

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2018 and 2017

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

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Independent Auditor's Report

Board of Directors
Capitol Area Development Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Brannan Court Apartments (Contract Number 86-32-N) (the "Project"), a project of the Capitol Area Development Authority ("Authority"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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. 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 Brannan Court Apartments (Contract Number 86-32-N) as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of the Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Project as a whole. The accompanying supplementary information on pages 16 to 18 as required by the California Housing Finance Agency is presented for purposes of additional analysis and is not a required part of the basic 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 supplementary 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 14, 2019, 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 solely 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 effectiveness of the Authority's 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 14, 2019

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Net Position
June 30, 2018 and 2017**

	<u>Assets</u>	
	2018	2017
Current assets		
Cash and cash equivalents	\$ 1,393,053	\$ 1,249,712
Accounts receivable	4,441	4,575
Prepaid expenses	-	19,205
Restricted cash and cash equivalents		
Insurance and tax impounds	21,570	12,838
Tenant security deposits	25,130	23,665
	46,700	36,503
Total restricted cash and cash equivalents		
Total current assets	1,444,194	1,309,995
Noncurrent assets		
Restricted cash and cash equivalents - replacement reserve	244,328	227,977
Capital assets		
Construction in progress	4,999	3,434
Building and Improvements	2,759,977	2,750,134
Less accumulated depreciation	(2,692,642)	(2,604,033)
	72,334	149,535
Total capital assets, net		
Total noncurrent assets	316,662	377,512
Total assets	\$ 1,760,856	\$ 1,687,507
	<u>Liabilities</u>	
Current liabilities		
Accounts payable	\$ 13,953	\$ 6,304
Prepaid rent	1,120	1,295
Accrued interest payable	61,740	2,267
Tenant security deposits	25,130	23,665
Notes payable, current portion	267,809	190,466
	369,752	223,997
Total current liabilities		
Noncurrent liabilities		
Accrued interest payable	-	57,473
Notes payable	-	267,809
	-	325,282
Total noncurrent liabilities		
Total liabilities	\$ 369,752	\$ 549,279

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Net Position
June 30, 2018 and 2017**

	2018	2017
<u>Net Position</u>		
Net investment in capital assets	\$ (195,475)	\$ (308,739)
Restricted for replacement reserve and impounds	265,898	240,815
Unrestricted	1,320,681	1,206,152
Total net position	\$ 1,391,104	\$ 1,138,228

See Notes to Financial Statements.

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017**

	2018	2017
Operating revenue		
Rental revenue, net	\$ 499,353	\$ 478,881
Other revenue		
Coin-operated laundry	4,415	4,639
Parking	26,048	26,584
Miscellaneous	388	2,161
	530,204	512,265
 Operating expenses		
Payroll		
On-site manager	15,080	14,535
Grounds and maintenance	4,680	12,274
Payroll taxes and benefits	10,590	9,812
	30,350	36,621
 Administrative		
Management fee	32,750	32,750
Audit	4,800	4,200
Media	605	576
	38,155	37,526
 Utilities		
Electricity	10,539	10,740
Water and garbage	25,321	24,352
Gas	10,094	11,520
	45,954	46,612
 Operating and maintenance		
Services and supplies	10,678	10,524
Contract maintenance and repairs	42,453	29,391
Courtesy patrol	1,850	1,760
Decorating and painting	-	26,730
	54,981	68,405
 Insurance and taxes		
Insurance	17,197	18,245
Property taxes	4,250	6,782
	21,447	25,027

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017**

	2018	2017
Depreciation	88,609	90,341
Total operating expenses	279,496	304,532
Operating income	250,708	207,733
Nonoperating revenue (expense)		
Interest income	21,336	14,315
Interest expense	(19,168)	(35,717)
Total nonoperating revenue (expense), net	2,168	(21,402)
Change in net position	252,876	186,331
Net position, beginning	1,138,228	951,897
Net position, end	\$ 1,391,104	\$ 1,138,228

See Notes to Financial Statements.

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Rental receipts	\$ 499,312	\$ 475,419
Other receipts	30,851	33,384
Tenant security deposits received	3,580	6,060
Payroll and related costs	(30,350)	(36,621)
Administrative	(38,155)	(37,561)
Utilities	(45,954)	(46,612)
Operating and maintenance	(28,127)	(83,797)
Tenant security deposits paid	(2,115)	(7,660)
Insurance and taxes	(21,447)	(25,027)
	<u>367,595</u>	<u>277,585</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities		
Acquisition of capital assets	(11,408)	(3,434)
Principal payment on debt	(190,466)	(172,498)
Interest paid on debt	(17,168)	(35,135)
	<u>(219,042)</u>	<u>(211,067)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest receipts	21,336	14,315
	<u>21,336</u>	<u>14,315</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	169,889	80,833
Cash and cash equivalents, beginning	<u>1,514,192</u>	<u>1,433,359</u>
Cash and cash equivalents, end	<u>\$ 1,684,081</u>	<u>\$ 1,514,192</u>
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 1,393,053	\$ 1,249,712
Restricted cash and cash equivalents		
Insurance and tax impounds	21,570	12,838
Tenant security deposits	25,130	23,665
Replacement reserve	244,328	227,977
	<u>292,028</u>	<u>274,480</u>
Total cash and cash equivalents	<u>\$ 1,684,081</u>	<u>\$ 1,514,192</u>

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 250,708	\$ 207,733
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	88,609	90,341
Changes in assets and liabilities		
Accounts receivable	134	(2,778)
Prepaid expense	19,205	(19,205)
Accounts payable	7,649	3,778
Prepaid rent	(175)	(684)
Tenant security deposits	1,465	(1,600)
Net cash provided by operating activities	\$ 367,595	\$ 277,585

See Notes to Financial Statements.

**Brannan Court Apartments
(Contract Number 86-32-N)
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**Notes to Financial Statements
June 30, 2018 and 2017**

Note 1 - Organization and summary of significant accounting policies

General

Brannan Court Apartments (the "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 ("GAAP").

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 nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from tenants of its housing units. This revenue is recognized in the financial statements net of vacancy loss, low-income subsidies, and loss to leases. Operating expenses for the Project include payroll expenses for employee services, administrative expenses, utilities expenses, operating and maintenance expenses, insurance and taxes expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue 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 and cash equivalents

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 2.12 years and 1.38 years as of June 30, 2018 and 2017, respectively. Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and cash equivalents 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 Financial Statements
June 30, 2018 and 2017**

Cash, cash equivalents and restricted cash and cash equivalents 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 CalHFA, the Project makes monthly deposits to cover hazard insurance, earthquake insurance, and property tax expenses. All disbursements from the CalHFA accounts are subject to supervision and approval by CalHFA. All such deposits and reserves are entirely insured or collateralized with securities held by the mortgagor in the Project's name.

Operating accounts, tenant security deposits and replacement reserves are held in both the City's investment pool and a financial institution. For purposes of the statements of cash flows, the Project considers cash and cash equivalents to include all pooled cash and investments, including restricted account balances, as these pooled balances have the general characteristic of a demand deposit account.

Accounts receivable

Accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2018, and 2017, there is no allowance for doubtful accounts.

Capital assets

Capital assets, which are defined by the Authority as assets with an initial, individual cost of more than \$3,000 and an estimated useful life beyond one year, are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over an estimated useful life of 5 to 30 years. Maintenance and repair costs are expensed as incurred. The Project does not own land, only the building and improvements. The Project's building is pledged as security for notes payable.

Impairment of capital assets

The Authority reviews the capital assets of the Project for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2018, there has been no impairment of the capital assets.

Rental income

The Project's rental property is generally leased to tenants under one-year noncancelable operating leases. Rental income is recognized as rents become due. Rental payments received in advance are recorded as unearned revenue.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 2 - Cash, cash equivalents and restricted cash and cash equivalents

The Project's cash and cash equivalents are as follows at June 30:

	2018	2017
City of Sacramento investment pool	\$ 1,410,510	\$ 1,386,594
Deposit account	252,001	114,760
Deposits with CalHFA	21,570	12,838
Total	\$ 1,684,081	\$ 1,514,192

Note 3 - 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 and cash equivalents, 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, 2018 and 2017 amounted to \$25,130 and \$23,665, respectively.

Note 4 - Capital assets

Information on additions and disposals of capital assets as of June 30, 2018 and 2017 are presented below:

	June 30, 2017	Increases	Decreases	June 30, 2018
Capital assets				
Construction in progress	\$ 3,434	\$ 1,565	\$ -	\$ 4,999
Buildings and improvements	2,750,134	9,843	-	2,759,977
Less accumulated depreciation for Buildings and improvements	(2,604,033)	(88,609)	-	(2,692,642)
Capital assets, net	\$ 149,535	\$ (77,201)	\$ -	\$ 72,334
	June 30, 2016	Increases	Decreases	June 30, 2017
Capital assets				
Construction in progress	\$ -	\$ 3,434	\$ -	\$ 3,434
Buildings and improvements	2,750,134	-	-	2,750,134
Less accumulated depreciation for Buildings and improvements	(2,513,692)	(90,341)	-	(2,604,033)
Capital assets, net	\$ 236,442	\$ (86,907)	\$ -	\$ 149,535

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 5 - Notes payable

Notes payable consist of the following at June 30:

	2018	2017
Due to CalHFA in monthly installments of \$17,303, including principal and interest at 9.95% annually until maturity on October 1, 2018, secured by the Project. The note was paid in full subsequent to year end.	\$ 67,809	\$ 258,275
Due to CalHFA with no required monthly payments. Principal accrues interest at 1% annually with all balances due at maturity on October 1, 2018, secured by the Project. The note was paid in full subsequent to year end.	200,000	200,000
Total	<u>\$ 267,809</u>	<u>\$ 458,275</u>

Estimated future maturity for the next year subsequent to June 30, 2018 is as follow:

	Principal	Interest	Total
2019	\$ 267,809	\$ 63,152	\$ 330,961
	\$ 267,809	\$ 63,152	\$ 330,961

The Authority set aside a reserve within its cash and cash equivalents paid any remaining amounts due on these notes upon maturity in October 2018.

A summary of the notes payable transactions for the years ended June 30, 2018 and 2017 are as follows:

Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Amounts due within one year
\$ 458,275	\$ -	\$ (190,466)	\$ 267,809	\$ 267,809
Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Amounts due within one year
\$ 630,773	\$ -	\$ (172,498)	\$ 458,275	\$ 190,466

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 6 - 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 \$341,485 and \$276,672 for the years ended June 30, 2018 and 2017, respectively. The Authority has committed to fund any future deficits with additional contributions, as required.

Note 7 - Subsequent events

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date, require disclosure in the accompanying notes. Management evaluated the activity of the Project through January 14, 2019, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Required by the California Housing Finance Agency

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Supplementary Information
Year Ended June 30, 2018**

Cash and cash equivalents

Cash and cash equivalents	
Unrestricted account	
Operating account	<u>\$ 1,393,053</u>
Restricted accounts	
Insurance and tax impounds	21,570
Tenant security deposits	25,130
Reserve for replacements	<u>244,328</u>
Total restricted accounts	<u>291,028</u>
Total cash and cash equivalents	<u><u>\$ 1,684,081</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

The replacement reserve amounts are included in the central fund account maintained by the Authority and segregated in the book of the Authority. The reserve amounts are to be used for replacements of property. Withdrawals are made upon approval by CalHFA. Activity during the year ended June 30, 2018 was as follows:

Balance, June 30, 2017	\$ 227,977
Deposits	12,200
Interest income	<u>4,151</u>
Balance, June 30, 2018	<u><u>\$ 244,328</u></u>

Impound accounts

	<u>Taxes</u>	<u>Hazard insurance</u>	<u>Earthquake insurance</u>	<u>Total</u>
Balance, June 30, 2017	\$ 464	\$ 2,520	\$ 9,854	\$ 12,838
Deposits	1,066	11,034	10,076	22,176
Interest earned	153	-	-	153
Impound refunds	-	-	-	-
CalHFA adjustment	1	13	(2,476)	(2,462)
Payments applied	<u>-</u>	<u>(1,641)</u>	<u>(9,494)</u>	<u>(11,135)</u>
Balance, June 30, 2018	<u><u>\$ 1,684</u></u>	<u><u>\$ 11,926</u></u>	<u><u>\$ 7,960</u></u>	<u><u>\$ 21,570</u></u>

**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Supplementary Information
Year Ended June 30, 2018**

Capital assets

Following are the details of building and leasehold improvements included in capital assets:

Capital assets balance, June 30, 2017	\$	2,753,568
Additions		11,408
Capital assets balance, June 30, 2018	\$	2,764,976

Accounts payable

Accounts payable in the amount of \$13,953 represents payables to suppliers. All accounts payable are current.

Accrued interest

All accrued interest was reclassified to current payable, due October 2018

Gross potential rents

Gross potential rents and net rental revenue consist of the following:

Qualified tenant rental income	\$	36,943
Other tenant rental income		554,504
Total gross potential rents		591,447
Less		
Vacancy loss		(10,643)
Loss to lease		(29,018)
Low income subsidy		(52,433)
Rental revenues, net	\$	499,353

Management fee

A property management fee of \$32,750 was incurred during the year ended June 30, 2018 for the property management services provided by the Authority.

**Brannan Court Apartments
(Contract Number 86-32-N)
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**Supplementary Information
Year Ended June 30, 2018**

Operating cash flow/Surplus cash computation

The operating cash flow/surplus cash generated by the Project during the year ended June 30, 2018 is as follows:

Operation income	
Total income	\$ 551,540
Interest earned on restricted reserve accounts	<u>(4,151)</u>
Adjusted operation income	547,389
Operating expenses (less depreciation)	<u>(190,887)</u>
Adjusted net income	<u>356,502</u>
Other activity	
Debt service	(207,634)
Deposits into replacement reserve account	(12,200)
Deposits into debt retirement reserve account	<u>(10,815)</u>
Total other activity	<u>(230,649)</u>
Operating cash flow/surplus cash	<u><u>\$ 125,853</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 ended June 30, 2018.

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) (the "Project"), a project of the Capitol Area Development Authority ("Authority") which comprise the statement of net position as of June 30, 2018 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2019.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free 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*.

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.

CohnReznick LLP

Sacramento, California
January 14, 2019


**Brannan Court Apartments
(Contract Number 86-32-N)
A Project of the Capitol Area Development Authority**

**Certification of Officers
Year Ended June 30, 2018**

We, as officers of Capitol Area Development Authority, hereby certify that we have examined the accompanying financial statements and supplemental information of Brannan Court Apartments as of and for the year ended June 30, 2018, and, to the best of our knowledge and belief, these financial statements and the supplemental information are complete and accurate.

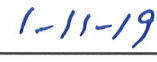

Name


Title


Date


Name


Title


Date

Employer Identification Number: 94-2524680

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