

**GUSTE
HOMES III, LLC**

Financial Statements

**Year ended
December 31, 2018**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Operations	4
Statement of Members' Capital	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTAL INFORMATION	
Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer	17
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>	18
Schedule of the Status of Prior Year Audit Findings and Responses	20

255 S. Orange Ave. Suite 1545
Orlando, FL 32801
Phone: 407-841-8841
Fax: 407-841-8849

www.bermanhopkins.com

8035 Spyglass Hill Road
Melbourne, FL 32940
Phone: 321-757-2020
Fax: 321-242-4844

1415 S. Washington Ave.
Titusville, FL 32780
Phone: 321-267-2190
Fax: 321-268-2272

INDEPENDENT AUDITOR'S REPORT

To the Members of
Guste Homes III, LLC

We have audited the accompanying financial statements of Guste Homes III, LLC (the "Company"), which comprise the balance sheet as of December 31, 2018, and the related statements of operations, members' capital, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity'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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, 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 financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for the purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 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 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 March 15, 2019 on our consideration of the Company'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 Company's internal control over financial reporting and compliance.

March 15, 2019
Melbourne, Florida

Berman Hopkins Wright & Latham
CPAs and Associates, LLP

GUSTE HOMES III, LLC

BALANCE SHEET

December 31, 2018

ASSETS

Investment in rental property, net	\$ 58,542,875
Cash and cash equivalents - unrestricted	243,981
Cash and cash equivalents - restricted	228,787
Accounts receivable, net	6,630
Due from affiliates	128,335
Prepaid expenses	73,306
Tax credit monitoring fees, net	<u>89,251</u>
Total assets	<u>\$ 59,313,165</u>

LIABILITIES AND MEMBERS' CAPITAL

LIABILITIES

Accounts payable	\$ 28,094
Contract retention payable	8,433
Tenant security deposits	22,200
Developer fee payable	1,327,549
Mortgage loan due to affiliates	52,455,653
Due to affiliates	1,013,401
Other current liabilities	<u>67,765</u>
Total liabilities	<u>54,923,095</u>

MEMBERS' CAPITAL

Managing member deficit	(229)
Investor member	<u>4,390,299</u>
Total members' capital	<u>4,390,070</u>
Total liabilities and members' capital	<u>\$ 59,313,165</u>

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

GUSTE HOMES III, LLC

STATEMENT OF OPERATIONS

Year ended December 31, 2018

REVENUES

Rental income	\$ 693,621
Vacancies and concessions	<u>(4,328)</u>
Total tenant revenue, net	689,293
Other operating income	<u>110,574</u>
Total operating revenues	<u>799,867</u>

EXPENSES

Advertising and marketing	912
Insurance	168,828
Other general and administrative	45,691
Management fees	16,250
Repairs and maintenance	49,728
Salaries	257,319
Tenant services	6,939
Utilities	<u>127,808</u>
Total operating expenses	<u>673,475</u>

NET OPERATING LOSS

126,392

OTHER INCOME (EXPENSES)

Interest income	266
Depreciation	(1,465,470)
Amortization	<u>(6,866)</u>
Total other income (expenses)	<u>(1,472,070)</u>

NET LOSS

\$ (1,345,678)

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

GUSTE HOMES III, LLC

STATEMENT OF MEMBERS' CAPITAL

Years ended December 31,

	Managing Member	Special Member	Investor Member	Total Members' Capital
Members' capital (deficit), December 31, 2017	\$ (94)	\$ -	\$ 5,735,842	\$ 5,735,748
Net loss	(135)	-	(1,345,543)	(1,345,678)
Members' capital (deficit), December 31, 2018	\$ (229)	\$ -	\$ 4,390,299	\$ 4,390,070

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

GUSTE HOMES III, LLC

STATEMENT OF CASH FLOWS

Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (1,345,678)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	1,465,470
Amortization - tax credit monitoring fees	6,866
(Increase) decrease in assets:	
Accounts receivable, net	(3,007)
Due from affiliates	(82,744)
Prepaid expenses	12,901
Increase (decrease) in liabilities:	
Accounts payable	5,444
Due to affiliate	261,901
Tenant security deposits	15,400
Other current liabilities	<u>(192,828)</u>
Net cash used in operating activities	<u>143,725</u>
Net increase in cash	143,725
Cash and cash equivalents at beginning of year	<u>329,043</u>
Cash and cash equivalents at end of year	<u><u>\$ 472,768</u></u>

RECONCILIATION TO BALANCE SHEET:

Cash and cash equivalents - unrestricted	\$ 243,981
Cash and cash equivalents - restricted	<u>228,787</u>
	<u><u>\$ 472,768</u></u>

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

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of operations

Guste Homes III, LLC (the "Company"), was formed as a limited liability company under the laws of the State of Louisiana on January 1, 2012 to construct, develop and operate an 155-unit apartment project known as Guste Homes Phase III (the "Project") in New Orleans, Louisiana. The Project is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided under Section 42 of the Internal Revenue Code.

The Managing Member is Crescent Affordable Housing Corporation ("CAHC"), a Louisiana not-for-profit corporation. The Investor Member is RBC Tax Credit Equity National Fund 19, LP, an Illinois limited liability company. The Special Member is RBC Tax Credit Manager II, Inc., an Illinois corporation. In addition, the liability of the members of the Company is limited to the members' total capital contributions. The ownership of the Company is as follows:

Entity	Role	Percentage Ownership
Crescent Affordable Housing Corporation	Managing Member	0.01%
RBC Tax Credit Equity National Fund 19, LP	Investor Member	99.99%
RBC Tax Credit Manager II, Inc.	Special Member	0.00%
		100.00%

Profits, losses and tax credits are allocated in accordance with the Amended and Restated Operating Agreement, dated November 1, 2013 (the "Operating Agreement"). Profits and losses from operations and low-income housing tax credits in any one year are allocated 99.99 percent to the Investor Member and 0.01 percent to the Managing Member.

Each building of the Project is expected to qualify for low-income housing tax credits pursuant to Internal Revenue Code Section 42 ("Section 42") which regulates the use of the Project to occupant eligibility and unit gross rent, among other requirements. The total low-income housing credits expected to be generated from the State of Louisiana is \$19,014,160 and will be available for use by the members pro rata over a ten-year period. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The Compliance period will end 15 years after the Project is placed into service. In addition, the Company has executed an extended use regulatory agreement and declaration of restrictive covenants which required the utilization of the project pursuant to Section 42 for a minimum of 50 years.

The term of the Company shall continue in perpetuity, unless sooner dissolved in accordance with the provisions of the Operating Agreement.

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Nature of operations (continued)

The Company is a component unit of the Housing Authority of New Orleans ("HANO") under the requirements of Governmental Accounting Standards Board ("GASB") *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100, *Defining the Financial Reporting Entity*, and 2600, *Reporting Entity and Component Unit Presentation and Disclosure*. The Company is presented as a discretely presented component unit of HANO as there is a financial benefit/burden relationship with 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. 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 during the reporting period, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and those differences could be material.

4. Tenant receivable and bad debts

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.

5. Rental income

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

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Income taxes

The Company is not a taxpaying entity for federal or state income tax purposes since taxable income or loss passes through to, and is reportable by, the members individually. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Company accounts for income taxes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*, which clarifies the accounting and disclosure requirements for uncertainty in tax positions. It requires a two-step approach to evaluate tax positions and determine if they should be recognized in the financial statements. The two-step approach involves recognizing any tax positions that are "more likely than not" to occur and then measuring those positions to determine if they are recognizable in the financial statements. Management regularly reviews and analyzes all tax positions and has determined no aggressive tax positions have been taken.

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2014 to 2018. In evaluating the Company's tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

7. Cash and cash equivalents

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

8. Tax credit monitoring fees

Costs related to obtaining low-income housing tax credits will be amortized over the mandatory 15-year compliance period. Accumulated amortization at December 31, 2018 is \$13,732. Estimated amortization expense for each of the following years is as follows:

2019	\$	6,866
2020		6,866
2021		6,866
2022		6,866
2023		6,866
Thereafter		54,921
	\$	<u>89,251</u>

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Investment in rental property

Investment in rental property consists of property and equipment, which is recorded at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	15 years
Buildings and improvements	27.5 years
Furniture and equipment	5-7 years

Investment in rental property, net, is comprised of the following as of December 31, 2018:

Construction in progress	\$ 20,355,539
Buildings and improvements	<u>40,300,437</u>
	60,655,976
Less accumulated depreciation	<u>(2,113,101)</u>
	<u>\$ 58,542,875</u>

10. Impairment of long-lived assets

The Company evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Company determines that a long-lived asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Company's financial statements. In the current year, the Company did not recognize any loss on impairment related to its long-lived assets.

11. Advertising and marketing costs

The Company's policy is to expense advertising and marketing costs when incurred. For the year ended December 31, 2018, the Company charged \$912 in advertising and marketing expense to operations.

12. Economic concentrations

The Company operates one property 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.

GUSTE HOMES III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE B - ESCROW DEPOSITS AND RESTRICTED BALANCES

Restricted cash and cash equivalents consist of the following at December 31, 2018:

Development escrow	\$	41,068
ACC reserve		165,519
Tenant security deposits		22,200
	\$	228,787

1. Development escrow

In connection with the construction of the Project, the Investor Member has established an escrow account to pay for future development costs. As of December 31, 2018, the balance in the escrow was \$41,068.

2. Replacement reserve

Pursuant to the Operating Agreement, the Company 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 three percent commencing on the date of substantial completion. As of December 31, 2018, no amounts have been funded.

3. ACC reserve

Pursuant to the Operating Agreement, the Company shall establish a reserve account in the amount of \$365,000 as set forth in the Regulatory and Operating Agreement between the Company and HANO. Funds in the ACC subsidy reserve may be used to pay operating expenses subject to approval and consent of HANO. The ACC reserve is to be funded \$165,000 from the second capital contribution and \$200,000 from the seventh capital contribution from the investor member. As of December 31, 2018, the balance in the escrow was \$165,519.

4. Operating reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish an operating reserve of \$480,000 in a separate reserve account to fund excess operating expenses over revenues and debt service, to the extent required, subject to any requisite approvals and to the consent of the Special Investor Member. 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 seventh capital contribution, CAHC shall be required to fund the operating reserve. As of December 31, 2018, no amounts have been funded.

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE B - ESCROW DEPOSITS AND RESTRICTED BALANCES (continued)

5. Rental achievement reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish a rental achievement reserve of \$100,000 in a separate reserve account in order to ensure 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 rental achievement reserve from the aforementioned sources at the time of the sixth capital contribution, CAHC shall be required to fund the rental achievement reserve. Any balance remaining after the final capital contribution from the investor member shall be distributed to the Company. As of December 31, 2018, no amounts have been funded.

6. Property security reserve

Pursuant to the Operating Agreement, the Managing Member 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, 2018, no amounts have been funded.

7. Tax and insurance escrow

Pursuant to the Operating Agreement, the Managing Member 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, 2018, no amounts have been funded.

GUSTE HOMES III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE C - RELATED PARTY TRANSACTIONS

Operating subsidy from HANO

HANO has entered into a Regulatory and Operating Agreement (the "Agreement") with the Company that provides for an operating subsidy amount for annual operations. Pursuant to the Agreement, 109 units of the Apartments are to be operated as Public Housing Units and are subject to all regulations therein. During 2018, the Company received an operating subsidy from HANO in the amount of \$199,473.

Voucher subsidy from HANO

The Company is eligible to house tenants receiving Housing Choice Voucher rental assistance through vouchers issued by HANO. During 2018, the Company received voucher subsidy from HANO in the amount of \$268,718, which is included in rental income on the statement of operations.

Asset management fee

Pursuant to the Operating Agreement, 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 Company and the Project. The asset management fee is being amortized over the 15 year compliance period.

Developer fee

The Company has entered into a development agreement with HANO. The agreement provides for a development fee in the amount of \$5,310,193, for services in connection with the development of the Project and the supervision of construction. Development fees are recognized as incurred ratably over the course of construction. As of December 31, 2018, \$2,655,097 has been earned of which \$1,327,549 remains payable.

Due from affiliates

Guste Homes Resident Management Corporation, the management company, owes the Company for operating expenses paid on behalf of the management company. As of December 31, 2018, the Company held a receivable of \$128,335 from the management company.

Due to affiliates

The Company owes CAHC for operating expenses paid by CAHC on behalf of the Company. As of December 31, 2018, the balance owed was \$1,013,401.

GUSTE HOMES III, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D - MORTGAGE NOTES PAYABLE

Mortgage loan due to affiliates

In November 2013, the Company obtained a non-interest bearing construction loan in the amount of \$38,628,000 from HANO. However, as of December 31, 2018, in addition to the full principal amount of \$38,628,000, the Company has borrowed an additional \$13,827,653, for a total of \$52,455,653 which is included in mortgage loan due to affiliates on the balance sheet, 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 - MEMBERS' CAPITAL

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, 2018, 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 F - MANAGEMENT AGREEMENT

The Company has 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. For the year ended December 31, 2018, \$11,250 was charged to operations.

NOTE G - CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash and cash equivalents with financial institutions. At times, these balances may exceed the federal insurance limits; however, the Company 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 balances at December 31, 2018.

NOTE H - COMMITMENTS AND CONTINGENCIES

Ground lease

On November 1, 2013, the Company 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, 2018, the base rent for the entire term has been paid in full.

GUSTE HOMES III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE H - COMMITMENTS AND CONTINGENCIES (continued)

Legal

The Company may be party to various pending or threatened legal actions in the normal course of operations. As of the date of this report, there are no known threatened or pending legal actions against the Company.

Tax credits

The Company's low-income housing 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 non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Member. Management is not aware of any non-compliance as of the date of this report.

NOTE I - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 15, 2019, the date which the financial statements were available to be issued, and noted no issues to be disclosed.

SUPPLEMENTAL INFORMATION

GUSTE HOMES III, LLC

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

December 31, 2018

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

Purpose	Amount
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

Guste Homes III, LLC 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 Guste Homes III, LLC. All compensation, benefits, and other payments to HANO's Executive Director are included in the financial statements of HANO.

See independent auditor's report.

255 S. Orange Ave. Suite 1545
Orlando, FL 32801
Phone: 407-841-8841
Fax: 407-841-8849

www.bermanhopkins.com

8035 Spyglass Hill Road
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Phone: 321-757-2020
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**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 Members of
Guste Homes III, LLC

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 financial statements of Guste Homes III, LLC (the "Company"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Company's financial statements, and have issued our report thereon dated March 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's 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*.

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 Company'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 Company's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

March 15, 2019
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

GUSTE HOMES III, LLC

SCHEDULE OF THE STATUS OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES

December 31, 2018

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

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

Status: This finding was cleared in the current year.