

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Sacramento, California**

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

June 30, 2016 and 2015

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

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Independent Auditor's Report

Board of Directors
Capitol Area Development Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Brannan Court Apartments (Contract Number 86-32-N) (the "Project"), a project of the Capitol Area Development Authority ("Authority"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brannan Court Apartments (Contract Number 86-32-N) as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Brannan Court Apartments (Contract Number 86-32-N) as of and for the year ended June 30, 2015, were audited by other auditors whose report dated December 3, 2015, expressed an unmodified opinion on those statements.

Emphasis of Matter

As described in Note 1, the financial statements present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of the Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Project as a whole. The accompanying supplementary information on pages 15 to 17 as required by the California Housing Finance Agency is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.



Sacramento, California
December 6, 2016

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Net Position
June 30, 2016 and 2015**

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 1,174,228	\$ 1,082,198
Accounts receivable	1,797	1,337
Prepaid expenses	-	47
Restricted cash and cash equivalents		
Insurance and tax impounds	21,128	24,818
Tenant security deposits	25,265	24,970
Total restricted cash and cash equivalents	<u>46,393</u>	<u>49,788</u>
Total current assets	<u>1,222,418</u>	<u>1,133,370</u>
Noncurrent assets		
Restricted cash and cash equivalents - replacement reserve	<u>212,738</u>	<u>198,264</u>
Capital assets		
Building and Improvements	2,750,134	2,750,134
Less accumulated depreciation	<u>(2,513,692)</u>	<u>(2,421,105)</u>
Total capital assets, net	<u>236,442</u>	<u>329,029</u>
Total noncurrent assets	<u>449,180</u>	<u>527,293</u>
Total assets	<u>\$ 1,671,598</u>	<u>\$ 1,660,663</u>
	<u>Liabilities</u>	
Current liabilities		
Accounts payable	\$ 2,526	\$ 2,063
Prepaid rent	1,979	1,565
Accrued interest payable	3,685	4,969
Tenant security deposits	25,265	24,970
Notes payable, current portion	<u>172,498</u>	<u>156,224</u>
Total current liabilities	<u>205,953</u>	<u>189,791</u>
Noncurrent liabilities		
Accrued interest payable	55,473	53,474
Notes payable	<u>458,275</u>	<u>630,773</u>
Total noncurrent liabilities	<u>513,748</u>	<u>684,247</u>
Total liabilities	<u>\$ 719,701</u>	<u>\$ 874,038</u>
	<u>Net Position</u>	
Net investment in capital assets	\$ (394,331)	\$ (457,968)
Restricted for replacements and impounds	233,866	223,082
Unrestricted	<u>1,112,362</u>	<u>1,021,511</u>
Total net position	<u>\$ 951,897</u>	<u>\$ 786,625</u>

See Notes to Financial Statements.

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

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

	2016	2015
Operating revenues		
Rental revenue, net	\$ 467,753	\$ 447,828
Other revenues		
Coin-operated laundry	4,758	4,262
Parking	26,820	27,477
Miscellaneous	3,619	6,085
	502,950	485,652
 Operating expenses		
Payroll		
On-site manager	14,220	13,800
Grounds and maintenance	12,008	11,354
Payroll taxes and benefits	9,600	9,492
	35,828	34,646
 Administrative		
Management fee	31,340	30,000
Audit	2,285	2,285
Media	542	528
	34,167	32,813
 Utilities		
Electricity	10,709	10,571
Water and garbage	22,520	19,921
Gas	9,004	8,966
	42,233	39,458
 Operating and maintenance		
Services and supplies	14,030	8,939
Contract maintenance and repairs	29,120	22,330
Courtesy patrol	1,680	1,608
Decorating and painting	23,593	20,826
	68,423	53,703
 Insurance and taxes		
Insurance	20,912	21,262
Property taxes	2,937	6,567
	23,849	27,829

**Brannan Court Apartments
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A Project of the Capitol Area Development Authority**

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

	<u>2016</u>	<u>2015</u>
Depreciation	92,587	94,840
Total operating expenses	<u>297,087</u>	<u>283,289</u>
Operating income	<u>205,863</u>	<u>202,363</u>
Nonoperating revenues (expenses)		
Interest income	11,533	9,646
Interest expense	<u>(52,124)</u>	<u>(67,076)</u>
Total nonoperating revenues, net	<u>(40,591)</u>	<u>(57,430)</u>
Change in net position	165,272	144,933
Net position, beginning	<u>786,625</u>	<u>641,692</u>
Net position, end	<u>\$ 951,897</u>	<u>\$ 786,625</u>

See Notes to Financial Statements.

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

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

	2016	2015
Cash flows from operating activities		
Rental receipts	\$ 467,705	\$ 451,447
Other receipts	35,197	37,824
Tenant security deposits received	8,940	13,215
Payroll and related costs	(35,828)	(34,646)
Administrative	(34,165)	(32,813)
Utilities	(42,233)	(39,458)
Operating and maintenance	(67,913)	(36,225)
Tenant security deposits paid	(8,645)	(12,495)
Insurance and taxes	(23,849)	(27,829)
	299,209	319,020
Net cash provided by operating activities		
Cash flows from capital and related financing activities		
Principal payment on debt	(156,224)	(141,486)
Interest paid on debt	(51,409)	(66,148)
	(207,633)	(207,634)
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest receipts	11,533	9,646
	11,533	9,646
Net cash provided by investing activities		
Net increase in cash and cash equivalents	103,109	121,032
Cash and cash equivalents, beginning	1,330,250	1,209,218
Cash and cash equivalents, end	\$ 1,433,359	\$ 1,330,250
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 1,174,228	\$ 1,082,198
Restricted cash and cash equivalents		
Insurance and tax impounds	21,128	24,818
Tenant security deposits	25,265	24,970
Replacement reserve	212,738	198,264
	269,131	252,850
Total cash and cash equivalents	\$ 1,433,359	\$ 1,330,250

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

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

	2016	2015
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 205,863	\$ 202,363
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	92,587	94,840
Changes in assets and liabilities		
Accounts receivable	(460)	3,090
Prepaid expense	47	19,118
Accounts payable	463	(1,640)
Prepaid rent	414	529
Tenant security deposits	295	720
	<u>\$ 299,209</u>	<u>\$ 319,020</u>
Net cash provided by operating activities	<u>\$ 299,209</u>	<u>\$ 319,020</u>

See Notes to Financial Statements.

**Brannan Court Apartments
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**Notes to Financial Statements
June 30, 2016 and 2015**

Note 1 - Organization and summary of significant accounting policies

General

Brannan Court Apartments (the "Project") is a 40-unit apartment complex located in downtown Sacramento, California. The Project provides at least 20% of the apartments to eligible low-income families under the California Housing Finance Agency ("CalHFA") 80/20 program. Mortgage financing was provided by CalHFA.

In accordance with a regulatory agreement, dated August 25, 1988, the Capitol Area Development Authority ("Authority") manages the Project. The Authority is a joint powers agency with a Board of Directors comprised of appointees of the City of Sacramento ("City") and the State of California. The accompanying financial statements are not intended to present fairly the financial position or changes in financial position and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Basis of presentation

The Project 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 flow occurs. The Project distinguishes operating from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from tenants of its housing units. This revenue is recognized in the financial statements net of vacancy loss, low income subsidies, and loss to leases. Operating expenses for the Project include payroll expenses for employee services, administrative expenses, utilities expenses, operating and maintenance expenses, insurance and taxes expenses, 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 resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

Cash, cash equivalents and restricted cash and cash equivalents

The Project 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 California 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 based upon the quoted market price. However, the value of the pool shares in the City's investment pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Project's position in the pool. The City's investment pool is unrated and the weighted average maturity is 1.88 years and 2.15 years as of June 30, 2016 and 2015, respectively. Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and cash equivalents are included in the notes to the Authority's basic financial statements.

Cash, cash equivalents and restricted cash and cash equivalents include operating accounts, replacement reserves, insurance and tax impounds, and tenant security deposits. Insurance and tax impound accounts are held in an interest bearing account by CalHFA. As required by the Authority's regulatory agreement with CalHFA, the Project makes monthly deposits to cover

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**Notes to Financial Statements
June 30, 2016 and 2015**

hazard insurance, earthquake insurance, and property tax expenses. All disbursements from the CalHFA accounts are subject to supervision and approval by CalHFA. All such deposits and reserves are entirely insured or collateralized with securities held by the mortgagor in the Project's name.

Operating accounts, tenant security deposits and replacement reserves are held in both the City's investment pool and a financial institution. For purposes of the statements of cash flows, the Project 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.

Accounts receivable

Accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2016 and 2015, there is no allowance for doubtful accounts.

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, net of accumulated depreciation. Depreciation is calculated using the straight-line method over an estimated useful life of 5 to 30 years. Maintenance and repair costs are expensed as incurred. The Project does not own land, only the building on the land and therefore there are no nondepreciable capital assets disclosed. The Project's building is pledged as security for notes payable.

Impairment of capital assets

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

Rental income

The Project's rental property is generally leased to tenants under one year non-cancelable operating leases. Rental income is recognized as rents become due. Rental payments received in advance are recorded as unearned revenue.

Use of estimates

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

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 2 - Cash, cash equivalents and restricted cash and cash equivalents

The Project's cash and cash equivalents are as follows at June 30:

	<u>2016</u>	<u>2015</u>
City of Sacramento investment pool	\$ 1,370,010	\$ 1,260,950
Deposit account	42,221	44,482
Deposits with CalHFA	<u>21,128</u>	<u>24,818</u>
Total	<u>\$ 1,433,359</u>	<u>\$ 1,330,250</u>

Note 3 - Tenant security deposits

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in these financial statements as current restricted cash and cash equivalents, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held as of June 30, 2016 and 2015 amounted to \$25,265 and \$24,970, respectively.

Note 4 - Capital assets

Information on additions and disposals of capital assets is presented below:

	<u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Capital assets				
Buildings and improvements	\$ 2,750,134	\$ -	\$ -	2,750,134
Less accumulated depreciation for Buildings and improvements	<u>(2,421,105)</u>	<u>(92,587)</u>	<u>-</u>	<u>(2,513,692)</u>
Capital assets, net	<u>\$ 329,029</u>	<u>\$ (92,587)</u>	<u>\$ -</u>	<u>\$ 236,442</u>

	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Capital assets				
Buildings and improvements	\$ 2,750,134	\$ -	\$ -	2,750,134
Less accumulated depreciation for Buildings and improvements	<u>(2,326,265)</u>	<u>(94,840)</u>	<u>-</u>	<u>(2,421,105)</u>
Capital assets, net	<u>\$ 423,869</u>	<u>\$ (94,840)</u>	<u>\$ -</u>	<u>\$ 329,029</u>

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 5 - Notes payable

Notes payable consist of the following at June 30:

	2016	2015
Due to CalHFA in monthly installments of \$17,303, including principal and interest at 9.95% annually until maturity on October 1, 2018, secured by the Project.	\$ 430,773	\$ 586,997
Due to CalHFA with no required monthly payments. Principal accrues interest at 1% annually with all balances due at maturity on October 1, 2018, secured by the Project.	200,000	200,000
Total	\$ 630,773	\$ 786,997

Estimated future maturities for each of the next three years subsequent to June 30, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 172,498	\$ 35,136	\$ 207,634
2018	190,466	76,653	267,119
2019	267,809	1,412	269,221
	\$ 630,773	\$ 113,201	\$ 743,974

A summary of the notes payable transactions for the years ended June 30, 2016 and 2015 are as follows:

Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Amounts due within one year
\$ 786,997	\$ -	\$ 156,224	\$ 630,773	\$ 172,498

Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Amounts due within one year
\$ 928,483	\$ -	\$ 141,486	\$ 786,997	\$ 156,224

Note 6 - Assistance from the Authority

In 1987, the Project financed, along with equity funds from the Authority, the construction of the Brannan Court Apartment project. Upon completion of project construction, CalHFA paid off the

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**Notes to Financial Statements
June 30, 2016 and 2015**

construction loan and extended long-term financing to the Project. The Authority's equity contribution to the Project remained until October 1, 1997 when CalHFA approved a partial return of \$92,697 contribution back to the Authority. The net amount contributed by the Authority was \$1,077,661.

The Project realized an excess of revenue over expenses (excluding depreciation) of \$257,859 and \$239,773 for the years ended June 30, 2016 and 2015, respectively. The Authority has committed to fund any future deficits with additional contributions, as required.

Note 7 - Subsequent events

Management evaluated the activity of the Project through December 6, 2016, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Required by the California Housing Finance Agency

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Supplementary Information
Year Ended June 30, 2016**

Cash and cash equivalents		
Unrestricted account		
Operating account	\$	1,174,228
Restricted accounts		
Insurance and tax impounds		21,128
Tenant security deposits		25,265
Reserve for replacements		212,738
Total restricted accounts		259,131
Total cash and cash equivalents	\$	1,433,359

The Project follows the practice of pooling its cash with all Authority projects into a central fund maintained by the Authority. All accounts are segregated on the books of the Authority. The impound accounts are maintained in interest bearing accounts by CalHFA.

Reserves for replacements

The replacement reserve amounts are included in the central fund account maintained by the Authority and segregated in the book of the Authority. The reserve amounts are to be used for replacements of property. Withdrawals are made upon approval by CalHFA. Activity during the year ended June 30, 2016 was as follows:

Balance, June 30, 2015		\$ 198,264
Deposits		12,200
Interest income		2,274
Balance, June 30, 2016	\$	212,738

Impound accounts

	Taxes	Hazard insurance	Earthquake insurance	Total
Balance, June 30, 2015	\$ 1,984	\$ 12,148	\$ 10,686	\$ 24,818
Deposits	1,065	11,226	11,057	23,348
Interest earned	73	-	-	73
Impound refunds	(1,044)	(9,774)	-	(10,818)
CalHFA adjustment	(1,067)	(1,423)	(4,597)	(7,087)
Payments applied	-	-	(9,206)	(9,206)
Balance, June 30, 2016	\$ 1,011	\$ 12,177	\$ 7,940	\$ 21,128

**Brannan Court Apartments
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**Supplementary Information
Year Ended June 30, 2016**

Capital assets

Following are the details of capital assets, which include building and leasehold improvements:

	Building and Improvements
Capital assets balance, June 30, 2015	\$ 2,750,134
Additions	-
Capital assets balance, June 30, 2016	\$ 2,750,134

Accounts payable

Accounts payable in the amount of \$2,526 represents payables to suppliers. All accounts payable are current.

Accrued interest

Accrued interest of \$59,158 represents \$3,685 of mortgage interest for June 2016, due July 1, 2016, and \$55,473 of mortgage interest due October 1, 2018.

Gross potential rents

Gross potential rents and net rental revenues consist of the following:

Qualified tenant rental income	\$ 32,752
Other tenant rental income	509,295
Total gross potential rents	542,047
Less	
Vacancy loss	(17,991)
Loss to lease	(19,226)
Low income subsidy	(37,077)
Rental revenues, net	\$ 467,753

Management fee

A property management fee of \$31,340 was incurred during the year ended June 30, 2016 for the property management services provided by the Authority.

**Brannan Court Apartments
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A Project of the Capitol Area Development Authority**

**Supplementary Information
Year Ended June 30, 2016**

Operating cash flow/Surplus cash computation

The operating cash flow/surplus cash generated by the Project during the year ended June 30, 2016 is as follows:

Operation income	
Total income	\$ 514,483
Interest earned on restricted reserve accounts	<u>(2,274)</u>
Adjusted operation income	512,209
Operating expenses (less depreciation)	<u>(204,500)</u>
Adjusted net income	<u>307,709</u>
Other activity	
Debt service	(156,224)
Deposits into Replacement Reserve Account	(12,200)
Deposits into Debt Retirement Reserve Account	<u>(10,815)</u>
Total other activity	<u>(179,239)</u>
Operating cash flow/surplus cash	<u><u>\$ 128,470</u></u>

Accumulated limited distributions

At inception, there were no allowable accumulated limited distributions unpaid. Also, there were no accumulated limited distributions paid during the year ended June 30, 2016.

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 Brannan Court Apartments (Contract Number 86-32-N) (the "Project"), a project of the Capitol Area Development Authority ("Authority") as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report


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

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California
December 6, 2016

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project Of The Capitol Area Development Authority
Certification of Officers
For The Fiscal Year Ended June 30, 2016

We, as officers of Capitol Area Development Authority, hereby certify that we have examined the accompanying financial statements and supplemental information of Brannan Court Apartments as of and for the fiscal year ended June 30, 2016, and, to the best of our knowledge and belief, these financial statements and the supplemental information are complete and accurate.

 _____
Name Title Date
EXECUTIVE DIRECTOR 12/06/2016

 _____
Name Title Date
Controller 12/6/16

Employer Identification Number: 94-2524680

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