

**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, 2011 and 2010

**BRANNAN COURT APARTMENTS**  
**(Contract Number 86-32-N)**  
**A Project of the Capitol Area Development Authority**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

*Table of Contents*

	<i>Page(s)</i>
<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements:</b>	
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
<b>Supplemental Information:</b>	
Supplemental Information Required by the California Housing Finance Agency .....	12-14
<b>Other Report:</b>	
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
<b>Certification of Officers</b> .....	17

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Brannan Court Apartments (Contract Number 86-32-N) (the Project), a project of the Capitol Area Development Authority (Authority), as of and for the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 1, 2011, 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.

*Macie Mini & O'Connell LLP*

Sacramento, California  
December 1, 2011

**BRANNAN COURT APARTMENTS**  
**(Contract Number 86-32-N)**  
**A Project of the Capitol Area Development Authority**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 724,309	\$ 625,731
Accounts receivable	1,576	-
Prepaid expenses	19,478	19,291
Restricted cash:		
Insurance and tax impounds	20,806	20,685
Tenant security deposits	23,030	21,715
Total restricted cash	<u>43,836</u>	<u>42,400</u>
 Total current assets	 <u>789,199</u>	 <u>687,422</u>
Noncurrent assets:		
Restricted cash - reserve for replacements	139,474	124,533
Capital assets:		
Buildings and improvements, net of accumulated depreciation	<u>682,280</u>	<u>786,621</u>
 Total noncurrent assets	 <u>821,754</u>	 <u>911,154</u>
 Total assets	 <u>1,610,953</u>	 <u>1,598,576</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 9,141	\$ 11,073
Prepaid rent	2,718	357
Accrued interest payable	8,937	9,726
Tenant security deposits	23,030	21,715
Notes payable, current portion	105,102	95,187
Total current liabilities	<u>148,928</u>	<u>138,058</u>
Noncurrent liabilities:		
Accrued interest payable	45,474	43,474
Notes payable	<u>1,172,673</u>	<u>1,277,775</u>
 Total liabilities	 <u>1,367,075</u>	 <u>1,459,307</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(595,495)	(586,341)
Restricted for replacements and impounds	160,280	145,218
Unrestricted	<u>679,093</u>	<u>580,392</u>
 Total net assets	 <u>\$ 243,878</u>	 <u>\$ 139,269</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 Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Rental revenue, net	\$ 442,554	\$ 427,990
Other revenues:		
Coin-operated laundry	3,453	3,583
Parking	20,866	24,740
Miscellaneous	4,243	1,402
	<u>471,116</u>	<u>457,715</u>
<b>Operating expenses</b>		
Payroll:		
On-site manager	12,996	12,996
Grounds and maintenance payroll	9,600	5,406
Payroll taxes and benefits	8,712	8,712
Total payroll	<u>31,308</u>	<u>27,114</u>
Administrative:		
Management fee	22,908	22,032
Audit	2,090	2,029
Media	504	528
Total administrative	<u>25,502</u>	<u>24,589</u>
Utilities:		
Electricity	10,699	9,827
Water and garbage	24,840	20,093
Gas	8,584	8,053
Total utilities	<u>44,123</u>	<u>37,973</u>
Operating and maintenance:		
Services and Supplies	6,012	4,983
Contract maintenance and repairs	15,873	15,749
Courtesy patrol	1,464	1,464
Decorating and painting	14,044	15,722
Total operating and maintenance	<u>37,393</u>	<u>37,918</u>
Insurance and taxes:		
Insurance	17,474	17,871
Property taxes	6,824	3,578
Total insurance and taxes	<u>24,298</u>	<u>21,449</u>
Depreciation	<u>104,341</u>	<u>104,765</u>
	<u>266,965</u>	<u>253,808</u>
Total operating expenses	<u>266,965</u>	<u>253,808</u>
Operating income	<u>204,151</u>	<u>203,907</u>
<b>Non-operating revenues (expenses)</b>		
Interest income	14,115	14,278
Interest expense	(113,657)	(122,711)
Total non-operating expenses, net	<u>(99,542)</u>	<u>(108,433)</u>
Change in net assets	104,609	95,474
Net assets (deficit), beginning of year	<u>139,269</u>	<u>43,795</u>
Net assets, end of year	<u>\$ 243,878</u>	<u>\$ 139,269</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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Rental receipts	\$ 443,339	\$ 428,579
Other receipts	28,562	29,725
Tenant security deposits received	6,550	7,282
Payroll and related costs	(31,308)	(27,114)
Administrative expenses	(25,502)	(24,589)
Utilities expense	(44,123)	(37,973)
Operating and maintenance expenses	(39,512)	(35,590)
Tenant security deposits paid	(5,235)	(7,825)
Insurance and taxes expense	(24,298)	(21,449)
Net cash provided by operating activities	<u>308,473</u>	<u>311,046</u>
Cash flows from capital and related financing activities:		
Principal payment on debt	(95,187)	(86,207)
Interest paid on debt	(112,446)	(121,426)
Net cash used for capital and related financing activities	<u>(207,633)</u>	<u>(207,633)</u>
Cash flows from investing activities:		
Interest receipts	<u>14,115</u>	<u>14,278</u>
Net increase in cash	114,955	117,691
Cash and cash equivalents, beginning of year	<u>792,664</u>	<u>674,973</u>
Cash and cash equivalents, end of year	<u>\$ 907,619</u>	<u>\$ 792,664</u>
Reconciliation to the Statement of Net Assets:		
Cash and cash equivalents	\$ 724,309	\$ 625,731
Restricted cash:		
Insurance and tax impounds	20,806	20,685
Tenant security deposits	23,030	21,715
Reserve for replacements	139,474	124,533
Total cash and cash equivalents	<u>\$ 907,619</u>	<u>\$ 792,664</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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 204,151	\$ 203,907
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	104,341	104,765
Changes in assets and liabilities:		
Accounts receivable	(1,576)	232
Prepaid expense	(187)	(1,538)
Accounts payable	(1,932)	3,866
Prepaid rent	2,361	357
Security deposits	1,315	(543)
Net cash provided by operating activities	<u>\$ 308,473</u>	<u>\$ 311,046</u>

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, 2011 and 2010**

**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. 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 1.42 years and 1.41 years as of June 30, 2011 and 2010, 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, 2011 and 2010**

**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 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 investments at June 30, 2011 and 2010 are listed below.

	2011	2010
City of Sacramento investment pool	\$ 771,594	\$ 755,880
Deposit Account	115,219	16,099
Deposits with CalHFA	20,806	20,685
Total cash, cash equivalents, and restricted cash	\$ 907,619	\$ 792,664

**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, 2011 and 2010**

**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, 2011 and 2010, amounted to \$23,030 and \$21,715, respectively.

**NOTE D - CAPITAL ASSETS**

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

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Capital assets:				
Buildings and improvements	\$ 2,721,934	\$ -	\$ -	\$ 2,721,934
Less accumulated depreciation for:				
Buildings and improvements	(1,935,313)	(104,341)	-	(2,039,654)
Capital assets, net	<u>\$ 786,621</u>	<u>\$ (104,341)</u>	<u>\$ -</u>	<u>\$ 682,280</u>
	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>
Capital assets:				
Buildings and improvements	\$ 2,721,934	\$ -	\$ -	\$ 2,721,934
Less accumulated depreciation for:				
Buildings and improvements	(1,830,548)	(104,765)	-	(1,935,313)
Capital assets, net	<u>\$ 891,386</u>	<u>\$ (104,765)</u>	<u>\$ -</u>	<u>\$ 786,621</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, 2011 and 2010**

**NOTE E - NOTES PAYABLE**

Notes payable consist of the following:

	June 30,	
	2011	2010
To California Housing Finance Agency:		
Monthly installments of \$17,303, including principal and interest at 9.95% to October 1, 2018, secured by the Project	\$ 1,077,775	\$ 1,172,962
Principal and accrued interest at 1% due on October 1, 2018, secured by the Project.	200,000	200,000
	\$ 1,277,775	\$ 1,372,962

Future maturities on notes payable are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	\$ 105,102	\$ 102,531	\$ 207,633
2013	116,050	91,583	207,633
2014	128,139	79,495	207,634
2015	141,486	66,147	207,633
2016	156,224	51,409	207,633
2017-2019	630,774	113,201	743,975
	\$ 1,277,775	\$ 504,366	\$ 1,782,141

**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, 2011 and 2010**

**NOTE E - NOTES PAYABLE (CONTINUED)**

The following is a summary of the notes payable transactions for the fiscal years ended June 30, 2011 and 2010:

<u>Balance</u> <u>June 30, 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>\$ 1,372,962</u>	<u>\$ -</u>	<u>\$ 95,187</u>	<u>\$ 1,277,775</u>	<u>\$ 105,102</u>
<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 1,459,169</u>	<u>\$ -</u>	<u>\$ 86,207</u>	<u>\$ 1,372,962</u>	<u>\$ 95,187</u>

**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 \$208,950 and \$200,239 for the fiscal years ended June 30, 2011 and 2010, 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, 2011**

Cash and cash equivalents	
Unrestricted account:	
Operating account	<u>\$ 724,309</u>
Restricted accounts:	
Insurance and tax impounds	\$ 20,806
Tenant security deposits	23,030
Reserve for replacements	<u>139,474</u>
Total restricted accounts	<u>\$ 183,310</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 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, 2011 was as follows:

Balance, June 30, 2010	\$ 124,533
Deposits	12,200
Interest income	<u>2,740</u>
Balance, June 30, 2011	<u>\$ 139,473</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, 2011**

Impound Accounts

	<u>Taxes</u>	<u>Hazard Insurance</u>	<u>Earthquake Insurance</u>	<u>Total</u>
Balance at June 30, 2010	\$ 2,483	\$ 9,765	\$ 8,437	\$ 20,685
Deposits	1,080	9,470	8,810	19,360
Interest earned	94	-	-	94
Impound refunds	-	-	(1,700)	(1,700)
CHFA adjustment	-	800	(800)	-
Payments applied	<u>(1,244)</u>	<u>(8,702)</u>	<u>(7,687)</u>	<u>(17,633)</u>
Balance at June 30, 2011	<u>\$ 2,413</u>	<u>\$ 11,333</u>	<u>\$ 7,060</u>	<u>\$ 20,806</u>

Capital Assets

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

Balance at inception, June 1, 1988	\$2,520,537
Additions during fiscal year 2001	97,834
Additions during fiscal year 2006	59,137
Additions during fiscal year 2008	<u>44,426</u>
Balance at June 30, 2011	<u>\$2,721,934</u>

Accounts Payable

Accounts payable in the amount of \$9,141 represents payables to suppliers. All accounts payable are current.

Accrued Interest

Accrued interest of \$54,411 represents \$8,937 of mortgage interest for June, 2011, due July 1, 2011, and \$45,474 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, 2011**

Gross Potential Rents

Gross potential rents includes:	
Qualified tenant rental income	\$ 41,369
Other tenant rental income	489,144
Vacancy loss	(14,621)
Total gross potential rent	<u>\$ 515,892</u>

Surplus Cash Computation

Add:	
Cash and cash equivalents	\$ 724,309
Tenant security deposits	23,030
Total available	<u>747,339</u>
Less - current obligations:	
Accounts payable	9,141
Accrued interest payable	8,937
Tenant security deposits	23,030
Total current obligations	<u>41,108</u>
Surplus cash and cash equivalents at end of year	<u>\$ 706,231</u>
Maximum distributions allowed under the regulatory agreement with CalHFA	<u>\$ -</u>

Accumulated Limited Distributions

At inception, there were no allowable accumulated limited distributions unpaid. Also, there were no accumulated limited distributions paid during the year.

## **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 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, 2011, and have issued our report thereon dated December 1, 2011. Our report includes an explanatory paragraph describing that the financial statements present only the 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 Mini & O'Connell LLP*

Sacramento, California  
December 1, 2011

**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, 2011**

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, 2011, and, to the best of our knowledge and belief, these financial statements and data are complete and accurate.

 Name	<u>Executive Director</u> Title	<u>11/15/11</u> Date
---	------------------------------------	-------------------------

 Name	<u>Controller</u> Title	<u>11/15/11</u> Date
---	----------------------------	-------------------------