

**SUTTER COMMUNITY
AFFORDABLE HOUSING,
CALIFORNIA**

**REQUIRED COMMUNICATION AND MANAGEMENT REPORT
FOR THE YEAR ENDED
MARCH 31, 2012**

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SUTTER COMMUNITY AFFORDABLE HOUSING
Required Communication
For the Year Ended March 31, 2012

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To the Board of Directors
Sutter Community Affordable Housing
Yuba City, California

In planning and performing our audit of the financial statements of Sutter Community Affordable Housing (Corporation) (a non-profit corporation) as of and for the year ended March 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.


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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations to be a significant deficiency.

The Corporation's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Following this letter, we have included a report on communications as required by auditing standards generally accepted in the United States of America.

This communication is intended solely for the information and use of management, other within the Corporation, the Board of Directors and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.


Smith & Newell, CPAs
Yuba City, California
September 28, 2012

SUTTER COMMUNITY AFFORDABLE HOUSING
Required Communication
For the Year Ended March 31, 2012

We have audited the financial statements of the Sutter Community Affordable Housing (Corporation) for the year ended March 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you during the planning of our audit. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2012. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Corporation's financial statements are depreciation of capital assets.

We evaluated the key factors and assumptions used to develop the Corporation's estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has agreed to correct all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the proprietary funds financial statements taken as a whole.

SUTTER COMMUNITY AFFORDABLE HOUSING
Required Communication
For the Year Ended March 31, 2012

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

SUTTER COMMUNITY AFFORDABLE HOUSING
Schedule of Findings and Recommendations
For the Year Ended March 31, 2012

12-FS-01 Operating Deficit (Significant Deficiency)

Condition

At the time of our audit we noted that Sutter Community Affordable Housing continued to have operating expenses in excess of operating revenues. Although the Corporation has been able to maintain a positive cash flow, the yearly operating deficit continues primarily because of accrued interest on debt. At March 31, 2012, the total deficit in net assets in the Town Center fund was \$1,445,100 and the total deficit in net asset in the Yolo Street/Heiken Way fund was \$62,791. This is a repeat of a prior year finding.

Cause

The Corporation continues to expend more than it is receiving in dwelling rents and subsidies.

Criteria

Sound management practices require that efforts be made to ensure that fees for services, including rental fees, be adequate to cover expenses incurred as well as provide for future debt payments.

Effect of Condition

Sutter Community Affordable Housing is incurring operating deficits.

Recommendation

We recommend that the Sutter Community Affordable Housing evaluate options that may be available to decrease operating deficits. If it is not possible to reduce expenses to a breakeven point, reducing expenses at least to the breakeven point prior to accrued interest would be a positive accomplishment.

Corrective Action Plan

Sutter Community Affordable Housing currently has four loans/grants for the Town Center Senior Manor and Yolo Heiken properties.

Town Center Senior Manor

Loan #1 - \$673,367 HOME Promissory Note with the City of Yuba City. Interest rate of 3% per year, no principal payments are due until 2053 or Event of Default.

Loan #2 - \$1,323,589 RDA Promissory Note Same repayment terms as Loan #1.

Yolo Heiken

Loan #1 - \$100,000 AHP Promissory Note with the City of Yuba City. Zero interest and forgivable in 15 years (11/19/2013).

SUTTER COMMUNITY AFFORDABLE HOUSING
Schedule of Findings and Recommendations
For the Year Ended March 31, 2012

12-FS-01 Operating Deficit (Significant Deficiency)

Corrective Action Plan (Continued)

Grant #2 - \$160,000 City of Yuba City Promissory Note. Zero interest, no principal payments are due until 2056.

Interest for the Town Center Senior Manor loans accrue annually in accordance with the above Agreements, but is not included in yearly budgets.

Although the Corporation maintains a positive cash flow, non cash items such as accrued interest, GASB requirements that mandate the recording of compensated absences, depreciation and OPEB liability increase yearly expenses and cause deficit spending. If revenue is compared solely to actual yearly expenses (minus accrued interest and other non cash expenses), both Projects have positive residual receipts which are then deposited into interest bearing accounts for future maintenance and capital needs. Since these are low-income projects with revenue being at a premium, this situation will continue for as long as accrued interest and other non cash expenses are required in the Income Statement.

**SUTTER COMMUNITY AFFORDABLE HOUSING
Status of Prior Year Recommendations
For the Year Ended March 31, 2012**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
11-FS-01	<p>Operating Deficit</p> <p>Recommendation</p> <p>We recommend that the Sutter Community Affordable Housing evaluate options that may be available to decrease operating deficits. If it is not possible to reduce expenses to a breakeven point, reducing expenses at least to the breakeven point prior to accrued interest would be a positive accomplishment.</p> <p>Status</p> <p>In Progress</p>