

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, 2014, 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 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 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 did not identify any deficiencies in internal control that we consider to 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 attached appendix to be a significant deficiency.

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
September 10, 2014

**Sutter Community Affordable Housing
Appendix A: Management Letter Comments
For the Fiscal Year Ended March 31, 2014**

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

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, 2014, the total deficit in net assets in the Town Center fund was \$1,643,115 and the total deficit in net assets in the Yolo Street/Heiken Way fund was \$46,262. 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 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. 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.
- Interest for Town Center Senior Manor loans accrues annually in accordance with the above Agreements, but is not included in yearly budgets.

**Sutter Community Affordable Housing
Appendix A: Management Letter Comments
For the Fiscal Year Ended March 31, 2014**

CURRENT YEAR COMMENTS AND RECOMMENDATIONS (CONTINUED)

Operating Deficit (Significant Deficiency) (Continued)

Management Response (Continued)

Yolo Heiken

- Loan 1 – \$100,000 AHP Promissory Note with the City of Yuba City. Zero interest, forgivable 11/19/2013 and is in the process of being removed from Title.
- Grant 2 – \$160,000 City of Yuba City Promissory Note. Zero interest, no principal payments are due until 2056.

**Sutter Community Affordable Housing
Appendix A: Management Letter Comments
For the Fiscal Year Ended March 31, 2014**

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

Not Implemented

Security Deposits

Prior Year 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.

Status of Prior Year Recommendation

Implemented