

Guste I, LLC

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

December 31, 2012 and 2011

Guste I, LLC

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Independent Auditor's Report

To the Members
Guste I, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Guste I, LLC, which comprise the balance sheet as of December 31, 2012, and the related statements of operations, members' equity (deficit) 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 Government Auditing Standards. 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment 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 Guste I, LLC as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

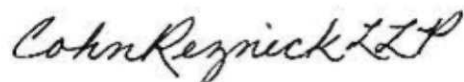
The financial statements of Guste I, LLC as of December 31, 2011, were audited by other auditors whose report dated March 27, 2012, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2012 supplementary information on pages 22 through 24 is presented for 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 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. The 2011 supplementary information on pages 22 through 24 was subjected to the auditing procedures applied in the 2011 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 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 April 16, 2013, on our consideration of Guste I, LLC'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 Guste I, LLC's internal control over financial reporting and compliance.



Charlotte, North Carolina
April 16, 2013

Guste I, LLC

Balance Sheets

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$ 745,996	\$ 557,751
Accounts receivable - related party	13,981	296
Accounts receivable - other	37,709	397
Prepaid expenses	8,268	8,316
Due from affiliates	<u>283,418</u>	<u>320,029</u>
Total current assets	<u>1,089,372</u>	<u>886,789</u>
Restricted Deposits and Funded Reserves		
Tenant security deposits	<u>17,881</u>	<u>16,415</u>
Total restricted deposits and funded reserves	<u>17,881</u>	<u>16,415</u>
Rental Property		
Building and improvements	12,315,292	12,315,292
Land improvements	2,401,278	2,401,278
Furniture and equipment	<u>281,800</u>	<u>281,800</u>
	14,998,370	14,998,370
Accumulated depreciation	<u>(2,905,598)</u>	<u>(2,420,471)</u>
Total rental property	<u>12,092,772</u>	<u>12,577,899</u>
Other Assets		
Deferred financing fees, net	708,071	777,731
Other assets	<u>37,733</u>	<u>38,205</u>
Total other assets	<u>745,804</u>	<u>815,936</u>
Total assets	<u><u>\$13,945,829</u></u>	<u><u>\$14,297,039</u></u>

(continued)

Guste I, LLC

Balance Sheets - Continued

December 31, 2012 and 2011

Liabilities and Members' Equity (Deficit)

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	\$ 140,250	\$ 25,319
Due to Resident Management Corporation	42,510	13,570
Accrued interest on construction note payable	3,496,028	3,176,998
Construction note payable to related party	10,634,312	10,634,312
Developer fee payable	899,510	899,510
Due to related party	749,337	674,750
Asset management fee payable	22,658	16,823
Total current liabilities	<u>15,984,605</u>	<u>15,441,282</u>
Deposits and Prepaid Liability		
Tenant security deposits	17,800	16,400
Total deposits and prepaid liability	<u>17,800</u>	<u>16,400</u>
Long-Term Liabilities		
Notes payable to related party	3,188,497	3,188,497
Accrued interest - note payable to related party	59,449	51,979
Total long-term liabilities	<u>3,247,946</u>	<u>3,240,476</u>
Commitments	-	-
Members' equity (deficit)	<u>(5,304,522)</u>	<u>(4,401,119)</u>
Total liabilities and members' equity (deficit)	<u>\$13,945,829</u>	<u>\$14,297,039</u>

See notes to financial statements

Guste I, LLC

Statements of Operations

Years ended December 31, 2012 and 2011

	2012	2011
Revenue		
Rental income	\$ 524,835	\$ 541,054
Vacancies and concessions	-	(8,565)
Other operating income	7,478	69,468
Total revenue	532,313	601,957
Operating expenses		
Salaries and employee benefits	133,506	109,504
Repairs and maintenance	141,267	108,940
Utilities	96,665	81,499
Property management fee	21,620	22,795
Property insurance	99,259	101,096
Miscellaneous operating expenses	55,447	54,321
Total operating expenses	547,764	478,155
Net operating income (loss)	(15,451)	123,802
Other income (expense)		
Interest income	259	791
Interest expense - construction mortgage note	(319,029)	(319,029)
Other financial income (expense)	(1,089)	(2,183)
Asset management fee	(5,836)	(5,766)
Interest expense - note payable to related party	(7,470)	(7,470)
Depreciation	(485,127)	(507,572)
Amortization	(69,660)	(69,660)
Total other income (expense)	(887,952)	(910,889)
Net loss	\$ (903,403)	\$ (787,087)

See notes to financial statements

Guste I, LLC

Statements of Members' Equity (Deficit)

Years ended December 31, 2012 and 2011

	<u>Managing Member</u>	<u>Special Member</u>	<u>Investor Member</u>	<u>Total Partners' Equity (Deficit)</u>
Balance, January 1, 2011	\$ (392)	\$ -	\$ (3,613,640)	\$ (3,614,032)
Net loss	<u>(79)</u>	<u>-</u>	<u>(787,008)</u>	<u>(787,087)</u>
Balance, December 31, 2011	(471)	-	(4,400,648)	(4,401,119)
Net loss	<u>(90)</u>	<u>-</u>	<u>(903,313)</u>	<u>(903,403)</u>
Balance, December 31, 2012	<u>\$ (561)</u>	<u>\$ -</u>	<u>\$ (5,303,961)</u>	<u>\$ (5,304,522)</u>
Members' percentage of company losses	<u>0.01%</u>	<u>0.00%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

Guste I, LLC

Statements of Cash Flow

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net loss	\$ (903,403)	\$ (787,087)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation	485,127	507,572
Amortization	69,660	69,660
Changes in:		
Tenant accounts receivable	(13,685)	1,080
Accounts receivable - related party	(37,312)	(397)
Prepaid expenses	48	1,309
Other assets	472	472
Accounts payable	114,931	9,286
Due to Resident Management Corporation	28,940	(527,303)
Accrued interest payable	326,500	326,499
Tenant security deposits	(66)	247
Accrued asset management fee	5,835	5,766
Due to affiliates	74,587	99,786
	<u>151,634</u>	<u>(293,110)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Change in other escrow deposit	-	2,084,581
Due from affiliate	36,611	(65,900)
	<u>36,611</u>	<u>2,018,681</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Payments on due to related party	-	(2,078,664)
	<u>-</u>	<u>(2,078,664)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash	188,245	(353,093)
Cash, beginning	<u>557,751</u>	<u>910,844</u>
Cash, end	<u>\$ 745,996</u>	<u>\$ 557,751</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

Guste I, LLC

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Organization and Nature of Operations

Guste I, LLC (the Company), was formed as a limited liability company under the laws of the State of Louisiana on December 11, 2003 to construct, develop and operate an 82-unit apartment project known as Guste I Apartments (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 Lune d'Or Enterprises LLC, a Louisiana limited liability company. The Investor Member is MMA Guste I, LLC, a Delaware limited liability company. The Special Member is MMA Special Limited Partner, Inc., a Florida 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:

Managing Member	0.01%
Investor Member	99.99%
Special Member	<u>0.00%</u>
	<u><u>100.00%</u></u>

The Company is expected to generate low-income housing credits from the State of Louisiana totaling \$5,234,940. Generally, such tax credits are expected to become available for use by the members pro rata over a ten-year period. To qualify for the tax credits, the Company must meet certain requirements, including attaining a qualified eligible basis sufficient to support the allocation.

The major activities of the Company are governed by the Operating Agreement and Internal Revenue Code Section 42. Each building of the Project is expected to qualify for and be allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the Project to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the Investor Member.

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

The term of the Company shall continue until December 31, 2104, unless sooner dissolved in accordance with the provisions of the Amended and Restated Operating Agreement (the Operating Agreement).

Guste I, LLC is a component unit of the Housing Authority of New Orleans (HANO) under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Company is presented as a discretely presented component unit of HANO as there is a financial benefit/burden relationship with HANO.

Note 2 - Significant Accounting Policies

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. 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.

Deferred Financing Fees

Financing fees are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Accumulated amortization at December 31, 2012 and 2011 is \$545,816 and \$476,156, respectively.

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Estimated amortization expense for each of the ensuing years through December 31, 2017 and thereafter is as follows:

2013	\$	69,660
2014		69,660
2015		69,660
2016		69,660
2017		69,660
Thereafter		<u>359,771</u>
Total	\$	<u><u>708,071</u></u>

Rental Property

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

	<u>Method</u>	<u>Estimated useful lives</u>
Building	Straight-line	40 years
Land improvements	Declining-balance	20 years
Furniture and equipment	Declining-balance	10 years

Impairment of Long-Lived Assets

The Company 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, 2012 and 2011.

Rental Income

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

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Advertising Costs

The Company's policy is to expense advertising costs when incurred.

Income Taxes

The Company has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does 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 the Company has no other tax positions which must be considered for disclosure. Income tax returns filed by the Company 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 2009 remain open.

Use of Estimates

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

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 I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 3 - Escrow Deposits and Restricted Balances

Restricted Cash

Pursuant to the construction loan agreement between HANO and the Company, HANO established a cash collateral account which is used to deposit the proceeds of the construction loan. During 2011, the balance was used to pay down advances owed to HANO.

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. 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, 2012 and 2011, no amounts had been funded.

ACC Subsidy Reserve

Pursuant to the Operating Agreement, the Company shall establish a reserve account in the amount of \$227,000 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 the Investor Member. As of December 31, 2012 and 2011, no amounts had been funded.

Operating Reserve

Pursuant to the Operating Agreement, the Managing Member 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, 2012 and 2011, no amounts had been funded.

Note 4 - Contract Subsidy Receivable

Sixty-seven units within the Project 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 2012 and 2011, the Company earned operating fund assistance in the amount of \$146,523 and

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

\$200,545, respectively. These amounts are included in rental income in the statements of operations.

Note 5 - Related Party Transactions

Operating Subsidy from HANO

The Company is due \$283,418 and \$320,029 as of December 31, 2012 and 2011, respectively, as a result of rental and other subsidy received from HANO in 2009 and earlier years. During 2011, it was determined HANO will not pay \$230,466 of the balance as this amount could not be substantiated. The amount was written-off against amounts owed by the Company to HANO. The outstanding balance is expected to be received in 2013 thus has been classified as a current asset in the accompanying balance sheets.

During 2012 and 2011, the Company received rent assistance subsidy from HANO in the amount of \$224,528 and \$182,711, respectively. In addition, the Company received operating subsidy from HANO during 2011 to pay for repairs due to faulty construction in the amount of \$65,900.

Due to affiliates consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<u>Developer Agreement</u>		
The Company has entered into a development agreement with Crescent Affordable Housing Corporation (CAHC), an affiliate of the Managing Member. The agreement provides for development fee and overhead in the amount of \$1,199,510 for services in connection with the development of the Project and supervision of the construction. Development fees are earned based upon the occurrence of certain events, as defined, during development and construction. The development fee bears no interest.	\$ 899,510	\$ 899,510

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

	2012	2011
<u>Due to CAHC</u>		
Due to CAHC, an affiliate of the Managing Member, for costs incurred during construction and development and for property insurance paid by CAHC during 2012 and 2011.	\$ 174,453	\$ 99,866
 <u>Due to HANO</u>		
During 2008, the Company incurred costs due to HANO. The advances related to the miscellaneous costs associated with the construction and operations of the Project. The advances do not bear interest and are to be paid from capital contributions and cash flow.	172,649	172,649
 <u>City Grant Funds due to HANO</u>		
The Company received from HANO advances from a City of New Orleans grant in 2008. During 2009, it was discovered that a portion of the funds were not qualified costs under the grant and are due back to HANO. The amount is payable out of cash flow.	402,235	402,235
 Total due to related parties - current	\$ 749,337	\$ 674,750
 <u>Asset Management Fee</u>		
Pursuant to the Operating Agreement, the Investor Member shall earn an annual, cumulative fee in the amount of \$5,000 per annum. The fee is adjusted each year for the changes in the Consumer Price Index. For the years ended December 31, 2012 and 2011, \$5,836 and \$5,766, respectively, was charged to operations.	\$ 22,658	\$ 16,823

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 6 - Notes Payable to Affiliates

Construction Mortgage Note

In December 2003, the Company 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, the Company 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. The due date was extended through December 31, 2012. Outstanding principal as of December 31, 2012 and 2011 was \$10,634,312 for both years. Total interest expense for 2012 and 2011 was \$319,029 for each year. Accrued interest at December 31, 2012 and 2011 was \$3,496,028 and \$3,176,998, respectively.

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

Supplemental Loan

In November 2006, the Company obtained a supplemental loan in the amount of \$2,939,498 from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061. The outstanding principal as of December 31, 2012 and 2011 was \$2,939,498 for both years.

Construction Loan

In January 2005, the Company obtained a construction loan in the amount of \$248,999 from HANO. The construction loan accrues interest at 3% with both the unpaid principal and interest due on January 31, 2060. Outstanding principal as of December 31, 2012 and 2011 was \$248,999 for both years. For the year ended December 31, 2012 and 2011, the Company incurred interest of \$7,470 for both years and is included in interest expense - note payable to related party in the accompanying statements of operations. Accrued interest at December 31, 2012 and 2011 was \$59,449 and \$51,979, respectively.

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 7 - Members' Capital

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, 2012 and 2011, 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.

Cash Flow, as defined in the Operating Agreement, subject to certain restrictions outlined in the Operating Agreement, is to be distributed as follows:

1. First, to the payment of any Tax Credit Shortfall Payments owed to the Investor Member;
2. Second, to replenish any amounts withdrawn in such year from the Operating Reserve or the ACC Subsidy Reserve;
3. Third, to pay the Company Management Fee to the Managing Member;
4. Fourth, to the repayment of any Operating Expense Loans or Working Capital Loans then outstanding;
5. Fifth, to make payment on the HANO Loans until the HANO Loans have been paid in full, with payment applied first to accrued interest and then to principal; and
6. Sixth, any balance shall be distributed, 0.01% to the Managing Member and 99.99% to the Investor Member.

Note 8 - Management Agreement

The Company 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, 2012 and 2011, \$21,620 and \$22,795, respectively, was charged to operations.

The Company has a payable to Guste RMC of \$42,510 and \$13,570 at December 31, 2012 and 2011, respectively, for unpaid management fees, reimbursement of payroll, and other services.

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 9 - 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, 2012.

Note 10 - Ground Lease

On December 30, 2003, the Company entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from the Company on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2012 and 2011, the prepaid ground lease was \$37,733 and \$38,205, respectively.

Note 11 - Contingencies

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.

Operating Deficit Guaranty

Pursuant to the Operating Agreement, if at any time the Company requires funds to discharge operating expenses, the Managing Member shall furnish to the Company the funds required. Amounts so furnished to fund operating expenses incurred prior to the Development Obligation Date shall be deemed Special Capital Contributions and amounts furnished on or after the Development Obligation Date shall constitute Operating Expense Loans. Any such Operating Expense Loans shall not bear interest and be repayable only as provided for in the Operating Agreement. As of December 31, 2012 and 2011, no amounts have been funded.

Guste I, LLC

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 12 - Subsequent Events

Events that occur after the balance sheet date but before the 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 balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through April 16, 2013 (the date the financial statement were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

Supplementary Information

Guste I, LLC

Schedules of Certain Income and Expenses

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Rental income		
Rent revenue - gross potential	<u>\$ 524,835</u>	<u>\$ 541,054</u>
Total rental income	<u><u>\$ 524,835</u></u>	<u><u>\$ 541,054</u></u>
Vacancies and concessions		
Rental concessions	<u>\$ -</u>	<u>\$ 8,565</u>
Total vacancies and concessions	<u><u>\$ -</u></u>	<u><u>\$ 8,565</u></u>
Other operating income		
Tenant charges	\$ 5,962	\$ 2,823
Late fees	1,175	575
Other assistance received from HANO	-	65,900
Miscellaneous other income	<u>341</u>	<u>170</u>
Total other operating income	<u><u>\$ 7,478</u></u>	<u><u>\$ 69,468</u></u>
Salaries and employee benefits		
Salaries - administrative	\$ 113,794	\$ 103,839
Salaries - maintenance	10,137	-
Payroll taxes	<u>9,575</u>	<u>5,665</u>
Total salaries and employee benefits	<u><u>\$ 133,506</u></u>	<u><u>\$ 109,504</u></u>

(continued)

Guste I, LLC

Schedules of Certain Income and Expenses - Continued

Years ended December 31, 2012 and 2011

	2012	2011
Repairs and maintenance		
Exterminating	\$ 5,479	\$ 20,883
Grounds	10,500	-
Security services/contract	91,794	-
Supplies	12,115	2,489
Repairs and maintenance - other than contracts	21,230	77,787
Repairs and maintenance - contracts	-	3,927
Miscellaneous maintenance expenses	149	3,854
	<u>\$ 141,267</u>	<u>\$ 108,940</u>
 Utilities		
Electricity	\$ 5,298	\$ 3,109
Water	55,815	66,090
Trash removal	35,552	12,300
	<u>\$ 96,665</u>	<u>\$ 81,499</u>
 Miscellaneous operating expenses		
Office supplies and expense	\$ 18,157	\$ 3,967
Telephone and answering service	3,579	6,864
Other rent expense	1,972	1,347
Miscellaneous administrative	7,325	10,373
Advertising and newspaper	-	503
Legal	5,776	6,835
Audit	11,000	12,000
Accounting	7,638	-
Other professional fees	-	12,432
	<u>\$ 55,447</u>	<u>\$ 54,321</u>

Guste I, LLC

Depreciation Expense and Accumulated Depreciation by Class of Rental Property

Years ended December 31, 2012 and 2011

	Accumulated Depreciation January 1, 2011	Depreciation Expense 2011	Accumulated Depreciation December 31, 2011	Depreciation Expense 2012	Accumulated Depreciation December 31, 2012
Building	\$ 1,099,790	\$ 307,830	\$ 1,407,620	\$ 307,908	\$ 1,715,528
Land improvements	658,757	174,252	833,009	156,827	989,836
Furniture and equipment	154,352	25,490	179,842	20,392	200,234
	<u>\$ 1,912,899</u>	<u>\$ 507,572</u>	<u>\$ 2,420,471</u>	<u>\$ 485,127</u>	<u>\$ 2,905,598</u>

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,
Guste I, LLC

We have audited, 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 financial statements of Guste I, LLC, which comprise the balance sheet as of December 31, 2012, and the related statements operations, members' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon April 16, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Guste I, LLC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Guste I, LLC's internal control.. Accordingly, we do not express an opinion on the effectiveness of Guste I, LLC'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Guste I, LLC'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.

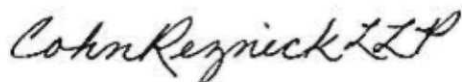
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Guste I, LLC'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 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 Guste I, LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Guste I, LLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charlotte, North Carolina
April 16, 2013