Attachment 1a

CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA

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

For the Fiscal Years Ended June 30, 2015 and 2014

MGO Certified Public Accountants

CAPITOL AREA DEVELOPMENT AUTHORITY
For the Fiscal Years June 30, 2015 and 2014

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MGO Certified Public Accountants

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Report on the Financial Statements

We have audited the accompanying financial statements of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Macias Gini & O'Connell LLP
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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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principles

As discussed in Note A, for the fiscal year ended June 30, 2015, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015 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* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
December 3, 2015

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, 2015 and 2014.

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, 2015:

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

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

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

- The Authority had expenses totaling approximately $9.2 million consisting primarily of $3.4 million in employee services and benefits, $3.1 million related to property management operations, $.9 million of interest expense on the Authority's debt, $.9 million for development projects, and $.9 million in depreciation expense.

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

FINANCIAL HIGHLIGHTS (CONTINUED)

- Construction of the WAL project, a mixed use, mixed-income project with a total of 116 apartment units, including 86 affordable units and 30 market rate units, and 13,000 SF of retail space was completed in December 2014. Construction of the B&G building, the adjacent commercial building, began in the summer of 2014 and is estimated to be completed by late 2015.

- The Authority has continued to implement environmentally sustainable streetscape features on 16th Street with grant funds provided by the Strategic Growth Council. The improvements are being completed in partnership with the East End Gateway Sites 1 – 4 projects and the City of Sacramento. It is estimated that improvements to Fremont Park along 16th street will start construction in the spring of 2016.

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

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

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

- In order to ensure it has the financial resources to meet the demands of its mission, the Authority maintains a rolling ten-year financial projection that is reviewed and revised at least annually. A key element of the Authority's approach to managing its financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and to meet projected planning and pre-development demands for development projects. The Authority's $9.7 million in net position, as of June 30, 2015, meets this objective.

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

FINANCIAL HIGHLIGHTS (CONTINUED)

Financial Highlights for the Year Ended June 30, 2014:

- During the year, the Authority had revenues of approximately $10.5 million consisting primarily of $7.8 million in rental and other revenues, $2.5 million in tax increment revenue and $0.2 million in interest income.

- The Authority had expenses totaling approximately $11.4 million consisting primarily of $3.4 million in employee services and benefits, $3.2 million related to property management operations, $1.0 million of interest expense on the Authority's debt, $2.8 million for development projects, and $1.0 million in depreciation expense.

- The Authority expended nearly $390,000 during the year on major construction projects budgeted for the structures the Authority manages in the Capitol Area, of which $385,000 was capitalized.

- Construction began in January 2013 on the WAL project, a mixed use, mixed-income project with a total of 116 apartment units, consisting of 86 affordable units and 30 market rate units, and 13,000 SF of retail space. Construction is estimated to be complete by early 2015.

- The Authority has continued to implement environmentally sustainable streetscape features on 16th Street with grant funds provided by the Strategic Growth Council. The improvements are being completed in partnership with the East End Gateway Sites 1 – 4 project developers and the City of Sacramento.

- The Legado de Ravel building (the East End Gateway Site 2 & 3 project at 16th and O Street) opened in late 2013 adding 84 apartment units and 13,000 SF of retail space on the 16th Street corridor.

- The East End Gateway Site 1 site (16th and N Street) was transferred to the developer in mid-2014 and site remediation has been completed. The project includes 118 apartment units, 133 parking spaces, and 5,200 SF of retail space. Construction is expected to begin in spring of 2015 and be complete by late 2016.

- Escrow closed and construction began on the 16 Powerhouse project (16th and P Street) in August 2013. The project includes 50 apartments and 7,700 SF of retail space. The Authority secured a $600,000 loan from the California Infrastructure Bank to pay for improvements on 16th street and in the alley abutting this project. The project is expected to be complete in spring 2015.

- The first phase of streetscape enhancements in the R Street Corridor was completed in January 2012. The second phase of improvements was allocated grant funding by SACOG and the Authority will contribute $820,000 in matching funds. Construction started late in 2014 with completion estimated in mid-2015. Phase three is currently in design, which is anticipated to be completed by the end of 2015. The Authority will be seeking SACOG grant funds to complete the improvements.

- The Authority sold the Site 9B (1610 17th St) lot for the development of a two-family residential project. Construction is expected to be completed in early 2015.

FINANCIAL HIGHLIGHTS (CONTINUED)

- In order to ensure it has the financial resources to meet the demands of its mission, the Authority maintains a rolling ten-year financial projection that is reviewed and revised at least annually. A key element of the Authority's approach to managing its financial resources is maintaining a level of net assets sufficient to fund a minimum of six months of operating expenses and to meet projected planning and pre-development demands for development projects. The Authority's $11.7 million in net position, as of June 30, 2014, meets this objective.

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 include two components: the government-wide financial statements and the notes to the financial statements.

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

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

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

Notes to the financial statements: The 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 position may serve over time as a useful indicator of a government's improving or declining financial position. In the case of the Authority, assets exceeded liabilities by $9,673,538 as of June 30, 2015.

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

	2015	2014	Change $	Change %
Assets:				
Current and other assets	$ 24,227,790	$ 22,818,434	$ 1,409,356	6.18%
Capital assets, net	8,127,691	8,585,285	(457,594)	-5.33%
Total assets	**32,355,481**	**31,403,719**	**951,762**	**3.03%**
Deferred Outflows of Resources:				
Deferred outflow related to pensions	282,032	-	282,032	100.00%
Liabilities:				
Accounts payable and other current liabilities	2,535,524	2,118,545	416,979	19.68%
Non-current liabilities	19,564,845	17,552,914	2,011,931	11.46%
Total liabilities	**22,100,369**	**19,671,459**	**2,428,910**	**12.35%**
Deferred Inflows of Resources				
Deferred inflows related to pensions	863,606	-	863,606	100.00%
Net Position:				
Net investment in capital assets	(7,757,107)	(6,209,570)	(1,547,537)	24.92%
Restricted for insurance and reserves	992,635	865,388	127,247	14.70%
Unrestricted	16,438,010	17,076,442	(638,432)	-3.74%
Total net position	**$ 9,673,538**	**$ 11,732,260**	**$ (2,058,722)**	**-17.55%**

Analysis of Net Position – June 30, 2015:

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

**Condensed Statements of
Net Position at June 30, 2014 and 2013**

	2014	Restated 2013	Change $	Change %
Assets:				
Current and other assets	$ 22,818,434	$ 21,409,911	$ 1,408,523	6.58%
Capital assets, net	8,585,285	11,023,104	(2,437,819)	-22.12%
Total assets	**31,403,719**	**32,433,015**	**(1,029,296)**	**-3.17%**
Deferred Outflows of Resources				
Deferred loss on refunding	**-**	**15,225**	(15,225)	**-100.00%**
Liabilities:				
Accounts payable and other current liabilities	2,118,545	2,235,383	(116,838)	-5.23%
Non-current liabilities	17,552,914	17,667,779	(114,865)	-0.65%
Total liabilities	**19,671,459**	**19,903,162**	**(231,703)**	**-1.16%**
Net Position:				
Net investment in capital assets	(6,209,570)	(4,435,727)	(1,773,843)	39.99%
Restricted for insurance and reserves	865,388	699,095	166,293	23.79%
Unrestricted	17,076,442	16,281,710	794,732	4.88%
Total net position	**$ 11,732,260**	**$ 12,545,078**	**$ (812,818)**	**-6.48%**

Analysis of Net Position – June 30, 2014:

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2013 net position was restated by a decrease of $492,945 due to the writing off of unamortized bond issuance costs previously reported as an asset. The Authority's net position decreased during the current year by $812,818, as a result of a decrease in assets from contributions of land and grants to development projects. A portion of the Authority's net position is invested in capital assets. This category, which decreased by $1,773,843, consists of the cost basis of assets acquired, less depreciation and related debt, net of unspent proceeds.

The historical cost of capital assets decreased by $1.4 million as a result of acquisitions of land, equipment and improvements to buildings for a total of $395,076, net of the sale and contribution of land for $1.8 million to the three development projects. Depreciation expense reduced the carrying value of the total capital assets by $1,022,061, for a net decrease in the net value of capital assets of $2.4 million. Additional information on the Authority's capital assets can be found in Note F to the Financial Statements. The decrease in the net investment in capital assets category of $1,773,843 is the net effect of a decrease from the $2,437,819 reduction in capital assets, an increase from debt repayments of $679,201, and a decrease from the final year of amortization for $15,225 of deferred amount on debt refunding.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

	2015	2014	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,220,148	$ 7,273,968	$ (53,820)	-0.7%
Miscellaneous	423,344	508,242	(84,898)	-16.7%
Non-operating revenues				
Interest income	203,666	196,730	6,936	3.5%
Intergovernmental	2,681,154	2,541,129	140,025	5.5%
Total revenues	**10,528,312**	**10,520,069**	**8,243**	**0.1%**
Expenses:				
Operating expenses				
Employee services and benefits	3,372,419	3,386,320	(13,901)	-0.4%
Development projects	956,092	2,814,063	(1,857,971)	-66.0%
Other	3,979,160	4,191,651	(212,491)	-5.1%
Non-operating expenses	897,870	940,853	(42,983)	-4.6%
Total expenses	**9,205,541**	**11,332,887**	**(2,127,346)**	**-18.8%**
Change in net position	**1,322,771**	**(812,818)**	**2,135,589**	
Net Position, beginning of year	11,732,260	12,545,078	(812,818)	-6.5%
Change in Account Principles	(3,381,493)	-	(3,381,493)	
Net Position, end of year	**$ 9,673,538**	**$ 11,732,260**	**$ (2,058,722)**	**-17.5%**

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

Revenue reflects a net increase from the prior year, mainly as a result of the net effect of three revenue sources. Tax increment portion of Intergovernmental revenue increased by $140,025 and reflects a continued increase in property taxes within the Authority's boundaries. Miscellaneous revenue also decreased by $84,898 due to the reduction in development fees received throughout the year. Rental rates increased and therefore, gross rental revenue increased by $10,026 and low income subsidies increased by $13,151. This was offset by $76,997 in decreases due to vacancy losses and loss to lease. Interest income is lower as a result of decreases in the investment earnings on funds held with the City Treasurer. The overall impact on revenue was an increase of $8,243 in total revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	Restated 2013	Change $	Change %
Revenues:				
Operating revenues				
Rental revenue, net	$ 7,273,968	$ 7,455,919	$ (181,951)	-2.4%
Miscellaneous	508,242	164,309	343,933	209.3%
Non-operating revenues				
Interest income	196,730	237,313	(40,583)	-17.1%
Intergovernmental	2,541,129	2,360,217	180,912	7.7%
Total revenues	**10,520,069**	**10,217,758**	**302,311**	**3.0%**
Expenses:				
Operating expenses				
Employee services and benefits	3,386,320	3,377,813	8,507	0.3%
Development projects	2,814,063	1,848,002	966,061	52.3%
Other	4,191,651	4,382,104	(190,453)	-4.3%
Non-operating expenses	940,853	966,250	(25,397)	-2.6%
Total expenses	**11,332,887**	**10,574,169**	**758,718**	**7.2%**
Change in net position	**(812,818)**	**(356,411)**	**(456,407)**	
Net Position, beginning of year	12,545,078	12,901,489	(356,411)	-2.8%
Net Position, end of year	**$ 11,732,260**	**$ 12,545,078**	**$ (812,818)**	**-6.5%**

As a result of the Authority implementing GASB Statement No. 65, the Authority's June 30, 2013 net position was restated by a decrease of $492,945 due to writing off the unamortized bond issuance costs previously reported as an asset. The Authority's net position decreased by $812,818 as a result of fiscal year operations. This represents an increase of $456,407 from the $356,411 net position decrease reflected in fiscal year ended June 30, 2013.

Revenue reflects a net increase from the prior year, mainly as a result of the net effect of three revenue sources. Tax increment portion of Intergovernmental Revenue increased by $180,912 as compared to the decrease of $356,913 between fiscal year 2012 to fiscal year 2013. This reflects a net increase in property taxes due compared to prior year reductions to assessed property values in response to appeals by property owners of properties within the Authority's boundaries. Miscellaneous revenue also increased by $343,933 due to the receipt of grant funds for the 16th Street Improvement Project.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Gross rental revenue decreased by $214,280 due to development project related demolition of East End Gateway Site 1 & 4 and low income subsidies increased by $32,531. This was offset by decreases in vacancy losses and loss to lease for a total of $64,860. Interest Income is lower as a result of decreases in the investment earnings on funds held with the City Treasurer. The overall impact on revenue was an increase of $302,311 in total revenue.

Expenses increased during the fiscal year ended June 30, 2014, mainly due to increases in development project expenses. Development project expenses were $2,814,063 during the fiscal year ended June 30, 2014 versus $1,848,002 during fiscal year 2013. This increase is due to the Authority's contribution in fiscal year 2013 of $1.5 million in land and subsidies to the WAL project compared to fiscal year 2014 of $1.2 million in contribution in land to the East End Gateway Site 1, Site 9B loss on sale and remediation credits given for 16 Powerhouse project, along with $240,000 is remediation work for East End Gateway Site 1 and $500,000 is subsidies to the B&G building project.

Capital Asset and Debt Administration

Capital assets: As reflected in the Statements of Net Position above, the Authority's investments in capital assets were $8,127,691 and $8,585,285 (net of accumulated depreciation) at June 30, 2015 and 2014, respectively. This investment in capital assets includes construction in progress, building and improvements, and machinery and equipment. Additions during the year ending June 30, 2015 and 2014 totaled $407,906 and $395,076 respectively, included building improvements of $33,117, machinery and equipment of $36,208, and construction in progress of $34,580. Depreciation on capital assets totaled $865,500 and $1,022,061, respectively, for the years ending June 30, 2015 and 2014.

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

Notes and bonds payable: Also reflected in the Statements of Net Position above, the Authority is responsible for notes and bonds payable, net of deferred amounts, totaling $17,324,384 and $18,048,293 as of June 30, 2015 and 2014, respectively. During the fiscal years ended June 30, 2015 and 2014, principal payments reduced notes payable by $458,909 and $424,201, respectively, and bonds payable by $265,000 and $255,000, respectively.

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

ECONOMIC FACTORS AND BUDGET PROCESS

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

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

The following factors have been considered in preparing the Authority's budget for the fiscal year ended June 30, 2015:

- An increase to the Capital Area tax increment revenue was budgeted due to the current year receipts and anticipated tax levels for FY 2014-2015. The proposed increases appear to be due to reduction of appeals to the tax rolls and anticipated increases to property values as the County brings these properties back up to their Pre-Prop 13 values, the increases are mostly seen in the improvement portion of the tax assessment.

- A net increase was budgeted for rental revenue, to reflect the current rental revenue level and partial recognition of the anticipated revenue increase due to the approved rent increase for fiscal year 15-16.

- Budgeted current development projects of $536,762 will be funded as part of fiscal year ending June 30, 2013 General Operations Budget. Development funding outlays have been significantly increased due to the need of funding for the R Street Streetscape Project phase three grant match.

- Remaining bond proceeds are available for R Street project development, and the development of low to moderate income housing in both the Capitol and R Street Areas.

- The Authority will continue to maintain its current housing stock through its major construction program with a budgeted amount of $683,000 to be funded through the General Operation Budget.

- The Authority budgeted $240,000 to fund the current year's annual required contribution (ARC) to the California Employers' Retiree Benefit Trust administered by CalPERS for the Authority's unfunded post-employment health benefit liabilities. This is an estimated increase from the prior year until the Authority completes a new actuarial analysis.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

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

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

- The Authority will continue exploring options for the development of other sites, including but not limited to, Block 222, Site 21, Site 5/6, R Street and the CADA Courtyard Site.

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

- As the Authority continues proceed with preparations for future development projects, there will be a high demand to fund pre-development activities, provide grant matching funds, to potentially pay for toxic remediation and, to pay for site preparation activities.

REQUEST FOR INFORMATION

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

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and investments	$ 19,789,644	$ 19,046,419
Accounts receivable, net	97,312	89,351
Interest receivable	2,200	21,111
Prepaid expenses	125,254	118,406
Notes receivable, current portion	419,272	13,217
Restricted cash:		
Tenant & event security deposits	395,023	393,310
Debt covenant reserves	854,126	854,126
Insurance impounds	41,840	49,826
Employee benefits	11,792	-
Funds held for others	549,985	-
Total restricted cash	1,852,766	1,297,262
Total current assets	22,286,448	20,585,766
Noncurrent assets:		
Restricted cash:		
Reserve for replacements	404,795	399,562
Insurance risk reserve	546,000	416,000
Total restricted cash	950,795	815,562
Notes receivable, net of current portion	990,547	1,417,106
Capital assets:		
Non-depreciable	1,485,249	1,512,854
Depreciable, net	6,642,442	7,072,431
Total capital assets	8,127,691	8,585,285
Total noncurrent assets	10,069,033	10,817,953
Total assets	32,355,481	31,403,719
Deferred Outflows of Resources		
Deferred outflow related to pensions	282,032	-

accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Net Position (Continued)
June 30, 2015 and 2014

	2015	2014
Liabilities		
Current liabilities:		
Accounts payable	$ 499,392	$ 621,081
Prepaid rent	30,829	37,502
Due to state - HCD	34,370	-
Accrued benefits payable	62,293	58,673
Accrued interest payable	172,581	179,372
Tenant security deposits	395,023	393,310
Developer deposits	40,000	104,700
Funds held for others	549,985	-
Notes payable, current portion	471,051	458,907
Bonds payable, current portion	280,000	265,000
Total current liabilities	2,535,524	2,118,545
Noncurrent liabilities:		
Accrued interest payable	53,474	51,475
Notes payable	6,788,333	7,259,386
Bonds payable	9,785,000	10,065,000
Net pension liability	2,757,022	-
Compensated absences payable	181,016	177,053
Total noncurrent liabilities	19,564,845	17,552,914
Total liabilities	22,100,369	19,671,459
Deferred Inflows of Resources		
Deferred inflows related to pensions	863,606	-
Net Position		
Net investment in capital assets	(7,757,107)	(6,209,570)
Restricted for insurance and reserves	992,635	865,388
Unrestricted	16,438,010	17,076,442
Total net position	$ 9,673,538	$ 11,732,260

accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Rental revenue, net	$ 7,220,148	$ 7,273,968
Other revenues:		
Development projects	322,549	358,972
Miscellaneous	100,795	149,270
Total operating revenues	7,643,492	7,782,210
Operating expenses		
Employee services and benefits	3,372,419	3,386,320
Services and supplies	1,996,351	2,085,614
Development projects	956,092	2,814,063
Repairs and maintenance	1,064,079	1,062,838
Bad debt expense	53,230	21,138
Depreciation	865,500	1,022,061
Total operating expenses	8,307,671	10,392,034
Operating loss	(664,179)	(2,609,824)
Non-operating revenues (expenses)		
Interest income	203,666	196,730
Interest expense	(897,870)	(940,853)
Intergovernmental	2,681,154	2,541,129
Total non-operating revenues	1,986,950	1,797,006
Change in net position	1,322,771	(812,818)
Net position, beginning of year, as previously reported	11,732,260	12,545,078
Cumulative effect of change in accounting principles	3,381,493	-
Net position, beginning of year, as restated	8,350,767	-
Net position, end of year	$ 9,673,538	$ 11,732,260

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Rental receipts	$ 7,152,284	$ 7,249,451
Other development and operating receipts	358,644	356,361
Tenant security deposits received	223,035	217,667
Payroll and related costs paid	(3,407,910)	(3,371,691)
Services and supplies expenses paid	(2,195,807)	(2,070,453)
Development project expenses paid	(956,092)	(811,459)
Operating and maintenance expenses paid	(1,064,079)	(1,062,838)
Tenant security deposits paid	(221,322)	(219,184)
Funds held for others	549,985	
Net cash provided by (used for) operating activities	438,738	287,854
Cash flows from noncapital financing activities:		
Intergovernmental	2,715,524	2,521,186
Net cash provided by noncapital financing activities	2,715,524	2,521,186
Cash flows from capital and related financing activities:		
Principal payment on debt	(723,909)	(679,201)
Interest paid on debt	(902,662)	(924,940)
Acquisition of capital assets	(336,810)	(384,476)
Net cash used for capital and related financing activities	(1,963,381)	(1,988,617)
Cash flows from investing activities:		
Repayment of notes receivable	20,504	19,992
Interest receipts	222,577	178,219
Net cash provided by investing activities:	243,081	198,211
Net increase in cash	1,433,962	1,018,634
Cash and cash equivalents, beginning of year	21,159,243	20,140,609
Cash and cash equivalents, end of year	$ 22,593,205	$ 21,159,243
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments	$ 19,789,644	$ 19,046,419
Restricted cash :		
Tenant security deposits	395,023	393,310
Debt covenant reserves	854,126	854,126
Insurance impounds	41,840	49,826
Employee benefits	11,792	-
Funds held for others	549,985	-
Reserve for replacements	404,795	399,562
Insurance risk reserve	546,000	416,000
Total cash and cash equivalents	$ 22,593,205	$ 21,159,243

See accompanying notes to financial statements.

CAPITOL AREA DEVELOPMENT AUTHORITY
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

		2015		2014
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	$	(664,179)	$	(2,609,824)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation		865,500		1,022,061
Loss on disposition of land		-		1,402,604
Pass-through loan to developer		-		600,000
Changes in assets and liabilities:				
Accounts receivable		(7,961)		(2,284)
Prepaid expenses		(6,848)		19,144
Accounts payable		(192,785)		(3,983)
Prepaid rent		(6,673)		(1,095)
Accrued benefits payable		3,620		7,587
Tenant security deposits payable		1,713		(1,517)
Developer deposits payable		(64,700)		(151,881)
Funds held for others		549,985		-
Pension liability		(42,897)		-
Compensated absences payable		3,963		7,042
Net cash provided by (used for) operating activities	$	438,738	$	287,854
Supplemental schedule of non-cash investing, capital, and financing activities:				
Note receivable in exchange for land	$	-	$	408,230
Capital asset additions through accounts payable		71,096		10,600

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 31 leases); management of ground leases involving privately developed housing (approximately 136 units); developing new housing and commercial projects, including neighborhood amenities; and development of new state office and parking facilities upon request and approval of the State.

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

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

Basis of Presentation

The Authority is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenue of the Authority is rental income from tenants of its housing units. This revenue is recognized on the financial statements net of vacancy loss, low income subsidies, and loss to leases. Operating expenses for the Authority include employee services, development projects expenses, administrative expenses, maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted net assets are available, unrestricted resources are used only after restricted resources are depleted.

Intergovernmental Revenues

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

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

Cash and Investments

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

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

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

Capital Assets

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences Payable and Sick Leave

Employee vacation benefits earned, but not used, are recognized as liabilities of the Authority. Fulltime employees accrue annual leave at rates based on length of service. Full-time employees with less than 3 years of service are allowed to carry a maximum of 160 hours of unused vacation, employees with 3-10 years of service may carry a maximum of 240 hours of unused vacation and employees with 10 years or more of service may carry a maximum of 320 hours of unused vacation. Part-time employees working more than, or are on paid status of, 50% a month are eligible to earn and use vacation time at their pro-rata rate according to the percentage of the month they work. Compensated absence accruals are considered long-term in nature and totaled $181,016 and $177,053 as of June 30, 2015 and 2014 respectively.

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.

Pensions

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

Implementation of New Governmental Accounting Standards

During the 2014-2015 fiscal year, the Authority implemented GASB Statement No. 68 (GASB 68),*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement NO. 68* (collectively, the Statements). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net pension liability for the difference between the present value of projected pension benefits for past services and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefits payments, discount projected benefit payments to their actuarial present value, and attribute the present value to periods of employee services.

Since the Statements require retroactive application, the net pension liability offset by the related deferred outflow of resources as of June 30, 2014 reduces the beginning net position for the fiscal year ended June 30, 2015. As a result, the fiscal year ended June 30, 2015, beginning net position decreased by $3,381,493 as the cumulative effect of the change in accounting principles.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Authority's funds held with the City of Sacramento investment pool fall under the same requirements as noted above. In addition, the Authority maintains interest-bearing impound deposits in the amount of $140,311 and $124,122 as of June 30, 2015 and 2014, respectively, 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, 2015 and 2014, the carrying amounts of the Authority's deposits with financial institution were $2,256,655 and $3,600,228, respectively. The financial institution balances at June 30, 2015 and 2014 were $2,312,126 and $3,819,241, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority manages its exposure to interest rate risk by investing the majority of its resources with the City Treasurer, which purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the pool is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City's investment pool is unrated and the weighted average maturity is 2.15 years and 2.27 years as of June 30, 2015 and 2014, respectively.

NOTE B - CASH AND INVESTMENTS (CONTINUED)

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.

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

		Maturities		
	Credit Rating	Under 30 days	1-5 years	Fair Value
Cash and investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 19,482,424	19,482,424
Money market mutual funds	AAA/Aaa	854,126	-	854,126
Deposits	NA	-	-	2,256,655
Total cash and invsestments		$ 854,126	$ 19,482,424	$ 22,593,205

As of June 30, 2014, the Authority's deposits, investments and credit ratings are as follows:

		Maturities		
	Credit Rating	Under 30 days	1-5 years	Fair Value
Cash and Investments:				
City of Sacramento investment pool	Not Rated	$ -	$ 16,580,765	$ 16,580,765
Money market mutual funds	AAA/Aaa	854,126	-	854,126
Deposits	NA	-	-	3,724,352
Total cash and investments		$ 854,126	$ 16,580,765	$ 21,159,243

NOTE C - NOTES RECEIVABLE

	June 30, 2015	June 30, 2014
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). In FY 13-14 the note amended the principal payment date from 10 years to 13 years, effectivly extended the maturity date to March 1, 2019.	$ 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. Monthly payments are $2,531 and final maturity is March 2036. Unpaid interest shall be added to principal and bear interest at the note rate. Payments started on March 1, 2010, the beginning of year 5 following the interest accrual date.	391,589	402,093
From Allyson Dalton Promissory note for $140,000 for property improvements. Interest shall accrue at 2% per year on the unpaid principal balance. Annual minimum payments will be made in the amount of the accrued interest with the entire outstanding principal balance due on October 20, 2021.	110,000	120,000
From 16 Powerhouse Investors, LLC Promissory note for $480,000 less $71,770 of remediation credit for the purchase of real property. Interest shall accrue at 5.5% per year on the unpaid principal beginning on the first day following close of escrow. Annual minimum payments will be made until the maturity date, which is seven years after the receipt of the Certificate of Occupancy for the project.	408,230	408,230
Total	$ 1,409,819	$ 1,430,323

At the close of escrow on the Warehouse Artist Lofts (WAL) project, the Authority entered into five residual receipts loans in exchange for property and project assistance for the development of a mix-income multifamily residential rental housing project. During the 2013-2014 fiscal year the Authority entered into two additional residual receipts loans in exchange for the B&G property adjacent to the WAL project and project assistance for the development of a three story commercial building. According to the loan terms, the developer will pay 30% of residual receipts to the Authority after the first of either occurs: repayment in full of any deferred developer fee or twelve years for the WAL project and eight years for the B&G building after receipt of a Certificate of Occupancy for each project. These loans will only be repaid from residual receipts and in no event shall the payment to the Authority exceed 30% for the WAL project and 15% for the B&G building. Due to the nature of these loans the Authority determined that these notes have no carrying value; therefore they are not reflected on the Statements of Net Position. If payment is received in the future for these loans those payments will be recognized as revenue to the Authority.

NOTE C - NOTES RECEIVABLE (CONTINUED)

Residual receipt loans consist of the following:

	June 30, 2015
From R Street LP for the Warehouse Artist Lofts project	
Warehouse residual receipt loan in the amount of $ 3,600,000 amortized over 40 years at a 1% interest rate, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	$ 3,687,000
Lots 3&4 residual receipt loan, property adjacent to the Warehouse, in the amount of $973,000 amortized over 40 years at a 1% interest rate, secured by Lots 3&4 but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	996,514
Authority Construction residual receipt loan in the amount of $1.2 million amortized over 40 years at a 1% interest rate, secured by the Warehouse and Lots 3&4 but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	1,229,000
Remediation residual receipt loan in the amount of $ 774,000 amortized over 40 years at a 1% interest rate, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	792,705
HCD Grant residual receipt loan in the amount of $4,946,080 amortized over 55 years with zero interest, secured by the Warehouse but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	4,946,080
From B&G Building Investors, LLC	
Land residual receipt loan, property adjacent to the WAL project, in the amount of $260,000 amortized over 40 years at a 1% interest rate, secured by the property but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	264,117
Authority Construction residual receipt loan in the amount of $500,000 amortized over 40 years at a 1% interest rate, secured by the property but subordinate to the developers construction loan and permanent loan, and to be repaid from residual receipts.	511,417
Total	$ 12,426,833

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

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

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

NOTE E - OPERATING LEASES

The Authority leases office space (approximately 6,172 square feet) through the State of California Department of General Services (DGS). In January 2010 a new lease was negotiated with DGS for the currently leased space for a term of ten years from February 1, 2010 to January 31, 2020 for a monthly rental amount of $8,172, with no annual rate adjustments. Under the terms of the current lease ending January 1, 2020 a total of $98,064 in operating lease rental expense was paid during the years ended June 30, 2015 and 2014.

Effective April 20, 2010, the Authority entered into a lease for a vacant lot at 15th and Q streets for the purpose of constructing a temporary parking lot. The lease was originally a five year fixed term with an option to extend the term for two additional years. Monthly rent for the first five years is $3,000. The Authority amended the original lease to become a ten year lease from the effective date instead of a five year lease. Under the amended terms of the lease, a total of $36,000 in rental expense was paid during the years ended June 30, 2015 and 2014, respectively.

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

Year Ending June 30,	Office Space	15th & Q	Total
2016	98,064	36,000	134,064
2017	98,064	36,000	134,064
2018	98,064	36,000	134,064
2019	98,064	36,000	134,064
2020	57,204	30,000	87,204
Total future minimum lease payments	$ 449,460	$ 174,000	$ 623,460

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE F - CAPITAL ASSETS

Information on changes in capital assets is presented below:

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

	Balance June 30, 2013	Increases	Transfers	Decreases	Balance June 30, 2014
Capital assets not being depreciated:					
Land	$ 3,093,219	$ -	$ -	$ (1,810,834)	$ 1,282,385
Construction in progress	199,882	62,185	(31,598)	-	230,469
Total capital assets not being depreciated	3,293,101	62,185	(31,598)	(1,810,834)	1,512,854
Capital assets being depreciated:					
Buildings and improvements	23,920,163	300,746	31,598	-	24,252,507
Machinery and equipment	481,783	32,145	-	-	513,928
	24,401,946	332,891	31,598	-	24,766,435
Less accumulated depreciation for:					
Buildings and improvements	(16,226,424)	(1,003,784)	-	-	(17,230,208)
Machinery and equipment	(445,519)	(18,277)	-	-	(463,796)
	(16,671,943)	(1,022,061)	-	-	(17,694,004)
Total capital assets being depreciated, net	7,730,003	(689,170)	31,598	-	7,072,431
Capital assets, net	$ 11,023,104	$ (626,985)	$ -	$ (1,810,834)	$ 8,585,285

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE G - NOTES PAYABLE

Notes payable consists of the following:

	June 30, 2015	June 30, 2014
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	$ -	$ 2,463
Non-interest bearing note with annual principal payments of not less than $40,000 annually, plus accrued interest at 2% beginning March, 2012 and maturing March, 2016, secured by the pledge of tax increment funds on the Capital Lofts project.	40,000	80,000
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.	1,048,116	1,068,220
To State of California Department of General Services (DGS):		
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $73,260. Secured by pledge of tax increment revenue.	888,154	942,748
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $23,033. Secured by pledge of tax increment revenue.	279,238	296,403
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $36,307. Secured by pledge of tax increment revenue.	440,166	467,223
Issued December 2005: Starting in December of 2009, both interest and principal payments were due. The resulting principal balance amortizes through the year 2028 (a period of 20 years) at 1.98% with consecutive annual payments of principal and interest of $37,482. Secured by pledge of tax increment revenue.	454,413	482,344

CAPITOL AREA DEVELOPMENT AUTHORITY
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE G - NOTES PAYABLE (CONTINUED)

	June 30, 2015	June 30, 2014
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.	586,997	728,483
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.	1,102,535	1,137,674
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.	247,228	263,709
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.	200,000	225,000
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.	1,195,394	1,216,512
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.	-	7,514

NOTE G - NOTES PAYABLE (CONTINUED)

	June 30, 2015	June 30, 2014
California Infrastructure & Economic Development Bank		
Tax Allocation Loan for a total amount up to $600,000 secured by the Authority's tax increment. Average annual payments of principal, interest and annul fee's of $40,000 with a fixed interest rate of 2.77% to October 1, 2033.	577,143	600,000
Total Notes Payable	$ 7,259,384	$ 7,718,293

Future maturities on notes payable are as follows at June 30, 2015:

Years Ending June 30,	Principal	Interest	Total
2016	$ 471,051	$ 301,145	$ 772,196
2017	455,458	275,929	731,387
2018	481,703	309,158	790,861
2019	1,663,547	188,983	1,852,530
2020	1,208,844	722,550	1,931,394
2021-2025	1,309,239	364,134	1,673,373
2026-2030	1,241,624	186,411	1,428,035
2031-2034	427,918	33,526	461,444
	$ 7,259,384	$ 2,381,836	$ 9,641,220

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2015 and 2014:

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

Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
$ 7,542,494	$ 600,000	$ (424,201)	$ 7,718,293	$ 458,907

NOTE G - 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, 2011, the Authority has incurred a total $567,656 of which only $563,823 was for approved related remediation costs. The remaining unused credits of $1,478,046 were added back to the outstanding principal balances and will be amortized over the remaining term of the four notes. In addition, these four sites are secured by tax increment revenue which totaled $2,684,412 and $2,506,526 for the years ended June 30, 2015 and June 30, 2014, respectively. The principal and interest payments for these five properties were $168,852 and $168,881, which included $126,745 and $124,284 in principal payments, respectively, for the years ended June 30, 2015 and June 30, 2014.

NOTE H - 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, 2015:

Years Ending June 30,	Principal	Interest	Total
2016	$ 280,000	$ 563,981	$ 843,981
2017	295,000	548,006	843,006
2018	310,000	531,182	841,182
2019	330,000	513,333	843,333
2020	350,000	494,340	844,340
2021-2025	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
	$ 10,065,000	$ 6,679,291	$ 16,744,291

NOTE H - BONDS PAYABLE (CONTINUED)

The following is a summary of the bonds payable transactions for the fiscal years ended June 30, 2015 and 2014
:

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

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
Total 2004 Tax Allocation Bonds	$ 10,585,000	$ -	$ (255,000)	$ 10,330,000	$ 265,000

NOTE I - COMPENSATED ABSENCES

The following is a summary of the compensated absences payable for the fiscal years ended June 30, 2015 and 2014:

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

Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
$ 170,011	$ 119,064	$ (112,022)	$ 177,053

NOTE J - R STREET PROPERTY AND IMPROVEMENT DISTRICT

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

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

NOTE J - R STREET PROPERTY AND IMPROVEMENT DISTRICT (CONTINUED)

The Authority will act as a pass-through of the levied assessments from the County of Sacramento to the managing non-profit. For the year ended June 30, 2015, the receipt and disbursement of the levied assessment was netted within Intergovernmental Revenue and the approved reimbursement of consultant fees was netted against the current year's consultant expenses. Future reimbursement of past consultant fees will be recognized as Intergovernmental Revenue.

NOTE K – FUNDS HELD FOR OTHERS

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

NOTE L - PENSION PLAN

Plan Description

The Authority contributes to the California Public Employees Retirement System (CalPERS), a 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 Board Approval. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report (CAFR) may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

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

Benefits Provided

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

NOTE L - PENSION PLAN (CONTINUED)

The Public Employees' Pension Reform Act of 2013 (PEPRA) created two benefit levels for CADA employees who qualify for membership in PERS. They are outlined below:

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

*Current Member is defined as anyone who is or has been a member of CalPERS or another recognized public retirement system and who has not had more than a 6-month break in service.

**Current Member is defined as anyone who is or has been a member of CalPERS or another recognized public retirement system and who has not had more than a 6-month break in service and was hired by CADA after 01/01/2013.

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

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, of which 2% was paid by the Authority in calendar year 2014 then reduced to 1% for calendar year 2015. 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 14.591% and 13.592% for the years ended June 30, 2015 and 2014, respectively. The Authority has been notified that the required employer contribution rate for classic members will be 9.353% and PERPA members will be 6.7 % for the year ending June 30, 2016 and an annual payment on the Authority's unfunded liability of $151,134. 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.

For the year ended June 30, 2015, the contributions recognized as part of pension expense was $262,370.

NOTE L - PENSION PLAN (CONTINUED)

Net Pension Liability

As of June 30, 2015, the Authority reported net pension liabilities for their proportionate share of the net pension liability of $2,757,022.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. GASB 68 requires cost sharing employers to establish an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relations through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations of individual plan accounts as of the valuation date are used where not available. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2014 was 0.04431%.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Authority recognized pension expense of $238,682. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between projected and actual earnings on pension plan investments	$ -	$ 809,648
Difference in proportionate share of contributions	-	58,995
Change in the proportionate share of the pool	-	(5,037)
Employer contributions made after the measurement date	282,032	-
Total	$ 282,032	$ 863,606

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ending June 30,	
2016	(227,265)
2017	(227,265)
2018	(227,265)
2019	(181,811)
	$ (863,606)

NOTE L - PENSION PLAN (CONTINUED)

Actuarial Assumptions

For the measurement period ended June 30, 2014 (measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial method and assumptions:

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

(1) Depending on entry age and service
(2) Net of pension plan investment and administrative expenses, including inflation
(3) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.
(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

Discount Rate

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

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. This difference was determined not to be material to the Authority's financial statements.

NOTE L - PENSION PLAN (CONTINUED)

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
	100%		

(a) An expected inflation of 2.5% unsed for this period.
(b) An expected inflation of 3.0% used for this period

NOTE L - PENSION PLAN (CONTINUED)

Sensitivity of the Authority's Proportionate Share Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Net Pension Liability	$ 4,686,500	$ 2,757,022	$ 1,155,737

NOTE M - 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 which is $122 per month for calendar year 2015.

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.

NOTE M - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Policy

The obligation of the Authority to contribute to the plan is established and may be amended by the Board of Directors. Employees are not required to contribute to the plan. The Authority is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for the year ending June 30, 2015 was $342,538 and is based on a July 1, 2013 actuarial valuation.

Annual OPEB Cost

For the year ended June 30, 2015, the Authority's annual OPEB cost (expenses) was $342,538. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability/Asset
6/30/2013	$ 354,000	100%	$ -
6/30/2014	$ 332,000	100%	$ -
6/30/2015	$ 343,000	100%	$ -

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	$ 3,811,433
Actuarial value of plan assets	1,350,506
Unfunded actuarial accrued liability (UAAL)	$ 2,460,927
Funded ratio (actuarial value of plan assets/AAL)	35.43%
Covered payroll (active plan members)	$ 1,967,652
UAAL as a percentage of covered payroll	125%

NOTE M - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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.

<u>Actuarial Methods and Assumptions</u>

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

In the 2013 actuarial valuation, the entry age normal cost, level percent of pay method was used. Some of the actuarial assumptions previously reported in the 2011 valuation have changed. The investment rate of return remained the same at 7.5 percent, (net of administrative expenses). The new annual blended healthcare cost trend rate is 8.5 percent initially and will be reduced by decrements to an ultimate rate of 4.64 percent by 2025. The previously reported blended healthcare cost trend rate of 7.0 percent was projected to be reduced by decrements to an ultimate rate of 4.5 percent after 4 years. There were revised assumptions about mortality, termination and retirement based on the most recent CalPERS experience study covering CADA employees. There were also adjustments to assumption about CADA's future contributions for covered employees and assumptions about disability retirements and dependent children.

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value on the valuation date of prior service costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL over a closed thirty (30) year period with twenty seven (27) years remaining. The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

REQUIRED SUPPLEMENTARY INFORMATION

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information

COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
As of June 30, 2015 last 10 years*

Notes to Schedule:

Changes of benefit terms. In 2015, there were no changes to the benefit terms.

Changes in assumptions. In 2015, there were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation of GASB 68, therefore only one year is shown.

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information

COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
As of June 30, 2015
Last 10 Years*

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

Notes to Schedule:

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

(1) Depending on age, service and type of employment
(2) Net of pension plan investment and administrative expenses, including inflation
(3) The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
(4) The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

* - Fiscal year 2015 was the 1st year of implementation of GASB 68, therefore only one year is shown.

CAPITOL AREA DEVELOPMENT AUTHORITY
Required Supplementary Information

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]
6/30/2008	$ -	$ 4,146,000	$ 4,146,000	0%	$ 1,870,000	222%
6/30/2011	$ 734,072	$ 3,658,759	$ 2,924,687	20%	$ 1,950,403	150%
6/30/2013	$ 1,350,506	$ 3,811,433	$ 2,460,927	35%	$ 1,967,652	125%

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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*

Board of Directors
Capitol Area Development Authority
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capitol Area Development Authority (Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 3, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California
December 3, 2015