

SUTTER COMMUNITY AFFORDABLE HOUSING

Financial Statements and Independent Auditors' Report

Year Ended March 31, 2022

The logo for Sutter Community Affordable Housing (SMC&CO) features the letters 'SMC&CO' in a large, bold, serif font. The letters are a dark maroon color with a white outline. The ampersand is white with a maroon outline, positioned between the 'C' and 'O'. The entire logo is set against a light gray rectangular background.

SUTTER COMMUNITY AFFORDABLE HOUSING

Table of Contents

Independent Auditors' Report.....	1
Audited Financial Statements.....	3
Statement of Financial Position.....	3
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7
Supplemental Information	13
Schedule of Operating Revenues.....	13
Schedule of Operating Expenses	14



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INDEPENDENT AUDITORS' REPORT

The Governing Body of
Sutter Community Affordable Housing

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sutter Community Affordable Housing (Corporation), which comprise the statement of financial position as of and for the year ended March 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Corporation as of March 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

(1) Exercise professional judgment and maintain professional skepticism throughout the audit; (2) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements; (3) Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed; (4) Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; (5) Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements. The accompanying supplementary information is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

That information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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, that information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Smith Marion" followed by a stylized circular mark.

September 29, 2022
Redlands, CA

SUTTER COMMUNITY AFFORDABLE HOUSING

Statement of Financial Position

March 31, 2022

Assets

Cash	\$ 17,198
Net tenant accounts receivable	241
Other grants receivable	139
Prepaid expenses	<u>7,498</u>
Total current assets	<u>25,076</u>
Tenant deposits held in trust	20,417
Investments in partnerships and joint ventures	(302)
Notes receivable	770,321
Restricted deposits	
Replacement reserve	130,129
Operating reserve	<u>160,887</u>
Total restricted deposits	<u>291,016</u>
Property and equipment, at cost	
Land	45,061
Building	2,817,241
Furniture, equipment, and machinery	<u>1,838</u>
Total acquisition costs	<u>2,864,140</u>
Less: accumulated depreciation	<u>(1,956,473)</u>
Net fixed assets	<u>907,667</u>
Total Assets	<u>\$ 2,014,195</u>

See accompanying notes.

SUTTER COMMUNITY AFFORDABLE HOUSING

Statement of Financial Position

March 31, 2022

Liabilities and Net Assets

Accounts payable	\$ 8,891
Prepaid rent	<u>2,096</u>
Total current liabilities	<u>10,987</u>
Tenant deposits held in trust (contra)	20,417
Notes and loans payable	
Principal	2,156,956
Accrued interest payable	<u>1,396,820</u>
Total financing liability	<u>3,553,776</u>
Net notes and loans payable	<u>3,553,776</u>
Total liabilities	<u>3,585,180</u>
Net Assets without donor restriction	<u>(1,570,985)</u>
Total Liabilities and Net Assets	<u><u>\$ 2,014,195</u></u>

See accompanying notes.

SUTTER COMMUNITY AFFORDABLE HOUSING

Statements of Activities
Year Ended March 31, 2022

Income	
Net rental income	\$ 285,515
Financial revenue	53
Other	<u>6,567</u>
Total income	292,135
Expenses	
Administrative	46,575
Utilities	33,999
Operating and maintenance	104,016
Taxes and insurance	17,286
Financial	59,909
Tenant services	<u>9,103</u>
Total expenses	270,888
Income (loss) from operations	21,247
Depreciation	<u>(104,454)</u>
Net income (loss)	<u><u>\$ (83,207)</u></u>
Net Assets Without Donor Restriction	
Beginning of year	\$ (2,258,099)
Net income (loss)	(83,207)
Prior year restatements	<u>770,321</u>
End of Year	<u><u>\$ (1,570,985)</u></u>

See accompanying notes.

SUTTER COMMUNITY AFFORDABLE HOUSING

Statement of Cash Flows
Year Ended March 31, 2022

Cash flows from operating activities	
Net income (loss)	\$ (83,207)
Adjustments to reconcile net income (loss) to net cash from (used for) operating activities:	
Depreciation	104,454
Interest accrual	59,909
Bad debt	1,277
Changes in operating assets and liabilities:	
Accounts receivable	(1,418)
Prepaid expenses and other assets	(7,498)
Tenant security deposits	3,894
Accrued liabilities	(2,369)
Prepaid rent	719
Net cash from operating activities	<u>75,761</u>
Net change in cash	75,761
Cash at beginning of period	<u>252,870</u>
Cash at End of Period	<u><u>\$ 328,631</u></u>
<i>Reconciliation to cash on statement of financial position:</i>	
Cash	\$ 17,198
Tenant deposits held in trust	20,417
Restricted deposits	<u>291,016</u>
Total Cash	<u><u>\$ 328,631</u></u>

See accompanying notes.

SUTTER COMMUNITY AFFORDABLE HOUSING

Notes to Financial Statements

NOTE - 01 ORGANIZATION AND NATURE OF ACTIVITIES

Sutter Community Affordable Housing (the Corporation) is a Not-For-Profit Corporation formed in 1997 in accordance with the not-for-profit statutes of the state of California. The Corporation was formed for the purpose of providing housing for low income families and elderly and handicapped persons who cannot afford decent, safe, and sanitary housing, by constructing, rehabilitation, owning, and operating housing units, and the sale or rental of the same to poor, underprivileged, handicapped and elderly, in conjunction with the state and federal low income housing programs, and to provide related facilities and services especially designed to meet the physical, social and psychological needs of said families and persons which will contribute to their health, security, happiness, and usefulness, and to thereby, inter alia, ameliorate the existing housing shortage, provide relief for the poor, distressed and underprivileged, lessen the burdens of the government, and combat community deterioration and juvenile delinquency.

NOTE - 02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of the Accompanying Financial Statements

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The primary intent of the financial statements is for the U.S. Office of Management and Budget. The financial statements will also be used by HUD; therefore, the presentation and account descriptions have been established to conform to their reporting guidelines. In addition, the financial statements are in conformity with the provisions required by the Not-for-Profit Entities Presentation of Financial Statements topic of the FASB *Accounting Standards Codification* ("ASC") 958-205. This statement established standards for external financial reporting for Not-for-Profit Organizations.

The Not-for-Profit Entities Presentation of Financial Statements topic of the FASB ASC primarily affects the display of the financial statements and requires that the amounts for each of two classes of net assets--with or without donor restrictions--be displayed in an aggregate statement of financial position and the amounts of change in each of those classes of net assets be displayed in a statement of activities. All assets held by the Corporation at March 31, 2022 are classified as without donor restrictions.

Accounting Method

The Corporation uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SUTTER COMMUNITY AFFORDABLE HOUSING

Notes to Financial Statements

Revenue Recognition

The Corporation rents apartment units on a year-to-year basis and recognizes revenues when earned. Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand.

Restricted Deposits

All reserves of the Corporation are established by internal budgeting and are not required pursuant to any regulatory or debt agreements, therefore they are available for use without any prior approval from external entities.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. Tenants who are evicted or move-out are charged with damages or cleaning fees, if applicable. Tenant receivables consist of amounts due for rental income or the charges for damages and cleaning fees. The Corporation does not accrue interest on the tenant receivable balances.

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not material to the financial statements. Bad debt expense for the year ended March 31, 2022 was \$1,277.

Property and Equipment/Investment in Real Estate

Property and equipment are stated at cost of acquisition or construction. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Buildings	30 years
Equipment	5-10 years

Purchases of more than \$1,000 are capitalized, while purchases below the threshold are charged as expenses during the period in which they were incurred.

Impairments

The Corporation reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses in 2022.

SUTTER COMMUNITY AFFORDABLE HOUSING

Notes to Financial Statements

Advertising Costs

Advertising costs are expensed as incurred and are included in administrative expense in the statements of activities.

Fair Value

The Corporation is subject to the provisions of the Fair Value Measurement topic of the FASB ASC 820-10 which provides guidance for assets and liabilities which are required to be measured at fair value and requires expanded disclosure for fair value measurement. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not require any new fair value measurements.

The Fair Value Measurement did not have a material impact on the Corporation's financial statements for the year ended March 31, 2022.

Accounting for Uncertainty in Income Taxes

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and state income tax and has been classified as an other than private foundation. Accordingly, no provision for federal and state taxes on revenue and income has been recognized in the accompanying financial statements. Generally, the Federal and State tax returns were subject to examinations from the three years after the later of the original or extended due date or the date filed with the applicable tax authority.

Classification of Net Assets

Net assets of the Corporation are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups: Net Assets without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met; and Net Assets with Donor Restriction – Assets subject to usage limitations based on donor imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Corporation. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise unless specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

The Corporation does not interpret the guidance in the standard to include amounts restricted for reserves as donor restricted. The Corporation believes that these amounts do not meet the spirit of the standard for such a classification or is there any industry standard indicating that others will treat these assets as donor restricted.

All net assets of the Corporation at March 31, 2022 were considered to be net assets without donor restrictions.

Subsequent Events

Management evaluated the activity of the Corporation through September 29, 2022, the date the financial statements were available to be issued.

SUTTER COMMUNITY AFFORDABLE HOUSING

Notes to Financial Statements

NOTE - 03 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation manages its liquidity by completing annual operating budgets that provide sufficient funds for general expenditures in meeting liabilities and other obligations as they become due and maintains reserves that may be drawn upon as needed during the year to manage cash flow and make necessary repairs. The Corporation's cash and cash equivalents are available within one year of the statement of financial position date to meet cash needs for general expenditures.

NOTE - 04 NOTES PAYABLE

Notes payable are summarized as follows:

	Principal	Interest Payable
Redevelopment Agency (RDA) loan with the City of Yuba City, in the original amount of \$1,400,000, bearing simple interest at 3% per annum, payable from residual receipts, and matures March 2053. Secured by Towncenter Manor apartments. Interest for the current year was \$39,708.	\$ 1,323,589	\$ 931,553
Home Investment Partnership (HOME) loan with the City of Yuba City, in the original amount of \$673,367, bearing simple interest at 3% per annum, payable from residual receipts, and matures March 2053. Secured by Town Center Senior Manor apartments. Interest for the current year was \$20,201.	673,367	465,267
Loan with the City of Yuba City, in the original amount of \$160,000, bearing no interest, payments deferred until maturity, and matures July 2056. Secured by Yolo/Heiken property. Interest for the current year was \$0.	<u>160,000</u>	<u>-</u>
Total	<u>\$ 2,156,956</u>	<u>\$ 1,396,820</u>

Principal payments on notes payable for the next five years and thereafter are estimated as follows:

2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>2,156,956</u>
	<u>\$ 2,156,956</u>

NOTE - 05 BUSINESS RISKS AND CONCENTRATIONS

Housing Assistance Payments (HAP) Contract

The Corporation recorded \$148,401 of its revenues during the year ended March 31, 2022, from Regional Housing Authority under the terms of one or more HAP contracts which provide for rental assistance to the Corporation on behalf of low-income tenants who meet certain qualifications. The Corporation's future intentions and the future changes in HUD regulations and the appropriations of related funds are uncertain, and accordingly, it is not possible to determine the ultimate impact on the operations of the Corporation.

Geographic Location

Our operations and assets are concentrated in Yuba City, California.

Financial Instruments and Credit Risk

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE - 06 RELATED PARTIES AND MANAGEMENT AGREEMENT

Regional Housing Authority

The Corporation is managed by Regional Housing Authority (Authority). The management agreement allows for a management fee to be paid to the Authority that is to be approved annually by the Board. Management fees total \$23,796 for the year ended March 31, 2022.

The Corporation's insurance coverage is provided for under consolidated policies issued through conventional insurance providers and maintained by the Authority.

In addition, the land on which the Town Center apartments are located is leased for a period of 55 years from the Authority for one dollar a year.

Live Oak Pacific Associates LP

The Corporation earned a partnership management fee of \$5,600 for the year ended March 31, 2022 from Live Oak Pacific Associates, LP, a partnership in which the Corporation is named as the Managing General Partner with a 0.005% interest in.

Live Oak Pacific Associates II LP

The Corporation assumed a state tax credit proceed loan receivable due from Live Oak Pacific Associates II, LP, a partnership in which the Corporation is named as the Managing General Partner of. The note is in the amount of \$1,100,458, bears no interest, and matures September 2064. As of year end, the balance of the note was \$770,321.

In addition, the Corporation earned a partnership management fee of \$2,400 for the year ended March 31, 2022.

SUTTER COMMUNITY AFFORDABLE HOUSING

Notes to Financial Statements

NOTE - 07 INVESTMENTS IN PARTNERSHIPS

The Corporation is a co-general partner in Maple Park Phase I, LP. as well as managing general partner in Live Oak Pacific Associates, LP and Live Oak Pacific Associates II, LP. The Corporation's share of profit (loss) and capital is 0.003 percent, 0.005 percent, and 0.005 percent, respectively.

NOTE - 08 FUNCTIONAL EXPENSES

The Corporation provides low-income housing to its tenants. The cost of providing program services and supporting activities has been summarized on a functional basis in the table below. Expense directly attributable to a specific functional activity of the are reported as expenses of those functional activities. There are no functional expenses that require allocation between activities.

See breakdown below:

Expense Line	Rental Operations	Management and General	Fundraising	Total
Administrative	\$ 17,339	\$ 29,236	\$ -	\$ 46,575
Utilities	33,999	-	-	33,999
Operating and maintenance	104,016	-	-	104,016
Taxes and insurance	11,814	5,472	-	17,286
Financial	59,909	-	-	59,909
Tenant services	9,103	-	-	9,103
Depreciation	104,454	-	-	104,454
Total	\$ 340,634	\$ 34,708	\$ -	\$ 375,342

NOTE - 09 PRIOR PERIOD RESTATEMENTS

During the year, it was discovered that a state tax credit proceeds loan receivable in the amount of \$770,321 from Live Oak Pacific Associates II, LP was not reflected in the Corporation's books. The correction resulted in an increase to net assets without donor restriction of \$770,321 as reflected in the statement of activities.

SUTTER COMMUNITY AFFORDABLE HOUSING

Schedule of Operating Revenues

Year Ended March 31, 2022

Revenues:

5120	Rent revenue - gross potential	\$ 137,114
5121	Tenant assistance payments	<u>148,401</u>
5100T	Total rent revenue	<u>285,515</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>285,515</u>
5410	Financial revenue - project operations	<u>53</u>
5400T	Total financial revenue	<u>53</u>
5910	Laundry and vending	1,187
5920	Tenant charges	<u>5,380</u>
5900T	Total other revenue	<u>6,567</u>
5000T	Total revenue	<u><u>\$ 292,135</u></u>

SUTTER COMMUNITY AFFORDABLE HOUSING

Schedule of Operating Expenses

Year Ended March 31, 2022

Expenses:

6310	Office salary	13,215
6311	Office supplies	2,458
6320	Management fees	23,796
6350	Auditing	5,440
6370	Bad debts	1,277
6390	Miscellaneous	389
6263T	Total administrative expenses	<u>46,575</u>
6450	Electricity	9,833
6451	Water	5,562
6452	Gas	659
6453	Sewer	17,945
6400T	Total utilities expenses	<u>33,999</u>
6515	Supplies	8,516
6520	Contractor	77,921
6525	Garbage and trash	10,043
6570	Vehicle and equipment repairs	7,536
6500T	Total operating and maintenance expenses	<u>104,016</u>
6711	Payroll taxes	977
6720	Property insurance	9,325
6722	Worker's compensation	379
6723	Health insurance and other benefits	4,116
6790	Miscellaneous	2,489
6700T	Total taxes and insurances	<u>17,286</u>
6820	Interest on mortgage	59,909
6800T	Total financial expenses	<u>59,909</u>
6900-01	Salary	9,053
6900-02	Other	50
6900T	Total tenant service expenses	<u>9,103</u>
6000T	Total cost of operations	<u>\$ 270,888</u>