

**Crescent Affordable Housing
Corporation and Affiliates**

**Consolidated Financial Statements
(With Supplementary Information) and
Independent Auditor's Report**

December 31, 2016 and 2015

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Crescent Affordable Housing Corporation and Affiliates

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Independent Auditor's Report

To the Board of Directors
Crescent Affordable Housing Corporation and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Crescent Affordable Housing Corporation, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Crescent Affordable Housing Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Guidance

As discussed in Note 2 to the financial statements, in 2016, Crescent Affordable Housing Corporation and Subsidiaries adopted new accounting guidance related to the presentation of debt issuance costs. Our opinion is not modified with respect to this mater.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 28 through 34 is presented for 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 chief executive officer (Chief Executive Compensation Schedule) 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 underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 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, 2017, on our consideration of Crescent Affordable Housing 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 the 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 Crescent Affordable Housing Corporation's internal control over financial reporting and compliance.



Charlotte, North Carolina
June 29, 2017

Crescent Affordable Housing Corporation and Affiliates

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

Assets

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 2,894,903	\$ 2,807,121
Accounts receivable - tenant	18,549	27,928
Due from other governments	686,734	585,897
Accounts receivable - other	12,258	10,500
Prepaid expenses	450,157	245,426
Due from related party	<u>314,705</u>	<u>25,353</u>
 Total Current Assets	 <u>4,377,306</u>	 <u>3,702,225</u>
Restricted Deposits and Funded Reserves		
Resident security deposits	31,946	42,878
Replacement reserves	533,070	465,170
Other escrows	<u>26,645,008</u>	<u>30,941,653</u>
 Total Restricted Deposits and Funded Reserves	 <u>27,210,024</u>	 <u>31,449,701</u>
Rental Property		
Buildings and improvements	37,329,315	34,615,625
Land improvements	4,860,619	4,860,619
Furniture, equipment and machinery	934,592	934,592
Construction in progress	<u>39,348,507</u>	<u>38,743,374</u>
	82,473,033	79,154,210
Less accumulated depreciation	<u>(12,553,854)</u>	<u>(11,420,486)</u>
 Total Rental Property	 <u>69,919,179</u>	 <u>67,733,724</u>
Other Noncurrent Assets		
Tax credit monitoring fees	107,440	108,346
Other assets	<u>127,173</u>	<u>133,117</u>
 Total Other Noncurrent Assets	 <u>234,613</u>	 <u>241,463</u>
 Total Assets	 <u><u>\$ 101,741,122</u></u>	 <u><u>\$ 103,127,113</u></u>

Crescent Affordable Housing Corporation and Affiliates

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 115,563	\$ 107,836
Accrued expenses	387,701	5,025,115
Developer fee payable	1,327,549	1,327,549
Property management fee payable	44,279	-
Asset management fee payable	100,542	85,566
Due to related parties	3,991,244	3,458,392
Construction notes payable to related party	14,444,503	14,406,812
Construction note payable to third party	25,600,000	25,300,851
Accrued interest payable to related party	9,127,440	8,686,121
Retainage payable	1,601,546	1,487,033
	<u>56,740,367</u>	<u>59,885,275</u>
Deposits and Prepaid Liability		
Resident security deposits	42,971	43,000
	<u>42,971</u>	<u>43,000</u>
Long-Term Liabilities		
Notes payable - related party	53,556,852	49,976,838
Accrued interest payable	2,014,609	1,513,447
	<u>55,571,461</u>	<u>51,490,285</u>
Contingencies	-	-
Net assets		
Unrestricted Net Assets, Crescent Affordable Housing Corporatio	3,284,366	3,530,017
Unrestricted Net Assets, Noncontrolling Interest	<u>(13,898,043)</u>	<u>(11,821,464)</u>
	<u>(10,613,677)</u>	<u>(8,291,447)</u>
Total Liabilities and Net Assets	<u>\$ 101,741,122</u>	<u>\$ 103,127,113</u>

See Notes to Consolidated Financial Statements.

Crescent Affordable Housing Corporation and Affiliates

**Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Revenues		
Rental income	\$ 1,086,824	\$ 1,068,369
Vacancies and concessions	(61,676)	(59,331)
Other operating income	<u>770,996</u>	<u>1,723,272</u>
 Total Revenue	 <u>1,796,144</u>	 <u>2,732,310</u>
Operating Expenses		
Salaries and employee benefits	414,229	393,113
Repairs and maintenance	343,088	280,903
Utilities	426,232	395,486
Real estate taxes	5,699	-
Property management fee	66,723	61,354
Property insurance	300,283	323,055
Accounting fees	4,010	-
Miscellaneous operating expenses	<u>361,498</u>	<u>557,162</u>
 Total Operating Expenses	 <u>1,921,762</u>	 <u>2,011,073</u>
 Net Operating Income (Loss)	 <u>(125,618)</u>	 <u>721,237</u>
Nonoperating Income (Expenses)		
Interest income	5,772	5,047
Interest expense	(1,049,911)	(1,045,349)
Other financial income (expense)	(912)	(706)
Miscellaneous other income (expense)	2,689	(296,108)
Annual fee to affiliate of limited partner	(19,976)	(19,924)
Depreciation	(1,133,368)	(1,133,129)
Amortization	<u>(906)</u>	<u>(906)</u>
 Total Nonoperating Income (Expense)	 <u>(2,196,612)</u>	 <u>(2,491,075)</u>
 Change in Net Assets	 (2,322,230)	 (1,769,838)
 Attributable to Non-controlling Interest	 <u>(2,076,579)</u>	 <u>(2,400,261)</u>
 Change in Net Assets Attributable to Crescent Affordable Housing Corporation	 <u>\$ (245,651)</u>	 <u>\$ 630,423</u>

See Notes to Consolidated Financial Statements.

Crescent Affordable Housing Corporation and Affiliates

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from operating activities		
Change in net assets	\$ (2,322,230)	\$ (1,769,838)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,133,368	1,133,129
Amortization	906	906
Prepaid asset management fee	5,000	5,000
Amortization of debt issuance costs	107,350	107,351
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable - tenant	9,379	8,867
Due from other governments	(100,837)	(123,208)
Accounts receivable - other	(1,758)	19,779
Prepaid expenses	(209,731)	(217,101)
Due from related party	(289,352)	441,008
Other assets	5,944	944
Deferred revenue	-	(711,484)
Tenant security deposits, net	10,903	4,341
Accounts payable	7,727	8,364
Accrued expenses	(4,637,414)	(407,258)
Asset management fee payable	14,976	14,924
Accrued interest payable to related party	942,481	78,751
Net cash used in operating activities	<u>(5,323,288)</u>	<u>(1,405,525)</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,204,310)	(11,780,308)
Replacement reserve, net	(67,900)	(292,257)
Tax credit monitoring fees paid	-	(10,250)
Other escrows, net	4,296,645	(16,325,091)
Net cash used in investing activities	<u>1,024,435</u>	<u>(28,407,906)</u>
Cash flows from financing activities		
Proceeds from construction notes payable	336,840	11,384,543
Notes payable - related party	3,472,664	13,177,236
Deferred financing fees	-	(346,200)
Capital contributions	-	4,663,113
Due to related party	577,131	842,798
Net cash provided by financing activities	<u>4,386,635</u>	<u>29,721,490</u>
Net increase (decrease) in cash and cash equivalents	87,782	(91,941)
Cash and cash equivalents, beginning of year	<u>2,807,121</u>	<u>2,899,062</u>
Cash and cash equivalents, end of year	<u>\$ 2,894,903</u>	<u>\$ 2,807,121</u>

Crescent Affordable Housing Corporation and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of \$293,214 and \$198,804, respectively, capitalized	<u>\$ 516,267</u>	<u>\$ -</u>
Supplemental schedule of non-cash investing and financing activities:		
Capitalized construction costs payable	\$ 114,513	\$ 2,980,406
Capitalized amortization	-	353,362
Non-cash adjustment to fixed assets	<u>(114,513)</u>	<u>(3,333,768)</u>
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 1 - Organization and Nature of Operations

Organization

Crescent Affordable Housing Corporation (CAHC) is a Louisiana not-for-profit corporation created in December 2003 by the Housing Authority of New Orleans (HANO) 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 (the LLC's) 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, construct, redevelop and rehabilitate 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'S 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.

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 .009 percent 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 and accounts of three limited liability companies in which Lune d'Or has a .01 percent interest. The 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. All significant intercompany transactions have been eliminated in consolidation. The limited liability companies included in the consolidation are as follows:

<u>Entity</u>	<u>Percentage Ownership</u>	<u>Number of Units</u>
Fischer I, LLC	0.010%	20
Fischer III, LLC	0.010%	103
Guste I, LLC	0.010%	82
Guste Homes III, LLC	0.009%	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.

Note 2 - Summary of significant accounting policies

Cash equivalents

For purposes of the statements of cash flows, CAHC considers all cash balances and highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Tenant receivables

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. GAAP 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.

Debt issuance costs

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 computed using an imputed interest rate related to loan.

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 as of December 31, 2016 and 2015 was \$9,143 and \$8,237, respectively.

Estimated amortization expense for each of the ensuing years and thereafter is as follows:

	Fischer I, LLC	Fischer III, LLC	Guste Homes III, LLC	Total
2017	\$ 133	\$ 773	\$ 6,866	\$ 7,772
2018	133	773	6,866	7,772
2019	133	773	6,866	7,772
2020	133	773	6,866	7,772
2021	60	773	6,866	7,699
Thereafter	-	-	68,653	68,653
	<u>\$ 592</u>	<u>\$ 3,865</u>	<u>\$ 102,983</u>	<u>\$ 107,440</u>

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

Impairment of long-lived assets

CAHC 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, 2016 and 2015.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Rental income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between CAHC and the tenants of the properties are operating leases.

Advertising costs

CAHC's policy is to expense advertising costs when incurred.

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 years ended December 31, 2016 and 2015.

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. 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 2013 remain open.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Economic concentrations

All of the operations of CAHC and its consolidated affiliates 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.

Unrestricted net assets noncontrolling 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 assets non-controlling interest on the consolidated financial statements. Noncontrolling interest represents the 99.991 percent of the underlying negative equity of Guste Homes III, LLC not owned by CAHC and 99.99 percent share of the underlying negative equity of those limited liability companies, not wholly owned by Lune d'Or.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Change in accounting principle

During 2016, Crescent Affordable Housing Corporation (CAHC) adopted the provisions of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by CAHC on a retrospective basis. As a result, total assets as well as loans payable as of December 31, 2015, have been reduced by the effect of the reclassification of debt issuance costs, net of accumulated amortization, as noted below:

	Unamortized Debt Issuance Cost 2015
Guste I, LLC	499,091
Fischer III, LLC	<u>303,818</u>
	<u>\$ 802,909</u>

Note 3 - Restricted cash

Replacement reserve

Pursuant to the Operating Agreement, Guste I, LLC is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Required monthly deposits are required in the amount of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2016 and 2015, \$207,781 and \$180,710 had been funded, respectively.

Pursuant to the Operating Agreement, Fischer I, LLC shall establish 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, 2016 and 2015, the replacement reserve balance was \$57,859 and \$51,000, respectively.

Pursuant to the Operating Agreement, Fischer III, LLC shall establish 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, 2016 and 2015, the replacement reserve balance was \$267,430 and \$233,460, respectively.

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 three percent commencing on the date of substantial completion. As of December 31, 2016 and 2015, no amounts have been funded.

Construction bond escrow

In connection with the funding of the construction bonds, Guste Homes III, LLC has established an escrow to repay the balance of the construction bonds upon maturity. As of December 31, 2016 and 2015, the balance in the escrows was \$25,912,856 and \$25,881,540, respectively.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

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, 2016 and 2015, the balance in the escrow was \$85,027 and \$4,663,113.

ACC reserve

Pursuant to the Operating Agreement, Guste Homes III, LLC shall establish a reserve account in the amount of \$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 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, 2016 and 2015, the balance in the escrow was \$165,022 and \$0, respectively.

Pursuant to the Operating Agreement, Guste I, LLC shall establish a reserve account in the amount of \$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, 2016 and 2015, \$227,000 and \$227,000 had been funded, respectively.

Pursuant to the Operating Agreement, Fischer I, LLC shall establish a reserve account in the amount of \$36,627 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, 2016 and 2015, no amounts have been funded.

Pursuant to the Operating Agreement, Fischer III, LLC shall establish a reserve account in the amount of \$193,875 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, 2016 and 2015, no amounts have been funded.

Operating reserve

Pursuant to the Operating Agreement, the Managing Member of Guste Homes III, LLC 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, 2016 and 2015, no amounts had been funded.

Pursuant to the Operating Agreement, the Managing Member of 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, 2016 and 2015, \$170,000 and \$170,000 had been funded, respectively.

Pursuant to the Operating Agreement, the Managing Member of 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, 2016 and 2015, no amounts have been funded.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Pursuant to the Operating Agreement, the Managing Member of 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, 2016 and 2015, no amounts have been funded.

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, 2016 and 2015, \$85,103, and \$0 has been funded, respectively. Any balance remaining after the final capital contribution from the investor member shall be transferred to the operating reserve.

Rent 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, 2016 and 2015, no amounts had been funded.

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, 2016 and 2015, no amounts had been funded.

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, 2016 and 2015, no amounts had been funded.

Note 4 - Contract subsidy

Sixty-seven units within Guste I, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2016 and 2015, Guste I, LLC earned operating fund assistance

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

in the amount of \$193,802 and \$194,134, respectively. These amounts are included in rental income in the accompanying consolidated statements of activities.

Twelve units within Fischer I, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2016 and 2015, Fischer I, LLC earned operating fund assistance in the amount of \$80,788 and \$92,695, respectively. These amounts are included in rental income in the accompanying consolidated statements of activities.

Sixty-nine units within Fischer III, LLC are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2016 and 2015, the Fischer III, LLC earned operating fund assistance in the amounts of \$201,705 and \$197,878, respectively. These amounts are included in rental income in the accompanying consolidated statements of activities.

Note 5 - Related party transactions

Operating subsidy

HANO has entered into an Amended and Restated Regulatory and Operating Agreement with Guste I, LLC, Fischer I, LLC and Fischer III, 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 2016 and 2015, Guste I, LLC received operating subsidy from HANO in the amount of \$278,458 and \$248,075, respectively.

During 2016 and 2015, Fischer III, LLC received operating subsidy from HANO in the amount of \$404,651 and \$264,416, respectively.

During 2016 and 2015, Fischer I, LLC received operating subsidy from HANO in the amount of \$55,572 and \$32,128, respectively.

Guste I, LLC is due \$288,942 and \$0 as of December 31, 2016 and 2015, respectively, as a result of the operating subsidy due from HANO. During 2015, the Guste I, LLC determined the entire balance owed at that time was no longer collectible and \$409,688 was charged to expense.

Fischer III, LLC is due \$0 and \$47,624 as of December 31, 2016 and 2015, respectively, as a result of the operating subsidy due from HANO. During 2015, Fischer III, LLC determined that \$197,610 of the balance to be no longer collectible and was charged to expense.

Other

During 2011, a bank account for Place d' Genesis was closed and the funds were combined with bank accounts of HANO. The balance due to Place d' Genesis at December 31, 2016 and 2015 was \$25,353. The cash is readily available for use by Place d' Genesis.

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Developer Agreement

Guste I, LLC, Fischer I, LLC and Fischer III, LLC entered into development agreements with CAHC. The agreements provides for development fee 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 are as follows and the payable is eliminated in the consolidated financial statements:

	<u>Total Development Fee</u>	<u>Amount Earned and Payable</u>
Guste I, LLC	\$ 1,199,510	\$ 899,510
Fischer I, LLC	279,026	231,036
Fischer III, LLC	<u>1,355,564</u>	<u>1,055,564</u>
	<u>\$ 2,834,100</u>	<u>\$ 2,186,110</u>

In addition, CAHC had development agreements with Guste Homes III, LLC and Iberville Offsite Rehab I, LLC. The agreements provide for development fee 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 amount earned to date, and included in other operating income in the consolidated statements activities are as follows:

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

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

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Asset Management Fee

Pursuant to the Operating Agreement, the Investor Member of Guste I, LLC, Fischer I, LLC and Fischer III, LLC shall earn an annual, cumulative fee. For Guste I, LLC and Fischer III, LLC, the fee is adjusted each year for the changes in the Consumer Price Index. Total fees earned and payable as of December 31, 2016 and 2015 and for the years then ended is as follows:

	2016		2015	
	Fees Earned	Amount Payable	Fees Earned	Amount Payable
Guste I, LLC	\$ 5,971	\$ 17,864	\$ 5,923	\$ 11,893
Fischer I, LLC	2,500	24,063	2,500	21,563
Fischer III, LLC	6,453	58,615	6,169	52,110
	<u>\$ 14,924</u>	<u>\$ 100,542</u>	<u>\$ 14,592</u>	<u>\$ 85,566</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.

Due to HANO

Guste I, LLC, Fischer I, LLC and Fischer III, LLC incurred costs due to HANO related to the miscellaneous 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, 2016 and 2015, advances totaling \$2,320,212 and \$1,787,360, respectively, is due to HANO and is included in due to related party in the accompanying consolidated statements of financial position. During 2016, the Guste I, LLC determined \$109,457DR of the balance

Guste I, LLC owes CAHC for property insurance paid by CAHC during 2016 and 2015. The balance due as of December 31, 2016 and 2015 is \$223,748 and \$223,748, respectively, and is included in due to related party in the accompanying consolidated statements of financial position.

Fischer III, LLC owes CAHC for property insurance and allocated payroll paid by CAHC during 2016 and 2015. The balance due as of December 31, 2016 and 2015 is \$508,757 and \$508,787, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position. During 2015, Fischer III, LLC determined \$248,519 of the balance to no longer be payable and was charged to miscellaneous other income in the accompanying consolidated statements of operations.

Fischer I, LLC owes CAHC for property insurance paid by CAHC during 2016 and 2015. The balance due as of December 31, 2016 and 2015 is \$138,224 and \$138,224, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

HANO periodically pays for certain operating costs if CAHC that are to be reimbursed. The balance due as of December 31, 2016 and 2015 is \$1,045,049 and \$1,045,049, respectively, and is included in due to related party in the accompanying consolidated statements of financial position.

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

City Grant Funds Due to HANO

Guste I, LLC received from HANO advances from a City of New Orleans grant in 2008. During 2010, it was discovered that a portion of the funds were not qualified costs under the grant and are due back to HANO. As of December 31, 2016 and 2015, the balance is \$402,235 each year. The amount is included in due to related party and is payable out of the cash flow.

Management fees

Fischer III, LLC incurred management fees due to HANO prior to 2009 of which the outstanding balance of \$48,808 remains payable at December 31, 2016 and 2015 and is included in due to related parties on the consolidated statements of financial position.

Note 6 - Mortgage note payable

Guste I, LLC

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 percent 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 3.00 percent. 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, 2015 and 2014 was \$950,446 and \$570,267 respectively. Debt issuance costs, net of accumulated amortization, totaled \$429,431 and \$499,091, as of December 31, 2016 and 2015, respectively, 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 percent.

Note 7 - Construction note payable

Fischer III, LLC

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 percent with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended through December 31, 2011. Outstanding principal as of December 31, 2016 and 2015 was \$14,710,628 for both years. Total interest expense for 2016 and 2015 was \$441,318 for each year. Accrued interest as December 31, 2016 and 2015 was \$9,127,440 and \$8,686,121, respectively, and is included in accrued interest payable to related party.

Debt issuance costs, net of accumulated amortization, totaling \$266,125 and \$303,816 as of December 31, 2016 and 2015 are related to the construction mortgage note and are being amortized using an imputed interest rate of 3.09%. Amortization of debt issuance costs of \$37,691 were charged to operations for the years ended December 31, 2016 and 2015 and are included in interest expense - mortgage notes payable on the statement of operations.

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.

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Guste Homes III, LLC

In November 2013, the Company entered into a financing agreement with the Louisiana Housing Corporation to use the proceeds from the issuance a Multifamily Housing Revenue Bond for the construction and development of the Project. The principal amount of the note is \$25,600,000. The loan bears interest at 1 percent with both the unpaid principal and interest due and payable on November 14, 2016 and will be paid from a construction loan between the Company and HANO. Outstanding principal as of December 31, 2016 and 2015 was \$25,600,000 and \$25,599,999, respectively. Total interest incurred for the year ended December 31, 2016 and December 31, 2015 was 293,214 and \$198,804, respectively, all of which was capitalized as part of the construction costs. As of December 31, 2016 and 2015, no accrued interest remains payable, respectively.

In November 2013, Guste Homes III, LLC obtained a non-interest bearing construction loan in the amount of \$38,628,000 from HANO. The loan will be used in part to repay the construction loan with the Louisiana Housing Corporation. Outstanding principal as of December 31, 2016 and 2015 was \$33,520,034 and \$30,013,223, respectively, and is included in due to related parties on the consolidated statements of financial position. The loan is due June 1, 2016, at which time the loan will become permanent. The permanent loan in the amount of \$32,668,000 will bear interest at a rate of .95 percent payable from cash flow. All outstanding principal and interest shall be due at maturity on May 31, 2066.

Note 8 - Notes payable - Related party

Notes payable to HANO consists of the following at December 31, 2015 and 2014:

	<u>2016</u>	<u>2015</u>
Guste I, LLC		
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.	\$ 2,039,988	\$ 2,039,988
In January 2005, a construction loan in the amount of \$248,999 was obtained from HANO. The construction loan accrues interest at 3 percent with both the unpaid principal and interest due on January 31, 2060. For the years ended December 31, 2016 and 2015, interest incurred was \$4,216 and \$4,215, respectively. Accrued interest payable as of December 31, 2016 and 2015 was \$81,173 and \$76,957, respectively, and is included in accrued interest payable.	140,511	140,511
	<u>2,180,499</u>	<u>2,180,499</u>

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Fischer I, LLC

During 2005, a Capital Funds Note was obtained from 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. The loan bears interest at the long term applicable federal rate, which was 4.68 percent 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. Interest incurred

during the years ended December 31, 2016 and 2015 was \$100,206 and \$95,726, respectively. Accrued interest payable as of December 31, 2016 and 2015 is \$817,308 and \$717,101 respectively, and is included in accrued interest payable.

2015	2014
<hr/>	<hr/>

1,424,059	1,424,059
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On January 20, 2005, a Program Income Construction Mortgage Note was obtained from 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 percent 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 years ended December 31, 2016 and 2015 was \$14,838 and \$14,839, respectively. Accrued interest payable as of December 31, 2016 and 2015 is \$145,118 and \$130,279, respectively, and is included in accrued interest payable.

196,300	196,300
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On November 1, 2006, a Supplemental Loan was obtained from 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.

130,000	130,000
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On November 16, 2005, an Affordable Housing Program Loan was obtained from HANO in the amount of \$100,000, to assist with 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.

100,000	100,000
<hr/>	<hr/>
1,850,359	1,850,359

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Fischer III, LLC		
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.	3,064,919	3,064,919
On November 16, 2005, an Affordable Housing Program Loan) was obtained HANO, in the amount of \$350,000, to assist the Company 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.	350,000	350,000
In November 2005, a Program Income Loan was obtained 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 percent. 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 years ended December 31, 2016 and 2015 was \$1,722 for both years. Accrued interest payable as of December 31, 2016 and 2015 was \$20,565 and \$18,843, respectively, and is included in accrued interest payable.	344,314	344,314
	<u>3,759,233</u>	<u>3,759,233</u>
	<u>\$ 7,790,091</u>	<u>\$ 7,790,091</u>

Note 9 - Management Agreement

Guste I, LLC

Guste I, LLC has entered into a management agreement with Guste Homes Resident Management Corporation (Guste RMC) for a monthly management fee equal to \$23.50 per each occupied unit per month. For the years ended December 31, 2016 and 2015, \$22,444 and \$22,609 was charged to operations.

The Company has a payable to Guste RMC of \$88,606 and \$42,510 at December 31, 2016 and 2015, respectively, for unpaid reimbursement of payroll and other services. The payable is included in accrued expenses in the accompanying consolidated balance sheet.

Fischer I, LLC

Fischer I, LLC has 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

Crescent Affordable Housing Corporation and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

\$35 per occupied unit month. Total management fees incurred under this agreement for years ended December 31, 2016 and 2015 was \$7,200 and \$6,300, respectively.

Effective October 2015, the Project is managed by HANO, an affiliate of the Managing Member.

Fischer III, LLC

Fischer III, LLC has 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. Total management fees incurred under this agreement for the years ended December 31, 2016 and 2015, \$37,079 and \$32,445, respectively, was charged to operations.

Effective October 2015, the Project is managed by HANO, an affiliate of the Managing Member.

Guste Homes III, LLC

Guste Homes III, LLC has entered into a management agreement with Guste Homes Resident Management Corporation for a monthly management fee equal to \$35 per month for all units, whether they are occupied or not. The agreement is effective upon completion of the Project. No management fees were incurred during the years ended December 31, 2016 and 2015.

Note 10 - Investor equity

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, 2016 and 2015, the Investor Member has funded \$4,163,722 and \$4,163,722, respectively. The above contributions are subject to adjustment as defined in the Operating Agreement. As of December 31, 2016 and 2015, \$654,249 and \$654,249, respectively, remain payable. The Managing Member is required to make contributions of \$100 and the Special Member is required to make contributions of \$10.

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, 2016 and 2015, the Investor Member has funded \$1,326,683. 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.

Fischer III, LLC

Capital contributions totaling \$6,560,210, including an upward adjuster of \$174,450, are due from the Investor Member when certain milestones are achieved as disclosed in the Operating agreement. As of December 31, 2016 and 2015, 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.

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, 2016 and 2015, the Investor Member has funded \$6,745,668 and 6,745,668, respectively. The above

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

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 11 - Concentration 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, 2016.

Note 12 - Ground leases

Guste I, LLC

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, 2016 and 2015, the prepaid ground lease was \$35,846 and \$36,318, respectively.

Fischer I, LLC

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.

Fischer III, LLC

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 on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2016 and 2015, the prepaid ground lease was \$35,852 and \$36,324, respectively.

Guste Homes III, LLC

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, 2016 and 2015, the base rent for the entire term has been paid in full.

Note 13 - Contingencies

For Guste I, LLC, Fischer I, LLC, Fischer III, LLC, and Guste Homes III, LLC the low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code 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 of each entity.

Crescent Affordable Housing Corporation and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Note 14 - Subsequent events

Events that occur after the date of the consolidated statement of net position but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the consolidated statement of net position are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statements of net assets require disclosure in the accompanying notes. Management evaluated the activity of the Company through June 29, 2017 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Supplementary Information

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement of Financial Position
December 31, 2016**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 1,128,346	\$ -	\$ 1,758,783	\$ 7,774	\$ -	\$ 2,894,903
Development fees receivable	2,186,110	-	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	18,529	20	-	18,549
Due from other governments	686,734	-	-	-	-	686,734
Accounts receivable - other	11,272	-	-	986	-	12,258
Prepaid expenses	-	-	210,568	239,589	-	450,157
Due from related party	347,886	25,353	288,942	410	(347,886)	314,705
	<u>4,360,348</u>	<u>25,353</u>	<u>2,276,822</u>	<u>248,779</u>	<u>(2,533,996)</u>	<u>4,377,306</u>
Total Current Assets						
Restricted Deposits and Funded Reserves						
Resident security deposits	-	-	30,776	1,170	-	31,946
Replacement reserves	-	-	533,070	-	-	533,070
Other escrows	-	-	397,000	26,248,008	-	26,645,008
	<u>-</u>	<u>-</u>	<u>960,846</u>	<u>26,249,178</u>	<u>-</u>	<u>27,210,024</u>
Total Restricted Deposits and Funded Reserves						
Rental Property						
Buildings and improvements	-	-	34,615,625	2,713,690	-	37,329,315
Land improvements	-	-	4,860,619	-	-	4,860,619
Furniture, equipment and machinery	54,053	-	880,539	-	-	934,592
Construction in progress	-	-	-	39,348,507	-	39,348,507
	<u>54,053</u>	<u>-</u>	<u>40,356,783</u>	<u>42,062,197</u>	<u>-</u>	<u>82,473,033</u>
Less accumulated depreciation	(50,689)	-	(12,474,383)	(28,782)	-	(12,553,854)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Rental Property	<u>3,364</u>	<u>-</u>	<u>27,882,400</u>	<u>42,033,415</u>	<u>-</u>	<u>69,919,179</u>
Other Noncurrent Assets						
Tax credit monitoring fees	-	-	4,457	102,983	-	107,440
Other assets	651,342	-	72,173	55,000	(651,342)	127,173
	<u>651,342</u>	<u>-</u>	<u>76,630</u>	<u>157,983</u>	<u>(651,342)</u>	<u>234,613</u>
Total Other Noncurrent Assets						
Total Assets	<u>\$ 5,015,054</u>	<u>\$ 25,353</u>	<u>\$ 31,196,698</u>	<u>\$ 68,689,355</u>	<u>\$ (3,185,338)</u>	<u>\$ 101,741,122</u>

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement of Financial Position
December 31, 2016**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Current Liabilities						
Accounts payable	\$ 140	\$ 6,734	\$ 102,140	\$ 6,549	\$ -	\$ 115,563
Accrued expenses	-	-	735,587	-	(347,886)	387,701
Property management fee payable	-	-	44,279	-	-	44,279
Asset management fee payable	-	-	100,542	-	-	100,542
Developer fee payable	-	-	2,186,110	1,327,549	(2,186,110)	1,327,549
Due to related parties	1,045,049	-	2,946,195	-	-	3,991,244
Construction note payable to related party	-	-	14,444,503	-	-	14,444,503
Construction note payable to third party	-	-	-	25,600,000	-	25,600,000
Accrued interest payable to related party	-	-	9,127,440	-	-	9,127,440
Retainage payable	-	-	-	1,601,546	-	1,601,546
Total Current Liabilities	1,045,189	6,734	29,686,796	28,535,644	(2,533,996)	56,740,367
Deposits and Prepaid Liability						
Resident security deposits	-	-	41,371	1,600	-	42,971
Total Deposits and Prepaid Liability	-	-	41,371	1,600	-	42,971
Long-Term Liabilities						
Notes payable - related party	-	-	20,033,094	33,523,758	-	53,556,852
Accrued interest payable	-	-	2,014,609	-	-	2,014,609
Total Long-Term Liabilities	-	-	22,047,703	33,523,758	-	55,571,461
Net Assets						
Unrestricted Net Assets, Crescent Affordable Housing Corporation	3,969,865	18,619	(6,068)	(46,708)	(651,342)	3,284,366
Unrestricted Net Assets, Noncontrolling Interest	-	-	(20,573,104)	6,675,061	-	(13,898,043)
Total net assets	3,969,865	18,619	(20,579,172)	6,628,353	(651,342)	(10,613,677)
Total Liabilities and Net Assets	\$ 5,015,054	\$ 25,353	\$ 31,196,698	\$ 68,689,355	\$ (3,185,338)	\$ 101,741,122

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement of Financial Position
December 31, 2015**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 1,417,787	\$ -	\$ 1,389,334	\$ -	\$ -	\$ 2,807,121
Development fees receivable	2,186,110	-	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	27,928	-	-	27,928
Due from other governments	585,897	-	-	-	-	585,897
Accounts receivable - other	10,500	-	-	-	-	10,500
Prepaid expenses	-	-	229,279	16,147	-	245,426
Due from related party	347,886	25,353	-	-	(347,886)	25,353
Total Current Assets	4,548,180	25,353	1,646,541	16,147	(2,533,996)	3,702,225
Restricted Deposits and Funded Reserves						
Resident security deposits	-	-	42,878	-	-	42,878
Replacement reserves	-	-	465,170	-	-	465,170
Other escrows	-	-	397,000	30,544,653	-	30,941,653
Total Restricted Deposits and Funded Reserves	-	-	905,048	30,544,653	-	31,449,701
Rental Property						
Buildings and improvements	-	-	34,615,625	-	-	34,615,625
Land improvements	-	-	4,860,619	-	-	4,860,619
Furniture, equipment and machinery	54,053	-	880,539	-	-	934,592
Construction in progress	-	-	-	38,743,374	-	38,743,374
	54,053	-	40,356,783	38,743,374	-	79,154,210
Less accumulated depreciation	(39,878)	-	(11,380,608)	-	-	(11,420,486)
Total Rental Property	14,175	-	28,976,175	38,743,374	-	67,733,724
Other Noncurrent Assets						
Tax credit monitoring fees	-	-	5,363	102,983	-	108,346
Other assets	651,342	-	73,117	60,000	(651,342)	133,117
Total Other Noncurrent Assets	651,342	-	78,480	162,983	(651,342)	241,463
Total Assets	\$ 5,213,697	\$ 25,353	\$ 31,606,244	\$ 69,467,157	\$ (3,185,338)	\$ 103,127,113

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement of Financial Position
December 31, 2015**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Current Liabilities						
Accounts payable	\$ 4,300	\$ 6,734	\$ 96,802	\$ -	\$ -	\$ 107,836
Accrued expenses	365	-	709,803	4,662,833	(347,886)	5,025,115
Asset management fee payable	-	-	85,566	-	-	85,566
Developer fee payable	-	-	2,186,110	1,327,549	(2,186,110)	1,327,549
Due to related parties	1,045,049	-	2,413,343	-	-	3,458,392
Construction note payable to related party	-	-	14,406,812	-	-	14,406,812
Construction note payable to third party	-	-	-	25,300,851	-	25,300,851
Accrued interest payable to related party	-	-	8,686,121	-	-	8,686,121
Retainage payable	-	-	-	1,487,033	-	1,487,033
Total Current Liabilities	1,049,714	6,734	28,584,557	32,778,266	(2,533,996)	59,885,275
Deposits and Prepaid Liability						
Resident security deposits	-	-	43,000	-	-	43,000
Total Deposits and Prepaid Liability	-	-	43,000	-	-	43,000
Long-Term Liabilities						
Notes payable - related party	-	-	19,963,615	30,013,223	-	49,976,838
Accrued interest payable	-	-	1,513,447	-	-	1,513,447
Total Long-Term Liabilities	-	-	21,477,062	30,013,223	-	51,490,285
Net Assets						
Unrestricted Net Assets, Crescent Affordable Housing Corporation	4,163,983	18,619	(1,850)	607	(651,342)	3,530,017
Unrestricted Net Assets, Noncontrolling Interest	-	-	(18,496,525)	6,675,061	-	(11,821,464)
Total net assets	4,163,983	18,619	(18,498,375)	6,675,668	(651,342)	(8,291,447)
Total Liabilities and Net Assets	\$ 5,213,697	\$ 25,353	\$ 31,606,244	\$ 69,467,157	\$ (3,185,338)	\$ 103,127,113

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement Activities
Year Ended December 31, 2016**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Revenue						
Rental income	\$ -	\$ -	\$ 1,076,754	\$ 10,070	\$ -	\$ 1,086,824
Vacancies and concessions	-	-	(61,676)	-	-	(61,676)
Other operating income	-	-	769,781	1,215	-	770,996
Total Revenue	-	-	1,784,859	11,285	-	1,796,144
Operating Expenses						
Salaries and employee benefits	-	-	399,212	15,017	-	414,229
Repairs and maintenance	-	-	339,401	3,687	-	343,088
Utilities	-	-	425,312	920	-	426,232
Real estate taxes	-	-	5,699	-	-	5,699
Property management fee	-	-	66,723	-	-	66,723
Property insurance	-	-	300,283	-	-	300,283
Accounting fees	-	-	4,010	-	-	4,010
Miscellaneous operating expenses	186,328	-	160,226	14,944	-	361,498
Total Operating Expenses	186,328	-	1,700,866	34,568	-	1,921,762
Net Operating Income (Loss)	(186,328)	-	83,993	(23,283)	-	(125,618)
Nonoperating Income (Expense)						
Interest income	3,021	-	2,581	170	-	5,772
Interest expense - related party	-	-	(1,049,911)	-	-	(1,049,911)
Other financial income (expense)	-	-	(822)	(90)	-	(912)
Miscellaneous other income (expense)	-	-	(6,981)	9,670	-	2,689
Annual fee to affiliate of limited partner	-	-	(14,976)	(5,000)	-	(19,976)
Depreciation	(10,811)	-	(1,093,775)	(28,782)	-	(1,133,368)
Amortization	-	-	(906)	-	-	(906)
Total Nonoperating Income (Expense)	(7,790)	-	(2,164,790)	(24,032)	-	(2,196,612)
Change in Net Assets	(194,118)	-	(2,080,797)	(47,315)	-	(2,322,230)
Attributable to Non-controlling Interest	-	-	(2,076,579)	-	-	(2,076,579)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ (194,118)	\$ -	\$ (4,218)	\$ (47,315)	\$ -	\$ (245,651)

Crescent Affordable Housing Corporation and Affiliates

**Consolidating Statement Activities
Year Ended December 31, 2015**

	Crescent Affordable Housing Corporation	Place d'Genesis, LLC	Lune d'Or Enterprises, LLC	Guste Homes III, LLC	Eliminations	Total
Revenue						
Rental income	\$ -	\$ -	\$ 1,068,369	\$ -	\$ -	\$ 1,068,369
Vacancies and concessions	-	-	(59,331)	-	-	(59,331)
Other operating income	1,022,225	-	701,047	-	-	1,723,272
Total Revenue	1,022,225	-	1,710,085	-	-	2,732,310
Operating Expenses						
Salaries and employee benefits	-	-	393,113	-	-	393,113
Repairs and maintenance	-	-	280,903	-	-	280,903
Utilities	-	-	395,486	-	-	395,486
Real estate taxes	-	-	-	-	-	-
Property management fee	-	-	61,354	-	-	61,354
Property insurance	-	-	323,055	-	-	323,055
Miscellaneous operating expenses	384,789	-	172,373	-	-	557,162
Total Operating Expenses	384,789	-	1,626,284	-	-	2,011,073
Net Operating Income (Loss)	637,436	-	83,801	-	-	721,237
Nonoperating Income (Expense)						
Interest income	4,038	-	1,009	-	-	5,047
Interest expense - related party	-	-	(1,045,349)	-	-	(1,045,349)
Other financial income (expense)	-	-	(706)	-	-	(706)
Miscellaneous other income (expense)	-	-	(296,108)	-	-	(296,108)
Annual fee to affiliate of limited partner	-	-	(14,924)	(5,000)	-	(19,924)
Depreciation	(10,811)	-	(1,122,318)	-	-	(1,133,129)
Amortization	-	-	(906)	-	-	(906)
Total Nonoperating Income (Expense)	(6,773)	-	(2,479,302)	(5,000)	-	(2,491,075)
Change in Net Assets	630,663	-	(2,395,501)	(5,000)	-	(1,769,838)
Attributable to Non-controlling Interest	-	-	(2,395,261)	(5,000)	-	(2,400,261)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ 630,663	\$ -	\$ (240)	\$ -	\$ -	\$ 630,423

Crescent Affordable Housing Corporation and Affiliates
Schedule of Compensation, Benefits and Other Payments to
Agency Head or Chief Executive Officer
Year Ended December 31, 2016

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-other	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

Crescent Affordable Housing Corporation and Subsidiaries 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 Crescent Affordable Housing Corporation and Subsidiaries. All compensation, benefits, and other payments to HANO's Executive Director are included in the financial statements of HANO.

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

We have audited, 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, the consolidated financial statements of Crescent Affordable Housing Corporation and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2016 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon June 29, 2017, which included an emphasis of matter paragraph for adoption of new accounting guidance as indicated on page 4.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Crescent Affordable Housing Corporation and Affiliates' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Crescent Affordable Housing Corporation and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Crescent Affordable Housing Corporation and Affiliates' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Crescent Affordable Housing Corporation and Affiliates' consolidated 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 Crescent Affordable Housing Corporation and Affiliates' 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions and requirements 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 Crescent Affordable Housing Corporation and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Crescent Affordable Housing Corporation and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Charlotte, North Carolina
June 29, 2017

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