

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

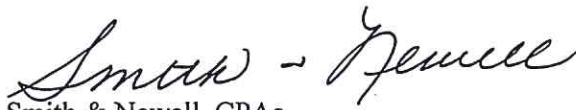
In planning and performing our audit of the financial statements of Sutter Community Affordable Housing, (Corporation) as of and for the year ended March 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control 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. We consider the deficiency describes the attached appendix to be a material weakness (2016-001).

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 (2016-002).

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
August 8, 2016

SUTTER COMMUNITY AFFORDABLE HOUSING

Appendix A: Management Letter Comments

For the Fiscal Year Ended March 31, 2016

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2016-001 Prior Period Adjustments (Material Weakness)

Condition

The Corporation recorded prior period adjustments to correct a prior year understatement of capital assets.

Cause

During the current year, the Corporation analyzed the purchase of the Yolo Street building and determined that a portion of the acquisition cost should be allocated to land. This resulted in an adjustment of prior year accumulated depreciation.

Criteria

Good internal control over capital assets requires that an accurate current detail listing of capital assets be maintained.

Effect of Condition

The financial statements as presented to us contained material misstatements and required adjustment.

Recommendation

We recommend that capital asset acquisitions be identified and properly capitalized and depreciated.

Management Response

The transfer of a portion of the acquisition cost to land is complete. No further action is required.

2016-002 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, 2016, the total deficit in net assets in the Town Center fund was \$1,730,268. 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.

SUTTER COMMUNITY AFFORDABLE HOUSING

Appendix A: Management Letter Comments

For the Fiscal Year Ended March 31, 2016

2016-002 Operating Deficit (Significant Deficiency) (Continued)

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 continues to incur operating deficits.

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.

Management Response

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 not 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.

SUTTER COMMUNITY AFFORDABLE HOUSING
Appendix A: Management Letter Comments
For the Fiscal Year Ended March 31, 2016

STATUS OF PRIOR YEAR RECOMMENDATIONS

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