November 22, 2013

TO: CADA Board of Directors

SUBJECT: December 13, 2013, Board Meeting
AGENDA ITEM 7
AUDITED FINANCIAL STATEMENTS – FISCAL YEAR 2012-2013

CONTACT PERSON: Noelle Mussen, Controller

RECOMMENDED ACTION: Adopt resolution.

Staff recommends that the Board, by separate resolutions, accept the following five audited financial reports as prepared and released by Macias, Gini & O’Connell, LLP:

♦ Capitol Area Development Authority
  Independent Auditor’s Reports FY 2012-2013 (Attachment 1a)

♦ Somerset Parkside Apartments (Contract Number 80-RHC-007)
  Independent Auditor’s Reports FY 2012-2013 (Attachment 1b)

♦ Biele Place Apartments (Contract Number 80-RHC-032)
  Independent Auditor’s Reports FY 2012-2013 (Attachment 1c)

♦ Brannan Court Apartments (Contract Number 86-32-N)
  Independent Auditor’s Reports FY 2012-2013 (Attachment 1d)

♦ Seventeenth Street Commons (Contract Number 99-024-N)
  Independent Auditor’s Reports FY 2012-2013 (Attachment 1e)

BACKGROUND

The attached audited financial reports have been prepared in accordance with the interagency agreement between CADA and the City of Sacramento for the provision of accounting and audit services. In addition to the Independent Auditor’s Reports that consolidate the results of all operating funds, including the special management funds, four stand-alone reports have been prepared for projects that CADA manages for the Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA). The HCD projects are Somerset Parkside and Biele Place. The CalHFA projects are Brannan Court and 17th Street Commons. The HCD and CalHFA regulatory agreements necessitate the inclusion of certain supplemental reports and schedules that are not required to be included in standard independent auditor reports.

POLICY ISSUES

It should be noted that only four of CADA’s six special management projects are currently subject
to stand-alone audits (Somerset Parkside, Biele Place, Brannan Court and 17th Street Commons).

The financial position and activities of the remaining projects (Johnston House/Don Carlos Apartments and Fremont Wilshire Apartments) are maintained in separate special management funds, but are not presently required to be independently audited on an annual basis.

Audited financial statements are reported in accordance with generally-accepted accounting principles (GAAP). The monthly financial reports that are transmitted to the Board during the year and reviewed with the Operations Committee are presented in a modified “cash flow” format rather than in accordance with GAAP. Both on the revenue and expense side, there are factors that are either included in or excluded from GAAP financials but not in CADA’s internal reports. Additionally, Capital Investment Program (CIP) projects (both major construction and development) are budgeted on a multi-year basis and reported separately. Consequently, direct comparison of results between the General Operations monthly financials and the consolidated audited financials requires identification of reconciling factors. The audited financial statements for CADA and the special management funds are included as **Attachments 1a through 1e** (to be transmitted under separate cover). **Attachment 2** identifies “reconciling factors”, or differences, between GAAP and Budget Basis financial reporting. **Attachment 3** reflects CADA’s General Operations budget-to-actual results for fiscal year 2012-2013, exclusive of Capital Investment Program activities. Attachments 1a, 2 and 3 are more fully discussed below. Attachments 1b through 1e are financial reports for four individual buildings that operate under regulatory agreements with other agencies that require them to be submitted annually for review by them.

**STRATEGIC PLAN**

This action addresses CADA’s Strategic Plan goal of maintaining organizational excellence.

**FINANCIAL IMPACT**

*Management Discussion and Analysis (Pages 4 -13 of Attachment 1a)*

A comprehensive overview of financial highlights and the audited financial statements is included in the Management Discussion and Analysis section of the auditor’s report that consolidates the results of all operating funds (see Attachment 1a, CADA Independent Auditor’s Report, transmitted under separate cover).

*Statements of revenues, expenses and changes in Fund Net Position (page 16 of Attachment 1a):*

CADA’s audited financials reflect negative results for the year, with a decrease of $379,884 to Net Position. This compares to a decrease to Net Position of $2,697,088 last year. The decrease of $379,884 consists of Non-Operating Net Revenues of $1,631,280 less an Operating Loss of $2,011,164 from rental and development activities. The primary reason for the negative results in FY 2012-2013 and FY 2011-2012 is budgeted one-time development activity and not ongoing operations. Considering the temporary nature of these expenses it is anticipated CADA will reflect positive results in future years.

Non-Operating Revenues of $1,631,280 is $481,375 less than last year’s revenue of $2,112,655, because of net decreases in Intergovernmental Revenue (Tax Increment) of $356,913, and Interest Income of $171,759, offset by an increase in interest expense of $47,297.

The Operating Loss of $2,011,164 is $2,798,579 less than last year’s $4,809,743 loss. The change is primarily due to decreases in total Operating Expense of $2,598,339 and slight net increases in total Operating Revenue of $200,240. The most pertinent changes were a decrease in
Development Projects of a $1,068,069 mainly due to the East End Gateway Site 2 & 3 project contribution of land and a developer grant in the prior year compared to the current year grant and contribution of land to the WAL project; a net decrease to Bad Debt Expense of $1,561,568, of which $1,516,630 in the prior year was a write-down of the Capitol Lofts-Sacramento – Sacramento, LLC note receivable; and a $91,849 decrease to Repairs and Maintenance accounts. These decreases are offset by smaller increases of $134,751 in Services and Supplies. The major increase to Operating Revenue is $195,579 in net rental revenue.

Statements of Cash Flow (pages 17-18 of Attachment 1a):

Total Cash and Cash Equivalents increased by $415,328, compared to the prior year decrease of $706,502. The increase in cash flow was mainly due to the decreases in expenses for development projects, payment of the Capitol Lofts note receivable and an increase in rental receipts, offset by decreases to tax increment and interest income.

Budget Basis to GAAP Basis Net Income Reconciliation (Attachment 2):

Attachment 2 identifies the reconciling factors between the “GAAP Basis of accounting,” which is the required reporting basis for audited financial statements, and CADA’s “Budget Basis of accounting,” or “Cash Basis of accounting”, which is the basis for staff’s monthly financial reporting to the Board. The Cash Basis section of this attachment has been reorganized as a cash flow report adjusting out inter-fund activity and includes the CIP Budgets which are usually reported separately from the monthly reports. The Audit Reconciliation section shows the differences between the adjusted cash flow report and the audited change in net assets, or net income, reported on the audited financial statements.

The major adjustments between the GAAP Basis and Cash Basis include the following:

- Removal of debt service from the cash flow expenses because this is a reduction of outstanding debt on the statement of net position, not a yearly expense.
- Inclusion of the Allowance for Uncollectibles, or bad debt expense. This removes an asset and increases expenses to recognize cash spent or an asset not received in the current or a prior year.
- Reduction or capitalization of applicable major construction expenses to the statement of net position, net of the related depreciation expense, allowing the recognition of the capitalized major construction expenses to be over the lifetime of the improved asset and not all in the year the cash was spent.
- Recognition of increase in expenses for the land given to the developer of the Capitol Lofts.

Budget Comparison:

As reflected in Attachment 3, CADA’s General Operations for FY 2012-2013 were well within budget, ending the year with favorable variances totaling $992,083.

ENVIRONMENTAL REVIEW

Not applicable – the recommended action is not a project pursuant to the California Environmental Quality Act (CEQA) guidelines and does not require environmental review.
CONTRACT CONSIDERATIONS

Macias Gini & O’Connell, LLP is a registered Small Business with the City of Sacramento and the State of California.

The audit contract with Macias Gini & O’Connell, LLP has been approved by the Board. The contract provides auditing services for the fiscal years ending 2010 through 2013. Costs of the audit are included in each year’s budget.

Approved for transmittal to the Board:

/s/ Wendy Saunders       /s/ Noelle Mussen
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Wendy Saunders, Executive Director                     Noelle Mussen, Controller

Attachments:

1. Independent Auditor’s Reports FY 2012-2013 (See forthcoming supplemental transmittal)
   a. Capitol Area Development Authority
   b. Somerset Parkside Apartments (Contract Number 80-RHC-007)
   c. Biele Place Apartments (Contract Number 80-RHC-032)
   d. Brannan Court Apartments (Contract Number 86-32-N)
   e. Seventeenth Street Commons (Contract Number 99-024-N)

2. Reconciliation – Budget Basis to GAAP Net Income

3. General Operations – FY 2012-2013, Budget to Actual