CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2010 and 2009

CAPITOL AREA DEVELOPMENT AUTHORITY

For the Fiscal Years June 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have issued our report dated December 3, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (MD&A) and the schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 3, 2010

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2010 and 2009

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, 2010 and 2009.

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, 2010 include:

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

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

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

- In July 2009 the maintenance facility was moved from a leased space to the purchased building at 701 S Street.

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

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

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

FINANCIAL HIGHLIGHTS (CONTINUED)

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

- During the fiscal year new proposals were submitted for the East End Gateway Site 4 project (16th and P streets), and a new developer is anticipated to be selected in the next fiscal year.

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

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

Financial highlights for the year ended June 30, 2009 include:

- During the year, the Authority had revenues and contributions of approximately $10.8 million consisting primarily of $7.0 million in rental revenue, $3.2 million in tax increment revenue and $0.6 million in interest income.

- The Authority had expenses totaling approximately $9.0 million consisting primarily of $2.9 in employee services and benefits, $3.1 million related to property management operations, $0.9 million of interest expense on the Authority's debt service, $1.1 million for development projects and $1.0 million in deprecation expense.

- To facilitate housing development in the Capitol and R Street Areas the Authority provided $133,000 in loans for Capital Lofts at 1108 R Street and a $300,000 grant to D&S Development at 14th and R Street.

- The Authority expended nearly $571,000 during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area, of which $516,000 was capitalized.

- At the end of the fiscal year contracts were awarded for the renovation of 1400-4 O Street. This building houses Gaylord's restaurant and 17 residential units, with an estimated completion in November 2009.

- During the fiscal year new proposals were submitted for the East End Gateway Sites 1 (16th and N Street) & 4 (16th and O Street) projects, and new developers were selected for each project.

FINANCIAL HIGHLIGHTS (CONTINUED)

- The Authority purchased State owned property located at 1610 17th Street for development purposes of Site 9B.

- During the year, the Authority purchased the blighted Fremont Wilshire Apartments at the corner of 15th and P Streets to improve the neighborhood and assist in meeting Authority's affordable housing requirements.

- In order to ensure that the Authority has the financial resources to meet the demands of its mission, it maintains a continuing ten-year financial projection that is reviewed at least annually. A key element of the Authority's financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and meet its projected planning and pre-development demands for redevelopment projects. The Authority's $13.7 million in net assets, as of June 30, 2009, meets this demand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Notes to the financial statements: The notes, which are presented later in the financial statements, provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's improving or declining financial position. In the case of the Authority, assets exceeded liabilities by $14,743,779 at June 30, 2010.

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

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

Analysis of Net Assets:

Total net assets increased during the year by $1,032,700, as a result of an increase in assets offset by an increase in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which increased by $747,313, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased over $2,570,836 as a result of acquisitions of land, equipment and improvements to buildings, including the purchase of the property at 701 S Street. Depreciation expense reduced the carrying value of the total capital assets by $1,003,824, for a net increase in the net value of capital assets of $1,567,012.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

**Condensed Statements of
Net Assets at June 30, 2009 and 2008**

	2009	2008	Change $	Change %
Assets:				
Current and other assets	$ 22,449,706	$ 21,164,068	$ 1,285,638	6.07%
Capital assets, net	10,514,570	8,706,778	1,807,792	20.76%
Total assets	**32,964,276**	**29,870,846**	**3,093,430**	**10.36%**
Liabilities:				
Accounts payable and other current liabilities	1,860,247	1,466,273	393,974	26.87%
Non-current liabilities	17,392,950	16,488,976	903,974	5.48%
Total liabilities	**19,253,197**	**17,955,249**	**1,297,948**	**7.23%**
Net assets:				
Invested in capital assets, net of related debt	(3,274,285)	(3,049,874)	(224,411)	7.36%
Restricted for insurance and reserves	579,282	614,222	(34,940)	-5.69%
Unrestricted	16,406,082	14,351,249	2,054,833	14.32%
Total net assets	**$ 13,711,079**	**$ 11,915,597**	**$ 1,795,482**	**15.07%**

Analysis of Net Assets:

Total net assets increased during the year by $1,795,482, as a result of an increase in assets offset by an increase in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which decreased by $224,411, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased over $2,810,718 as a result of acquisitions of land, equipment and improvements to buildings, including the purchase of the Fremont Wilshire Apartments. Depreciation expense reduced the carrying value of the total capital assets by $1,002,926, for a net increase in the net value of capital assets of $1,807,792.

Debt related to the acquisition of capital assets, which affects both current and non-current liabilities increased $2,055,676. This was the result of further expenditure of $1,069,639 of previously unexpended 2004 Tax Allocation Bond proceeds, new debt of $1,315,000 for the purchase of the Fremont Wilshire Apartments, the expensing of $38,695 of deferred amount on refunding and issuance costs, net of $367,658 of principal payments on outstanding debt.

These factors - the increase in net capital assets and related debt - totaled $(224,411), which decreased the portion of net assets invested in capital assets, net of related debt.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

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

Net assets increased by $1,032,700 as a result of fiscal year ended June 30, 2010 operations. This represents a decrease of ($762,782) from the $1,795,482 net assets increase reflected in fiscal year ended June 30, 2009.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008

			Change	
	2009	2008	$	%
Revenues:				
Operating revenues				
Rental revenue, net	$ 6,920,291	$ 6,646,121	$ 274,170	4.13%
Miscellaneous	105,745	80,600	25,145	31.20%
Non-operating revenues				
Interest income	588,769	888,933	(300,164)	-33.77%
Intergovernmental				
Tax increment	3,181,543	2,933,899	247,644	8.44%
Total revenues	**10,796,348**	**10,549,553**	**246,795**	**2.34%**
Expenses:				
Operating expenses				
Employee services and benefits	2,928,240	2,873,870	54,370	1.89%
Development projects	1,047,897	290,042	757,855	261.29%
Other	4,095,704	4,249,700	(153,996)	-3.62%
Non-operating expenses	929,025	909,530	19,495	2.14%
Total expenses	**9,000,866**	**8,323,142**	**677,724**	**8.14%**
Change in net assets	**1,795,482**	**2,226,411**	**(430,929)**	
Net assets, beginning of year	11,915,597	9,689,186	2,226,411	22.98%
Net assets, end of year	**$ 13,711,079**	**$ 11,915,597**	**$ 1,795,482**	**15.07%**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Net assets increased by $1,795,482 as a result of fiscal year ended June 30, 2009 operations. This represents a decrease of ($430,929) from the $2,226,411 net assets increase reflected in fiscal year ended June 30, 2008.

Revenue reflects an increase from the prior year, primarily as a result of four revenue sources. Tax increment increased by $247,644 and reflects a net increase in property values due to improvements made to properties within the Authority's boundaries. Rental revenue increased as a result of rental rate adjustments and the addition of 32 new units. Interest income is lower as a result of the decrease in the investment earnings on funds held with the City Treasurer. Miscellaneous revenue increased $25,145 due to additional non-refundable development fees. The overall impact on revenue was an increase of $246,795 in total revenue.

Expenses increased during the fiscal year ended June 30, 2009 mainly due to activity on development projects, $1,047,897 during 2008/2009 versus $290,042 during 2007/2008. In the current year the majority of costs were expended on the R Street Streetscape project; $560,000 for a federal grant match and a developer grant of $300,000, offset by decreases of $60,000 in legal expenses and $50,000 in miscellaneous expenses in various projects. There were decreases in interest expense of $19,495 due to a reduction of the related principal amounts and an increase in employee services and benefits of $54,370 due to budgeted salary and related benefits increases.

There was a decrease totaling $(231,394) for property management expenses which is mainly comprised of a decrease in services and supplies totaling approximately $33,000 and repairs and maintenance of approximately $195,000. Other operating expenses increased $77,398 due to an increase in deprecation.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statement of Net Assets above, the Authority's investment in capital assets (capital assets, net) were $12,081,582 and $10,514,570 (net of accumulated depreciation) at June 30, 2010 and 2009, respectively. This investment in capital assets includes land, construction in progress, building and improvements, and machinery and equipment. Additions during the year ending June 30, 2010 and 2009 totaled $2,570,837 and $2,810,718 respectively, included land, building improvements, machinery and equipment, and construction in progress. Depreciation on capital assets totaled $1,003,824 and $1,002,926, respectively, for the years ending June 30, 2010 and 2009.

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

Notes and bonds payable: Also reflected in the Statement of Net Assets above, the Authority is responsible for notes and bonds payable, net of deferred amounts, totaling $118,302,642 and $17,580,088 as of June 30, 2010 and June 30, 2009. During the year ended June 30, 2010, $1,150,000 of additional debt was assumed for the purchase of the 701 S Street. During the years ended June 30, 2010 and 2009, principal payments reduced notes payable by $232,669 and $162,658 respectively and bonds payable by $210,000 and $205,000 respectively. Amortization of deferred amount on refunding and costs of issuance totaled $23,473 for the years ended June 30, 2010 and 2009.

Additional information on the Authority's Long-Term Debt can be found in Note F and G to the Financial Statements.

ECONOMIC FACTORS AND BUDGET PROCESS

The Authority adheres to a balanced budget directive, such that budgeted revenues will always equal budgeted expenses. Budgets are prepared using a modified cash flow concept. Consequently, debt principal payments and capitalized expenditures are included, and non-cash items, such as depreciation and amortization, are not included. Mid-year, the Authority reassesses its budgetary estimates.

The Authority has become deeply involved in the development of sites within the Capitol Area. Site preparation and development regularly requires more than one fiscal year to complete. Consequently, the Authority operates using both annual General Operations Budgets and multi-year Capital Investment Program Budgets.

The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2011:

- Decreases were budgeted for tax increment revenue due to the prior year's reduction and the negative .2% California Consumer Price Index applied to property values by the County Assessor's Office.

- No increases were budgeted for residential rental revenue, with an over all decrease of 1% in total Rental Revenue due to the anticipated activity in the rental market.

- Low to Moderate bond proceeds were budgeted for the purchase of the 1614 N Street property for the East End Gateway Site 5 development project.

- Budgeted current development projects of $917,000 and major construction of $711,000 will be funded through the 2010/2011 General Operations Budget.

- Remaining bond proceeds are available to provide development project funding for the East End Gateway Sites 1, Capitol Lofts, R Street development, and the development of low to moderate income housing in both the Capitol and R Street areas.

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

- The Authority budgeted $418,000 to fund the current year's ARC to the California Employers' Retiree Benefit Trust administered by CalPERS for the Authority's unfunded post-employment health benefit liabilities.

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

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

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

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

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

- The State is in the process of reviewing and possibly approving the sale of the East End complex to a private party who may be required to pay property taxes for this site. Since this complex is within the Authority's boundaries this sale could potentially create additional tax increment to the Authority in the future.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Noelle Mussen, Controller at 1522 – 14th Street, Sacramento, CA 95814.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and investments	$ 17,223,145	$ 17,080,815
Accounts receivable	109,665	17,098
Interest receivable	427,524	274,482
Prepaid expenses	95,220	94,592
Notes receivable, current portion	8,604	2,774
Restricted cash:		
Tenant security deposits	375,728	369,789
Debt covenant reserves	854,165	855,229
Insurance impounds	44,667	65,743
Total restricted cash	1,274,560	1,290,761
Total current assets	19,138,718	18,760,522
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	190,149	213,539
Insurance risk reserve	300,000	300,000
Total restricted cash	490,149	513,539
Notes receivable, net	2,591,817	2,588,808
Deferred charge, net	563,364	586,837
Capital assets:		
Non-depreciable	3,279,969	2,076,102
Depreciable, net	8,801,613	8,438,468
Total capital assets	12,081,582	10,514,570
Total noncurrent assets	15,726,912	14,203,754
Total assets	$ 34,865,630	$ 32,964,276

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Assets (Continued)
June 30, 2010 and 2009

	2010	2009
Liabilities		
Current liabilities:		
Accounts payable	$ 552,274	$ 424,795
Prepaid rent	31,052	8,916
Due to state - HCD	87,404	126,732
Accrued benefits payable	46,808	48,166
Accrued interest payable	179,354	182,243
Security deposits	375,728	369,789
Developer deposits	307,408	283,700
Notes payable, current portion	251,446	221,129
Bonds payable, current portion	204,778	194,777
Total current liabilities	2,036,252	1,860,247
Noncurrent liabilities:		
Accrued interest payable	43,474	41,474
Notes payable	6,837,086	5,950,072
Bonds payable	11,009,332	11,214,110
Compensated absences payable	195,707	187,294
Total noncurrent liabilities	18,085,599	17,392,950
Total liabilities	20,121,851	19,253,197
Net Assets		
Invested in capital assets, net of related debt	(2,526,972)	(3,274,285)
Restricted for insurance and reserves	534,816	579,282
Unrestricted	16,735,935	16,406,082
Total net assets	$ 14,743,779	$ 13,711,079

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues		
Rental revenue, net	$ 6,927,963	$ 6,920,291
Other revenues:		
Development projects	132,255	61,116
Miscellaneous	40,163	44,629
Total operating revenues	7,100,381	7,026,036
Operating expenses		
Employee services and benefits	3,349,847	2,928,240
Services and supplies	2,069,234	2,065,479
Development projects	844,487	1,047,897
Repairs and maintenance	1,109,651	1,003,826
Amortization	23,473	23,473
Depreciation	1,003,824	1,002,926
Total operating expenses	8,400,516	8,071,841
Operating loss	(1,300,135)	(1,045,805)
Non-operating revenues (expenses)		
Interest income	522,137	588,769
Interest expense	(1,003,019)	(929,025)
Intergovernmental	2,813,717	3,181,543
Total non-operating revenues	2,332,835	2,841,287
Change in net assets	1,032,700	1,795,482
Net assets, beginning of year	13,711,079	11,915,597
Net assets, end of year	$ 14,743,779	$ 13,711,079

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Rental receipts	$ 6,857,423	$ 6,942,921
Other development and operating receipts	196,126	233,095
Tenant security deposits received	212,461	273,568
Payroll and related costs paid	(3,342,792)	(2,936,145)
Services and supplies expenses paid	(1,942,383)	(2,087,863)
Development project expenses paid	(844,378)	(1,047,897)
Operating and maintenance expenses paid	(1,109,651)	(1,003,826)
Tenant security deposits paid	(206,522)	(256,314)
Net cash (used for) provided by operating activities	(179,716)	117,539
Cash flows from noncapital financing activities:		
Intergovernmental	2,774,389	3,199,549
Cash flows from capital and related financing activities:		
Principal payment on debt	(427,446)	(367,658)
Proceeds of notes payable	-	-
Interest paid on debt	(1,003,908)	(914,569)
Acquisition of capital assets	(1,420,836)	(1,338,387)
Net cash used for capital and related financing activities	(2,852,190)	(2,620,614)
Cash flows from investing activities:		
Proceeds from long term investment	851,063	-
Issuance of notes receivable	-	(133,714)
Repayment of notes receivable	2,773	-
Interest receipts	357,483	424,709
Net cash provided by investing activities:	1,211,319	290,995
Net increase in cash	953,802	987,469
Cash and cash equivalents, beginning of year	18,034,052	17,046,583
Cash and cash equivalents, end of year	$ 18,987,854	$ 18,034,052
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and investments	$ 17,223,145	$ 17,080,815
Restricted cash :		
Tenant security deposits	375,728	369,789
Debt covenant reserves	854,165	855,229
Insurance impounds	44,667	65,743
Reserve for replacements	190,149	213,539
Insurance risk reserve	300,000	300,000
Total cash and investments	18,987,854	18,885,115
Less long term investments not meeting definition of cash and cash equivalents	-	(851,063)
Total cash and cash equivalents	$ 18,987,854	$ 18,034,052

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash		
(used for) provided by operating activities:		
Operating loss	$ (1,300,135)	$ (1,045,805)
Adjustments to reconcile operating loss to net		
cash (used for) provided by operating activities:		
Amortization	23,473	23,473
Depreciation	1,003,824	1,002,926
Changes in assets and liabilities:		
Accounts receivable	(92,567)	19,567
Prepaid expenses	(628)	(43,436)
Accounts payable	127,479	21,052
Prepaid rent	22,136	3,063
Accrued benefits payable	(1,358)	(22,393)
Security deposits payable	5,939	17,254
Developer deposits payable	23,708	127,350
Compensated absences payable	8,413	14,488
Net cash (used for) provided by operating activities	$ (179,716)	$ 117,539
Noncash investing, capital and financing activities:		
Interest revenue financed through issuances of notes receivable	$ 11,612	$ 14,090
Acquisition of capital assets through debt financing	$ 1,150,000	-

See accompanying notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Capitol Area Development Authority (Authority) was created by a joint powers agreement between the City of Sacramento (City) and the State of California (State) in July 1978. The Authority is governed by a five-member board of directors appointed by the City and the State. The Authority is responsible for management, maintenance and renovation of state-owned apartments (approximately 750 units) and commercial structures (approximately 30 leases); management of ground leases involving privately developed housing (approximately 140 units); developing new housing and commercial projects, including neighborhood amenities; and development of new state office and parking facilities upon request and approval of the State.

Basis of Presentation

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

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

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

Intergovernmental Revenues

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

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

Cash and Investments

The Authority participates in the City's investment pool. The City Treasurer pools cash with 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 US Treasury notes and money market mutual funds through a fiscal agent that are restricted by debt covenants.

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

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

Capital Assets

Capital assets, which are defined by the Authority as assets with an initial, individual cost of more than $3,000 and an estimated useful life beyond 1 year, are stated at cost. Depreciation is calculated using the straight-line method based on the following estimated useful lives:

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

Compensated Absences Payable

Employee vacation benefits earned, but not used, are recognized as liabilities of the Authority. Fulltime employees accrue annual leave at rates based on length of service. Full-time employees with less than 3 years of service are allowed to carry a maximum of 160 hours of unused vacation, employees with 3-10 years of service may carry a maximum of 240 hours of unused vacation and employees with 10 years or more of service may carry a maximum of 320 hours of unused vacation. Part-time employees working more than, or are on paid status of, 50% a month are eligible to earn and use vacation time at their pro-rata rate according to the percentage of the month they work. Compensated absence accruals are considered long-term in nature and totaled $195,707 and $187,294 as of June 30, 2010 and 2009 respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences Payable and Sick Leave (Continued)

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

Risk Management

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

New Pronouncements

For fiscal year ended June 30, 2010, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other post employment benefits (OPEB) expenses/expenditures, related assets and liabilities, note disclosures and required supplementary information. This Statement's provisions may be applied prospectively and does not require governmental entities to fund their OPEB plans. As a result the Authority recognized $398,000 in annual OPEB costs and included the related financial statement disclosures regarding the Authority's OPEB plan in Note K.

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

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

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

Custodial Credit Risk (Continued)

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

At June 30, 2010 and 2009, the carrying amount of the Authority's deposits was $1,581,354 and $96,631, respectively. The bank balances at June 30, 2010 and 2009 were $1,607,762 and $299,956, respectively. Of these amounts $250,000 was covered by federal depository insurance both at June 30, 2010 and 2009, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority manages it's exposure to interest rate risk by investing the majority of its resources with the City Treasurer, which purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the pool is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment pool is unrated and the weighted average maturity is 1.41 years and 1.16 years at June 30, 2010 and 2009, respectively.

Credit Risk

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

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

Credit Risk (Continued)

As of June 30, 2010, the Authority's deposits, investments and credit ratings are as follows:

	Credit Rating	Maturities: Under 30 days	Maturities: 1-5 years	Fair Value
Cash and investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 16,473,426	$ 16,473,426
Money market mutual funds	AAA/Aaa	854,165	-	854,165
CalHFA impound accounts	NA	-	-	78,909
Deposits	NA	-	-	1,581,354
Total cash and invsestments		$ 854,165	$ 16,473,426	$ 18,987,854

As of June 30, 2009, the Authority's deposits, investments and credit ratings are as follows:

	Credit Rating	Maturities: Under 30 days	Maturities: 1-5 years	Fair Value
Cash and Investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 17,827,745	$ 17,827,745
US Treasurey notes	NA	-	851,063	851,063
Money market mutual funds	AAA/Aaa	4,165	-	4,165
CalHFA impound accounts	NA	-	-	105,511
Deposits	NA	-	-	96,631
Total cash and investments		$ 4,165	$ 18,678,808	$ 18,885,115

NOTE C - NOTES RECEIVABLE

	June 30, 2010	June 30, 2009
From 15th & Q Limited Partnership: Interest-free promissory note for $500,000 for the development of multifamily residential rental housing. Principal shall be due and payable upon the earlier to occur: (i) sale of all or any part of the property by maker, or (ii) ten (10) years following the first day of the first calendar month following the date the improvements achieve a ninety percent (90%) physical occupancy rate for all units (March 1, 2016).	$ 500,000	$ 500,000
From 15th & Q Limited Partnership: Promissory note for up to $400,000 for the development of multifamily residential rental housing. Interest shall accrue commencing the first of the month following the date improvements first achieve a ninety percent (90%) physical occupancy rate (interest accrual date). Interest rates shall increase annually by 1% to a maximum of 5% for years 5 through maturity. Unpaid interest shall be added to principal and bear interest at the note rate. Payments started on March 1, 2010 the beginning of year 5 following the interest accrual date.	439,240	430,401
From Capitol Lofts-Sacramento, LLC: Promissory note for certain site development and construction costs associated with the Capitol Lofts, a mixed-use development project. As of October 26, 2007 the financial structure of the development project and promissory note were renegotiated. The promissory note was repositioned as a unsercured loan up to $2.7 million with a term not to exceed four (4) years from the execution date. Interest will accrue from the date of execution at the rate of 10%	1,661,181	1,661,181
Total	$ 2,600,421	$ 2,591,582

NOTE D - LEASE OF STATE-OWNED REAL AND PERSONAL PROPERTY

The Authority leases and manages real and personal property located in the City of Sacramento from the State under a sixty-year operating lease terminating on October 31, 2038. The related cost of these properties is not included in the Authority's financial statements nor does the Authority pay rent on these properties. The State may terminate the lease in whole or as to any portion at any time by giving the Authority notice in writing at least 180 days prior to the date that any such termination shall be effective.

Exceptions to the 180-day notice of termination are the separate 60-year ground lease(s), which the Authority enters into with the State for the purposes of long-term development. In these instances, the Authority can develop the property itself or enter into a 59-year developmental ground lease with a developer for a specific project. These leases are used as security for the development of the property. Should the ground lease between the Authority and the State be terminated, the developmental ground leases will be honored by the State on behalf of the Authority.

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2010 and 2009

NOTE E - CAPITAL ASSETS

Information on changes in capital assets is presented below:

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

	June 30, 2008	Increases	Transfers	Decreases	June 30, 2009
Capital assets not being depreciated:					
Land	$ 1,474,131	$ 412,593	$ -	$ -	$ 1,886,724
Construction in progress	29,626	189,378	(29,626)	-	189,378
Total capital assets not being depreciated	1,503,757	601,971	(29,626)	-	2,076,102
Capital assets being depreciated:					
Buildings and improvements	18,499,326	2,142,654	29,626	-	20,671,606
Machinery and equipment	607,760	66,093	-	(26,247)	647,606
	19,107,086	2,208,747	29,626	(26,247)	21,319,212
Less accumulated depreciation for:					
Buildings and improvements	(11,441,633)	(931,323)	-	-	(12,372,956)
Machinery and equipment	(462,432)	(71,603)	-	26,247	(507,788)
	(11,904,065)	(1,002,926)	-	26,247	(12,880,744)
Total capital assets being depreciated, net	7,203,021	1,205,821	29,626	-	8,438,468
Capital assets, net	$ 8,706,778	$ 1,807,792	$ -	$ -	$ 10,514,570

NOTE F - NOTES PAYABLE

Notes payable consists of the following:

	June 30,	
	2010	2009
To Sacramento Housing and Redevelopment Agency:		
Monthly installments of $415 including principal and interest at 5% to June 10, 2015, secured by 1421 15th Street, Biele Place Project	$ 20,038	$ 23,911
Non-interest bearing note with annual principal payments of not less than $40,000 annually, plus accrued interest at 2% beginning March, 2012 and maturing March, 2016, secured by the pledge of tax increment funds on the Capital Lofts project	200,000	200,000
To Cal Fed:		
Monthly principal and interest installments of $1,905 with a fixed interest rate of 7.57% to October 1, 2013. Note is secured by Stanford Park commercial spaces at 1520 and 1530 16th Street	65,835	83,000
To D'Ambrosia Properties:		
Monthly principal and interest installments of $6,519 with a fixed interest rate of 5.5% to September 1, 2019. Note is secured by the 701 S Street property.	1,138,461	-
To State of California Department of General Services (DGS):		
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 1 development project.	185,817	193,810

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

	June 30, 2010	June 30, 2009
To State of California Department of General Services (DGS) (continued):		
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% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 2 development project.	216,646	225,965
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% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 3 development project.	420,451	438,536
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% and consecutive annual payments of principal and interest are due. Secured by pledge of tax increment generated by the East End Gateway Site 4 development project.	302,796	315,820

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

	June 30,	
	2010	2009
To California Housing Finance Agency:		
Monthly installments of $17,303, including principal and interest at 9.95% to October 1, 2018, secured by 1500 N Street project.	1,172,962	1,259,169
Principal and accrued interest at 1% due on October 1, 2018, secured by 1500 N Street project.	200,000	200,000
Monthly installments of $7,836, including principal and interest at 5.25% to August, 2033, secured by 17th Street Commons project.	1,261,188	1,288,230
To Sacramento Housing Finance Agency:		
Non-interest bearing note with annual principal payments of $16,481 beginning December, 2003 and maturing in the year 2028, secured by 17th Street Commons project.	329,633	346,114
Non-interest bearing note with annual principal payments of not less than $25,000 annually beginning July 1, 2013 and maturing on July 1, 2022, secured by the pledge of tax increment funds on the Capital Lofts project.	250,000	250,000
To Farmers and Merchant Bank:		
Monthly principal and interest installments of $8,389 with a fixed interest rate of 6.5% to December 5, 2018. Note is secured by Fremont Wilshire Apartments at the corner of 15th & P Streets.	1,288,176	1,303,391
To State of California Department of Housing and Community Development (HCD):		
Monthly installments of $661 including principal and interest at 3% to July 1, 2015, secured by 1506-10 O Street project.	36,529	43,255
Total Notes Payable	$ 7,088,532	$ 6,171,201

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

Future maturities on notes payable are as follows at June 30, 2010:

Years Ending June 30	Principal	Interest	Total
2011	$ 251,446	$ 353,155	$ 604,601
2012	307,524	341,076	648,600
2013	350,443	322,360	672,803
2014	352,286	302,768	655,054
2015	362,711	282,849	645,560
2016-2020	3,767,406	1,623,226	5,390,632
2021-2025	712,799	248,092	960,891
2026-2030	703,536	135,687	839,223
2031-2034	280,381	25,212	305,593
	$ 7,088,532	$ 3,634,425	$ 10,722,957

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2010 and 2009:

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

Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amounts due within one year
$ 5,018,859	$ 1,315,000	$ (162,658)	$ 6,171,201	$ 221,129

The Authority purchased four sites (East End Gateway Site 1 through 4) on December 30, 2005 financed partially through the issuance of debt totaling $1,174,131 and through a credit for the estimated costs of future vacating costs, remediation costs and site characterization costs that could possibly be incurred against the underlying property. Estimated costs totaling $2,041,869 can be incurred on or before January 1, 2011. At that time, any estimated cost not incurred will be treated as an increase to the notes. As of June 30, 2010, the Authority has incurred a total $567,656 of related remediation costs.

NOTE G - **BONDS PAYABLE**

On July 29, 2004, the Authority issued 2004 Tax Allocation Bonds. The Authority's remaining obligations with respect to previously issued 1994 Tax Allocation Revenue Bonds were fully refunded upon the issuance of the bonds. In addition, a portion of the bond proceeds was used to prepay two 1999 notes from the State of California Department of General Services with outstanding principal and interest balances totaling $1,516,967 and $106,999, respectively.

Future debt service requirements to maturity are as follows at June 30, 2010:

Years Ending June 30	Principal	Interest	Total
2011	$ 220,000	626,613	$ 846,613
2012	230,000	615,555	845,555
2013	240,000	603,903	843,903
2014	255,000	591,519	846,519
2015	265,000	578,442	843,442
2016-2020	1,565,000	2,650,842	4,215,842
2021-2025	2,065,000	2,127,361	4,192,361
2026-2030	2,770,000	1,400,956	4,170,956
2031-2035	3,665,000	500,132	4,165,132
Total requirements	$ 11,275,000	$ 9,695,323	$ 20,970,323

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2010 and 2009:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amounts due within one year
2004 Tax Allocation Bonds	$ 11,485,000	$ -	$ (210,000)	$ 11,275,000	$ 220,000
Deferred amounts on refunding	$ (76,113)	$ -	$ 15,223	$ (60,890)	$ 15,222
Total 2004 Tax Allocation Bonds	$ 11,408,887	$ -	$ (194,777)	$ 11,214,110	$ 204,778

NOTE G - BONDS PAYABLE (CONTINUED)

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amounts due within one year
2004 Tax Allocation Bonds	$ 11,690,000	$ -	$ (205,000)	$ 11,485,000	$ 210,000
Deferred amounts on refunding	$ (91,336)	$ -	$ 15,223	$ (76,113)	$ 15,223
Total 2004 Tax Allocation Bonds	$ 11,598,664	$ -	$ (189,777)	$ 11,408,887	$ 194,777

NOTE H - COMPENSATED ABSENCES

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2010 and 2009:

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

Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
$ 172,806	$ 125,547	$ (111,059)	$ 187,294

NOTE I - OPERATING LEASES

The Authority leases office space (approximately 6,172 square feet) through the State of California Department of General Services (DGS). In January 2010 a new lease was negotiated with DGS for the currently leased space for a term of ten years form February 1, 2010 to January 31, 2020 for a monthly rental amount of $8,172, with no annual rate adjustments. Under the terms of the lease that ended January 31, 2010 and the current lease ending January 1, 2020 a total of $89,765 and $83,832 of operating lease rental expense was paid during the years ended June 30, 2010 and 2009, respectively.

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

Effective June 1, 2003, the Authority entered into a lease of maintenance operation space at 800 R Street, including options to lease up to 14,000 square feet of additional space, at a rate of $2,500 per month. The lease includes two options to extend, each for an additional period of five years, with annual cost of living adjustments. Effective March 1, 2004, the Authority exercised its option to increase its space from 2,000 square feet to 4,400 square feet and to add a small parking lot, increasing the monthly rental rate to $5,566 per month, with annual cost of living adjustments. Effective November 2006, the Authority agreed to an interim monthly increase of $233 for 41 months ending March 2009, for a roof replacement, increasing the monthly rate to $6,149. The lease expired May 31, 2009, and the Authority entered into a month to month lease, with a six month cancelation clause and a 3% cost of living adjustment, increasing the monthly rate to $6,489. In February 2010 the Authority terminated the lease when the maintenance operation moved to a new facility. Under the terms of the lease, a total of $51,912 and $79,286 of rental expense was paid during the years ended June 30, 2010 and 2009, respectively.

Effective April 2010, the Authority entered into a lease for a vacant lot at 15^{th} and Q streets for the purpose of constructing a temporary parking lot. The lease is a five year fixed term with an option to extend the term for two additional years. Monthly rent for the first five years is $3,000. If the two year option is exercised then the monthly rent will increase to $3,500. Under the terms of the lease, a total of $7,000 rental expense was paid during the year ended June 30, 2010.

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

Year Ending June 30,	Office Space	15th & Q	Total
2011	$ 98,064	$ 36,000	$ 134,064
2012	98,064	36,000	$ 134,064
2013	98,064	36,000	$ 134,064
2014	98,064	36,000	$ 134,064
2015	98,064	29,000	$ 127,064
2016	98,064		$ 98,064
2017	98,064		$ 98,064
2018	98,064		$ 98,064
2019	98,064		$ 98,064
2020	$ 57,204		$ 57,204
Total future minimum lease payments	$ 939,780	$ 173,000	$ 1,112,780

NOTE J - **PENSION PLAN**

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 4% were paid by the Authority. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates were 11.591% and 11.698% for the years ended June 30, 2010 and 2009, respectively. The Authority has been notified that the required employer contribution rate will be 11.846% for the year ending June 30, 2011. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS based on actuarial valuations performed by CalPERS actuaries.

The Authority's required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years is as follows:

Fiscal Year Ended	Required Contributions	Percentage of Required Contributions Made
6/30/08	$ 225,083	100%
6/30/09	$ 210,978	100%
6/30/10	$ 231,079	100%

NOTE K - POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The Authority's defined benefit postemployment healthcare plan, provides medical benefits to eligible retired employees and eligible family members. The Authority established the irrevocable trust to prefund the other post employment benefits annual required contribution through the California Employer's Retiree Benefits Trust Program (CERBT), an agent multiple-employer plan. Benefit provisions are established and may be amended by the Authority's Board of Directors. The Authority's Other Postemployment Benefits (OPEB) financial statements are included in the CalPERS CAFR. Copies of CalPERS' CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

The Authority provides postretirement health insurance coverage in accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA) to employees through the California Public Employees Retirement System (CalPERS).

Employees hired prior to May 1, 2005 are eligible for postretirement health insurance coverage under Government Code Section 22892 unless they elect to be covered under Government Code Section 22893. Under Code Section 22892, the retiree and their qualified family members are eligible for health benefits after five (5) years of service for 100% of the annual health benefit contribution adopted by the Authority's Board of Directors. The calendar year employer contribution may not be less than an amount stipulated by the Government Code - $105 per month for calendar year 2010.

All employees hired on or after May 1, 2005, as well as those hired prior to May 1, 2005 are eligible for postretirement health insurance coverage under Government Code Section 22893. Coverage under Code Section 22893 is based on the employee's completed years of service at retirement. The Authority contributes 50% of the weighted average of the four basic health benefit plans that had the largest state enrollment, for those employees with a minimum of ten (10) years of service, five (5) of those ten (10) years performed at the Authority. With each additional year of service after 10 years, the retiree will receive an additional 5% of the contribution up to 20 years of service which then entitles them to 100% of the contribution rate. The Authority also provides 90% of the health benefit contribution for the retiree's eligible family members.

Funding Policy

The obligation of the Authority to contribute to the plan is established and may be amended by the Board of Directors. Employees are not required to contribute to the plan. The Authority is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is $398,000.

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2010 and 2009

NOTE K - **POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

Annual OPEB Cost

For the year ended June 30, 2010, the Authority's annual OPEB cost (expenses) was $398,000. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

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

Funded Status and Funding Progress

The Funded status of the plan as of June 30, 2010, was as follows:

Actuarial accrued liability (AAL)	$4,644,000
Actuarial value of plan assets	332,442
Unfunded actuarial accrued liability (UAAL)	$4,311,558
Funded ratio (actuarial value of plan assets/AAL)	7.16%
Covered payroll (active plan members)	$1,456,085
UAAL as a percentage of covered payroll	296%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan

NOTE K - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return, (net of administrative expenses) and an annual blended healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 5 years. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value on the valuation date of prior service costs. For retirees, the AAL is the present value of all projected benefits.

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

NOTE L – POLLUTION REMEDIATION OBLIGATIONS

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

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

REQUIRED SUPPLEMENTARY INFORMATION

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information (Unaudited)
Years Ended June 30, 2010 and 2009

SCHEDULE OF FUNDING PROGRESS

Other Post Employment Benefits

	A	B	C	D	E	F
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) [B - A]	Funded Ratio [A/B]	Covered Payroll	UAAL as Percentage of Covered Payroll [(B-A)/E]
6/30/2010	$ 332,442	$ 4,644,000	$ 4,311,558	7%	$ 1,456,085	296%

As required by GASB Statement No. 45, the Authority will report three years of data in the above table, as the information becomes available in subsequent years.

Board of Directors
Capitol Area Development Authority
Sacramento, California

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

We have audited the financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. Our report contained an explanatory paragraph discussing the Authority's implementation of the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions,* during the year ended June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 3, 2010