

**SUTTER COMMUNITY  
AFFORDABLE HOUSING,  
CALIFORNIA**

**MANAGEMENT REPORT  
FOR THE YEAR ENDED  
MARCH 31, 2013**

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**SUTTER COMMUNITY AFFORDABLE HOUSING  
Management Report  
For the Year Ended March 31, 2013**

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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, 2013, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Corporation's 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

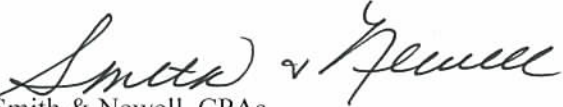
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 13-FS-01 in the Corporation's internal control to be a significant deficiency. This finding is presented in the Schedule of Findings and Recommendations that accompanies this letter.

During our audit we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures. We will review the status of these comments during our next audit engagement. These other matters are identified as finding 13-MC-01 in the Schedule of Findings and Recommendations that accompanies this letter.

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

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

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

  
Smith & Newell, CPAs  
Yuba City, California  
August 22, 2013

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**13-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, 2013, the total deficit in net assets in the Town Center fund was \$1,540,134 and the total deficit in net asset in the Yolo Street/Heiken Way fund was \$55,729. 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).

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**13-FS-01 Operating Deficit (Significant Deficiency) (Continued)**

**Corrective Action Plan**

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.

**13-MC-01 Security Deposits (Other Matter)**

**Condition**

During our test of nine security deposits, we noted one security deposit collected did not agree to the lease agreement.

**Cause**

One security deposit collected was less than the amount required in the signed rental agreement.

**Criteria**

Good internal control requires that all security deposits be collected in accordance with a signed rental agreement.

**Effect of Condition**

The risk of errors and irregularities occurring and not being detected in a timely manner is increased when security deposits are not collected in accordance with the approved rental agreement.

**Recommendation**

We recommend that all security deposits be collected in accordance with the rental agreement and that documentation supporting the security deposits be retained in the tenant's file.



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**13-MC-01 Security Deposits (Other Matter) (Continued)**

**Corrective Action Plan**

In review of the files, it was found that two tenants were placed on new leases due to changes in occupancy or unit. At the time of the lease update, the Specialist inadvertently wrote the incorrect amount in the security deposit line. In the future, the Housing Manager will audit all new leases to confirm that data on file matches database.

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<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
<b>12-FS-01</b>	<p><b>Operating Deficit</b></p> <p><b>Recommendation</b></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><b>Status</b></p> <p>In Progress</p>