded ratio (actuarial value of plan assets/AAL)	41.5%
Covered payroll (active plan members)	$ 1,550,228
UAAL as a percentage of covered payroll	184.3%

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

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

In the 2015 actuarial valuation, the entry age normal cost, level percent of pay method was used. Some of the actuarial assumptions previously reported in the 2013 valuation have changed. The investment rate of return decreased from 7.5% to 7.17%, Assumed wage inflation decreased from 3.45% to 3% and general inflation rate decrease from 3% to 2.75%. Healthcare trend assumed future increase in the resolution caps were reduced from 3% per year to 1.5% per year and the potential impact of the excise tax attributable to retirees for high cost healthcare plans for retirees, as provided by the Affordable Care Act. The age related medical premiums were modified based on updated information from the Society of Actuaries to include an implicit subsidy analysis for pre-Medicare retirees covered by CalPERS. There were revised assumptions about mortality, termination and retirement based on the most recent CalPERS experience study covering the Authority's employees.

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 six (26) 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 15 - Subsequent events

Management has evaluated subsequent events through December 6, 2016, the date the financial statements were available to be issued and concluded that no subsequent events have occurred except as noted below.

In July 2016, the Authority refunded the outstanding 2004 Tax Allocation Bonds through a direct placement with two banks in anticipation of taking advantage of the current low interest rates for an estimated saving of $130,000 per year.

Supplementary Information

Capitol Area Development Authority

Cost-Sharing Defined Benefit Pension Plan
Schedule of The Authority's Proportionate Share of the Net Pension Liability

As of June 30, 2016 Last 10 Years*

	2,016	2015
Plan's Proportion of the Net Penion Liability	0.10455%	0.04431%
Plan's Proportionate Share of the Net Penion Liability	$ 2,868,163	$ 2,757,022
Plan's Covered-Employee Payroll	$ 1,987,171	$ 1,959,177
Plan's Proportionate Share of the Net Penion Liability as a Percentage of its Covered-Employee Payroll	144%	141%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.31677%	81.31677%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 283,507	$ 238,682

Notes to Schedule

Changes of benefit terms. In 2016, there were no changes to the benefit terms.

Changes in assumptions. In 2016, there were no changes in assumptions.

* Fiscal year 2015 was the 1st year of implementation of GASB 68, therefore only two years are shown.

See Independent Auditor's Report.

Capitol Area Development Authority

Cost-Sharing Defined Benefit Pension Plan
Schedule of The Authority's Contributions

As of June 30, 2016 Last 10 Years*

	2,016	2015
Contractually required contribution	$ 283,507	$ 238,682
Contributions in relation to the contractually required contribution	(283,507)	(238,682)
Contribution deficiency (excess)	$ -	$ -
Authority's covered-employee payroll	$ 1,987,171	$ 1,959,177
Contributions as a percentage of covered-employee payroll	14.27%	12.18%

Notes to Schedule:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Inflation	2.75%
Salary Increases	Varies (1)
Payroll Growth	3.0% (2)
Investment Rate of Return	7.5%
Retirement Age	2010 Experience Study(3)
Mortality(3)	2010 Experience Study(4)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment and administrative expenses, including inflation

(3) The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

(4) The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

* Fiscal year 2015 was the 1st year of implementation of GASB 68, therefore only two years are shown.

See Independent Auditor's Report.

Capitol Area Development Authority

Schedule of Funding Progress
Other Post-Employment Benefits

	A	B	C	D	E	F
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) [B - A]	Funded Ratio [A/B]	Covered Payroll	UAAL as Percentage of Covered Payroll [(B-A)/E]
6/30/2011	$ 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%
6/30/2015	2,029,024	4,886,663	2,857,639	42%	1,550,228	184%

See Independent Auditor's Report.

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*

To the Board of Directors of the
Capitol Area Development Authority

We have audited, 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, the financial statements of Capitol Area Development Authority ("Authority") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 6, 2016.

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 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 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*.

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.

CohnReznick LLP

Sacramento, California
December 6, 2016

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