

**BRANNAN COURT APARTMENTS
(CONTRACT NUMBER 86-32-N)
A PROJECT OF THE
CAPITOL AREA DEVELOPMENT AUTHORITY
SACRAMENTO, CALIFORNIA**

Independent Auditor's Reports,
Financial Statements and Supplemental Information

For the Fiscal Years Ended June 30, 2015 and 2014



Certified
Public
Accountants

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) 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 Project'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; 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 and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*. 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 the Brannan Court Apartments (Contract Number 86-32-N) as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note A, the financial statements present only the Project and do not purport to, and do not, present fairly, 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 fiscal 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 as a whole. The accompanying supplemental information on pages 12 to 14 is presented for purposes of additional analysis and is not a required part of the 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 supplemental 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 3, 2015 on our consideration of the Authority's internal control over financial reporting as it relates to the Project 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.


Sacramento, California
December 3, 2015

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,082,198	\$ 979,642
Accounts receivable	1,337	4,427
Prepaid expenses	47	19,165
Restricted cash:		
Insurance and tax impounds	24,818	21,301
Tenant security deposits	24,970	24,250
Total restricted cash	49,788	45,551
Total current assets	1,133,370	1,048,785
Noncurrent assets:		
Restricted cash - reserve for replacements	198,264	184,025
Capital assets:		
Building and Improvements	2,750,134	2,750,134
Less: accumulated depreciation	(2,421,105)	(2,326,265)
Total capital assets	329,029	423,869
Total noncurrent assets	527,293	607,894
Total assets	1,660,663	1,656,679
Liabilities		
Current liabilities:		
Accounts payable	2,063	3,703
Prepaid rent	1,565	1,036
Accrued interest payable	4,969	6,040
Tenant security deposits	24,970	24,250
Notes payable, current portion	156,224	141,486
Total current liabilities	189,791	176,515
Noncurrent liabilities:		
Accrued interest payable	53,474	51,475
Notes payable	630,773	786,997
Total noncurrent liabilities	684,247	838,472
Total liabilities	874,038	1,014,987
Net Position		
Net investment in capital assets	(457,968)	(504,614)
Restricted for replacements and impounds	223,082	205,326
Unrestricted	1,021,511	940,980
Total net position	\$ 786,625	\$ 641,692

See accompanying 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 Fund Net Position
For the Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Rental revenue, net	\$ 447,828	\$ 465,223
Other revenues:		
Coin-operated laundry	4,262	3,584
Parking	27,477	27,713
Miscellaneous	6,085	5,530
Total operating revenues	<u>485,652</u>	<u>502,050</u>
Operating expenses		
Payroll:		
On-site manager	13,800	13,380
Grounds and maintenance payroll	11,354	11,834
Payroll taxes and benefits	9,492	9,120
Total payroll	<u>34,646</u>	<u>34,334</u>
Administrative:		
Management fee	30,000	28,716
Audit	2,285	2,285
Media	528	528
Legal fee	-	399
Total administrative	<u>32,813</u>	<u>31,928</u>
Utilities:		
Electricity	10,571	9,916
Water and garbage	19,921	20,495
Gas	8,966	8,723
Total utilities	<u>39,458</u>	<u>39,134</u>
Operating and maintenance:		
Services and Supplies	8,939	8,714
Contract maintenance and repairs	22,330	25,411
Courtesy patrol	1,608	1,608
Decorating and painting	20,826	20,994
Total operating and maintenance	<u>53,703</u>	<u>56,727</u>
Insurance and taxes:		
Insurance	21,262	22,182
Property taxes	6,567	3,809
Total insurance and taxes	<u>27,829</u>	<u>25,991</u>
Depreciation	94,840	94,840
Total operating expenses	<u>283,289</u>	<u>282,954</u>
Operating income	<u>202,363</u>	<u>219,096</u>
Non-operating revenues (expenses)		
Interest income	9,646	8,445
Interest expense	(67,076)	(80,433)
Total non-operating expenses, net	<u>(57,430)</u>	<u>(71,988)</u>
Change in net position	144,933	147,108
Net position, beginning of year	641,692	494,584
Net position, end of year	<u>\$ 786,625</u>	<u>\$ 641,692</u>

See accompanying notes to financial statements.

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Rental receipts	\$ 451,447	\$ 460,213
Other receipts	37,824	36,827
Tenant security deposits received	13,215	11,445
Payroll and related costs	(34,646)	(34,334)
Administrative	(32,813)	(31,928)
Utilities	(39,458)	(39,134)
Operating and maintenance	(36,225)	(63,413)
Tenant security deposits paid	(12,495)	(12,050)
Insurance and taxes	(27,829)	(25,991)
Net cash provided by operating activities	<u>319,020</u>	<u>301,635</u>
Cash flows from capital and related financing activities:		
Principal payment on debt	(141,486)	(128,139)
Interest paid on debt	(66,148)	(79,495)
Net cash used by capital and related financing activities	<u>(207,634)</u>	<u>(207,634)</u>
Cash flows from investing activities:		
Interest receipts	<u>9,646</u>	<u>8,445</u>
Net increase in cash and cash equivalents	121,032	102,446
Cash and cash equivalents, beginning of year	<u>1,209,218</u>	<u>1,106,772</u>
Cash and cash equivalents, end of year	<u>\$ 1,330,250</u>	<u>\$ 1,209,218</u>
Reconciliation to the Statements of Net Position:		
Cash and cash equivalents	\$ 1,082,198	\$ 979,642
Restricted cash:		
Insurance and tax impounds	24,818	21,301
Tenant security deposits	24,970	24,250
Reserve for replacements	198,264	184,025
Total cash and cash equivalents	<u>\$ 1,330,250</u>	<u>\$ 1,209,218</u>

See accompanying notes to financial statements.

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 202,363	\$ 219,096
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	94,840	94,840
Changes in assets and liabilities:		
Accounts receivable	3,090	(2,570)
Prepaid expenses	19,118	363
Accounts payable	(1,640)	(7,049)
Prepaid rent	529	(2,440)
Tenant security deposits	720	(605)
Net cash provided by operating activities	\$ 319,020	\$ 301,635

See accompanying notes to financial statements.

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Brannan Court Apartments (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.

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

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 2.15 years and 2.27 years as of June 30, 2015 and 2014, respectively. Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and investments are included in the notes to the Authority's basic financial statements.

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Restricted Cash (Continued)

Cash, cash equivalents and restricted cash 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 the CalHFA, the Project makes monthly deposits to cover 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

The Project has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would have been obtained had the allowance method been followed.

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 10 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.

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.

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE B - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Project's cash and investments at June 30, 2015 and 2014 are listed below.

	<u>2015</u>	<u>2014</u>
City of Sacramento investment pool	\$ 1,260,950	\$ 1,068,850
Deposit Account	44,482	119,067
Deposits with CalHFA	24,818	21,301
Total cash, cash equivalents, and restricted cash	<u>\$ 1,330,250</u>	<u>\$ 1,209,218</u>

NOTE C - 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, 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, 2015 and 2014 amounted to \$24,970 and \$24,250, respectively.

NOTE D - CAPITAL ASSETS

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

	<u>July 1, 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>
	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Capital assets:				
Buildings and improvements	\$ 2,750,134	\$ -	\$ -	\$ 2,750,134
Less accumulated depreciation for:				
Buildings and improvements	<u>(2,231,425)</u>	<u>(94,840)</u>	<u>-</u>	<u>(2,326,265)</u>
Capital assets, net	<u>\$ 518,709</u>	<u>\$ (94,840)</u>	<u>\$ -</u>	<u>\$ 423,869</u>

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE E - NOTES PAYABLE

Notes payable consist of the following:

	June 30,	
	2015	2014
To California Housing Finance Agency:		
Monthly installments of \$17,303, including principal and interest at 9.95% annually to October 1, 2018, secured by the Project.	\$ 586,997	\$ 728,483
Principal and accrued interest at 1% annually due on October 1, 2018, secured by the Project.	200,000	200,000
	\$ 786,997	\$ 928,483

Future maturities on notes payable are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2016	\$ 156,224	\$ 51,409	\$ 207,633
2017	172,498	35,136	207,634
2018	190,466	76,653	267,119
2019	267,809	1,412	269,221
	\$ 786,997	\$ 164,610	\$ 951,607

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
\$ 928,483	\$ -	\$ 141,486	\$ 786,997	\$ 156,224
Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
\$ 1,056,622	\$ -	\$ 128,139	\$ 928,483	\$ 141,486

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE F- 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 \$239,773 and \$241,948 for the fiscal years ended June 30, 2015 and 2014, respectively. The Authority has committed to fund any future deficits with additional contributions, as required.

SUPPLEMENTAL INFORMATION

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Supplemental Information Required by the
California Housing Finance Agency
For the Fiscal Year Ended June 30, 2015

Cash and cash equivalents	
Unrestricted account:	
Operating account	\$ 1,082,198
Restricted accounts:	
Insurance and tax impounds	24,818
Tenant security deposits	24,970
Reserve for replacements	198,264
Total restricted accounts	248,052
Total cash and cash equivalents	\$ 1,330,250

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

In accordance with the provisions of the regulatory agreement, reserve amounts are maintained in accounts by CalHFA to be used for replacements of property. Withdrawals are made upon approval by CalHFA. Activity during the fiscal year ended June 30, 2015 was as follows:

	Reserve for Replacements
Balance, June 30, 2014	\$ 184,025
Deposits	12,200
Interest income	2,039
Balance, June 30, 2015	\$ 198,264

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Supplemental Information Required by the
California Housing Finance Agency (Continued)
For the Fiscal Year Ended June 30, 2015

Impound Accounts

	<u>Taxes</u>	<u>Hazard Insurance</u>	<u>Earthquake Insurance</u>	<u>Total</u>
Balance at June 30, 2014	\$ 1,579	\$ 10,557	\$ 9,165	\$ 21,301
Deposits	1,065	10,724	11,339	23,128
Interest earned	43	-	-	43
Impound refunds	(1,044)	(9,751)	-	(10,795)
CHFA adjustment	341	618	(331)	628
Payments applied	-	-	(9,487)	(9,487)
Balance at June 30, 2015	<u>\$ 1,984</u>	<u>\$ 12,148</u>	<u>\$ 10,686</u>	<u>\$ 24,818</u>

Capital Assets

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

Capital assets balance, June 30, 2014	<u>\$ 2,750,134</u>
Additions	-
Capital assets balance, June 30, 2015	<u>\$ 2,750,134</u>

Accounts Payable

Accounts payable in the amount of \$2,063 represents payables to suppliers. All accounts payable are current.

Accrued Interest

Accrued interest of \$58,443 represents \$4,969 of mortgage interest for June, 2015, due July 1, 2015, and \$51,475 of mortgage interest due October 1, 2018.

Gross Potential Rents

Gross potential rents includes:	
Qualified tenant rental income	\$ 35,200
Other tenant rental income	563,228
Vacancy loss	(33,619)
Total gross potential rents	<u>\$ 564,809</u>

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Supplemental Information Required by the
California Housing Finance Agency (Continued)
For the Fiscal Year Ended June 30, 2015

Management Fee

A property management fee of \$30,000 was incurred during 2014-15 for the property management services provided by the Agency.

Operating Cash Flow/Surplus Cash Computation

Operation Income	
Total income	\$ 495,298
Interest earned on restricted reserve accounts	(2,039)
Adjusted operation income	<u>493,259</u>
Operating expenses	<u>(188,449)</u>
Adjusted net income	304,810
Other aActivity	
Debt service	(207,634)
Deposits into Replacement Reserve Account	(12,200)
Deposits into Debt Retirement Reserve Account	(10,815)
Total other activity	<u>(230,649)</u>
Operating Cash Flow/Surplus Cash	<u>\$ 74,161</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.

OTHER REPORT



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) (Project), a project of the Capitol Area Development Authority (Authority) as of and for the fiscal year ended June 30, 2015, 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 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 Project’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*.

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 Authority'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 Authority'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

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, 2015

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, 2015, and, to the best of our knowledge and belief, these financial statements and the supplemental information are complete and accurate.

Wendy Saunders
Name

Executive Director
Title

12/03/2015
Date

Rolla Jussen
Name

Controller
Title

12-5-15
Date

Employer Identification Number: 94-2524680