CAPITOL AREA
DEVELOPMENT AUTHORITY

Independent Auditor's Reports,
and
Financial Statements

For the Fiscal Years Ended
June 30, 2009 and 2008

CAPITOL AREA
DEVELOPMENT AUTHORITY

1522 14th Street
Sacramento, CA 95814-5958
916.322.2114 / fax 916.441.1804
www.cadanet.org

CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2009 and 2008

CAPITOL AREA DEVELOPMENT AUTHORITY

For the Fiscal Years June 30, 2009 and 2008

Table of Contents

BOARD OF DIRECTORS OF THE CAPITOL AREA DEVELOPMENT AUTHORITY

Ann Bailey
Chair

William Ishmael
Vice-Chair

Ron Alvarado

Bob Lagomarsino

Page Robbins

Paul Schmidt
Executive Director

Leyne Milstein
Finance Director
City of Sacramento

Robert Murphy
Legal Counsel
Kronick Moskovitz
Tiedemann & Girard

Russell Fehr
Treasurer
City of Sacramento

MGO

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

SACRAMENTO
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

Board of Directors
Capitol Area Development Authority
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 1, 2009, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The management's discussion and analysis on pages 4 through 13 is not a required part of the basic financial statements but is 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 1, 2009

CAPITOL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2009 and 2008

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, 2009 and 2008.

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 redevelopment tax increment revenue generated within the Authority's 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, 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 Capital and R Street Areas the Authority provided $133,000 in loans for Capital Lofts and a $300,000 grant to D&S Development.
- 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 & 4 projects, and new developers were selected for each project.
- The Authority purchased State owned property located at 1610 17th Street for development purposes.

FINANCIAL HIGHLIGHTS (CONTINUED)

- During the year, the Authority purchased the 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.

Financial highlights for the year ended June 30, 2008 include:

- During the year, the Authority had revenues and contributions of approximately $10.5 million consisting primarily of $6.7 million in rental revenue, $2.9 million in tax increment revenue and $0.9 million in interest income.

- The Authority had expenses totaling approximately $8.3 million consisting primarily of $4.2 million related to property management operations, $0.9 million of interest expense on the Authority's debt service, $0.3 million for development projects.

- The Authority provided approximately $100,000 in loans to a developer during the year to facilitate housing development in the Capitol Area.

- The Authority expended nearly $1.2 million during the year on major construction projects budgeted for the structures that the Authority manages in the Capitol Area of which $1.1 million was capitalized.

- During the fiscal year the renovation of the 1330 O Street Building which houses Sam's Market and two residential flats was completed.

- During the fiscal year the developer options for East End Gateway Site 1 & 4 were terminated, so the Authority requested submittals of new proposals for both sites.

- The Capitol Lofts promissory note was renegotiated to an amount not to exceed $2.7 million due in four (4) years from date of execution with an interest rate of 10%. The note is unsecured.

- 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 $11.9 million in net assets, as of June 30, 2008, 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 $13,711,079 at June 30, 2009.

**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	1,875,470	1,481,495	393,975	26.59%
Non-current liabilities	17,377,727	16,473,754	903,973	5.49%
Total liabilities	**19,253,197**	**17,955,249**	**1,297,948**	**7.23%**
Net assets:				
Invested in capital assets, net of related debt	(2,687,448)	(2,439,564)	(247,884)	10.16%
Restricted for insurance and reserves	579,282	614,222	(34,940)	-5.69%
Unrestricted	15,819,245	13,740,939	2,078,306	15.12%
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 increased by $247,884, 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 effects 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 $(247,884), 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 Net Assets at June 30, 2008 and 2007

	2008	2007	Change $	Change %
Assets:				
Current and other assets	$ 21,164,068	$ 19,419,985	$ 1,744,083	8.98%
Capital assets, net	8,706,778	8,485,343	221,435	2.61%
Total assets	**29,870,846**	**27,905,328**	**1,965,518**	**7.04%**
Liabilities:				
Accounts payable and other current liabilities	1,481,495	1,419,760	61,735	4.35%
Non-current liabilities	16,473,754	16,796,382	(322,628)	-1.92%
Total liabilities	**17,955,249**	**18,216,142**	**(260,893)**	**-1.43%**
Net assets:				
Invested in capital assets, net of related debt	(2,439,564)	(2,885,622)	446,058	-15.46%
Restricted for insurance and reserves	614,222	557,528	56,694	10.17%
Unrestricted	13,740,939	12,017,280	1,723,659	14.34%
Total net assets	**$ 11,915,597**	**$ 9,689,186**	**$ 2,226,411**	**22.98%**

Analysis of Net Assets:

Total net assets increased during the year by $2,226,411, consisting of an increase in assets and a decline in liabilities. A portion of the Authority's net assets are invested in capital assets, net of related debt. This category, which declined by $446,058, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets increased by $1,146,963 as a result of acquisitions for equipment and improvements to buildings. Depreciation expense reduced the carrying value of the total capital assets by $925,528, for a net increase in the net value of capital assets of $221,435.

Related debt decreased $224,263. This was the result of further expenditure of $76,375 of previously unexpended 2004 Tax Allocation Bond proceeds, the expensing of $23,473 of deferred bond issuance costs, net of $324,471 of principal payments on outstanding debt.

These factors - the increase in net capital assets, and the decrease in related debt - totaled $446,058, which increased 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, 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				
Incremental property taxes	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%**

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 (incremental property taxes) 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Expenses increased during the fiscal year ended June 30, 2009 mainly due to activity on development projects, $1,047,897 during 2009/2008 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.

Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 6,646,121	$ 6,459,357	$ 186,764	2.89%
Miscellaneous	80,600	162,272	(81,672)	-50.33%
Non-operating revenues				
Interest income	888,933	784,450	104,483	13.32%
Intergovernmental				
Incremental property taxes	2,933,899	2,387,840	546,059	22.87%
Other	-	95,225	(95,225)	-100.00%
Total revenues	**10,549,553**	**9,889,144**	**660,409**	**6.68%**
Expenses:				
Operating expenses				
Employee services and benefits	2,873,870	2,805,654	68,216	2.43%
Development projects	290,042	919,253	(629,211)	-68.45%
Other	4,249,700	3,778,347	471,353	12.48%
Non-operating expenses	909,530	926,717	(17,187)	-1.85%
Total expenses	**8,323,142**	**8,429,971**	**(106,829)**	**-1.27%**
Change in net assets	**2,226,411**	**1,459,173**	**767,238**	
Net assets, beginning of year	9,689,186	8,230,013	1,459,173	17.73%
Net assets, end of year	**$ 11,915,597**	**$ 9,689,186**	**$ 2,226,411**	**22.98%**

Net assets increased by $2,226,411 as a result of fiscal year ended June 30, 2008 operations. This represents an increase of $767,238 from the $1,459,173 net assets increase reflected in fiscal year ended June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Revenue reflects an increase from the prior year, primarily as a result of four revenue sources. Tax increment (incremental property taxes) increased by $546,059 and reflects an increase in property values within the Authority's boundaries. Rental revenue increased as a result of rental rate adjustments and a decrease in vacancy loss. Interest income is higher primarily as a result of investment earnings on temporarily unexpended bond proceeds that are anticipated to be spent in the near future on development projects and as a result of an increase in the investment earnings rate. Miscellaneous revenue decreased $81,672 due to one time development fees and delay damages received in the prior year from the Capital Park Homes project. The overall impact on revenue was an increase of $660,409 in total revenue.

Expenses decreased during the fiscal year ended June 30, 2008 mainly due to reduced activity on development projects of $290,042 during 2007/2008 versus $919,253 during 2006/2007. In the prior year over 60% of the year's project costs were expended on two projects - $266,222 for R Street Streetscape grant matching and $312,416 for remediation work done on East End Gateway Sites 2 & 3. There was a decline in interest expense of $17,187 due to the related reduction in principal amounts and a slight increase in employee services and benefits of $68,216 due to budgeted salary and related benefits increases. There was also an increase totaling $0.4 million for other operating expenses which is mainly comprised of services and supplies totaling $2.1 million and repairs and maintenance totaling $1.2 million.

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 $10,514,570 and $8,706,778 (net of accumulated depreciation) at June 30, 2009 and 2008, 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, 2009 and 2008 totaled $2,810,718 and $1,146,963 respectively. Land, building improvements, machinery and equipment, and construction in progress were added. Depreciation on capital assets totaled $1,002,926 and $925,528, respectively, for the years ending June 30, 2009 and 2008.

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 $17,580,088 and $16,617,524 as of June 30, 2009 and June 30, 2008. During the year ended June 30, 2009, $1,315,000 of additional debt was assumed for the purchase of the Fremont Wilshire Apartments. During the years ended June 30, 2009 and 2008, principal payments reduced notes payable by $162,658 and $146,753 respectively and bonds payable by $205,000 and $195,000 respectively. Amortization of deferred amount on refunding and costs of issuance totaled $23,473 for the years ended June 30, 2009 and 2008.

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, 2010:

- No increases were budgeted for tax increment revenue due to the net effect of anticipated adjustments and appeals by homeowners to the County Assessor's Office.
- Budgeted development projects of $912,000 and major construction of $778,000 will be funded through the 2009/2010 General Operations Budget.
- Remaining bond proceeds are available to provide development project funding for the East End Gateway Sites 1, 2 & 3, 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.
- A building acquisition was budgeted for the purchase of a building at 701 S Street for a new maintenance facility in order to move from its current leased facility and have improved control over future expenses.
- CADA elected to participate in the California Employers' Retiree Benefit Trust administered by CalPERS to address 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

- Tax increment revenue of approximately $3 million is expected to remain constant. Development of independent developer projects currently in progress within the Authority's redevelopment project area may generate additional tax increment revenue.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY (CONTINUED)

- 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, East End Gateway Site 5, Site 21, R Street, and Site 9B.

- 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, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and investments	$ 17,080,815	$ 16,075,577
Accounts receivable	17,098	36,665
Interest receivable	274,482	114,220
Prepaid expenses	94,592	51,156
Notes receivable, current portion	2,774	-
Restricted cash:		
Tenant security deposits	369,789	352,535
Debt covenant reserves	855,229	865,605
Insurance impounds	65,743	49,584
Total restricted cash	1,290,761	1,267,724
Total current assets	18,760,522	17,545,342
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	213,539	264,638
Insurance risk reserve	300,000	300,000
Total restricted cash	513,539	564,638
Notes receivable, net	2,588,808	2,443,778
Deferred charge, net	586,837	610,310
Capital assets:		
Non-depreciable	2,076,102	1,503,757
Depreciable, net	8,438,468	7,203,021
Total capital assets	10,514,570	8,706,778
Total noncurrent assets	14,203,754	12,325,504
Total assets	$ 32,964,276	$ 29,870,846

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Assets (Continued)
June 30, 2009 and 2008

	2009	2008
Liabilities		
Current liabilities:		
Accounts payable	$ 424,795	$ 246,413
Prepaid rent	8,916	5,853
Due to state - HCD	126,732	108,726
Accrued benefits payable	48,166	70,559
Accrued interest payable	182,243	185,009
Security deposits	369,789	352,535
Developer deposits	283,700	156,350
Notes payable, current portion	221,129	151,050
Bonds payable, current portion	210,000	205,000
Total current liabilities	1,875,470	1,481,495
Noncurrent liabilities:		
Accrued interest payable	41,474	39,474
Notes payable	5,950,072	4,867,809
Bonds payable	11,275,000	11,485,000
Compensated absences payable	187,294	172,806
Deferred amount on refunding, net	(76,113)	(91,335)
Total noncurrent liabilities	17,377,727	16,473,754
Total liabilities	19,253,197	17,955,249
Net Assets		
Invested in capital assets, net of related debt	(2,687,448)	(2,439,564)
Restricted for insurance and reserves	579,282	614,222
Unrestricted	15,819,245	13,740,939
Total net assets	$ 13,711,079	$ 11,915,597

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, 2009 and 2008

	2009	2008
Operating revenues		
Rental revenue, net	$ 6,920,291	$ 6,646,121
Other revenues:		
Development projects	61,116	35,532
Miscellaneous	44,629	45,068
Total operating revenues	7,026,036	6,726,721
Operating expenses		
Employee services and benefits	2,928,240	2,873,870
Services and supplies	2,065,479	2,102,008
Development projects	1,047,897	290,042
Repairs and maintenance	1,003,826	1,198,691
Amortization	23,473	23,473
Depreciation	1,002,926	925,528
Total operating expenses	8,071,841	7,413,612
Operating loss	(1,045,805)	(686,891)
Non-operating revenues (expenses)		
Interest income	588,769	888,933
Interest expense	(929,025)	(909,530)
Intergovernmental	3,181,543	2,933,899
Total non-operating revenues	2,841,287	2,913,302
Change in net assets	1,795,482	2,226,411
Net assets, beginning of year	11,915,597	9,689,186
Net assets, end of year	$ 13,711,079	$ 11,915,597

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Rental receipts	$ 6,942,921	$ 6,599,316
Other development and operating receipts	233,095	195,600
Tenant security deposits received	273,568	185,766
Payroll and related costs paid	(2,936,145)	(2,803,582)
Services and supplies expenses paid	(2,087,863)	(2,210,350)
Development project expenses paid	(1,047,897)	(290,042)
Operating and maintenance expenses paid	(1,003,826)	(1,198,691)
Tenant security deposits paid	(256,314)	(166,628)
Net cash provided by operating activities	117,539	311,389
Cash flows from noncapital financing activities:		
Intergovernmental	3,199,549	2,950,644
Cash flows from capital and related financing activities:		
Principal payment on debt	(367,658)	(341,753)
Proceeds of notes payable	-	2,060
Interest paid on debt	(914,569)	(917,924)
Acquisition of capital assets	(1,338,387)	(1,146,963)
Net cash used for capital and related financing activities	(2,620,614)	(2,404,580)
Cash flows from investing activities:		
Issuance of notes receivable	(133,714)	(107,239)
Interest receipts	424,709	770,885
Net cash provided by investing activities:	290,995	663,646
Net increase in cash	987,469	1,521,099
Cash and cash equivalents, beginning of year	17,046,583	15,525,484
Cash and cash equivalents, end of year	$ 18,034,052	$ 17,046,583
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and investments	$ 17,080,815	$ 16,075,577
Restricted cash :		
Tenant security deposits	369,789	352,535
Debt covenant reserves	855,229	865,605
Insurance impounds	65,743	49,584
Reserve for replacements	213,539	264,638
Insurance risk reserve	300,000	300,000
Total cash and investments	18,885,115	17,907,939
Less long term investments not meeting definition of cash and cash equivalents	(851,063)	(861,356)
Total cash and cash equivalents	$ 18,034,052	$ 17,046,583

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,045,805)	$ (686,891)
Adjustments to reconcile operating loss to net cash provided byoperating activities:		
Amortization	23,473	23,473
Depreciation	1,002,926	925,528
Changes in assets and liabilities:		
Accounts receivable	19,567	(27,325)
Prepaid expenses	(43,436)	6,155
Accounts payable	21,052	(114,497)
Prepaid rent	3,063	(19,480)
Accrued benefits payable	(22,393)	56,147
Security deposits payable	17,254	19,138
Developer deposits payable	127,350	115,000
Compensated absences payable	14,488	14,141
Net cash provided by operating activities	$ 117,539	$ 311,389
Noncash investing, capital and financing activities:		
Interest revenue financed through issuances of notes receivable	$ 14,090	$ 173,265

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 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 vacation, employees with 3-10 years of service may carry a maximum of 240 hours of vacation and employees with 10 years or more of service may carry a maximum of 320 hours of 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 $187,294 and $172,806 as of June 30, 2009 and 2008 respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences Payable and Sick Leave (Continued)

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

Risk Management

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

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

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

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under stated 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, 2009 and 2008, the carrying amount of the Authority's deposits was $96,631 and $117,484, respectively. The bank balances at June 30, 2009 and 2008 were $299,956 and $90,687, respectively. Of these amounts $250,000 and $100,000 was covered by federal depository insurance both at June 30, 2009 and 2008, 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 1.16 years and 1.4 years at June 30, 2009 and 2008, 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, 2009, the Authority's deposits, investments and credit ratings are as follows:

		Maturities			
	Credit Rating	No Maturity	Under 30 days	1-5 years	Fair Value
Cash and investments:					
City of Sacramento investment pool	Not Rated	$ -	$ -	$ 17,827,745	$ 17,827,745
US Treasury notes	NA	-	-	851,063	851,063
Money market mutual funds	AAA/Aaa	-	4,165	-	4,165
CalHFA impound accounts	NA	105,511	-	-	105,511
Deposits	NA	96,631	-	-	96,631
Total cash and invsestments		$ 202,142	$ 4,165	$ 18,678,808	$ 18,885,115

As of June 30, 2008, the Authority's deposits, investments and credit ratings are as follows:

		Maturities			
	Credit Rating	No Maturity	Under 30 days	1-5 years	Fair Value
Cash and Investments:					
City of Sacramento investment pool	Not Rated	$ -	$ -	$ 16,847,856	$ 16,847,856
US Treasurey notes	NA	-	-	861,356	861,356
Money market mutual funds	AAA/Aaa	-	4,249	-	4,249
CalHFA impound accounts	NA	76,994	-	-	76,994
Deposits	NA	117,484	-	-	117,484
Total cash and investments		$ 194,478	$ 4,249	$ 17,709,212	$ 17,907,939

NOTE C - NOTES RECEIVABLE

	June 30, 2009	June 30, 2008
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. No payments are required until the beginning of year 5 following the interest accrual date (March 1, 2011).	430,401	416,311
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	1,527,467
Total	$ 2,591,582	$ 2,443,778

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, 2009 and 2008

NOTE E - **CAPITAL ASSETS**

Information on changes in capital assets is presented below:

	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
	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)
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

	June 30, 2007	Increases	Transfers	Decreases	June 30, 2008
Capital assets not being depreciated:					
Land	$ 1,474,131	$ -	$ -	$ -	$ 1,474,131
Construction in progress	129,346	29,626	(129,346)	-	29,626
	1,603,477	29,626	(129,346)	-	1,503,757
Capital assets being depreciated:					
Buildings and improvements	17,300,703	1,069,277	129,346	-	18,499,326
Machinery and equipment	609,840	48,060	-	(50,140)	607,760
	17,910,543	1,117,337	129,346	(50,140)	19,107,086
Less accumulated depreciation for:					
Buildings and improvements	(10,601,817)	(839,816)	-	-	(11,441,633)
Machinery and equipment	(426,860)	(85,712)	-	50,140	(462,432)
	(11,028,677)	(925,528)	-	50,140	(11,904,065)
Capital assets being depreciated, net	6,881,866	191,809	129,346	-	7,203,021
Capital assets, net	$ 8,485,343	$ 221,435	$ -	$ -	$ 8,706,778

NOTE F - NOTES PAYABLE

Notes payable consists of the following:

	June 30,	
	2009	2008
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	$ 23,911	$ 27,595
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 Wells Fargo Bank:		
Monthly installments including principal and interest at 12.75% adjustable annually for the percentage difference between 9.676% and the monthly weighted average cost of funds for Eleventh District Savings and Loans not to exceed 4% (8.75% at June 30, 2008 and 2007) to September 1, 2008, secured by Somerset Parkside commercial space at 1607, 1623, and 1627 10th Street.	-	4,702
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	83,000	98,918
To State of California Department of General Services (DGS):		
Issued December 2005: As of June 30, 2009 and 2008, no principal payments are due; however, interest payments were due and payable at a rate of 1.98%. Starting in December of 2009, both interest and principal payments are 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.	193,810	193,810

NOTE F - NOTES PAYABLE (CONTINUED)

	June 30, 2009	June 30, 2008
To State of California Department of General Services (DGS):		
Issued December 2005: As of June 30, 2009 and 2008, no principal payments are due; however, interest payments were due and payable at a rate of 1.98%. Starting in December of 2009, both interest and principal payments are 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.	225,965	225,965
Issued December 2005: As of June 30, 2009 and 2008, no principal payments are due; however, interest payments were due and payable at a rate of 1.98%. Starting in December of 2009, both interest and principal payments are 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.	438,536	438,536
Issued December 2005: As of June 30, 2009 and 2008, no principal payments are due; however, interest payments were due and payable at a rate of 1.98%. Starting in December of 2009, both interest and principal payments are 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.	315,820	315,820

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2009 and 2008

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

	June 30, 2009	2008
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.	1,259,169	1,337,244
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.	1,288,230	1,313,891
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.	346,114	362,595
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.	1,303,391	-
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.	43,255	49,783
Total Notes Payable	$ 6,171,201	$ 5,018,859

NOTE F - NOTES PAYABLE (CONTINUED)

Future maturities on notes payable are as follows at June 30, 2009:

Years Ending June 30,	Principal	Interest	Total
2010	$ 221,129	$ 305,118	$ 526,247
2011	235,303	290,943	526,246
2012	290,472	279,774	570,246
2013	332,428	262,020	594,448
2014	333,255	243,444	576,699
2015-2019	2,915,848	934,706	3,850,554
2020-2024	718,061	267,833	985,894
2025-2029	750,732	160,145	910,877
2030-2034	373,973	42,142	416,115
	$ 6,171,201	$ 2,786,125	$ 8,957,326

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2009 and 2008:

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

Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amounts due within one year
$ 5,163,552	$ 2,060	$ (146,753)	$ 5,018,859	$ 151,050

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

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, 2009, 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, 2009:

Years Ending June 30,	Principal	Interest	Total
2010	$ 210,000	$ 636,341	$ 846,341
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
2015-2019	1,480,000	2,734,944	4,214,944
2020-2024	1,950,000	2,247,384	4,197,384
2025-2029	2,615,000	1,564,302	4,179,302
2030-2034	3,475,000	689,857	4,164,857
2035	810,000	21,246	831,246
Total requirements	$ 11,485,000	$ 10,331,664	$ 21,816,664

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

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2009 and 2008:

Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amounts due within one year
$ 11,690,000	$ -	$ (205,000)	$ 11,485,000	$ 210,000

Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amounts due within one year
$ 11,885,000	$ -	$ (195,000)	$ 11,690,000	$ 205,000

NOTE H - **COMPENSATED ABSENCES**

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2009 and 2008:

Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amounts due within one year
$ 172,806	$ 125,547	$ (111,059)	$ 187,294	$ -

Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amounts due within one year
$ 158,665	$ 115,120	$ (100,979)	$ 172,806	$ -

NOTE I - **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.

NOTE I - PENSION PLAN (CONTINUED)

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 4% were paid by the Authority in 2009 and 3% in 2008. 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 11.698% and 11.601% for the years ended June 30, 2009 and 2008, respectively. The Authority has been notified that the required employer contribution rate will be 11.591% for the year ending June 30, 2010. 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
6/30/07	$ 213,013	100%
6/30/08	$ 225,083	100%
6/30/09	$210,978	100%

NOTE J - BUILDING LEASE COMMITMENT

The Authority leases office space (approximately 6,172 square feet) through the State of California Department of General Services. Monthly rent in the amount of $6,986 is due and payable, with annual cost of living adjustments. Under the terms of the lease that ends January 31, 2010. A total of $83,832 of operating lease rental expense was paid during each of the years ended June 30, 2009 and 2008.

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. Under the terms of the lease, a total of $79,286 and $76,251 of rental expense was paid during the years ended June 30, 2009 and 2008, respectively.

NOTE J - **BUILDING LEASE COMMITMENT (CONTINUED)**

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

Year Ending June 30,	Office Space	Maintenance Location	Total
2010	$ 48,902	$ 51,912	$ 100,814
Total future minimum lease payments	$ 48,902	$ 51,912	$ 100,814

NOTE K - **POST-EMPLOYMENT HEALTH INSURANCE**

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 - $101 per month for calendar year 2009.

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 in the previous benefit year for a minimum of ten (10) years of service, with five (5) of those ten (10) years performed at CADA. 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. CADA also provides 90% of the health benefit contribution for the retiree's eligible family members.

As of June 30, 2009 and 2008, the Authority provided coverage for 13 retirees and/or families under Code Section 22892; none under Code Section 22893. The Authority contributed $91,502 and $84,642 for the fiscal years ended June 30, 2009 and 2008, respectively, on a pay-as-you-go basis for current retirees.

NOTE L – **COMMITMENTS**

The Authority awarded two major construction contracts as of June 2009 for an elevator replacement project in the amount of $121,800 for 1522 N St Judith Manor and an exterior rehabilitation in the amount of $379,660 for 1400 O Street. The projects estimated completion date is the end of December 2009.

NOTE M - SUBSEQUENT EVENTS

On September 1, 2009 the Authority purchased property located at 701 S Street, though seller debt financing in the amount $1.2 million to house the new maintenance facility.

As of July 2009, the Authority elected to participate in the California Employers' Retiree Benefit Trust, an irrevocable trust administered by CalPERS, to address the Authorities unfunded post-employment health benefit liabilities.

NOTE N - NEW ACCOUNTING PRONOUNCEMENTS

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however the unfunded actuarial liability is required to be amortized over future periods.

This statement also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement will be effective for the Authority's fiscal year ended June 30, 2010.

MGO

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

SACRAMENTO
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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, 2009, and have issued our report thereon dated December 1, 2009. 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 1, 2009