Attachment 1a

Capitol Area Development Authority

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

June 30, 2018 and 2017

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 years ended June 30, 2018 and 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As disclosed at note 1 to the financial statements, during the year ended June 30, 2018, the Authority adopted *Government Accounting Standards Board Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The Authority adopted GASB 75 retroactively to the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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, the schedule of changes in net OPEB liability and related ratios, and the schedule of OPEB plan contributions 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 January 14, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of the report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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
January 14, 2019

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2018 and 2017

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, 2018 and 2017.

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, 2018

- During the year, the Authority had revenues of approximately $14.3 million consisting primarily of $7.9 million in rental and other revenues, $4.7 million in tax increment revenue and $1.7 million in other revenue and interest income.
- The Authority had expenses totaling approximately $12.2 million consisting primarily of $3.8 million in employee services and benefits, $3.8 million related to property management operations, $0.5 million of interest expense on the Authority's debt, $3.4 million for development projects, and $0.7 million in depreciation expense.
- The Authority expended nearly $1.6 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $1.5 million was capitalized.
- The Authority adopted during the year Government Account Standards Board Statement No. 75 (GASB 75) retroactively which resulted in Beginning net position decreasing by $2,584,306 reflecting the cumulative effects of changes in accounting principles. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB).
- The net OPEB liability as of June 30, 2018 was $2,208,945 as a result of the implementation of GASB 75.
- The net pension liability required under Government Accounting Standards Board ("GASB") 68 has increased by about $629,000 to $4,433,887 as of June 30, 2018.
- The Authority, through the Capital Area Community Development Corporation nonprofit ("CACDC"), entered into a joint venture with CFY Development for remediation and purchase of 1717 S Street to develop a mix-used, mixed-income housing project.

- The Authority entered into an Exclusive Negotiating Agreement (ENA) with Cresleigh Homes and then a Development and Disposition Agreement (DDA) in June 2018 for the purchase and development of a for sale 87-unit condominium project for Site 21 located at 14th and N Streets. construction is estimated to start in the spring of 2019 and complete in 2021.

- 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 2018 and complete later that year.

- In the R Street Corridor the first phase of streetscape enhancements 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 with construction completed in August 2015. For phase three construction, the Authority applied for and was awarded a SACOG grant in the amount $2.9 million with a match of $1.5 million. Construction of phase three began in September 2017 with an anticipated completion in early 2019.

- 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 $11.9 million in net position, as of June 30, 2018, meets this objective.

Financial Highlights for the Year Ended June 30, 2017

- During the year, the Authority had revenues of approximately $11.7 million consisting primarily of $7.6 million in rental and other revenues, $3.6 million in tax increment revenue and $0.5 million in other revenue and interest income.

- The Authority had expenses totaling approximately $11.6 million consisting primarily of $3.7 million in employee services and benefits, $3.7 million related to property management operations, $0.9 million of interest expense on the Authority's debt, $1.4 million for development projects, and $0.7 million in depreciation expense and $1.2 million financial expense due to the HCD loan funding obligation related to the new loan agreement on the Somerset Parkside project.

- The Authority expended nearly $352,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $294,000 was capitalized.

- The net pension liability required under Government Accounting Standards Board ("GASB") 68 has increased by about $936,000 to $3,804,599 as of June 30, 2017.

- 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 to the WAL project, began in the summer of 2014 and was completed by fall of 2016.

- 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 2018.

- 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 was completed in December 2016.

- In the R Street Corridor, the first phase of streetscape enhancements 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 with construction completed in August 2015. For phase three construction, the Authority applied for and was awarded a SACOG grant in the amount $2.9 million with a match of $900,000. Construction of phase three began in September 2017 with an anticipated completion date in spring of 2018.

- 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 $12.4 million in net position, as of June 30, 2017, meets this objective.

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 deferred outflows of resources (DOR) exceeded its liabilities and deferred inflows of resources (DIR) by $11,912,319 as of June 30, 2018.

Condensed Statements of
Net Position at June 30, 2018 and 2017

	2018	2017 As Restated	Change $	Change %
Assets				
Current and other assets	$ 27,072,493	$ 27,407,224	$ (334,731)	-1%
Capital assets, net	8,033,317	7,187,943	845,374	12%
Total assets	$ 35,105,810	$ 34,595,167	$ 510,643	1%
Deferred outflows of resources (DOR)				
DOR - Pensions and OPEB	$ 1,937,046	$ 1,600,912	$ 336,134	21%
Liabilities				
Current liabilities	$ 2,717,818	$ 3,405,257	$ (687,439)	-20%
Non-current liabilities	21,438,509	22,839,958	(1,401,449)	-6%
Total liabilities	$ 24,156,327	$ 26,245,215	$ (2,088,888)	-8%
Deferred inflows of resources (DIR)				
DIR - Pensions and OPEB	$ 974,210	$ 112,427	$ 861,783	767%
Net position				
Net investment in capital assets	$ (7,322,055)	$ (7,846,181)	$ 524,126	7%
Restricted for insurance and reserves	1,356,769	1,248,485	108,284	9%
Unrestricted	17,877,605	16,436,133	1,441,472	9%
Total net position	$ 11,912,319	$ 9,838,437	$ 2,073,882	21%

Analysis of Net Position - June 30, 2018:

As a result of the Authority implementing GASB 75, the Authority's net position balance was restated by a decrease of $2,584,306 due to the cumulative effect of changes in accounting principles. As a result of the implementation, net OPEB liability is $2,208,945, deferred outflows of resources related to OPEB is $570,202 and deferred inflows of resources related to OPEB is $829,267. The Authority's net position increased during the current year by $2,073,882, as a result of increases in revenue offset by a net increase in pension and OPEB expenses due to the GASB calculations and increases in development expenses of $1,660,271.

A portion of the Authority's net position is invested in capital assets. This category, which increased by $524,126, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds. The increase in the net investment in capital assets category of $524,126 is the net effect of an increase from the $845,374 additions in capital assets, and a decrease in the related debt due to debt repayments of $321,248.

The historical cost of capital assets increased as a result of acquisitions of equipment and improvements to buildings for a total of $1,586,825. Depreciation expense reduced the carrying value of the total capital assets by $741,451, for a net decrease in the net value of capital assets of $845,374. Additional information on the Authority's capital assets can be found in Note 6 to the Financial Statements.

Condensed Statements of Revenue, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017 As Restated	Change $	Change %
Revenue				
Operating revenue				
Rental revenue, net	$ 7,935,048	$ 7,630,425	$ 304,623	4%
Other revenue	1,392,317	317,346	1,074,971	339%
Non-operating revenue				
Interest income	344,137	248,710	95,427	38%
Intergovernmental	4,655,229	3,584,805	1,070,424	30%
Total revenue	$ 14,326,731	$ 11,781,286	$ 2,545,445	22%
Expenses				
Operating expenses				
Employee services and benefits	$ 3,841,068	$ 3,703,859	$ 137,209	4%
Development projects	3,346,658	1,686,387	1,660,271	98%
Other	4,533,075	4,369,155	163,920	4%
Non-operating expenses				
Interest expense	532,048	663,774	(131,726)	-20%
Other	-	1,197,213	(1,197,213)	
Total expenses	12,252,849	11,620,388	632,461	5%
Change in net position	2,073,882	160,898	1,912,984	1189%
Change in accounting principles	-	(2,584,306)	2,584,306	
Net position, beginning of year	9,838,437	12,261,845	(2,423,408)	-20%
Net position, end of year	$ 11,912,319	$ 9,838,437	$ 2,073,882	21%

As a result of the Authority implementing GASB 75, the Authority’s net position balance was restated by a decrease of $2,584,306 due to the cumulative effect of changes in accounting principles (retroactively applied to 2017). The Authority's net position in the current year increased by $2,073,882 as a result of fiscal year ended June 30, 2018 operations. This represents a $1,912,984 increase compared to the prior year due to larger increases in revenue compared to expenses and in the prior year an increase in financial expenses of $1,197,213 related to the HCD loan to the Somerset project funding obligation.

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 $1,131,654 and reflects a continued increase in property taxes within the Authority’s boundaries. Other revenue increased by $1,074,971 due to the receipt of reimbursement grant funds for the Truitt dog park from the City of

Sacramento and the R Street Garage predevelopment work the Authority is doing on DGS behalf. Rental rates increased and therefore, gross rental revenue increased by $428,000, offset by increases of $124,000 in low-income subsidy, vacancy losses and loss to lease. Interest income increased as a result of improved investment earnings compared to the prior year on funds held with the City Treasurer. The overall impact on revenue was an increase of $2,545,445 in total revenue.

Expenses increased by $632,461 during the fiscal year ended June 30, 2018, mainly due to increases in Development projects of $1,660,271 for R Street Streetscape Phase III construction, net of decreases in the interest expense due to the refunding of the 2004 Bond and notes payable in the prior year.

Condensed Statements of Net Position at June 30, 2017 and 2016

	2017	2016	Change $	Change %
Assets				
Current and other assets	$ 27,407,224	$ 25,247,296	$ 2,159,928	9%
Capital assets, net	7,187,943	7,529,283	(341,340)	-5%
Total assets	$ 34,595,167	$ 32,355,481	$ 1,818,588	6%
Deferred outflows of resources				
Deferred outflows related to pensions	$ 951,281	$ 786,541	$ 164,740	100%
Liabilities				
Current liabilities	$ 3,405,257	$ 2,081,627	$ 1,323,630	64%
Non-current liabilities	19,642,447	18,520,915	1,121,532	6%
Total liabilities	$ 23,047,704	$ 20,602,542	$ 2,445,162	12%
Deferred inflows of resources				
Deferred inflows related to pensions	$ 112,427	$ 698,733	$ (586,306)	100%
Net position				
Net investment in capital assets	$ (7,846,181)	$ (7,178,534)	$ (667,647)	9%
Restricted for insurance and reserves	1,248,485	1,082,925	165,560	15%
Unrestricted	19,020,439	18,357,454	662,985	4%
Total net position	$ 12,422,743	$ 12,261,845	$ 160,898	1%

Analysis of Net Position - June 30, 2017:

The Authority’s net position increased during the current year by $160,898, as a result of increases in revenue offset by a net increase in pension due to the GASB 68 calculation and recognition of financial expense of $1,197,213 for the debt repayment obligation due to HCD following the new regulatory agreement for the Somerset Parkside project.

A portion of the Authority's net position is invested in capital assets. This category, which decreased by $667,647, 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 $399,083. Depreciation expense reduced the carrying value of the total capital assets by $740,423, for a net decrease in the net value of capital assets of $341,340. Additional information on the Authority's capital assets can be found in Note 6 to the Financial Statements.

Condensed Statements of Revenue, Expenses and Changes in Net Position For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016	Change $	Change %
Revenue				
Operating revenue				
Rental revenue, net	$ 7,630,425	$ 7,338,295	$ 292,130	4%
Other revenue	317,346	150,949	166,397	110%
Non-operating revenue				
Interest income	248,710	204,892	43,818	21%
Intergovernmental	3,584,805	3,673,358	(88,553)	-2%
Total revenue	$ 11,781,286	$ 11,367,494	$ 413,792	4%
Expenses				
Operating expenses				
Employee services and benefits	$ 3,703,859	$ 2,922,665	$ 781,194	27%
Development projects	1,686,387	892,047	794,340	89%
Other	4,369,155	4,107,458	261,697	6%
Non-operating expenses				0%
Interest expense	663,774	857,017	(193,243)	-23%
Other	1,197,213	-	1,197,213	
Total expenses	11,620,388	8,779,187	2,841,201	32%
Change in net position	160,898	2,588,307	(2,427,409)	-94%
Net position, beginning of year	12,261,845	9,673,538	2,588,307	27%
Net position, end of year	$ 12,422,743	$ 12,261,845	$ 160,898	1%

The Authority's net position increased by $160,898 as a result of fiscal year ended June 30, 2017 operations. This represents a $2,427,409 decrease compared to the $2,588,307 increase from prior year due to increase in Development expense, the current year GASB 68 pension adjustment, and the financial expense related to the HCD loan funding obligation of $1,197,213.

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 decreased by $88,553 which is a small decrease compared to prior years increases. Miscellaneous revenue increased by $166,397 due to the receipt of reimbursement grant funds for the 1th Street improvement project. Rental rates increased and therefore, gross rental revenue increased by $248,844, increase by $43,285 in decreases to low-income subsidy, vacancy losses and loss to lease. Interest income has increased as a result of improved investment earnings compared to the prior year on funds held with the City Treasurer. The overall impact on revenue was an increase of $413,792 in total revenue.

Expenses increased by $2,841,201 during the fiscal year ended June 30, 2017, mainly due to increases in Development projects of $540,502 for Site Improvements to the 19th and Q Dog Park and Environmental Assessments expenses completed on the 1717 S Street property, along with increase in the Employee Services and Benefits by a net of $781,194 mainly due to an increase in pension expense which is a function of the net pension liability calculation required by GASB 68 that adjusted.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statements of Net Position above, the Authority's investments in capital assets were $8,033,317 and $7,187,943 (net of accumulated depreciation) at June 30, 2018 and 2017, respectively. This investment in capital assets includes construction in progress, building and improvements, and machinery and equipment. Additions during the years ended June 30, 2018 and 2017 totaled $1,586,825 and $399,083, respectively. The 2018 additions included building improvements of $343,884, machinery and equipment of $59,898, and construction in progress of $1,183,043. Depreciation on capital assets totaled $741,451 and $740,423, respectively, for the years ending June 30, 2018 and 2017.

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 $15,546,527 and $16,473,710 as of June 30, 2018 and 2017, respectively. During the fiscal years ended June 30, 2018 and 2017, principal payments reduced notes payable by $427,575 and $426,413, respectively, and bonds payable by $499,507 and $346,203, respectively.

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, 2018:

- An increase to the Capital Area tax increment revenue was budgeted due to the current year receipts and anticipated tax levels for FY 2017-2018. 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 2017-2018.

- Budgeted current development projects of $2.3 million will be funded as part of fiscal year ending June 30, 2018 General Operations Budget. Development funding outlays have been increased due to the need of funding for at 1717 S Street for a mixed-income housing project on R Street.
- Remaining bond proceeds are the development of 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 $1.9 million to be funded through the General Operation Budget.
- The Authority budgeted $260,400 to continue to fund 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 an increase from the prior year based on the current actuarial analysis.

Future Events that will Financially Impact the Authority

- The Authority is working with the City of Sacramento for improvements to Roosevelt Park with contributions to improvements to the street lighting and a new baseball area.
- The Authority has entered into an MOU with DGS for the Authority to carry out predevelopment activities in preparation for construction of a parking garage and retail space on the 800 R Street block.
- 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.
- Investigating purchasing multi-family properties in the Capital Area and R Street to address potential future affordable housing.

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, 2018 and 2017

	2018	2017 As Restated
Assets		
Current assets		
Cash and cash equivalents	$ 21,423,053	$ 21,294,578
Accounts receivable, net	73,092	84,725
Interest receivable	1,800	2,200
Prepaid expenses	92,896	328,593
Notes receivable, current portion	512,824	12,200
Restricted cash and cash equivalents		
Tenant and event security deposits	409,123	406,114
Debt covenant reserves	381,746	288,074
Insurance impounds	39,672	19,939
Employee benefits	22,062	18,714
Funds held for others	308,053	710,710
Total restricted cash and cash equivalents	1,160,656	1,443,551
Total current assets	23,264,321	23,165,847
Noncurrent assets		
Investment in joint venture	2,057,159	2,046,091
Restricted cash and cash equivalents		
Reserve for replacements	642,097	553,546
Insurance risk reserve	675,000	675,000
Total restricted cash and cash equivalents	1,317,097	1,228,546
Notes receivable, net of current portion	433,916	966,740
Capital assets		
Non-depreciable	2,569,780	1,434,929
Depreciable, net	5,463,537	5,753,014
Total capital assets	8,033,317	7,187,943
Total noncurrent assets	11,841,489	11,429,320
Total assets	$ 35,105,810	$ 34,595,167
Deferred Outflows of Resources		
Deferred outflows related to pensions	1,366,844	951,281
Deferred outflows related to OPEB	570,202	649,631
Total deferred outflows of resources	$ 1,937,046	$ 1,600,912

Capitol Area Development Authority

Statements of Net Position
June 30, 2018 and 2017

	2018	2017 As Restated
Liabilities		
Current liabilities		
Accounts payable	$ 677,769	$ 1,112,979
Prepaid rent	26,087	26,917
Due to state - HCD	55,959	24,012
Accrued benefits payable	77,363	80,393
Accrued interest payable	156,869	101,950
Tenant security deposits	409,123	406,114
Developer deposits	40,000	40,000
Funds held for others	299,959	710,710
Notes payable, current portion	459,992	402,675
Bonds payable, current portion	514,697	499,507
Total current liabilities	2,717,818	3,405,257
Noncurrent liabilities		
Accrued interest payable	65,847	89,089
Notes payable	4,092,109	4,577,101
Bonds payable	10,479,729	10,994,427
Net pension liability	4,433,887	3,804,599
Net OPEB liability	2,208,945	3,197,511
Compensated absences payable	157,992	177,231
Total noncurrent liabilities	21,438,509	22,839,958
Total liabilities	$ 24,156,327	$ 26,245,215
Deferred Inflows of Resources		
Deferred inflows related to pensions	144,943	112,427
Deferred inflows related to OPEB	829,267	-
Total deferred inflows of Resources	$ 974,210	$ 112,427
Net Position		
Net investment in capital assets	$ (7,322,055)	$ (7,846,181)
Restricted for insurance and reserves	1,356,769	1,248,485
Unrestricted	17,877,605	16,436,133
Total net position	$ 11,912,319	$ 9,838,437

See Notes to Financial Statements.

Capitol Area Development Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017 As Restated
Operating revenue		
Rental revenue, net	$ 7,935,048	$ 7,630,425
Other revenue		
Development projects	-	30,000
Grant revenue	1,308,648	194,907
Miscellaneous	83,669	92,439
Total operating revenue	9,327,365	7,947,771
Operating expense		
Employee services and benefits	3,841,068	3,703,859
Services and supplies	2,228,090	2,476,529
Development projects	3,346,658	1,686,387
Repairs and maintenance	1,498,208	1,147,107
Bad debt expense	65,326	5,096
Depreciation	741,451	740,423
Total operating expense	11,720,801	9,759,401
Operating loss	(2,393,436)	(1,811,630)
Non-operating revenue (expense)		
Interest income	344,137	248,710
Interest expense	(532,048)	(663,774)
HCD loan funding obligation	-	(1,197,213)
Intergovernmental	4,655,229	3,584,805
Total non-operating revenue	4,467,318	1,972,528
Change in net position	2,073,882	160,898
Net Position, beginning of year	9,838,437	12,261,845
Change in accounting principles (GASB 75)	-	(2,584,306)
Net position, end of year	$ 11,912,319	$ 9,838,437

See Notes to Financial Statements.

Capitol Area Development Authority

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Rental receipts	$ 7,873,866	$ 7,663,537
Other development and operating receipts	1,398,976	324,005
Tenant security deposits received	137,969	178,993
Payroll and related costs paid	(3,699,358)	(3,500,614)
Services and supplies expenses paid	(1,956,798)	(2,473,610)
Development project expenses paid	(4,234,664)	(1,405,845)
Operating and maintenance expenses paid	(1,166,309)	(918,374)
Tenant security deposits paid	(134,960)	(175,647)
Funds held for others	(410,751)	600,000
Net cash provided by (used in) operating activities	(2,192,029)	292,445
Cash flows from noncapital financing activities		
Intergovernmental	4,687,176	3,558,369
Net cash provided by noncapital financing activities	4,687,176	3,558,369
Cash flows from capital and related financing activities		
Principal payments on bonds and notes payable	(927,183)	(772,616)
Interest paid on bonds and notes payable	(500,371)	(690,685)
Issuance of new bonds and notes payable	-	11,840,137
Retirement of bonds and notes payable	-	(11,938,427)
Acquisition of capital assets	(1,499,131)	(399,083)
Net cash used in capital and related financing activities	(2,926,685)	(1,960,674)
Cash flows from investing activities		
Investment in joint venture	(11,068)	(2,046,091)
Repayment of notes receivable	32,200	11,607
Interest receipts	344,537	248,710
Net cash provided by (used in) investing activities	365,669	(1,785,774)
Net increase (decrease) in cash and cash equivalents	(65,869)	104,366
Cash and cash equivalents, beginning of year	23,966,675	23,862,309
Cash and cash equivalents, end of year	$ 23,900,806	$ 23,966,675

Capitol Area Development Authority

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	$ 21,423,053	$ 21,294,578
Restricted cash and cash equivalents		
Tenant security deposits	409,123	406,114
Debt covenant reserves	381,746	288,074
Insurance impounds	39,672	19,939
Employee benefits	22,062	18,714
Funds held for others	308,053	710,710
Reserve for replacements	642,097	553,546
Insurance risk reserve	675,000	675,000
Total cash and cash equivalents	$ 23,900,806	$ 23,966,675
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	$ (2,393,436)	$ (1,811,630)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	741,451	740,423
Pension	541,732	185,390
OPEB	(375,361)	-
Changes in assets and liabilities		
Accounts receivable	11,633	37,858
Prepaid expenses	235,697	(95,360)
Accounts payable	(522,904)	601,927
Prepaid rent	(830)	7,009
Accrued benefits payable	(3,030)	18,756
Tenant security deposits payable	3,009	3,346
Funds held for others	(410,751)	598,780
Compensated absences payable	(19,239)	5,946
Net cash provided by (used in) operating activities	$ (2,192,029)	$ 292,445
Significant noncash capital and related financing activities		
Note payable - HCD Loan Portfolio Restructuring Program	$ -	$ 1,197,213
Capital asset additions through Accounts Payable	$ 87,694	$ -

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 component unit presented 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 and 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, funds held for others, 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, 2018, and 2017, the allowance for doubtful accounts is $289,153 and $235,492, 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, 2018, and 2017, 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, 2018, 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 $157,992 and $177,231 as of June 30, 2018 and 2017, 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.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority’s plan ("OPEB Plan") and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GAAP require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	June 30, 2016
Measurement Date:	June 30, 2017
Measurement Period:	July 1, 2016 to June 30, 2017

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, 2018, the Authority implemented the following new accounting standards issued by the GASB:

- Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB Statement No. 75 replaces the requirements of GASB No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. In addition, it requires more extensive note disclosures and required supplementary information about the OPEB liabilities. The Authority adopted this statement retroactively. The adoption of this Statement had a significant effect on the Authority's financial statements and resulted in a prior period adjustment of $2,584,306 which reduced the beginning net position of the Authority for the year ending June 30, 2017.

- Statement No. 81, "Irrevocable Split-Interest Agreements". GASB Statement No. 81 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 revenue when the resources become applicable to the reporting period. The adoption of this Statement did not have a significant effect on the Authority's financial statements for the year ended June 30, 2018.

- Statement No. 82, "Pension Issues". GASB Statement No. 82 amends Statements Numbers 67, 68 and 73. This Statement, among other things, amends Numbers 67 and 68 by changing the required supplemental information to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based and ratios that use that measure instead of the pre-amended requirement of covered-employee payroll which is the payroll of employees that are provided with pensions through the pension plan and that related ratio usage. It further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68. It also requires that employer's expense and expenditures for those amounts be recognized in the period for which the contribution was assessed and classified in the same manner as the employer classifies similar compensation other than pensions. The adoption of this Statement resulted in additional disclosures and supplemental information related to pensions, however it did not have a significant effect on the Authority's financial statements for the year ended June 30, 2018.

- Statement No. 85, "Omnibus 2017". GASB Statement No. 85 addresses a variety of topics including, among other things, the blending of component units, goodwill reporting, timing of measurement and reporting of pension or OPEB obligations. The adoption of this Statement did not have a significant effect on the Authority's financial statements for the year ended June 30, 2018.

- Statement No. 86, "Certain Debt Extinguishment Issues". The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of this Statement did not have a significant effect on the Authority's financial statements for the year ended June 30, 2018.

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

- Statement No. 83, "Certain Asset Retirement Obligations". GASB Statement No. 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2019.

- Statement No. 84, "Fiduciary Activities". GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2019.

- Statement No. 87 “Leases”. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement is effective for periods beginning after December 15, 2019 which is the Authority's fiscal year ending June 30, 2021.

- Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". GASB Statement No. 88 for disclosure purposes specifically defines debt as a liability that arises from a contractual obligation to pay cash (or other asset in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Additional debt disclosures in the notes to the financial statements include unused lines of credit; assets pledged as collateral for the debt; and terms specified in the debt agreements related to significant events of default with finance related-consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. In addition, direct borrowings and direct placement disclosure information should be disclosed separately from other debt disclosures. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2019.

- Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period”. GASB Statement 89 provides accounting requirements for interest cost incurred before the end of a construction period. It establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. For financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. For financial statements prepared using the current financial resources measurement focus, interest incurred before the end of a construction period should continue to be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2021.

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.

Change in accounting principles

During the year ended June 30, 2018, the Authority adopted GASB 75. Paragraph 244 of GASB 75 requires that changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented and that no deferred outflows/inflows be presented for the earlier periods except for contributions made subsequent to the measurement date. Therefore, the Authority adopted GASB 75 retroactively which resulted in a restatement of the financial statements of the Authority for the year ended June 30, 2017 as follows:

Balances at June 30, 2017	As previously reported	Restatement	As restated June 30, 2017
Assets			
Total assets	34,631,593	-	34,631,593
Net OPEB asset	-	(36,426)	(36,426)
	$ 34,631,593	$ (36,426)	$ 34,595,167
Deferred Outflows of Resources	951,281	-	951,281
Contributions made subsequent to measurement date	-	649,631	649,631
	$ 951,281	$ 649,631	$ 1,600,912
Liabilities			
Total liabilities	23,047,704	-	23,047,704
Net OPEB liability	-	3,197,511	3,197,511
	$ 23,047,704	$ 3,197,511	$ 26,245,215
Net Position			
Net position	12,422,743	-	12,422,743
Prior period adjustment	-	(2,584,306)	(2,584,306)
	$ 12,422,743	$ (2,584,306)	$ 9,838,437

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 and replacement reserve account in the amount of $115,357 and $113,978 as of June 30, 2018 and 2017, 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, 2018 and 2017, the carrying amounts of the Authority's deposits with financial institution were $4,109,842 and $879,408, respectively. The financial institution balances at June 30, 2018 and 2017 were $2,870,567 and $1,523,949, respectively.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority manages its exposure to interest rate risk by investing the majority of its resources with the City Treasurer, which purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the pool is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment pool is unrated and the weighted average maturity is 2.12 years and 1.38 years as of June 30, 2018 and 2017, 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, 2018, 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	$ -	$ 18,890,836	$ 18,890,836
Money market mutual funds	AAA/Aaa	689,799	-	689,799
Deposits	N/A	-	-	4,320,171
Total		$ 689,799	$ 18,890,836	$ 23,900,806

As of June 30, 2017, 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	$ -	$ 21,879,704	$ 21,879,704
Money market mutual funds	AAA/Aaa	998,784	-	998,784
Deposits	N/A	-	-	1,088,187
Total		$ 998,784	$ 21,879,704	$ 23,966,675

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:

	2018	2017
15th & Q Limited Partnership		
Interest-free promissory note for $500,000 for the development of multifamily residential rental housing. Principal shall be due and payable upon the earlier to occur: (i) sale of all or any part of the property by maker, or (ii) ten (10) years following the first day of the first calendar month following the date the improvements achieve a ninety percent (90%) physical occupancy rate for all units (March 1, 2016). In FY 13-14 the note amended the principal payment date from 10 years to 13 years, 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.	356,740	368,940
Allyson Dalton		
Promissory note of $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.	90,000	110,000
Total	$ 946,740	$ 978,940

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, 2018:

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.	$	3,795,000
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.		1,025,704
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.		1,265,000
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.		815,925
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.		274,517
Authority Construction residual receipt loan in the amount of $500,000 amortized over 40 years at a 1% interest rate, secured by the property but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.		525,167
Total	$	12,647,393

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 entered 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, 2018 and 2017.

In June 2017, the Authority negotiated with DGS to amend the current lease to included two five-year options at a reduced rental rate due to significant upgrades the Authority contribution to the premises in repair, replacement and upgrades to the heating, ventilation, air condition, electrical and plumbing systems.

Future minimum lease payments required under the leases subsequent to June 30, 2018 are as follows:

	Office space	Total
2019	$ 98,064	$ 98,064
2020	89,429	89,429
2021	77,340	77,340
2022	77,340	77,340
2023	77,340	77,340
Thereafter	520,735	520,735
Total	$ 940,248	$ 940,248

Note 6 - Capital assets

Information on changes in capital assets is presented below:

	Balance June 30, 2017	Increases	Transfers	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 1,282,385	$ -	$ -	$ 1,282,385
Constrution in progress	152,544	1,183,043	(48,192)	1,287,395
Total	1,434,929	1,183,043	(48,192)	2,569,780
Capital assets being depreciated				
Buildings and improvements	25,189,272	343,884	48,192	25,581,348
Machinery and equipment	659,514	59,898	(371,361)	348,051
	25,848,786	403,782	(323,169)	25,929,399
Less accumulated depreciation				
Buildings and improvements	(19,543,745)	(702,306)	-	(20,246,051)
Machinery and equipment	(552,027)	(39,145)	371,361	(219,811)
	(20,095,772)	(741,451)	371,361	(20,465,862)
Total capital assets being depreciated, net	5,753,014	(337,669)	48,192	5,463,537
Capital assets, net	$ 7,187,943	$ 845,374	$ -	$ 8,033,317

	Balance June 30, 2016	Increases	Transfers	Balance June 30, 2017
Capital assets not being depreciated				
Land	$ 1,282,385	$ -	$ -	$ 1,282,385
Constrution in progress	247,561	87,847	(182,864)	152,544
Total	1,529,946	87,847	(182,864)	1,434,929
Capital assets being depreciated				
Buildings and improvements	24,777,625	228,783	182,864	25,189,272
Machinery and equipment	577,061	82,453	-	659,514
	25,354,686	311,236	182,864	25,848,786
Less accumulated depreciation				
Buildings and improvements	(18,840,382)	(703,363)	-	(19,543,745)
Machinery and equipment	(514,967)	(37,060)	-	(552,027)
	(19,355,349)	(740,423)	-	(20,095,772)
Total capital assets being depreciated, net	5,999,337	(429,187)	182,864	5,753,014
Capital assets, net	$ 7,529,283	$ (341,340)	$ -	$ 7,187,943

Note 7 - Notes payable

Notes payable consists of the following at June 30:

	2018	2017
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.	$ 717,802	$ 775,703
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.	225,679	243,884

	2018	2017
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $36,307. Secured by pledge of tax increment revenue.	355,742	384,436
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. The note was paid in full subsequent to year end.	67,809	258,275
Principal and accrued interest at 1% due on October 1, 2018, secured by 1500 N Street project. The note was paid in full subsequent to year end.	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.	985,367	1,026,486
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.	197,785	214,266
Noninterest-bearing note with 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.	100,000	150,000
California Department of Housing and Community Development (HCD)		
Promissory note dated September 1, 2017, of $1,197,213 payable to HCD, bearing simple interest at 3% per year. The loan matures 16 years from the date of the note (September 2033) at which time all outstanding principal and accrued interest will be due.	1,197,213	1,197,213
California Infrastructure & Economic Development Bank		
Tax Allocation Loan for an amount up to $600,000 secured by the Authority's tax increment. Average annual payments of principal, interest and fees of $40,000 with a fixed interest rate of 2.77% to October 1, 2033.	504,704	529,513
Total	$ 4,552,101	$ 4,979,776

Future maturities on notes payable for years subsequent to June 30, 2018 are as follows:

	Principal	Interest	Total
2019	$ 459,992	$ 91,462	$ 551,454
2020	222,337	84,888	307,225
2021	227,676	79,538	307,214
2022	233,209	73,994	307,203
2023	238,947	68,245	307,192
2024-2028	1,163,576	247,220	1,410,796
2029-2033	1,944,648	657,890	2,602,538
2034	61,716	736	62,452
	$ 4,552,101	$ 1,303,974	$ 5,856,075

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2018 and 2017:

Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Amounts due within one year
$ 4,979,776	$ -	$ (427,675)	$ 4,552,101	$ 459,992

Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Amounts due within one year
$ 6,362,403	$ 1,197,213	$ (2,579,840)	$ 4,979,776	$ 402,675

Note 8 - Bonds payable

On July 7, 2016, the Authority issued 2016 Tax Allocation Bonds. These bonds fully refunded the Authority's remaining obligations with respect to previously issued 2004 Tax Allocation Revenue Bonds.

On June 6, 2017, the Authority issued 2017 Tax Allocation Bonds. This issue fully refunded two outstanding notes one with F & M Bank for the purchase of the Fremont Wilshire Apartments at the corner of 15th & P Street and one with D'Ambrosia for the purchase of the Maintenance office on 701 S Street for principal and interest balances totaling $1,169,964 and $1,035,340, respectively.

Future debt service requirements for years subsequent to June 30, 2018 are as follows:

	Principal	Interest	Total
2019	514,697	371,424	$ 886,121
2020	535,485	353,128	888,613
2021	550,856	334,195	885,051
2022	574,552	314,577	889,129
2023	586,957	294,331	881,288
2024-2028	3,205,768	1,146,056	4,351,824
2029-2033	3,695,432	547,748	4,243,180
2034-2035	1,330,679	46,150	1,376,829
	$ 10,994,426	$ 3,407,608	$ 14,402,034

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2018 and 2017:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Amounts due within one year
TAB payable	$ 11,493,934	$ -	$ (499,508)	$ 10,994,426	$ 514,697

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Amounts due within one year
TAB payable	$ 9,785,000	$ 11,840,137	$ (10,131,203)	$ 11,493,934	$ 499,507

Note 9 - Compensated absences

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2018 and 2017:

Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
$ 177,231	$ 130,417	$ (149,656)	$ 157,992

Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
$ 171,285	$ 123,853	$ (117,907)	$ 177,231

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, FY 16-17 was the last year for reimbursement.

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, 2018, the receipt and disbursement of the levied assessment was netted within 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 support services related to the nonprofit operations, facilities, supplies and equipment with no compensation to the Authority.

For development activities CACDC previously received a revolving line of credit from the Authority up to the amount of $259,000 in FY 15-16. A new non-revolving line of credit replaced the current line of credit for a total of $2,108,000 these funds are for CACDC's portion of the purchase of property on the 1700 S Street block. This loan has a maturity date of March 9, 2019 with a 5% annual interest rate, and is secured by the underlying property owed by the limited partnership.

CADA through the CACDC entered into a joint venture agreement with CFY Development Inc., a third party developer, to form a limited partnership, 1717 S Street Investors, LP where by CACDC is a 50% partner. This partnership is for the purpose of purchasing property for the development of a mixed-use, mixed-income project on the site in order to meet a portion of CADA's R Street Area affordable housing requirement.

On March 10, 2017, the Partnership closed escrow to purchase the half block of property located on the north side of S Street between 17th and 18th Streets, known as 1717 S Street for the total amount of $3,124,000, of this amount the CACDC contributed $2,046,090 into escrow, with $1,562,000 for the land and $300,000 to fund a remediation trust fund. This contribution to the partnership was considered investment activity in a joint venture partnership. The project is still under development as of June 30, 2018 and the Partnership did not have any operating activity during the period from March 10, 2017 through June 30, 2018. As of June 30, 2018, the CACDC had additional investment activity of $11,068.

Note 12 - Funds held for others

The Authority acts as fiscal agent for two trust funds the 17R Orchard Partners LP and the 1717 S Street Investors, LLC. Funds for both trusts are disbursed in accordance with the trusts' instructions and funds for both entities are reported as restricted cash and cash equivalents. Restricted cash balances for the 17 R Orchard Partners, LP is $88,947 and $110,710 and for the 1717 S Street Investor, LLC is $219,106 and $600,000 as of June 30, 2018 and 2017, 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 not or has been a member of CalPERS or another recognized public retirement system and who has 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 2018 is 6.5%.

Funding policy

Active plan members are required to contribute 7% of their annual covered salary. 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 9.599% and 9.558% and for PEPRA members were 6.908% and 6.93% for the years ended June 30, 2018 and 2017, respectively. The Authority has been notified that the required employer contribution rate for classic members will be 10.152% and PEPRA members will be 7.266 % for the year ending June 30, 2018 and an annual payment on the Authority's unfunded liability of $263,521 for classic member and $1,076 for PEPRA members. 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, 2018, the Authority reported net pension liability for its proportionate share of the net pension liability of $4,433,887.

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, 2017 (measurement date), 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, 2016 rolled forward to June 30, 2017 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, 2017 for all members was 0.11312%.

Pension expense and deferred outflows/inflows of resources related to pensions

For the year ended June 30, 2018, the Authority recognized pension expense of $646,830. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflfows of resources	Deferred Inflows of resources
Differences between expected and actual experiences	$ 6,093	$ -
Net difference between projected and actual earnings on pension plan investments	170,981	57,647
Change in assumptions	756,022	87,296
Contributions made subsequent to the measurement date	433,748	-
Total	$ 1,366,844	$ 144,943

The $433,748 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense (revenue) as follows:

Years ending June 30,	Amounts
2019	$ 183,346
2020	441,353
2021	264,969
2022	(101,515)
	$ 788,153

Actuarial assumptions

For the measurement period ended June 30, 2017 (measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 and the June 30, 2017 total pension liability was based on the following actuarial method and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
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 20 years of projected mortality improvement using Scale BB 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, 2017 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 7.15%. 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 discount rate of 7.15% is adequate and the use of the municipal bond rate calculation is not necessary.

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%	4.90%	5.38%
Global fixed income	19%	0.80%	2.27%
Inflation sensitive	6%	0.60%	1.39%
Private equity	12%	6.60%	6.63%
Real estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
	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 of the 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 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Discount rate - 1% (6.15%)	Current discount rate (7.15%)	Discount rate + 1% (8.15%)
Net pension liability	$ 6,911,779	$ 4,433,887	$ 2,381,652

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 provides postretirement health insurance coverage in accordance with the Public Employees' Medical and Hospital Care Act ("PEMHCA") to employees through CalPERS. For all employees to be eligible for this benefit, the former employee must be fifty-five years of age, have the credited service based on hire date, and retired from the Authority.

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 $133 per month for calendar year 2018.

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.

Employees covered

As of the measurement date of June 30, 2017, there are 18 retirees receiving benefits under the program and 4 other retiree who are currently waiving coverage but can re-enroll in the plan if over age 55. At the same measurement date, the Authority had 38 active employees of which 31 were enrolled in the medical program and 7 were waiving coverage.

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.

Contributions

The Authority contributions to the OPEB Plan occur as benefits are paid to retirees and/or to the OPEB trust. The annual contribution is based on the actuarially determined contribution. For the year ended June 30, 2018, the Authority's cash contributions were $308,533 in payments to the trust and the estimated implied subsidy was $43,935 resulting in total payments of $352,468. The Authority has a trust with the California Employers' Retiree Benefit Trust (CERBT) for the purpose of prefunding OPEB obligations for past services.

Net OPEB liability

The Authority's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions.

Actuarial assumptions

For the measurement period ended June 30, 2017 (measurement date), the total OPEB liability was based on the following actuarial method and assumptions:

Funding Method:	Entry-Age Normal Cost, level percent of pay
Asset Valuation Method:	Market value of assets
Long Term Return on Assets:	7.00%
Discount Rates:	7.00%
Participants Valued:	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in the valuation
Salary Increases:	3.25% per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years
Assumed Wage Inflation:	3.0% per year; used as a component of assumed salary increases
General Inflation Rate:	2.75% per year
Mortality Rate(1):	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover(2):	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate:	7.5% decreasing to 5%

(1) Pre-Retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

(2) The Pre-Retirement turnover information was developed based on CalPERS specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that the Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan assets was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB liability
The changes in the net OPEB liability for the OPEB Plan are as follows:

	Total OPEB liability	Fiduciary net position	Net OPEB liability
Balance at June 30, 2017	$ 5,247,985	$ 2,050,474	$ 3,197,511
Changes recognized for the measurement period			
Service cost	188,788	-	188,788
Interest cost	382,973	-	382,973
Expected investment income	-	163,421	(163,421)
Employer contributions	-	649,631	(649,631)
Administrative expenses	-	(1,217)	1,217
Benefit payments	(190,888)	(190,888)	-
Assumption changes	265,905	-	265,905
Plan experience	(942,103)	-	(942,103)
Investment experience	-	72,294	(72,294)
Net changes during the year	(295,325)	693,241	(988,566)
Balance at June 30, 2018	$ 4,952,660	$ 2,743,715	$ 2,208,945

Sensitivity of the net OPEB liability to changes in the discount rate
The following presents the Authority's net OPEB liability if it were calculated using a discount rate that is one percent point lower or one percent point higher than the current rate as of the measurement date:

Changes in discount rate	Net OPEB liability
1% Decrease (6.00%)	$ 2,839,832
Current Discount Rate (7.00%)	2,208,945
1% Increase (8.00%)	1,683,068

Sensitivity of the net OPEB liability to changes in the Healthcare cost trend rates
The following presents the Authority's net OPEB liability if it were calculated using healthcare cost trend rates that are one percent point lower or one percent point higher than the current rate as of the measurement date:

Changes in Healthcare Cost Trend Rates	Net OPEB liability
1% Decrease	$ 1,607,325
Current Trend	2,208,945
1% Increase	2,982,995

Recognition of deferred outflows and deferred inflows of resources
Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

- Net differences between projected and actual earnings on OPEB plan investments are recognized over a 5.5-year period using the straight-line method.

- All other amounts are recognized over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the measurement period.

OPEB expense and deferred outflows/inflows of resources related to OPEB
Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

For the fiscal year ended June 30, 2018, the Authority recognized OPEB expense of $272,598. As of June 30, 2018, the Authority reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Contributions made subsequent to the measurement date	$ 352,468	$ -
Changes of assumptions	217,734	-
Difference between expected and actual experiences	-	771,432
Net differences between projected and actual earnings on plan investments	-	57,835
Total	$ 570,202	$ 829,267

The $352,468 reported as deferred outflows of resources related to contributions made subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the Authority's fiscal year ending June 30, 2019. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as expense (revenue) as follows:

Fiscal year ending June 30:		Deferred outflows/ (inflows) of resources
2019	$	(136,959)
2020		(136,959)
2021		(136,959)
2022		(136,958)
2023		(63,698)
	$	(611,533)

Note 15 - Subsequent events

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date, require disclosure in the accompanying notes. Management evaluated the activity of the Authority through January 14, 2019, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

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, 2018 Last 10 Years*

	2018	2017	2016	2015
Plan's proportion of the net pension liability	0.11312%	0.11367%	0.10455%	0.04431%
Plan's proportionate share of the net pension liability	$ 4,433,887	$ 3,804,599	$ 2,868,163	$ 2,757,022
Plan's covered payroll	$ 2,090,603	$ 2,021,924	$ 1,987,171	$ 1,959,177
Plan's proportionate share of the net pension liability as a percentage of its covered payroll	212%	188%	144%	141%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	0.75528%	0.76752%	81.31677%	81.31677%
Plan's proportionate share of aggregate employer contributions	$ 433,748	$ 356,976	$ 283,507	$ 238,682

Notes to Schedule

Changes of benefit terms. In 2018, there were no changes to the benefit terms.

Changes in assumptions. In 2018, the discount rate was reduced from 7.65% to 7.15%.

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

Capitol Area Development Authority

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

As of June 30, 2018 Last 10 Fiscal Years*

	2018	2017	2016	2015
Contractually required contribution	$ 433,748	$ 356,976	$ 283,507	$ 238,682
Contributions in relation to the contractually required contribution	(433,748)	(356,976)	(283,507)	(238,682)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 2,090,603	$ 2,021,924	$ 1,987,171	$ 1,959,177
Contributions as a percentage of covered-payroll	20.75%	17.66%	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 four years are shown.

See Independent Auditor's Report.

Capitol Area Development Authority

Schedule of Changes in Net OPEB Liability and Related Ratios

Last 10 Fiscal Years(1)

		2018
Total OPEB liability		
Service cost	$	188,788
Interest on total OPEB liability		382,973
Changes of assumptions		265,905
Differences between expected and actual experience		(942,103)
Benefit payments		(190,888)
Net change in total OPEB liability		(295,325)
Total OPEB liability - beginning		5,247,985
Total OPEB liability - ending (a)	$	4,952,660
Plan fiduciary net position		
Contributions from employer	$	649,631
Net investment income		163,421
Benefit payments		(190,888)
Administrative expenses		(1,217)
Investment experience		72,294
Net change in plan fiduciary net position		693,241
Plan fiduciary net position - beginning		2,050,474
Plan fiduciary net position - ending (b)	$	2,743,715
Net OPEB liability - ending (a) - (b)	$	2,208,945
Plan fiduciary net position as a percentage of total OPEB liability		55.40%
Covered-employee payroll	$	1,975,245
Net OPEB liability as a percentage of covered employee payroll		111.83%

Notes to Schedule

(1) Fiscal year 2018 is the first year of implementation of GASB 75, therefore only one year is shown.

(2) Change of Assumptions: the discount rate changed from 7.17% as of the measurement date of June 30, 2016 to 7.00% as of June 30, 2017.

See Independent Auditor's Report.

Capitol Area Development Authority

Schedule of OPEB Plan Contributions

Last 10 Fiscal Years(1)

	2018
Actuarily Determined Contributions (ADC)	$ 352,468
Contributions in relation to the ADC	(352,468)
Contributions deficiency (excess)	$ -
Covered-employee payroll	$ 1,975,245
Contributions as a percentage of covered employee payroll	17.84%

Notes to Schedule of OPEB Plan Contributions

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year 2018 contribution rates are as follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value of assets.
Inflation	2.75%
Salary Increases	3.25% per year; since benefits do not depend on pay, this is covered only to allocate the cost of benefits between service years
Payroll Growth	3.0% per year; used as a component of assumed salary increases
Investment Rate of Return	7.00% net of plan investment fees and including inflation
Healthcare cost trend rates	7.5% initial, then decreasing 0.5% per year to trend rate that reflects medical price inflation not to go below 5%
Retirement age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62. The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of Mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011 except for (a) point retirement base used for 3 employees and (b) a different basis used to project future mortality improvements. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvements using Scale BB published by the Society of Actuaries

(1) Fiscal year 2018 is the first year of implementation of GASB 75, therefore only one year is shown.

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, 2018 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 January 14, 2019, which included an emphasis of matter paragraph related to the adoption of a new accounting principle as indicated at page 4.

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
January 14, 2019

CohnReznick

Accounting • Tax • Advisory