

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

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

June 30, 2017 and 2016

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

Index

	<u>Page</u>
Independent Auditor's Report	2
Basic Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	7
Notes to the Financial Statements	9
Supplementary Information Required by the California Housing Finance Agency	15
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 <i>Government Auditing Standards</i>	18
Certification of Officers	20

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 statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years 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, 2017 and 2016, 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 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, 2017 and 2016, 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 7, 2017, 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 7, 2017

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

**Statements of Net Position
June 30, 2017 and 2016**

	<u>Assets</u>	2017	2016
Current assets			
Cash and cash equivalents		\$ 1,249,712	\$ 1,174,228
Accounts receivable		4,575	1,797
Prepaid expenses		19,205	-
Restricted cash and cash equivalents			
Insurance and tax impounds		12,838	21,128
Tenant security deposits		23,665	25,265
Total restricted cash and cash equivalents		36,503	46,393
Total current assets		1,309,995	1,222,418
Noncurrent assets			
Restricted cash and cash equivalents - replacement reserve		227,977	212,738
Capital assets			
Construction in progress		3,434	-
Building and Improvements		2,750,134	2,750,134
Less accumulated depreciation		(2,604,033)	(2,513,692)
Total capital assets, net		149,535	236,442
Total noncurrent assets		377,512	449,180
Total assets		\$ 1,687,507	\$ 1,671,598
	<u>Liabilities</u>		
Current liabilities			
Accounts payable		\$ 6,304	\$ 2,526
Prepaid rent		1,295	1,979
Accrued interest payable		2,267	3,685
Tenant security deposits		23,665	25,265
Notes payable, current portion		190,466	172,498
Total current liabilities		223,997	205,953
Noncurrent liabilities			
Accrued interest payable		57,473	55,473
Notes payable		267,809	458,275
Total noncurrent liabilities		325,282	513,748
Total liabilities		\$ 549,279	\$ 719,701
	<u>Net Position</u>		
Net investment in capital assets		\$ (308,739)	\$ (394,331)
Restricted for replacements and impounds		240,815	233,866
Unrestricted		1,206,152	1,112,362
Total net position		\$ 1,138,228	\$ 951,897

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues		
Rental revenue, net	\$ 478,881	\$ 467,753
Other revenues		
Coin-operated laundry	4,639	4,758
Parking	26,584	26,820
Miscellaneous	<u>2,161</u>	<u>3,619</u>
Total operating revenues	<u>512,265</u>	<u>502,950</u>
Operating expenses		
Payroll		
On-site manager	14,535	14,220
Grounds and maintenance	12,274	12,008
Payroll taxes and benefits	<u>9,812</u>	<u>9,600</u>
Total payroll	<u>36,621</u>	<u>35,828</u>
Administrative		
Management fee	32,750	31,340
Audit	4,200	2,285
Media	<u>576</u>	<u>542</u>
Total administrative	<u>37,526</u>	<u>34,167</u>
Utilities		
Electricity	10,740	10,709
Water and garbage	24,352	22,520
Gas	<u>11,520</u>	<u>9,004</u>
Total utilities	<u>46,612</u>	<u>42,233</u>
Operating and maintenance		
Services and supplies	10,524	14,030
Contract maintenance and repairs	29,391	29,120
Courtesy patrol	1,760	1,680
Decorating and painting	<u>26,730</u>	<u>23,593</u>
Total operating and maintenance	<u>68,405</u>	<u>68,423</u>
Insurance and taxes		
Insurance	18,245	20,912
Property taxes	<u>6,782</u>	<u>2,937</u>
Total insurance and taxes	<u>25,027</u>	<u>23,849</u>

**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, 2017 and 2016**

	2017	2016
Depreciation	90,341	92,587
Total operating expenses	304,532	297,087
Operating income	207,733	205,863
Nonoperating revenues (expenses)		
Interest income	14,315	11,533
Interest expense	(35,717)	(52,124)
Total nonoperating revenues, net	(21,402)	(40,591)
Change in net position	186,331	165,272
Net position, beginning	951,897	786,625
Net position, end	\$ 1,138,228	\$ 951,897

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Rental receipts	\$ 475,419	\$ 467,705
Other receipts	33,384	35,197
Tenant security deposits received	6,060	8,940
Payroll and related costs	(36,621)	(35,828)
Administrative	(37,561)	(34,165)
Utilities	(46,612)	(42,233)
Operating and maintenance	(83,797)	(67,913)
Tenant security deposits paid	(7,660)	(8,645)
Insurance and taxes	(25,027)	(23,849)
	<u>277,585</u>	<u>299,209</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities		
Acquisition of capital assets	(3,434)	-
Principal payment on debt	(172,498)	(156,224)
Interest paid on debt	(35,135)	(51,409)
	<u>(211,067)</u>	<u>(207,633)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest receipts	<u>14,315</u>	<u>11,533</u>
Net cash provided by investing activities	<u>14,315</u>	<u>11,533</u>
Net increase in cash and cash equivalents	80,833	103,109
Cash and cash equivalents, beginning	<u>1,433,359</u>	<u>1,330,250</u>
Cash and cash equivalents, end	<u>\$ 1,514,192</u>	<u>\$ 1,433,359</u>
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 1,249,712	\$ 1,174,228
Restricted cash and cash equivalents		
Insurance and tax impounds	12,838	21,128
Tenant security deposits	23,665	25,265
Replacement reserve	<u>227,977</u>	<u>212,738</u>
Total cash and cash equivalents	<u>\$ 1,514,192</u>	<u>\$ 1,433,359</u>

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

**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 207,733	\$ 205,863
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	90,341	92,587
Changes in assets and liabilities		
Accounts receivable	(2,778)	(460)
Prepaid expense	(19,205)	47
Accounts payable	3,778	463
Prepaid rent	(684)	414
Tenant security deposits	<u>(1,600)</u>	<u>295</u>
Net cash provided by operating activities	<u>\$ 277,585</u>	<u>\$ 299,209</u>

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

**Notes to Financial Statements
June 30, 2017 and 2016**

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 1.38 years and 1.88 years as of June 30, 2017 and 2016, 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 hazard

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

**Notes to Financial Statements
June 30, 2017 and 2016**

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016**

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>2017</u>	<u>2016</u>
City of Sacramento investment pool	\$ 1,386,594	\$ 1,370,010
Deposit account	114,760	42,221
Deposits with CalHFA	<u>12,838</u>	<u>21,128</u>
Total	<u>\$ 1,514,192</u>	<u>\$ 1,433,359</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, 2017 and 2016 amounted to \$23,665 and \$25,265, respectively.

Note 4 - Capital assets

Information on additions and disposals of capital assets as of June 30, 2017 and 2016 are presented below:

	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Capital assets				
Construction in progress	\$ -	\$ 3,434	\$ -	\$ 3,434
Buildings and improvements	2,750,134	-	-	2,750,134
Less accumulated depreciation for Buildings and improvements	<u>(2,513,692)</u>	<u>(90,341)</u>	<u>-</u>	<u>(2,604,033)</u>
Capital assets, net	<u>\$ 236,442</u>	<u>\$ (86,907)</u>	<u>\$ -</u>	<u>\$ 149,535</u>
	<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>

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

**Notes to Financial Statements
June 30, 2017 and 2016**

Note 5 - Notes payable

Notes payable consist of the following at June 30:

	2017	2016
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.	\$ 258,275	\$ 430,773
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	\$ 458,275	\$ 630,773

Estimated future maturities for each of the next two years subsequent to June 30, 2017 are as follows:

	Principal	Interest	Total
2018	\$ 190,466	\$ 76,653	\$ 267,119
2019	267,809	1,412	269,221
	\$ 458,275	\$ 78,065	\$ 536,340

The Authority set aside a reserve within its cash and cash equivalents to pay for any remaining amounts due on these notes upon maturity on October 1, 2018.

A summary of the notes payable transactions for the years ended June 30, 2017 and 2016 are as follows:

Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Amounts due withing one year
\$ 630,773	\$ -	\$ (172,498)	\$ 458,275	\$ 190,466
Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Amounts due withing one year
\$ 786,997	\$ -	\$ (156,224)	\$ 630,773	\$ 172,498

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

**Notes to Financial Statements
June 30, 2017 and 2016**

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 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 \$276,672 and \$257,859 for the years ended June 30, 2017 and 2016, respectively. The Authority has committed to fund any future deficits with additional contributions, as required.

Note 7 - Subsequent events

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date, require disclosure in the accompanying notes. Management evaluated the activity of the Project through December 7, 2017, 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, 2017**

Cash and cash equivalents	
Unrestricted account	
Operating account	<u>\$ 1,249,712</u>
Restricted accounts	
Insurance and tax impounds	12,838
Tenant security deposits	23,665
Reserve for replacements	<u>227,977</u>
Total restricted accounts	<u>264,480</u>
Total cash and cash equivalents	<u><u>\$ 1,514,192</u></u>

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, 2017 was as follows:

Balance, June 30, 2016	\$ 212,738
Deposits	12,200
Interest income	<u>3,039</u>
Balance, June 30, 2017	<u><u>\$ 227,977</u></u>

Impound accounts

	<u>Taxes</u>	<u>Hazard insurance</u>	<u>Earthquake insurance</u>	<u>Total</u>
Balance, June 30, 2016	\$ 1,011	\$ 12,177	\$ 7,940	\$ 21,128
Deposits	1,074	11,175	10,587	22,836
Interest earned	106	-	-	106
Impound refunds	-	-	-	-
CalHFA adjustment	361	(355)	-	6
Payments applied	<u>(2,088)</u>	<u>(20,477)</u>	<u>(8,673)</u>	<u>(31,238)</u>
Balance, June 30, 2017	<u><u>\$ 464</u></u>	<u><u>\$ 2,520</u></u>	<u><u>\$ 9,854</u></u>	<u><u>\$ 12,838</u></u>

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

**Supplementary Information
Year Ended June 30, 2017**

Capital assets

Following are the details of building and leasehold improvements included in capital assets:

	Building and Improvements
Capital assets balance, June 30, 2016	\$ 2,750,134
Additions	-
Capital assets balance, June 30, 2017	\$ 2,750,134

Accounts payable

Accounts payable in the amount of \$6,304 represents payables to suppliers. All accounts payable are current.

Accrued interest

Accrued interest of \$59,740 represents \$2,267 of mortgage interest for June 2017, due July 1, 2017, and \$57,473 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	\$ 38,504
Other tenant rental income	521,808
Total gross potential rents	560,312
Less	
Vacancy loss	(8,858)
Loss to lease	(23,215)
Low income subsidy	(49,358)
Rental revenues, net	\$ 478,881

Management fee

A property management fee of \$32,750 was incurred during the year ended June 30, 2017 for the property management services provided by the Authority.

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

**Supplementary Information
Year Ended June 30, 2017**

Operating cash flow/Surplus cash computation

The operating cash flow/surplus cash generated by the Project during the year ended June 30, 2017 is as follows:

Operation income		
Total income	\$	526,580
Interest earned on restricted reserve accounts		<u>(3,039)</u>
Adjusted operation income		523,541
Operating expenses (less depreciation)		<u>(214,191)</u>
Adjusted net income		<u>309,350</u>
Other activity		
Debt service		(207,633)
Deposits into Replacement Reserve Account		(12,200)
Deposits into Debt Retirement Reserve Account		<u>(10,815)</u>
Total other activity		<u>(230,648)</u>
Operating cash flow/surplus cash	\$	<u><u>78,702</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, 2017.

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 year ended June 30, 2017, 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 7, 2017.

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.

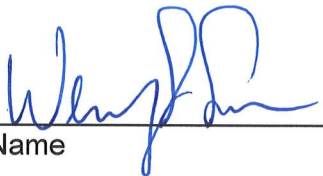
A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California
December 7, 2017

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

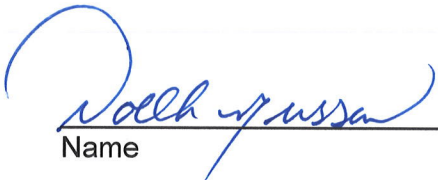
**Certification of Officers
Year Ended June 30, 2017**

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 year ended June 30, 2017, and, to the best of our knowledge and belief, these financial statements and the supplemental information are complete and accurate.


Name _____

Executive Director
Title _____

12/07/17
Date _____


Name _____

Controller
Title _____

12-7-17
Date _____

Employer Identification Number: 94-2524680

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com