

**INDEPENDENT AUDITOR'S MANAGEMENT LETTER**

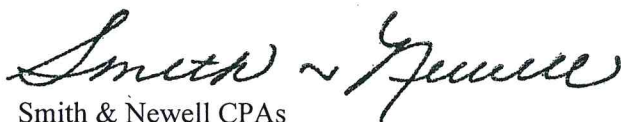
To the Board of Directors  
Sutter Community Affordable Housing  
Yuba City, California

In planning and performing our audit of the financial statements of Sutter Community Affordable Housing, (Corporation) as of and for the year ended March 31, 2018, 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) 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 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 material weaknesses and 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 organization'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. We consider the deficiency described in the attached appendix to be a significant deficiency. (2018-001)

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



Smith & Newell CPAs  
Yuba City, California  
July 16, 2018

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# **SUTTER COMMUNITY AFFORDABLE HOUSING**

## **Appendix A: Management Letter Comments**

**For the Fiscal Year Ended March 31, 2018**

### **CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

#### **2018-001 Operating Deficit (Significant Deficiency)**

##### **Condition**

At the time of our audit we noted that Sutter Community Affordable Housing (Corporation) continued to have expenses in excess of revenues. Although the Corporation has been able to maintain a positive cash flow, the yearly decrease in net assets continues primarily because of accrued interest on debt and depreciation. At March 31, 2018, the total deficit in net assets in the Town Center fund was \$1,974,247 and the deficit in Yolo Street/Heiken Way was \$3,853. This is a repeat of prior year finding 2017-001.

##### **Cause**

The Corporation continues to have expenses in excess of revenues primarily because of accrued interest on debt and depreciation.

##### **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**

The Corporation continues to reflect a deficit in net assets.

##### **Recommendation**

We recommend that the Corporation evaluate options that may be available to decrease 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.

**SUTTER COMMUNITY AFFORDABLE HOUSING**  
**Appendix B: Status of Prior Year Recommendations**  
**For the Fiscal Year Ended March 31, 2018**

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**2017-001 Operating Deficit (Significant Deficiency)**

**Prior Year Recommendation**

We recommend that 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.

**Status of Prior Year Recommendation**

In Progress

**SUTTER COMMUNITY AFFORDABLE HOUSING**  
**Appendix C: Management's Corrective Action Plan**  
**For the Year Ended March 31, 2018**

**Finding 2018-001      Operating Deficit (Significant Deficiency)**

We recommend that the Corporation evaluate options that may be available to decrease 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.

Responsible Individual:            Gail Allen

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. At an interest rate of 3% per year, principal and accrued interest are due and payable at 55 years (03/25/2043); or Event of Default. This type of financing is typical and common in affordable housing projects, and more commonly known as "soft debt", which does not require a debt service.
- Loan #2 - \$1,400,000 RDA Promissory Note. Same repayment terms as Loan #1.

**Yolo Heiken**

- Grant #1 - \$100,000 AHP Promissory Note with the City of Yuba City. Zero interest and forgivable in 15 years (11/19/2013). This Note has now been forgiven.
- Grant #2 - \$160,000 City of Yuba City Promissory Note. Zero interest and forgivable in 55 years (07/24/2058).

Interest for the Town Center Senior Manor Loans accrue annually in accordance with the above agreements, but is not included in yearly budgets or used to reduce yearly revenue.

Not only accrued interest, but GASB requirements that mandate the recording of compensated absences, depreciation and OPEB's, reduce yearly revenue and show initial deficit spending. However, if revenue is compared solely to actual yearly expenses (minus accrued interest and GASB requirements), 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 audit comment will continue on future audits as long as accrued interest and GASB entries are required in the income statement.

Anticipated Completion Date:    Ongoing

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