

**SEVENTEENTH STREET COMMONS
(CONTRACT NUMBER 99-024-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, 2012 and 2011

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
For the Fiscal Years Ended June 30, 2012 and 2011

Table of Contents

	<i>Page(s)</i>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Net Assets	3
Statements of Revenues, Expenses and Changes in Fund Net Assets	4
Statements of Cash Flows	5-6
Notes to the Financial Statements	7-11
Supplemental Information:	
Supplemental Information Required by the California Housing Finance Agency	12-14
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 <i>Government Auditing Standards</i>	15-16
Certification of Officers	17

Board of Directors
Capitol Area Development Authority
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Seventeenth Street Commons (Contract Number 99-024-N) (the Project), a project of the Capitol Area Development Authority (Authority) as of and for the fiscal years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2012 and 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have issued our report dated December 7, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maciea Meiri & O'Connell LLP

Sacramento, California
December 7, 2012

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 522,686	\$ 467,995
Accounts receivable	3,117	2,354
Prepaid expense	15,780	15,304
Restricted cash:		
Insurance impounds	11,471	15,135
Tenant security deposits	21,039	20,568
Total restricted cash	<u>32,510</u>	<u>35,703</u>
Total current assets	<u>574,093</u>	<u>521,356</u>
Noncurrent assets:		
Restricted cash - reserve for replacements	66,095	55,279
Capital assets:		
Buildings and improvements, net of accumulated depreciation	<u>1,053,182</u>	<u>1,160,845</u>
Total noncurrent assets	<u>1,119,277</u>	<u>1,216,124</u>
Total assets	<u>1,693,370</u>	<u>1,737,480</u>
Liabilities		
Current liabilities:		
Accounts payable	9,401	10,097
Prepaid rent	2,170	841
Tenant security deposits	21,039	20,568
Notes payable, current portion	<u>48,125</u>	<u>46,510</u>
Total current liabilities	<u>80,735</u>	<u>78,016</u>
Noncurrent liabilities:		
Notes payable, net of current portion	<u>1,451,209</u>	<u>1,499,334</u>
Total liabilities	<u>1,531,944</u>	<u>1,577,350</u>
Net Assets		
Invested in capital assets, net of related debt	(446,152)	(384,999)
Restricted for impounds and reserves	77,566	70,414
Unrestricted	<u>530,012</u>	<u>474,715</u>
Total net assets	<u>\$ 161,426</u>	<u>\$ 160,130</u>

See accompanying notes to financial statements.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Rental revenue, net	\$ 299,953	\$ 289,549
Other revenues:		
Coin-operated laundry	1,231	1,923
Parking	12,190	6,794
Miscellaneous	<u>772</u>	<u>2,261</u>
Total operating revenues	<u>314,146</u>	<u>300,527</u>
Operating expenses		
Payroll:		
On-site manager	11,472	11,472
Grounds and maintenance payroll	9,457	12,392
Payroll taxes and benefits	<u>8,364</u>	<u>7,764</u>
Total payroll	<u>29,293</u>	<u>31,628</u>
Administrative:		
Management fee	20,520	19,632
Audit	2,152	2,090
Media	<u>516</u>	<u>516</u>
Total administrative	<u>23,188</u>	<u>22,238</u>
Utilities:		
Electricity	4,945	5,306
Water and garbage	30,265	29,900
Gas	<u>930</u>	<u>1,160</u>
Total utilities	<u>36,140</u>	<u>36,366</u>
Operating and maintenance:		
Services and supplies	3,674	5,802
Maintenance and repairs	18,528	27,256
Courtesy patrol	4,716	4,716
Decorating and painting	<u>10,029</u>	<u>5,469</u>
Total operating and maintenance	<u>36,947</u>	<u>43,243</u>
Insurance and taxes:		
Insurance	24,407	23,350
Property taxes	<u>2,304</u>	<u>3,656</u>
Total insurance and taxes	<u>26,711</u>	<u>27,006</u>
Depreciation	<u>107,663</u>	<u>107,663</u>
Total operating expenses	<u>259,942</u>	<u>268,144</u>
Operating income	<u>54,204</u>	<u>32,383</u>
Non-operating revenues (expenses)		
Interest income	11,093	8,364
Interest expense	<u>(64,001)</u>	<u>(65,533)</u>
Total non-operating expenses, net	<u>(52,908)</u>	<u>(57,169)</u>
Change in net assets	1,296	(24,786)
Net assets, beginning of year	<u>160,130</u>	<u>184,916</u>
Net assets, end of year	<u>\$ 161,426</u>	<u>\$ 160,130</u>

See accompanying notes to financial statements.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Rental receipts	\$ 300,519	\$ 302,708
Other receipts	14,193	10,978
Tenant security deposits received	5,945	4,690
Payroll and related costs	(29,293)	(31,628)
Administrative expenses	(23,188)	(22,238)
Utilities expense	(36,140)	(36,366)
Operating and maintenance expenses	(38,119)	(60,696)
Tenant security deposits paid	(5,474)	(5,161)
Insurance and taxes expense	(26,711)	(27,006)
Net cash provided by operating activities	<u>161,732</u>	<u>135,281</u>
Cash flows from capital and related financing activities:		
Principal payment on debt	(46,510)	(44,977)
Interest paid on debt	(64,001)	(65,533)
Net cash used in capital and related financing activities	<u>(110,511)</u>	<u>(110,510)</u>
Cash flows from investing activities:		
Interest receipts	<u>11,093</u>	<u>8,364</u>
Net increase in cash and cash equivalents	62,314	33,135
Cash and cash equivalents, beginning of year	<u>558,977</u>	<u>525,842</u>
Cash and cash equivalents, end of year	<u>\$ 621,291</u>	<u>\$ 558,977</u>
Reconciliation to the Statement of Net Assets:		
Cash and cash equivalents	\$ 522,686	\$ 467,995
Restricted cash:		
Insurance impounds	11,471	15,135
Tenant security deposits	21,039	20,568
Reserve for replacements	<u>66,095</u>	<u>55,279</u>
Total cash and cash equivalents	<u>\$ 621,291</u>	<u>\$ 558,977</u>

See accompanying notes to financial statements.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 54,204	\$ 32,383
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	107,663	107,663
Changes in assets and liabilities:		
Accounts receivable	(763)	13,043
Prepaid expense	(476)	(822)
Accounts payable	(696)	(16,631)
Prepaid rent	1,329	116
Tenant security deposits	471	(471)
Net cash provided by operating activities	<u>\$ 161,732</u>	<u>\$ 135,281</u>

See accompanying notes to financial statements.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Seventeenth Street Commons (The Project) is a 28-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 June 23, 2003, 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. Operating expenses for the Project include employee services, administrative expenses, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Cash, Cash Equivalents and Restricted Cash

The Project participates in the City's 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 1.89 years and 1.42 years as of June 30, 2012 and 2011, 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.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Restricted Cash (Continued)

Cash and cash equivalents represent operating accounts while restricted cash represents replacement reserves, insurance impounds, and tenant security deposits. Replacement reserves and insurance 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 replacement reserve requirements, hazard insurance, and earthquake insurance 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.

The Project also maintains an operating account and tenant security deposits which are held in 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.

Capital Assets

Capital assets, which are defined by the Authority as assets with an initial, individual cost of more than \$3,000 and an estimated useful life beyond one year, are stated at cost. Depreciation is calculated using the straight-line method 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 is no nondepreciable capital asset 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.

NOTE B - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Project's cash and cash equivalents at June 30, 2012 and 2011 are listed below.

	<u>2012</u>	<u>2011</u>
City of Sacramento investment pool	\$ 515,123	\$ 477,868
Deposit Account	28,602	10,695
Deposits with CalHFA	<u>77,566</u>	<u>70,414</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 621,291</u>	<u>\$ 558,977</u>

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2012 and 2011

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 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, 2012 and 2011, amounted to \$21,039 and \$20,568, respectively.

NOTE D - CAPITAL ASSETS

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

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Capital assets being depreciated:					
Buildings and improvements	\$ 2,141,064	\$ -	\$ -	\$ -	\$ 2,141,064
Less accumulated depreciation for:					
Buildings and improvements	<u>(980,219)</u>	<u>(107,663)</u>	<u>-</u>	<u>-</u>	<u>(1,087,882)</u>
Capital assets, net	<u>\$ 1,160,845</u>	<u>\$ (107,663)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,053,182</u>
	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2011</u>
Capital assets being depreciated:					
Buildings and improvements	\$ 2,141,064	\$ -	\$ -	\$ -	\$ 2,141,064
Less accumulated depreciation for:					
Buildings and improvements	<u>(872,556)</u>	<u>(107,663)</u>	<u>-</u>	<u>-</u>	<u>(980,219)</u>
Capital assets, net	<u>\$ 1,268,508</u>	<u>\$ (107,663)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,160,845</u>

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2012 and 2011

NOTE E - NOTES PAYABLE

Notes payable consist of the following:

	June 30,	
	2012	2011
To California Housing Finance Agency:		
Monthly installments of \$7,836, including principal and interest at 5.25% annually to August, 2034, secured by the Project.	\$ 1,202,663	\$ 1,232,692
To Sacramento Housing Finance Agency:		
Non-interest bearing note with annual principal payments of \$16,481 beginning December, 2003 and maturing the year 2028, secured by the Project.	296,671	313,152
	\$ 1,499,334	\$ 1,545,844

Future maturities on notes payable are as follows:

Years Ending June 30,	Principal	Interest	Total
2013	\$ 48,125	\$ 62,386	\$ 110,511
2014	49,827	60,684	110,511
2015	51,620	58,890	110,510
2016	53,510	57,001	110,511
2017	55,501	55,009	110,510
2018-2022	311,335	241,216	552,551
2023-2027	379,885	172,667	552,552
2028-2032	436,010	83,592	519,602
2033-2034	113,521	4,014	117,534
	\$ 1,499,334	\$ 795,459	\$ 2,294,792

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2012 and 2011

NOTE E - NOTES PAYABLE (CONTINUED)

The following is a summary of the note payable transactions for the fiscal ended June 30, 2012 and 2011:

<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 1,545,844</u>	<u>\$ -</u>	<u>\$ (46,510)</u>	<u>\$ 1,499,334</u>	<u>\$ 48,125</u>
<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 1,590,821</u>	<u>\$ -</u>	<u>\$ (44,977)</u>	<u>\$ 1,545,844</u>	<u>\$ 46,510</u>

NOTE F - ASSISTANCE FROM THE AUTHORITY

In 1999, the Authority commenced major construction rehabilitation of the Project. On August 23, 2003, subsequent to substantial completion of construction rehabilitation, CalHFA paid off the construction loan and outstanding debt financing by providing long-term financing to the project.

During the fiscal years ended June 30, 2012 and 2011, the Project realized an excess of revenues over expenses (excluding depreciation) of \$108,959 and \$82,877, respectively. The Authority has committed to fund any future deficits with contributions, as required.

SUPPLEMENTAL INFORMATION

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-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, 2012

Cash and cash equivalents	
Unrestricted account:	
Operating account	<u>\$ 522,686</u>
Restricted accounts:	
Insurance and tax impounds	11,471
Tenant security deposits	21,039
Reserve for replacements	<u>66,095</u>
Total restricted accounts	<u>98,605</u>
Total Cash and cash equivalents	<u><u>\$ 621,291</u></u>

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

Reserves for Replacements

In accordance with the provisions of the regulatory agreement, reserve accounts 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, 2012 was as follows:

	<u>Reserve for</u> <u>Replacements</u>
Balance, June 30, 2011	\$ 55,279
Deposits	10,584
Interest income	<u>232</u>
Balance, June 30, 2012	<u><u>\$ 66,095</u></u>

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-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, 2012

Impound Accounts

	Hazard Insurance	Earthquake Insurance	Total
Balance at June 30, 2011	\$ 11,149	\$ 3,986	\$ 15,135
Deposits	9,703	3,666	13,369
Interest earned	46	-	46
CHFA adjustment	(500)	500	-
Payments applied	(10,482)	(6,597)	(17,079)
Balance at June 30, 2012	<u>\$ 9,916</u>	<u>\$ 1,555</u>	<u>\$ 11,471</u>

Capital Assets

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

Balance at inception, fiscal year 1999	\$ 1,240,000
Additions, fiscal year:	
2002	454,809
2003	60,312
2004	69,927
2005	110,231
2006	111,949
2009	67,840
2010	25,996
	<u>\$ 2,141,064</u>

Accounts Payable

Accounts payable in the amount of \$9,401 represents payables to suppliers. All accounts payable are current.

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-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, 2012

Gross Potential Rents

Gross potential rents includes:	
Qualified tenant rental income	\$ 72,360
Other tenant rental income	388,739
Vacancy loss	(52,064)
Total gross potential rents	\$ 409,035

Surplus Cash Computation

Add:	
Cash and cash equivalents	\$ 522,686
Tenant security deposits	21,039
Total available	543,725
Less - current obligations:	
Accounts payable	9,401
Tenant security deposits	21,039
Total current obligations	30,440
Surplus cash and cash equivalents at end of year	\$ 513,285

Maximum distributions allowed under the regulatory agreement with CalHFA	\$ -
--	------

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

Board of Directors
Capitol Area Development Authority
Sacramento, California

**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***

We have audited the financial statements of Seventeenth Street Commons (Contract Number 99-024-N) (Project), a project of the Capitol Area Development Authority (Authority), as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. Our report includes an explanatory paragraph describing that the financial statements present only a Project of the Authority. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over the Project's financial reporting as a basis for designing our auditing procedures 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 over the Project's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over the Project's financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Directors, management, the California Housing Finance Authority and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macia Mei & O'Connell LLP

Sacramento, California
December 7, 2012

SEVENTEENTH STREET COMMONS
(Contract Number 99-024-N)
A Project of the Capitol Area Development Authority
Certification of Officers
For the Fiscal Year Ended June 30, 2012

We, as officers of Capitol Area Development Authority (Joint Powers Authority), hereby certify that we have examined the accompanying financial statements and supplemental data of Seventeenth Street Commons as of and for the fiscal year ended June 30, 2012, and, to the best of our knowledge and belief, these financial statements and data are complete and accurate.

Dollhoffer
Name

Controller
Title

11-30-12
Date

[Signature]
HELENE WITTECAM
Name

INTERIM EXECUTIVE
DIRECTOR
Title

11/30/2012
Date