

**Crescent Affordable Housing  
Corporation and Subsidiaries**

**Consolidated Financial  
Statements and Supplemental  
Information**

**Year ended  
December 31, 2017**

**BERMAN HOPKINS  
WRIGHT & LAHAM**  
CPAS AND ASSOCIATES, LLP

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Financial Statements	7
Supplemental Information	
Consolidating Statement of Financial Position	27
Consolidating Statement of Activities	28
Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Schedule of Findings and Responses	32

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,  
Crescent Affordable Housing Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Crescent Affordable Housing Corporation (collectively referred to as the "Corporation"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information on pages 27 through 29 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of compensation, benefits and other payments to agency head or chief executive officer is presented for purposes of additional analysis as required by the Louisiana Legislative Auditor and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

June 29, 2018  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**December 31, 2017**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents - unrestricted	\$ 3,395,854
Cash and cash equivalents - restricted	1,352,937
Accounts receivable, net	43,619
Prepaid expenses	348,803
Due from related party	423,191
Total current assets	<u>5,564,404</u>
<b>NONCURRENT ASSETS</b>	
Rental property	
Buildings and improvements	51,635,334
Land improvements	4,860,619
Furniture, equipment and machinery	934,592
Construction in progress	43,228,577
	<u>100,659,122</u>
Less accumulated depreciation	<u>(14,380,941)</u>
Total rental property	<u>86,278,181</u>
Tax credit monitoring fees, net	99,666
Other assets	70,755
Total noncurrent assets	<u>86,448,602</u>
Total assets	<u>\$ 92,013,006</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 83,128
Accrued expenses	1,601,926
Property management fee payable	116,915
Asset management fee payable	92,507
Tenant security deposits	51,499
Tenant prepaid rent	387
Developer fee payable	1,327,549
Due to related party	3,634,941
Other current liabilities	176,524
Total current liabilities	<u>7,085,376</u>
<b>NONCURRENT LIABILITIES</b>	
Accrued interest payable to related party	12,090,664
Notes payable - related party	86,159,766
Total noncurrent liabilities	<u>98,250,430</u>
Total liabilities	<u>105,335,806</u>
<b>NET ASSETS</b>	
Unrestricted net assets, Crescent Affordable Housing Corporation	3,083,428
Unrestricted net assets, Noncontrolling interest	<u>(16,406,228)</u>
Total net assets	<u>(13,322,800)</u>
Total liabilities and net assets	<u>\$ 92,013,006</u>

The accompanying notes are an integral part of these financial statements.

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year ended December 31, 2017

<b>REVENUES</b>	
Rental income	\$ 1,825,322
Other operating income	362,789
Total operating revenues	<u>2,188,111</u>
<b>EXPENSES</b>	
Salaries and employee benefits	160,543
Utilities	335,448
Repairs and maintenance	673,644
Protective services	210,647
Insurance	532,814
Tenant services	249,301
Other general and administrative	544,821
Total operating expenses	<u>2,707,218</u>
<b>NET OPERATING LOSS</b>	<u>(519,107)</u>
<b>OTHER INCOME (EXPENSES)</b>	
Interest income	6,168
Interest expense - related party	(1,056,159)
Depreciation	(1,827,088)
Amortization	(7,772)
Total other income (expenses)	<u>(2,884,851)</u>
<b>Change in net assets</b>	<u><u>\$ (3,403,958)</u></u>

The accompanying notes are an integral part of these financial statements.

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF NET ASSETS**

Years ended December 31,

	Unrestricted Net Assets, Crescent Affordable Housing Corporation	Unrestricted Net Assets, Noncontrolling Interest	Total
<b>Balance as of December 31, 2016</b>	\$ 3,284,366	\$ (13,898,043)	\$ (10,613,677)
Capital contributions	-	752,271	752,271
Distributions (return to owner)	(57,436)	-	(57,436)
Change in net assets	<u>(143,502)</u>	<u>(3,260,456)</u>	<u>(3,403,958)</u>
<b>Balance as of December 31, 2017</b>	<u>\$ 3,083,428</u>	<u>\$ (16,406,228)</u>	<u>\$ (13,322,800)</u>

The accompanying notes are an integral part of these financial statements.

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended December 31, 2017

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (3,403,958)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,827,088
Amortization - tax credit monitoring fees	7,772
Interest expense - deferred financing fees	107,351
Provision for bad debt	13,829
(Increase) decrease in assets:	
Accounts receivable, net	27,005
Prepaid expenses	157,301
Due from related party	441,164
Increase (decrease) in liabilities:	
Accounts payable	(64,801)
Accrued expenses	(183,921)
Property management fee payable	72,636
Asset management fee payable	(8,035)
Tenant security deposits	8,528
Tenant prepaid rent	387
Developer fee payable	(57,436)
Due to related party	(140,941)
Accrued interest payable	987,080
Other current liabilities	12,670
Net cash used in operating activities	(196,281)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash paid for investment in rental property	(1,350)
Interest received	2,155
Net cash provided by investing activities	805

**CASH FLOWS FROM FINANCING ACTIVITIES**

Capital contributions	752,271
<b>Net increase in cash</b>	<b>556,795</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>4,191,996</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,748,791</b>

**RECONCILIATION TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION:**

Cash and cash equivalents - unrestricted	\$ 3,395,854
Cash and cash equivalents - restricted	1,352,937
	<b>\$ 4,748,791</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Capital assets purchased through additional issuance of debt of the construction note with HANO	\$ 18,184,739
Escrows held for construction related loans were utilized during 2017 to settle the construction mortgage note	<b>\$ 25,600,000</b>

The accompanying notes are an integral part of these financial statements.

# Crescent Affordable Housing Corporation and Subsidiaries

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Nature of operations

##### Organization

Crescent Affordable Housing Corporation ("CAHC") and Subsidiaries (collectively referred to as the "Corporation"), a Louisiana not-for-profit corporation, was formed in December 2003 by the Housing Authority of New Orleans ("HANO"). The Corporation was formed for the purpose of providing a financial entity to assist HANO in acquiring, financing, redeveloping, rehabilitating and constructing affordable housing. CAHC is the sole member of Lune d'Or Enterprises, LLC ("Lune d'Or"), a for-profit entity created by HANO that serves as the managing member of several for-profit Limited Liability Companies that own and operate affordable housing projects developed on properties owned by HANO. CAHC is also the sole member of Place d'Genesis, LLC ("Place d'Genesis"), a for-profit entity with the purpose to acquire, finance, redevelop, rehabilitate and construct affordable housing, and Guste Homes III, LLC a 155-unit low-income housing apartment complex located in New Orleans, Louisiana.

CAHC is a component unit of HANO under the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*. CAHC is presented as a blended component unit of HANO as there is a financial benefit/burden relationship with HANO. HANO has the ability to influence the operations of CAHC as its board of directors is appointed by HANO and any changes to CAHC's by-laws must be approved by HANO.

#### 2. Accounting method

The financial statements have been prepared on the accrual basis of accounting. Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of payments.

#### 3. Principles of consolidation

The accompanying consolidated financial statements include the accounts of CAHC, Lune d'Or, Place d'Genesis, and Guste Homes III, LLC. CAHC has a 0.01% interest in Guste Homes III, LLC. In addition, the balances of Lune d'Or include investments in limited liability companies in which Lune d'Or has a controlling interest which comprises of three limited liability companies in which Lune d'Or has a 0.01% interest. These entities in which CAHC and Lune d'Or have managing member ownership interests in are included in the consolidation according to accounting principles generally accepted in the United States of America (GAAP) which require consolidation of the accounts of all limited liability companies that CAHC and Lune d'Or control.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

3. Principles of consolidation (continued)

The limited liability companies included in the consolidation are as follows:

<u>Entity</u>	<u>Percentage Ownership</u>	<u>Number of Units</u>
Fisher I, LLC	0.01%	20
Fisher III, LLC	0.01%	103
Guste I, LLC	0.01%	82
Guste Homes III, LLC	0.01%	155

There are three additional entities, CJP Rental I, LLC, St. Bernard Rental I, LLC, and Iberville Offsite Rehab I, LLC, in which CAHC has a minority interest, which are not controlled by CAHC and do not require inclusion in the consolidated financial statements.

All significant inter-company balances and transactions have been eliminated upon consolidation. These eliminations include the following:

	<u>Amount</u>
Developer fee payable and receivable	\$ 2,128,674
Investment in joint venture	651,342
Due to and due from between CAHC and its affiliates	468,423

4. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and cash equivalents

The Corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

6. Accounts receivable

Management individually reviews all accounts receivable periodically and assesses the portions, if any, of the balance that will not be collected. Tenant accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

7. Tax credit monitoring fees

Tax credit monitoring fees are being amortized using the straight-line method over the fifteen-year tax credit compliance period. Accumulated amortization at December 31, 2017 is \$16,917. Estimated amortization expense for each of the following years is as follows:

	Fisher I, LLC	Fisher III, LLC	Guste Homes III, LLC	Total
2018	\$ 133	\$ 773	\$ 6,866	\$ 7,772
2019	133	773	6,866	7,772
2020	133	773	6,866	7,772
2021	60	771	6,866	7,697
2022	-	-	6,866	6,866
Thereafter	-	-	61,787	61,787
	<u>\$ 459</u>	<u>\$ 3,090</u>	<u>\$ 96,117</u>	<u>\$ 99,666</u>

8. Rental property

Rental property is recorded at cost. Depreciation of rental property is computed primarily using the following methods and estimated useful lives:

	Useful Lives	Method
Buildings	40 years	Straight-line
Land and improvements	20 years	Declining balance
Furniture and equipment	10 years	Declining balance

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

9. Impairment of long-lived assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2017.

10. Deferred fees and amortization

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is being computed using an imputed interest rate.

11. Rental income

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and the tenants of the property are considered operating leases.

12. Income taxes

CAHC has been classified as a publicly supported organization under Internal Revenue Code Section 501(c)(3) and not as a private foundation. Therefore, it is generally not subject to income tax. CAHC is subject to Unrelated Business Income Tax (UBIT) if income is earned which does not relate to its nonprofit purpose. There has been no UBIT recorded in the financials for the year ended December 31, 2017.

Lune d'Or and Place d'Genesis have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to CAHC and the other owners of the consolidated entities. Lune d'Or and Place d'Genesis' federal tax status as pass-through entities is based on their legal status as single-member limited liability companies. Accordingly, neither entity is required to take any tax positions in order to qualify as pass-through entities. Guste Homes III, LLC and the three limited liability companies included in Lune d'Or are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

12. Income taxes (continued)

Accordingly, these financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure. Income tax returns filed by these entities are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2014 remain open.

13. Economic concentrations

All of the operations of CAHC and its consolidated subsidiaries are located in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

14. Unrestricted net assets non-controlling interest

Interests held by investor members in Guste Homes III, LLC and the limited liability companies consolidated into Lune d'Or are reflected in unrestricted net asset non-controlling interest on the consolidated financial statements. Non-controlling interest represents the 99.99% share of the underlying equity of Guste Homes III, LLC not owned by CAHC and 99.99% share of the underlying equity of Fischer I, LLC, Fischer III, LLC, and Guste 1, LLC, not owned by Lune d'Or.

**NOTE B - RESTRICTED CASH**

	Fisher I, LLC	Fisher III, LLC	Guste I, LLC	Guste Homes III, LLC	Total
Replacement reserve	\$ 64,023	\$ 297,926	\$ 232,059	\$ -	\$ 594,008
ACC subsidy reserve	33,650	-	227,000	165,269	425,919
Operating reserve	50,269	-	170,000	-	220,269
Development escrow	-	-	-	14,898	14,898
Lease-up reserve	-	-	-	46,344	46,344
Tenant security deposits	4,850	20,549	19,300	6,800	51,499
	<u>\$ 152,792</u>	<u>\$ 318,475</u>	<u>\$ 648,359</u>	<u>\$ 233,311</u>	<u>\$ 1,352,937</u>

1. Replacement reserve

Pursuant to the Operating Agreement, Fischer I, LLC is required to make monthly deposits to a reserve account for capital replacements, funded by monthly deposits of \$417, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2017, the replacement reserve balance was \$64,023.

Crescent Affordable Housing Corporation and Subsidiaries

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE B - RESTRICTED CASH (continued)

1. Replacement reserve (continued)

Pursuant to the Operating Agreement, Fischer III, LLC is required to make monthly deposits to a reserve account for capital replacements, funded by monthly deposits of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2017, the replacement reserve balance was \$297,926.

Pursuant to the Operating Agreement, Guste I, LLC is required to make monthly deposits to a reserve account for capital replacements, funded by monthly deposits of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2017, the replacement reserve balance was \$232,059.

Pursuant to the Operating Agreement, Guste Homes III, LLC is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Annual deposits are required in the amount of \$46,500, increasing annually by 3% commencing on the date of substantial completion. As of December 31, 2017, no amounts have been funded.

2. ACC subsidy reserve

Pursuant to the Operating Agreement, Fischer I, LLC shall establish a reserve account equal to \$33,627 as set forth in the Regulatory and Operating Agreement between Fischer I, LLC and HANO. Funds in the ACC Subsidy Reserve may be used to pay operating expenses subject to approval and consent of the Investor Member. As of December 31, 2017, \$33,650 has been funded.

Pursuant to the Operating Agreement, Fischer III, LLC shall establish a reserve account equal to \$193,875 as set forth in the Regulatory and Operating Agreement between Fischer III, LLC and HANO. Funds in the ACC Subsidy Reserve may be used to pay operating expenses subject to approval and consent of the Investor Member. As of December 31, 2017, the subsidy reserve has not been funded.

Pursuant to the Operating Agreement, Guste I, LLC shall establish a reserve account equal to \$227,000 as set forth in the Regulatory and Operating Agreement between Guste I, LLC and HANO. Funds in the ACC Subsidy Reserve may be used to pay operating expenses subject to approval and consent of the Investor Member. As of December 31, 2017, \$227,000 has been funded.

Pursuant to the Operating Agreement, Guste Homes III, LLC shall establish a reserve account equal to \$365,000 as set forth in the Regulatory and Operating Agreement between Guste Homes III, LLC and HANO. Funds in the ACC Subsidy Reserve may be used to pay operating expenses subject to approval and consent of the Investor Member. As of December 31, 2017, \$165,269 has been funded.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE B - RESTRICTED CASH (continued)**

3. Operating reserve

Pursuant to the Operating Agreement, Fischer I, LLC is required to establish an operating reserve in a separate reserve account to fund operating expenses, to the extent required, subject to any requisite approvals and to the consent of the Investor Member. As of December 31, 2017, \$50,269 has been funded.

Pursuant to the Operating Agreement, Fischer III, LLC is required to establish an operating reserve in a separate reserve account to fund operating expenses, to the extent required, subject to any requisite approvals and to the consent of the Investor Member. As of December 31, 2017, the operating reserve has not been funded.

Pursuant to the Operating Agreement, Guste I, LLC is required to establish an operating reserve of \$170,000 in a separate reserve account to fund operating expenses, to the extent required, subject to any requisite approvals and to the consent of the Investor Member. As of December 31, 2017, \$170,000 has been funded.

Pursuant to the Operating Agreement, Guste Homes III, LLC is required to establish an operating reserve of \$480,000 in a separate reserve account to fund operating expenses, to the extent required, subject to any requisite approvals and to the consent of the Investor Member. As of December 31, 2017, no amounts have been funded.

4. Development escrow

In connection with the construction of Guste Homes III, LLC, the Investor Member has established an escrow to pay for future development costs. As of December 31, 2017, the balance in the escrow was \$14,898.

5. Lease-up reserve

Pursuant to the Operating Agreement, the Managing Member of Guste Homes III, LLC is required to establish a lease-up reserve of \$85,000 in a separate reserve account to fund excess operating expenses during the initial lease-up period of the Guste Homes III, LLC. The reserve is to be funded from capital contributions and/or loan proceeds. The reserve is to be funded no later than the fourth capital contribution from the investor member. If there are insufficient funds to fund the Lease-up Reserve from the aforementioned sources, CAHC shall be required to fund the Lease-up Reserve. As of December 31, 2017, \$46,344 has been funded, respectively. Any balance remaining after the final capital contribution from the investor member shall be transferred to the operating reserve.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE B - RESTRICTED CASH (continued)**

6. Construction bond escrow

In connection with the funding of the construction bonds, Guste Homes III, LLC has established an escrow of \$25,600,000 to repay the balance of the construction bonds upon maturity. The construction bond escrow was used to pay off the construction mortgage note during the fiscal year (see Note D).

7. Rental achievement reserve

Pursuant to the Operating Agreement, the Managing Member of Guste Homes III, LLC is required to establish a rent achievement reserve of \$100,000 in a separate reserve account in order to insure that the Project will maintain an average income to expense ratio of 1.05 to 1.0 or such greater ratio as may be required to maintain breakeven operations throughout the Compliance Period. The reserve is to be funded from capital contributions and/or loan proceeds. If there are insufficient funds to fund the operating reserve from the aforementioned sources at the time of the sixth capital contribution, CAHC shall be required to fund the rent achievement reserve. Any balance remaining after the final capital contribution from the investor member shall be distributed to the Guste Homes III, LLC. As of December 31, 2017, no amounts had been funded.

8. Property security reserve

Pursuant to the Operating Agreement, the Managing Member of Guste Homes III, LLC is required to establish an initial Property Security Reserve of \$175,000 in a separate reserve account in order to provide for physical security of the Project. The reserve is to be funded from capital contributions and/or loan proceeds and shall be held throughout the Compliance Period. CAHC may draw down up to \$35,000 annually for providing security to the Project without consent of the Special Investor Member, provided CAHC verifies that such funds are utilized for security purposes. If there are insufficient funds to fund the property security reserve from the aforementioned sources at the time of the fifth capital contribution, CAHC shall be required to fund the property security reserve. As of December 31, 2017, no amounts had been funded.

9. Tax and insurance escrow

Pursuant to the Operating Agreement, the Managing Member of Guste Homes III, LLC is required to establish an initial tax and insurance escrow of \$217,463 in a separate escrow account in order to provide for insurance and tax payments for the project. The initial escrow is to be funded from capital contributions and/or loan proceeds. If there are insufficient funds to fund the initial tax and insurance escrow from the aforementioned sources at the time of the fourth capital contribution, CAHC shall be required to fund the initial tax and insurance escrow. As of December 31, 2017, no amounts had been funded.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE C - RELATED PARTY TRANSACTION**

1. Voucher subsidy from HANO

Fischer I, LLC, Fischer III, LLC, Guste I, LLC, and Guste Homes III, LLC are eligible to house tenants receiving Housing Choice Voucher rental assistance through vouchers issued by HANO. These amounts are included in rental income on the consolidated statement of activities. During 2017, Fischer I, LLC, Fischer III, LLC, Guste I, LLC, and Guste Homes III, LLC received voucher subsidy from HANO in the amount of \$61,558, \$234,101, \$176,590, and \$88,894 respectively.

2. Operating subsidy from HANO

HANO has entered into an Amended and Restated Regulatory and Operating Agreement (the Agreement) with Fischer I, LLC, Fischer III, LLC, and Guste I, LLC that provides for an operating subsidy amount for annual operations. Pursuant to the Agreement, the units at each project are to be operated as Public Housing Units and subject to all regulations therein.

During 2017, Fischer I, LLC received an operating subsidy from HANO in the amount of \$58,520.

During 2017, Fischer III, LLC received an operating subsidy from HANO in the amount of \$322,627.

During 2017, Guste I, LLC received an operating subsidy from HANO in the amount of \$253,824. Guste I, LLC is due \$377,600 as of December 31, 2017 as a result of the operating subsidy due from HANO.

3. Developer agreement

Fischer I, LLC, Fischer III, LLC, and Guste I, LLC entered into development agreements with CAHC. The agreements provide for development fees and overhead for services in connection with the development of each project and supervision of the construction. Development fees are earned based upon the occurrence of certain events, as defined during development and construction. The developer fees are expected to be paid out of investor equity contributions.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE C - RELATED PARTY TRANSACTION (continued)**

3. Developer agreement (continued)

As of December 31, 2017, the cumulative total developer fees are as follows and the payable and receivable are eliminated in the consolidated financial statements:

	Total Development Fee Earned	Amount Payable
Fisher I, LLC	\$ 279,026	\$ 173,600
Fisher III, LLC	1,355,564	1,055,564
Guste I, LLC	1,199,510	899,510
	<u>\$ 2,834,100</u>	<u>\$ 2,128,674</u>

In addition, CAHC had development agreements with Guste Homes III, LLC and Iberville Offsite Rehab I, LLC. The agreements provide for development fees and overhead for services in connection with the development of each project and supervision of the construction. Development fees are earned based upon the occurrence of certain events, as defined, during development and construction. Total developer fees and amounts earned to date are as follows:

	Total Development Fee	Amount Earned and Received	Amount Earned and Payable
Guste Homes III, LLC	\$ 5,310,193	\$ 2,655,097	\$ 1,327,549
Iberville Offsite Rehab I, LLC	956,595	95,697	-
	<u>\$ 6,266,788</u>	<u>\$ 2,750,794</u>	<u>\$ 1,327,549</u>

Developer fees of \$1,327,549 earned by and payable from Guste Homes III, LLC have not been recognized as revenue by CAHC due to the uncertainty of collection and will be recognized once received.

4. Asset management fee

Pursuant to the Operating Agreement, the Investor Member of Fischer I, LLC, Fischer III, LLC, and Guste I, LLC shall earn an annual, cumulative fee. For Fischer III, LLC and Guste I, LLC, the fee is adjusted each year for the changes in the Consumer Price Index.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE C - RELATED PARTY TRANSACTION (continued)**

4. Asset management fee (continued)

Total fees earned and payable as of December 31, 2017 and for the year then ended are as follows:

	Fees Earned	Amount Payable
Fisher I, LLC	\$ 2,500	\$ 208
Fisher III, LLC	7,129	68,417
Guste I, LLC	6,428	23,882
	<u>\$ 16,057</u>	<u>\$ 92,507</u>

Pursuant to the Operating Agreement of Guste Homes III, LLC, a one-time asset management fee in the amount of \$75,000 was paid to the investor member for an annual review of the operations of the Guste Homes III, LLC. The asset management fee is being amortized over the 15 year compliance period.

5. Activity with HANO and CAHC

Fischer I, LLC, Fischer III, LLC, and Guste I, LLC incurred costs due to HANO related to the costs associated with the construction and operations of the projects. The advances do not bear interest and are to be paid from any remaining mortgage proceeds, capital contributions, and cash flow. As of December 31, 2017, advances totaling \$2,219,162 is due to HANO and is included in due to related parties in the accompanying consolidated statement of financial position. These advances consist of the following amounts as of December 31, 2017:

	Advances from HANO
Fisher I, LLC	\$ 107,611
Fisher III, LLC	1,709,316
Guste I, LLC	402,235
	<u>\$ 2,219,162</u>

In addition, HANO pays for common costs for operations that create a payable due to HANO. As of December 31, 2017, Fischer I, LLC and Guste I, LLC owed HANO \$122,496 and \$404,385, respectively, for operations costs and is included in due to related parties in the accompanying consolidated statement of financial position.

Fischer I, LLC owes CAHC for property insurance paid by CAHC. The balance due as of December 31, 2017 is \$136,164 and is included in due to related parties in the accompanying consolidated statement of financial position.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE C - RELATED PARTY TRANSACTION (continued)**

**5. Activity with HANO and CAHC (continued)**

Fischer III, LLC owes HANO and CAHC for property insurance and allocated payroll paid by HANO and CAHC. The balance due as of December 31, 2017 is \$487,237 and is included in due to related parties in the accompanying consolidated statement of financial position.

Guste I, LLC owes CAHC for property insurance paid by CAHC. The balance due as of December 31, 2017 is \$223,748 and is included in due to related parties in the accompanying consolidated statement of financial position.

**6. Management fees**

Fischer III, LLC incurred management fees due to HANO prior to 2009 of which the outstanding balance of \$3,360 remains payable at December 31, 2017 and is included in due to related party balance on the consolidated statement of financial position.

**NOTE D - NOTES PAYABLE**

A summary of changes in noncurrent notes payable is as follows:

	Payable at January 1, 2016	Additions	Reductions/ Amortization	Payable at December 31, 2017	Due within one year
<b>Fischer I, LLC</b>					
Capital Funds Note	\$ 1,424,059	\$ -	\$ -	\$ 1,424,059	\$ -
Program Income Note	196,300	-	-	196,300	-
Supplemental Loan	130,000	-	-	130,000	-
Affordable Housing Program Loan	100,000	-	-	100,000	-
Total Fischer I, LLC	<u>1,850,359</u>	<u>-</u>	<u>-</u>	<u>1,850,359</u>	<u>-</u>
<b>Fischer III, LLC</b>					
Construction Note Payable	14,710,628	-	-	14,710,628	-
Debt issuance costs	(266,127)	-	37,691	(228,436)	-
Supplemental Loan	3,064,919	-	-	3,064,919	-
Affordable Housing Program Loan	350,000	-	-	350,000	-
Program Income Loan	344,314	-	-	344,314	-
Total Fischer III, LLC	<u>18,203,734</u>	<u>-</u>	<u>37,691</u>	<u>18,241,425</u>	<u>-</u>
<b>Guste I, LLC</b>					
Mortgage Note Payable	12,672,614	-	-	12,672,614	-
Debt issuance costs	(429,431)	-	69,660	(359,771)	-
Supplemental Loan	2,039,988	-	-	2,039,988	-
Construction Loan	140,511	-	-	140,511	-
Total Guste I, LLC	<u>14,423,682</u>	<u>-</u>	<u>69,660</u>	<u>14,493,342</u>	<u>-</u>
<b>Guste Homes III, LLC</b>					
Construction Mortgage Note	25,600,000	-	(25,600,000)	-	-
Construction Note with HANO	33,389,901	18,184,739	-	51,574,640	-
Total Guste I, LLC	<u>58,989,901</u>	<u>18,184,739</u>	<u>(25,600,000)</u>	<u>51,574,640</u>	<u>-</u>
	<u>\$ 93,467,676</u>	<u>\$ 18,184,739</u>	<u>\$ (25,492,649)</u>	<u>\$ 86,159,766</u>	<u>\$ -</u>

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE D - NOTES PAYABLE (continued)**

1. Fischer I, LLC

**Capital Funds Note**

During 2005, Fischer I, LLC entered into a Capital Funds Note with HANO to provide financing for the development of the Project. During 2007, there was an addition to the balance of this loan when HANO reimbursed JPMorgan Chase Bank for an outstanding construction loan on behalf of Fischer I, LLC. The loan bears interest at the long term applicable federal rate, which was 4.68% at the time the loan was funded, and is collateralized by the Project. All unpaid principal and interest is due on January 31, 2060, and payments on the loan are to be made from surplus cash. As of December 31, 2017, the balance of the HANO Capital Funds Note of \$1,424,059 is included in notes payable - related party in the accompanying consolidated statement of financial position. Interest incurred during the year ending December 31, 2017 was \$104,897. Accrued interest payable on the note for December 31, 2017 is \$922,204.

**Program Income Note**

On January 20, 2005, Fischer I, LLC entered into a Program Income Construction Mortgage Note with HANO in the amount of \$196,300. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Projects and bears interest annually at the long term applicable federal rate, which was 4.76% at the time the loan was funded. The loan is collateralized by the Project, and the entire amount of unpaid principal and interest is due and payable on January 31, 2060. Interest incurred during the year ending December 31, 2017 was \$14,838. Accrued interest payable on the note for December 31, 2017 is \$161,403.

**Supplemental Loan**

On November 1, 2006, Fischer I, LLC entered into a Supplemental Loan with HANO in the amount of \$130,000. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash. The current balance on the loan for December 31, 2017 is \$130,000.

**Affordable Housing Program Loan**

On November 16, 2005, Fischer I, LLC entered into an Affordable Housing Program Loan with HANO in the amount of \$100,000 to assist Fischer I, LLC in financing the Project. The loan bears no interest, and is collateralized by the Project. The loan matures fifteen years from completion of the Project, which occurred on May 27, 2006. The Affordable Housing Program Loan is payable from remaining mortgage proceeds, capital contributions, and available cash flow from the Project. The current loan balance for December 31, 2017 is \$100,000.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE D - NOTES PAYABLE (continued)**

2. Fischer III, LLC

**Construction Note Payable**

In December 2003, Fischer III, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the project and payment of bond redemption. The principal amount of the note was \$13,634,195. In January 2005, Fischer III, LLC entered into a new financing agreement in the amount of \$14,710,628 with HANO. The loan bears interest at 3% with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended to December 31, 2011. Outstanding principal as of December 31, 2017 was \$14,710,628. Total interest expense for 2017 was \$481,505. Accrued interest as December 31, 2017 was \$9,568,759 and is included in accrued interest payable to related party.

Debt issuance costs, net of accumulated amortization, totaling \$228,436 as of December 31, 2017 is related to the construction mortgage note and is being amortized using an imputed interest rate of 3.09%. Amortization of debt issuance costs of \$37,691 was charged to operations for the year ended December 31, 2017 and is included in interest expense - mortgage notes payable on the consolidated statement of activities.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member. HANO does not hold Fischer III, LLC in default.

**Supplemental Loan**

On November 1, 2006, a Supplemental Loan was obtained with HANO in the amount of \$3,064,919. The loan bears no interest and is collateralized by the project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash.

**Affordable Housing Program Loan**

On November 16, 2005, an Affordable Housing Program Loan was obtained from HANO, in the amount of \$350,000, to assist the Fischer III, LLC in financing the project. The loan bears no interest, is collateralized by the project, and is payable from remaining mortgage proceeds, capital contributions, and available cash flows from the project. The loan will be maintained for 15 years from the date of project completion.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE D - NOTES PAYABLE (continued)**

2. Fischer III, LLC (continued)

**Program Income Note**

In January 2005, a Program Income Loan was obtained from HANO in the amount of \$344,314. The loan was obtained in connection with the financing of the acquisition, development, and construction of the project, is collateralized by the project, and accrues interest at 0.5%. The loan is due January 1, 2060 and payments are to be made from cash flow as defined by the Operating Agreement. Interest incurred during the year ended December 31, 2017 was \$1,721. Accrued interest payable as of December 31, 2017 was \$22,286 and is included in accrued interest payable.

3. Guste I, LLC

**Mortgage Note Payable**

In December 2003, Guste I, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of the note was \$13,189,372. In January 2005, Guste I, LLC entered into a new financing agreement in the amount of \$10,643,312 with HANO. The loan bears interest at 3% with both the unpaid principal and interest due and payable on February 1, 2007. During 2014, Guste I, LLC converted the construction mortgage note into the permanent loan of \$8,698,042 plus capitalized interest of \$3,974,572. The new mortgage is for \$12,672,614 and accrues interest at 3%. Any principal and interest payments are subject to available cash flow. The entire amount of unpaid principal and interest is due January 31, 2060. Accrued interest at December 31, 2017 was \$1,330,624 and interest expense was \$449,898 for the year ended December 31, 2017.

Debt issuance costs, net of accumulated amortization, totaled \$359,771 as of December 31, 2017 and are related to the mortgage note payable. Amortization of debt issuance costs on the above loan is being amortized using an imputed interest rate of 3.272%.

**Supplemental Loan**

In November 2006, a supplemental loan in the amount of \$2,939,498 was obtained from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE D - NOTES PAYABLE (continued)**

3. Guste I, LLC (continued)

**Construction Note Payable**

In January 2005, a construction loan in the amount of \$248,999 was obtained from HANO. The construction loan accrues interest at 3% with both the unpaid principal and interest due on January 31, 2060. For the year ended December 31, 2017, interest incurred was \$4,215. Accrued interest payable as of December 31, 2017 was \$85,388 and is included in accrued interest payable.

4. Guste Homes III, LLC

**Construction Mortgage Note**

In November 2013, Guste Homes III, LLC entered into a financing agreement with the Louisiana Housing Corporation to use the proceeds from the issuance of a Multifamily Housing Revenue Bond for the construction and development of the Project. The principal amount of the note is \$25,600,000. During 2016, Guste Homes III, LLC prepaid one year of interest on the note for a period of forbearance of one year. During the current fiscal year, the note was fully paid off using the construction escrow (see Note B).

**Construction Note with HANO**

In November 2013, Guste Homes III, LLC obtained a non-interest bearing construction loan in the amount of \$38,628,000 from HANO. However, as of December 31, 2017, in addition to the full principal amount of \$33,389,901, Guste Homes III, LLC borrowed an additional \$18,184,739, which is included in mortgage loan due to subsidiaries on the consolidated statement of financial position, to continue construction. The loan will convert to permanent financing upon completion of construction. The permanent loan will bear interest at a rate of .95% payable from cash flow. All outstanding principal and interest shall be due at maturity on May 31, 2066.

**NOTE E - MANAGEMENT AGREEMENT**

Fischer I, LLC entered into an agreement with Guste Homes Resident Management Corporation ("Guste RMC"), an unrelated third party, for a monthly management fee equal to \$35 per each occupied unit per month. Effective October 2015, the Project is now managed by HANO, an affiliate of the Managing Member. As of and for the year ended December 31, 2017, \$7,140 was charged to operations and \$595 remains payable.

Fischer III, LLC entered into an agreement with Guste RMC in connection with the management of the rental operations of the Project. The property management fee is calculated in the amount of \$35 per occupied unit month. Effective October 2015, the Project is managed by HANO, an affiliate of the Managing Member. As of and for the year ended December 31, 2017, \$39,970 was charged to operations and \$73,810 remains payable.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE E - MANAGEMENT AGREEMENT (continued)**

Guste I, LLC entered into an agreement with Guste RMC for a monthly management fee equal to \$23.50 per each occupied unit per month. For the year ended December 31, 2017, \$21,432 was charged to operations. As of December 31, 2017, Guste I, LLC has a payable to Guste RMC of \$42,510 for unpaid reimbursement of payroll and other services.

Guste Homes III, LLC entered into a management agreement with Guste Homes Resident Management Corporation for a monthly management fee equal to \$35 per month per unit for all units, whether they are occupied or not. The agreement is effective upon completion of the Project. No management fees were incurred through December 31, 2017.

**NOTE F - INVESTOR EQUITY**

1. Fischer I, LLC

Capital contributions totaling \$2,079,000, including a downward adjuster of \$45, are due from the Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2017, the Investor Member has funded \$2,078,955. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member is required to make contributions of \$100 and the Special Member is required to make contributions of \$10.

2. Fischer III, LLC

Capital contributions totaling \$6,560,210 are due from the Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2017, the Investor Member has funded \$300,000. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member is required to make contributions of \$100 and the Special Member is required to make contributions of \$10. As of December 31, 2017, \$6,260,210 remains payable.

3. Guste I, LLC

Capital contributions totaling \$4,817,971, including an upward adjuster of \$11,722, are due from the Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2017, the Investor Member has funded \$4,163,722. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member is required to make contributions of \$100 and the Special Member is required to make contributions of \$10. As of December 31, 2017, \$654,249 remains payable.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE F - INVESTOR EQUITY**

4. Guste Homes III, LLC

Capital contributions totaling \$18,109,177 are due from the Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2017, the Investor Member has funded \$6,745,668. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member is required to make contributions of \$100 and the Special member is required to make contributions of \$10.

**NOTE G - GROUND LEASE**

Fischer I, LLC entered into a ground lease with HANO. Fischer I, LLC is bound by the responsibilities and obligations of the ground lease. Under the ground lease, annual rent of \$10 is due and payable for each lease year in advance on the first day of each lease year. The lease term ends at the latest to occur of (1) the expiration of the minimum period during which the Public Housing Units are required by law to be operated as public housing, (2) 40 years from the date the Project becomes available for occupancy, and (3) 89 years. The lease also has provisions extending the ground lease, but in no event will the lease extend beyond 95 years.

On December 30, 2003, Fischer III, LLC entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from Fischer III, LLC on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2017, the prepaid ground lease was \$35,380.

On December 30, 2003, Guste I, LLC entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from Guste I, LLC on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2017, the prepaid ground lease was \$35,375.

On November 1, 2013, Guste Homes III, LLC entered into a forty-year ground lease with HANO. The lease requires an annual rent payment of \$10 per year and expires 40 years after the commencement date. As of December 31, 2017, the base rent for the entire term has been paid in full.

**NOTE H - CONCENTRATION OF CREDIT RISK**

The Corporation maintains its cash balances in several accounts in one bank. At times, these balances may exceed the federal insurance limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2017.

**Crescent Affordable Housing Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE I - COMMITMENTS AND CONTINGENCIES**

For Fischer I, LLC, Fischer III, LLC, Guste I, LLC, and Guste Homes III, LLC, the low-income housing tax credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Investor Member of each entity.

**NOTE J - SUBSEQUENT EVENTS**

The Corporation has evaluated subsequent events through June 29, 2018, the date which the financial statements were available to be issued, and noted no issues to be disclosed.

**SUPPLEMENTAL INFORMATION**

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

December 31, 2017

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterpsnes, LLC and Subsidiaries	Guste Homes III, LLC	Eliminations	Total
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents - unrestricted	\$ 1,016,316	\$ -	\$ 2,283,806	\$ 95,732	\$ -	\$ 3,395,854
Cash and cash equivalents - restricted	-	-	1,119,626	233,311	-	1,352,937
Developer fee receivable	2,128,674	-	-	-	(2,128,674)	-
Accounts receivable, net	-	25,353	14,643	3,623	-	43,619
Prepaid expenses	-	-	39,543	309,260	-	348,803
Due from related party	468,423	-	377,600	45,591	(468,423)	423,191
Total current assets	<u>3,613,413</u>	<u>25,353</u>	<u>3,835,218</u>	<u>687,517</u>	<u>(2,597,097)</u>	<u>5,564,404</u>
<b>NONCURRENT ASSETS</b>						
Rental property						
Buildings and improvements	-	-	34,616,975	17,018,359	-	51,635,334
Land improvements	-	-	4,860,619	-	-	4,860,619
Furniture, equipment and machinery	54,053	-	880,539	-	-	934,592
Construction in progress	-	-	-	43,228,577	-	43,228,577
	54,053	-	40,358,133	60,246,936	-	100,659,122
Less accumulated depreciation	(54,053)	-	(13,679,257)	(647,631)	-	(14,380,941)
Total rental property	-	-	26,678,876	59,599,305	-	86,278,181
Tax credit monitoring fees, net	-	-	3,549	96,117	-	99,666
Other assets	651,342	-	70,755	-	(651,342)	70,755
Total noncurrent assets	<u>651,342</u>	<u>-</u>	<u>26,753,180</u>	<u>59,695,422</u>	<u>(651,342)</u>	<u>86,448,602</u>
Total assets	<u>\$ 4,264,755</u>	<u>\$ 25,353</u>	<u>\$ 30,588,398</u>	<u>\$ 60,382,939</u>	<u>\$ (3,248,439)</u>	<u>\$ 92,013,006</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 773	\$ 6,734	\$ 52,971	\$ 22,650	\$ -	\$ 83,128
Accrued expenses	-	-	380	1,601,546	-	1,601,926
Property management fee payable	-	-	116,915	-	-	116,915
Asset management fee payable	-	-	92,507	-	-	92,507
Tenant security deposits	-	-	44,699	6,800	-	51,499
Tenant prepaid rent	-	-	387	-	-	387
Developer fee payable	-	-	2,128,674	1,327,549	(2,128,674)	1,327,549
Due to related party	487,862	-	3,600,662	14,840	(468,423)	3,634,941
Other current liabilities	-	-	77,358	99,166	-	176,524
Total current liabilities	<u>488,635</u>	<u>6,734</u>	<u>6,114,553</u>	<u>3,072,551</u>	<u>(2,597,097)</u>	<u>7,085,376</u>
<b>NONCURRENT LIABILITIES</b>						
Accrued interest payable	-	-	12,090,664	-	-	12,090,664
Notes payable - related party	-	-	34,585,126	51,574,640	-	86,159,766
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>46,675,790</u>	<u>51,574,640</u>	<u>-</u>	<u>98,250,430</u>
Total liabilities	<u>488,635</u>	<u>6,734</u>	<u>52,790,343</u>	<u>54,647,191</u>	<u>(2,597,097)</u>	<u>105,335,806</u>
<b>NET ASSETS</b>						
Unrestricted net assets, CAHC	3,776,120	18,619	(6,306)	(6,960)	(651,342)	3,130,131
Unrestricted net assets, Noncontrolling interest	-	-	(22,195,639)	5,742,708	-	(16,452,931)
Total net assets	<u>3,776,120</u>	<u>18,619</u>	<u>(22,201,945)</u>	<u>5,735,748</u>	<u>(651,342)</u>	<u>(13,322,800)</u>
Total liabilities and net assets	<u>\$ 4,264,755</u>	<u>\$ 25,353</u>	<u>\$ 30,588,398</u>	<u>\$ 60,382,939</u>	<u>\$ (3,248,439)</u>	<u>\$ 92,013,006</u>

See independent auditor's report

**Crescent Affordable Housing Corporation and Subsidiaries**

**CONSOLIDATING STATEMENT OF ACTIVITIES**

Year ended December 31, 2017

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC and Subsidiaries	Guste Homes III, LLC	Eliminations	Total
<b>REVENUES</b>						
Rental income	\$ -	\$ -	\$ 1,678,339	\$ 146,983	\$ -	\$ 1,825,322
Other operating income	325,572	-	28,548	8,669	-	362,789
Total operating revenues	<u>325,572</u>	<u>-</u>	<u>1,706,887</u>	<u>155,652</u>	<u>-</u>	<u>2,188,111</u>
<b>EXPENSES</b>						
Salaries and employee benefits	-	-	121,390	39,153	-	160,543
Utilities	-	-	328,197	7,251	-	335,448
Repairs and maintenance	-	-	506,941	166,703	-	673,644
Protective services	-	-	187,485	23,162	-	210,647
Insurance	-	-	386,007	146,807	-	532,814
Tenant services	190,157	-	53,551	5,593	-	249,301
Other general and administrative	270,939	-	239,674	34,208	-	544,821
Total operating expenses	<u>461,096</u>	<u>-</u>	<u>1,823,245</u>	<u>422,877</u>	<u>-</u>	<u>2,707,218</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>(135,524)</u>	<u>-</u>	<u>(116,358)</u>	<u>(267,225)</u>	<u>-</u>	<u>(519,107)</u>
<b>OTHER INCOME (EXPENSES)</b>						
Interest income	2,579	-	3,254	335	-	6,168
Interest expense - related party	-	-	(1,056,159)	-	-	(1,056,159)
Depreciation	(3,364)	-	(1,204,875)	(618,849)	-	(1,827,088)
Amortization	-	-	(906)	(6,866)	-	(7,772)
Total other income (expenses)	<u>(785)</u>	<u>-</u>	<u>(2,258,686)</u>	<u>(625,380)</u>	<u>-</u>	<u>(2,884,851)</u>
Change in net assets	(136,309)	-	(2,375,044)	(892,605)	-	(3,403,958)
Noncontrolling interest	-	-	2,374,806	885,650	-	3,260,456
<b>Change in net assets attributable to Crescent Affordable Housing Corporation</b>	<u>\$ (136,309)</u>	<u>\$ -</u>	<u>\$ (238)</u>	<u>\$ (6,955)</u>	<u>\$ -</u>	<u>\$ (143,502)</u>

See independent auditor's report.

**Crescent Affordable Housing Corporation and Subsidiaries**

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD  
OR CHIEF EXECUTIVE OFFICE**

**December 31, 2017**

**Agency Head Name:** Gregg Fortner  
Executive Director of the Housing Authority of New Orleans

<b>Purpose</b>	<b>Amount</b>
Salary	None
Benefits-insurance	None
Benefits-retirement	None
Benefits-Deferred Comp	None
Car allowance	None
Vehicle provided by government	None
Per diem	None
Reimbursements	None
Travel	None
Registration fees	None
Conference travel	None
Continuing professional education fees	None
Housing	None
Unvouchered expenses	None
Special meals	None

CAHC provides no compensation, benefits, or other payments to the Executive Director of the Housing Authority of New Orleans (HANO). HANO is the governmental unit that controls CAHC. All compensation, benefits, and other payments to HANO's Executive Director are included in the financial statements of HANO.

See independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,  
Crescent Affordable Housing Corporation and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Crescent Affordable Housing Corporation and Subsidiaries (collectively referred to as the "Corporation"), as of and for the year ended December 31, 2017, and the related notes to the consolidated financial statements, which collectively comprise the Corporation's consolidated financial statements, and have issued our report thereon dated June 29, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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.

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 Corporation'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as **Finding No. 2017-001** that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Corporation's Response to Finding**

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

June 29, 2018  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

**Crescent Affordable Housing Corporation and Subsidiaries**

**SCHEDULE OF FINDINGS AND RESPONSES**

**December 31, 2017**

**2017-001 Internal Controls over Accounting and Financial Statement Preparation are Inadequate to Ensure Accurate Reporting**  
*Material Weakness in Internal Control*

Criteria: Sound financial accounting and reporting should provide complete and accurate financial information.

Condition: During fiscal year 2017, the Corporation did not properly record accounting transactions related to the construction activity, including costs and related debt.

Cause: The Corporation did not have the proper internal controls over accounting processes in place to record the construction activity, including costs and related debt.

Effect: Material audit adjustments were recorded as part of the current year audit.

Auditor's Recommendations: The Corporation should hire or subcontract with additional accounting staff to assist in the timely and accurate closing of the financial records.

View of Responsible Officials: Management concurs with this finding and is in the process of hiring additional accounting assistance.