

**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, 2014 and 2013

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
For the Fiscal Years Ended June 30, 2014 and 2013

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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, 2014 and 2013, and the related notes to the 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 Project as of June 30, 2014 and 2013, 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, 2014 and 2013, 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

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 13 to 15 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 January 20, 2015 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* in considering the Authority's internal control over financial reporting and compliance.



Sacramento, California
January 20, 2015

BRANNAN COURT APARTMENTS
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 979,642	\$ 892,633
Accounts receivable	4,427	1,857
Prepaid expenses	19,165	19,528
Restricted cash:		
Insurance and tax impounds	21,301	19,453
Tenant security deposits	24,250	24,855
Total restricted cash	45,551	44,308
Total current assets	1,048,785	958,326
Noncurrent assets:		
Restricted cash - reserve for replacements	184,025	169,831
Capital assets:		
Building and Improvements	2,750,134	2,750,134
Less: accumulated depreciation	(2,326,265)	(2,231,425)
Total capital assets	423,869	518,709
Total noncurrent assets	607,894	688,540
Total assets	1,656,679	1,646,866
Liabilities		
Current liabilities:		
Accounts payable	3,703	10,752
Prepaid rent	1,036	3,476
Accrued interest payable	6,040	7,103
Tenant security deposits	24,250	24,855
Notes payable, current portion	141,486	128,139
Total current liabilities	176,515	174,325
Noncurrent liabilities:		
Accrued interest payable	51,475	49,474
Notes payable	786,997	928,483
Total noncurrent liabilities	838,472	977,957
Total liabilities	1,014,987	1,152,282
Net Position		
Net investment in capital assets	(504,614)	(537,913)
Restricted for replacements and impounds	205,326	189,284
Unrestricted	940,980	843,213
Total net position	\$ 641,692	\$ 494,584

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Rental revenue, net	\$ 465,223	\$ 447,823
Other revenues:		
Coin-operated laundry	3,584	3,416
Parking	27,713	28,184
Miscellaneous	5,530	2,520
Total operating revenues	<u>502,050</u>	<u>481,943</u>
Operating expenses		
Payroll:		
On-site manager	13,380	12,996
Grounds and maintenance payroll	11,834	11,131
Payroll taxes and benefits	9,120	8,712
Total payroll	<u>34,334</u>	<u>32,839</u>
Administrative:		
Management fee	28,716	27,480
Audit	2,285	2,217
Media	528	504
Legal fee	399	2,297
Total administrative	<u>31,928</u>	<u>32,498</u>
Utilities:		
Electricity	9,916	11,846
Water and garbage	20,495	19,397
Gas	8,723	7,065
Total utilities	<u>39,134</u>	<u>38,308</u>
Operating and maintenance:		
Services and Supplies	8,714	8,537
Contract maintenance and repairs	25,411	18,721
Courtesy patrol	1,608	1,536
Decorating and painting	20,994	23,169
Total operating and maintenance	<u>56,727</u>	<u>51,963</u>
Insurance and taxes:		
Insurance	22,182	19,722
Property taxes	3,809	7,013
Total insurance and taxes	<u>25,991</u>	<u>26,735</u>
Depreciation	<u>94,840</u>	<u>95,848</u>
Total operating expenses	<u>282,954</u>	<u>278,191</u>
Operating income	<u>219,096</u>	<u>203,752</u>
Non-operating revenues (expenses)		
Interest income	8,445	11,945
Interest expense	(80,433)	(92,620)
Total non-operating expenses, net	<u>(71,988)</u>	<u>(80,675)</u>
Change in net position	147,108	123,077
Net position, beginning of year	<u>494,584</u>	<u>371,507</u>
Net position, end of year	<u>\$ 641,692</u>	<u>\$ 494,584</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Rental receipts	\$ 460,213	\$ 452,376
Other receipts	36,827	34,120
Tenant security deposits received	11,445	11,190
Payroll and related costs	(34,334)	(32,839)
Administrative	(31,928)	(32,498)
Utilities	(39,134)	(38,308)
Operating and maintenance	(63,413)	(76,312)
Tenant security deposits paid	(12,050)	(9,705)
Insurance and taxes	(25,991)	(26,735)
Net cash provided by operating activities	<u>301,635</u>	<u>281,289</u>
Cash flows from capital and related financing activities:		
Principal payment on debt	(128,139)	(116,051)
Interest paid on debt	(79,495)	(91,582)
Net cash used by capital and related financing activities	<u>(207,634)</u>	<u>(207,633)</u>
Cash flows from investing activities:		
Interest receipts	<u>8,445</u>	<u>11,945</u>
Net increase in cash and cash equivalents	102,446	85,601
Cash and cash equivalents, beginning of year	<u>1,106,772</u>	<u>1,021,171</u>
Cash and cash equivalents, end of year	<u>\$ 1,209,218</u>	<u>\$ 1,106,772</u>
Reconciliation to the Statements of Net Position:		
Cash and cash equivalents	\$ 979,642	\$ 892,633
Restricted cash:		
Insurance and tax impounds	21,301	19,453
Tenant security deposits	24,250	24,855
Reserve for replacements	184,025	169,831
Total cash and cash equivalents	<u>\$ 1,209,218</u>	<u>\$ 1,106,772</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, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 219,096	\$ 203,752
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	94,840	95,848
Changes in assets and liabilities:		
Accounts receivable	(2,570)	2,177
Prepaid expenses	363	47
Accounts payable	(7,049)	(24,396)
Prepaid rent	(2,440)	2,376
Tenant security deposits	(605)	1,485
Net cash provided by operating activities	\$ 301,635	\$ 281,289

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, 2014 and 2013

NOTE A - 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 on 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 2.27 years and 2.01 years as of June 30, 2014 and 2013, 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, 2014 and 2013

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.

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 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.

NOTE B - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Project's cash and investments at June 30, 2014 and 2013 are listed below.

	<u>2014</u>	<u>2013</u>
City of Sacramento investment pool	\$ 1,068,850	\$ 1,058,610
Deposit Account	119,067	28,709
Deposits with CalHFA	<u>21,301</u>	<u>19,453</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 1,209,218</u>	<u>\$ 1,106,772</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, 2014 and 2013

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, 2014 and 2013 amounted to \$24,250 and \$24,855, respectively.

ASSETS

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

	<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>
	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Capital assets:				
Buildings and improvements	\$ 2,750,134	\$ -	\$ -	\$ 2,750,134
Less accumulated depreciation for:				
Buildings and improvements	<u>(2,135,577)</u>	<u>(95,848)</u>	<u>-</u>	<u>(2,231,425)</u>
Capital assets, net	<u>\$ 614,557</u>	<u>\$ (95,848)</u>	<u>\$ -</u>	<u>\$ 518,709</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, 2014 and 2013

NOTE E - NOTES PAYABLE

Notes payable consist of the following:

	June 30,	
	2014	2013
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.	\$ 728,483	\$ 856,622
Principal and accrued interest at 1% annually due on October 1, 2018, secured by the Project.	200,000	200,000
	\$ 928,483	\$ 1,056,622

Future maturities on notes payable are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	\$ 141,486	\$ 66,147	\$ 207,633
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
	\$ 928,483	\$ 230,757	\$ 1,159,240

NOTE E - NOTES PAYABLE (CONTINUED)

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2014 and 2013:

Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amounts due within one year
\$ 1,056,622	\$ -	\$ 128,139	\$ 928,483	\$ 141,486
Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amounts due within one year
\$ 1,172,673	\$ -	\$ 116,051	\$ 1,056,622	\$ 128,139

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, 2014 and 2013

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 \$241,948 and \$218,925 for the fiscal years ended June 30, 2014 and 2013, 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, 2014

Cash and cash equivalents	
Unrestricted account:	
Operating account	<u>\$ 979,642</u>
Restricted accounts:	
Insurance and tax impounds	21,301
Tenant security deposits	24,250
Reserve for replacements	<u>184,025</u>
Total restricted accounts	<u>229,576</u>
Total cash and cash equivalents	<u><u>\$ 1,209,218</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

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, 2014 was as follows:

	<u>Reserve for</u> <u>Replacements</u>
Balance, June 30, 2013	\$ 169,831
Deposits	12,200
Interest income	1,994
Balance, June 30, 2014	<u><u>\$ 184,025</u></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, 2014

Impound Accounts

	<u>Taxes</u>	<u>Hazard Insurance</u>	<u>Earthquake Insurance</u>	<u>Total</u>
Balance at June 30, 2013	\$ 1,522	\$ 9,490	\$ 8,441	\$ 19,453
Deposits	1,065	9,499	10,790	21,354
Interest earned	36	-	-	36
Impound refunds	(1,044)	-	-	(1,044)
CHFA adjustment	-	42	(42)	-
Payments applied	-	(8,474)	(10,024)	(18,498)
Balance at June 30, 2014	<u>\$ 1,579</u>	<u>\$ 10,557</u>	<u>\$ 9,165</u>	<u>\$ 21,301</u>

Capital Assets

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

	<u>Building and Improvements</u>
Capital assets balance, June 30, 2013	\$ 2,750,134
Additions	-
Capital assets balance, June 30, 2014	<u>\$ 2,750,134</u>

Accounts Payable

Accounts payable in the amount of \$3,703 represents payables to suppliers. All accounts payable are current.

Accrued Interest

Accrued interest of \$57,515 represents \$6,040 of mortgage interest for June, 2014, due July 1, 2014, and \$51,475 of mortgage interest due October 1, 2018.

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, 2014

Gross Potential Rents

Gross potential rents includes:	
Qualified tenant rental income	\$ 38,757
Other tenant rental income	505,782
Vacancy loss	(17,211)
Total gross potential rents	<u>\$ 527,328</u>

Management Fee

A property management fee of \$28,716 was incurred during 2014 for the property management services provided by the Agency.

Operating Cash Flow/Surplus Cash Computation

Operating Income	
Total income	\$ 510,495
Interest earned on restricted reserve accounts	(1,994)
Adjusted operating income	<u>508,501</u>
Operating expenses	<u>(188,114)</u>
Adjusted net income	320,387
Other activity	
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>\$ 89,738</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, 2014, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated January 20, 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 Authority'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 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.

Macias Gini & O'Connell LLP

Sacramento, California
January 20, 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, 2014

We, as officers of Capitol Area Development Authority, hereby certify that we have examined the accompanying financial statements and supplemental data of Brannan Court Apartments as of and for the fiscal year ended June 30, 2014, and, to the best of our knowledge and belief, these financial statements and data are complete and accurate.

<u>Wendy Sam</u> Name	<u>Executive Director</u> Title	<u>1-9-15</u> Date
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<u>Della Yussel</u> Name	<u>Controller</u> Title	<u>1-9-15</u> Date
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