

GUSTE I, LLC

**Financial Statements
and Supplementary
Information**

December 31, 2023

TABLE OF CONTENTS

| | Page |
|---|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Balance Sheet | 4 |
| Statement of Operations | 5 |
| Statement of Members' Deficit | 6 |
| Statement of Cash Flows | 7 |
| Notes to Financial Statements | 8 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer | 20 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 21 |
| Summary Schedule of Prior Year Audit Findings | 23 |

INDEPENDENT AUDITOR'S REPORT

To the Members of
Guste I, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Guste I, LLC (the "Company"), which comprises the balance sheet as of December 31, 2023, and the related statement of operations, members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Company, as of December 31, 2023, and the results of operations and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As described in Note G to the financial statements, a prior period adjustment was made to adjust the Company's due from affiliate, due to affiliate, and member's deficit balances as of the beginning of the year. Our opinion is not modified with respect to this matter

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2024 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

June 27, 2024
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

GUSTE I, LLC

BALANCE SHEET

December 31, 2023

ASSETS

CURRENT ASSETS

| | |
|--|----------------|
| Cash and cash equivalents - unrestricted | \$ 104,766 |
| Cash and cash equivalents - restricted | 537,757 |
| Tenant accounts receivable | 12,299 |
| Due from HANO | 156,682 |
| Accounts receivable - other | 61,774 |
| Prepaid expenses | 75,151 |
| Total current assets | <u>948,429</u> |

NONCURRENT ASSETS

| | |
|------------------------------------|---------------------|
| Prepaid ground lease | 32,544 |
| Investment in rental property, net | 7,678,607 |
| Total noncurrent assets | <u>7,711,151</u> |
| Total assets | <u>\$ 8,659,580</u> |

LIABILITIES AND MEMBERS' DEFICIT

CURRENT LIABILITIES

| | |
|--|------------------|
| Accounts payable | \$ 46,547 |
| Due to affiliates | 767,131 |
| Accrued interest payable - construction loan | 110,588 |
| Accrued interest payable - mortgage note payable | 3,489,397 |
| Tenant security deposits | 22,600 |
| Other accrued liabilities | 106,137 |
| Total current liabilities | <u>4,542,400</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------------|-------------------|
| Notes payable - related party, net | <u>14,853,113</u> |
| Total noncurrent liabilities | <u>14,853,113</u> |
| Total liabilities | <u>19,395,513</u> |

MEMBERS' DEFICIT

| | |
|--|---------------------|
| Managing members' deficit | (1,581) |
| Assigned members' deficit | <u>(10,734,352)</u> |
| Total members' deficit | <u>(10,735,933)</u> |
| Total liabilities and members' deficit | <u>\$ 8,659,580</u> |

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

GUSTE I, LLC

STATEMENT OF OPERATIONS

For the year ended December 31, 2023

REVENUES

| | |
|--------------------------|------------|
| Rental income, net | \$ 830,510 |
| Other operating income | 321,190 |
| | <hr/> |
| Total operating revenues | 1,151,700 |

OPERATING EXPENSES

| | |
|----------------------------|-----------|
| Repairs and maintenance | 227,016 |
| Insurance | 216,419 |
| Protective services | 151,192 |
| Development expenses | 145,279 |
| Utilities | 144,123 |
| General and administrative | 107,529 |
| Bad debt expense | 72,818 |
| Tenant services | 67,003 |
| Salaries | 15,384 |
| Asset management fee | 7,550 |
| Miscellaneous | 1,669 |
| Advertising and marketing | 1,056 |
| | <hr/> |
| Total operating expenses | 1,157,038 |

NET OPERATING LOSS (5,338)

OTHER INCOME (EXPENSES)

| | |
|---------------------------------|-----------|
| Interest income | 3,490 |
| Depreciation | (349,609) |
| Interest expense - note payable | (395,864) |
| | <hr/> |
| Total other income (expenses) | (741,983) |

NET LOSS \$ (747,321)

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

GUSTE I, LLC

STATEMENT OF MEMBERS' DEFICIT

| | Limited Members | | | | Total members' deficit |
|-------------------------------------|--------------------|--------------------|----------------------------------|-------------------------------------|------------------------------|
| | Managing member | Assigned member | Withdrawing special member | Withdrawing investment member | |
| Members' deficit, January 1, 2023 | \$ (1,440) | \$ - | \$ - | \$ (10,229,766) | \$ (10,231,206) |
| Prior period adjustment | (66) | - | - | (656,850) | (656,916) |
| Net loss | (75) | - | - | (747,246) | (747,321) |
| Capital contribution | - | - | - | 899,510 | 899,510 |
| Transfer of ownership interest | - | (10,734,352) | - | 10,734,352 | - |
| Members' deficit, December 31, 2023 | \$ (1,581) | \$ (10,734,352) | \$ - | \$ (0) | \$ (10,735,933) |

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

GUSTE I, LLC

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------------------|
| Net loss | \$ (747,321) |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Depreciation | 349,609 |
| Amortization - debt issuance costs | 11,471 |
| Change in provision for credit losses | 72,818 |
| (Increase) decrease in assets: | |
| Tenant accounts receivable | (42,075) |
| Accounts receivable - other | (54,448) |
| Prepaid expenses | (37,205) |
| Prepaid ground lease | 472 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (50,332) |
| Due to affiliates | (13,100) |
| Accrued interest payable | 384,393 |
| Tenant security deposits | 2,800 |
| Other accrued liabilities | 72,254 |
| Net cash provided by operating activities | <u>(50,664)</u> |
| NET DECREASE IN CASH | <u>(50,664)</u> |
| Cash and cash equivalents - beginning of the year | <u>693,187</u> |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | <u><u>\$ 642,523</u></u> |

RECONCILIATION TO BALANCE SHEET

| | |
|--|--------------------------|
| Cash and cash equivalents - unrestricted | \$ 104,766 |
| Cash and cash equivalents - restricted | <u>537,757</u> |
| | <u><u>\$ 642,523</u></u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | |
|------------------------|--------------------|
| Cash paid for interest | <u><u>\$ -</u></u> |
|------------------------|--------------------|

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

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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 complex known as Guste I Apartments (the “Apartments”) in New Orleans, Louisiana. The Apartments are 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 (“Section 42”) of the Internal Revenue Code.

As of December 31, 2023, there was an amendment to the partnership agreement to permit the withdrawal of the existing Investment Member and Special Member and to add a new Assigned Member, Housing Authority of New Orleans (the “Authority” or “HANO”). Profits, losses, and ownership of the Company is allocated as follows:

| <u>Entity</u> | <u>Role</u> | <u>Percentage ownership</u> |
|----------------------------------|-----------------|-----------------------------|
| Lune d'Or Enterprises, LLC | Managing Member | 0.01% |
| Housing Authority of New Orleans | Assigned Member | 99.99% |
| | | 100.00% |

Each building of the Apartments has qualified for and been allocated low-income housing tax credits pursuant to Section 42 which regulates the use of the Apartments to occupant eligibility and unit gross rent, among other requirements. The total low-income housing credits generated from the State of Louisiana was \$6,178,690 and were available for use by the members pro rata over a ten-year period. Each building of the complex must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credits have all been allocated and the compliance period ended on December 31, 2022. 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 Authority under the requirements of Governmental Accounting Standards Board’s Codification of *Governmental Accounting and Financial Reporting Standards* (“GASB Codification”), Section 2100, *Defining the Financial Reporting Entity*. As of December 31, 2023, the Company is presented as a blended component as it is 100% owned by HANO and its affiliated entities.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and other accounting standards in accordance with Financial Accounting Standards Board ("FASB"). Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of payments.

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

4. Cash and cash equivalents

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

5. Tenant accounts receivable

The Company's accounts receivable includes rent due but not collected. Tenants are not charged interest on past due rent. Tenant security deposits are used to help offset any uncollected rent. Accounts receivable are stated net of an allowance for credit losses. The Company periodically assesses its methodologies for estimating credit losses in consideration of actual experience, trends, and changes in the overall economic environment. Management writes off accounts receivable as a charge to the allowance for credit losses when it is probable that the amount will not be collected.

Changes in the allowance for credit losses during the years ended December 31 2023, are as follows:

| | |
|---|--------------------|
| Balance, beginning of year | \$ - |
| Increase in allowance for credit losses | 72,818 |
| Write-offs | <u>(72,818)</u> |
| Balance, end of year | <u><u>\$ -</u></u> |

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Investment in rental property

Investment in rental property consists of property and equipment, which is recorded at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Investment in rental property, net, is comprised of the following as of December 31, 2023:

| <u>Description</u> | <u>Amount</u> | <u>Useful lives</u> |
|-----------------------------------|---------------------|-------------------------|
| Building and improvements | \$ 12,496,407 | 40 years |
| Land improvements | 2,401,278 | 20 years |
| Furniture, fixtures and equipment | 281,800 | 10 years |
| | 15,179,485 | |
| Less accumulated depreciation | <u>(7,500,878)</u> | |
| | <u>\$ 7,678,607</u> | |

7. Impairment of long-lived assets

The Company reviews its investment in 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. Management has determined that there were no impairments as of December 31, 2023.

8. 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 being computed using an imputed interest rate.

9. Rental income

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned and presented as prepaid rent on the balance sheet. All leases between the Company and the tenants of the Apartments are considered operating leases.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Leases

Under FASB Accounting Standards Codification (“ASC”) 2016-02, *Leases* (“Topic 842”), the determination of whether an arrangement is a lease is made at the lease’s inception and a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. Operating leases are included in prepaid ground lease as a right-of-use (“ROU”) assets and other long-term liabilities on the Company’s balance sheet.

ROU assets represent the right to use an underlying asset for the lease term, and the lease liabilities represent the obligation to make lease payments. The lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses the implicit rate when it is readily determinable. Lease ROU assets also include any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company’s lease terms may include options to extend or terminate the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

11. Income taxes

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

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which clarifies the accounting and disclosure requirements for uncertainty in tax positions. The two-step approach involves recognizing any tax positions that are “more likely than not” to occur and then measuring those positions to determine if they are recognizable in the financial statements. Management regularly reviews and analyzes all tax positions and has determined no aggressive tax positions have been taken. In evaluating the Company’s tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

The Company’s income tax filings are subject to audit by various taxing authorities. The Company is no longer subject to income tax examinations by tax authorities for years before 2020.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Economic concentrations

The Company operates one property in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

13. Recently adopted accounting standards

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses* (“Topic 326”): *Measurement of Credit Losses on Financial Instruments*, that requires certain financial assets to be measured at amortized cost net of an allowance for estimated credit losses, such that the net receivable represents the present value of expected cash collection. This allowance must be based on all relevant information, such as historical information, current conditions, and reasonable and supportable forecasts that could impact the collectability of the amounts.

As part of the implementation of Topic 326, the Company must reflect a cumulative-effect adjustment to members’ capital as of the beginning of the first reporting period in which the guidance is adopted.

The Company adopted Topic 326 as of January 1, 2023 using the modified retrospective approach with a cumulative-effect adjustment to opening members’ capital recorded at the beginning of the period of adoption. Management determined that there were no significant impacts to the financial statements as a result of the implementation of this standard.

NOTE B - CASH AND CASH EQUIVALENTS

The Company maintains its cash and cash equivalents balances in financial institutions that are insured by the Federal Depository Insurance Corporation (“FDIC”) for up to \$250,000 per depositor. From time to time, the Company’s cash balances in these institutions may be in excess of the FDIC insured limit. However, management does not believe the credit risk related to these balances is significant.

Restricted cash and cash equivalents consist of the following at December 31, 2023:

| | | |
|--------------------------|----|---------|
| Replacement reserve | \$ | 104,551 |
| ACC subsidy reserve | | 228,227 |
| Operating reserve | | 182,379 |
| Tenant security deposits | | 22,600 |
| | | <hr/> |
| | \$ | 537,757 |
| | | <hr/> |

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE B - CASH AND CASH EQUIVALENTS (continued)

1. 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 \$2,449, increasing annually by the Consumer Price Index commencing on the completion date. The activity in the replacement reserve for the year ended December 31, 2023 is as follows:

| | |
|----------------------------|-------------------|
| Balance, January 1, 2023 | \$ 260,374 |
| Deposits | 30,993 |
| Withdrawals | <u>(186,816)</u> |
| Balance, December 31, 2023 | <u>\$ 104,551</u> |

2. 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 Assigned Member.

3. 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 Assigned Member.

NOTE C - RELATED PARTY TRANSACTIONS

1. Operating subsidy from HANO

HANO has entered into the Operating Agreement with the Company which provides for an operating subsidy amount for annual operations. Pursuant to the Agreement, sixty-seven units of the Apartments are to be operated as Public Housing Units and are subject to all regulations therein. During 2023, the Company received operating subsidy, from HANO in the amount of \$292,831, which is included in rental income on the statement of operations.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE C - RELATED PARTY TRANSACTIONS (continued)

2. Voucher subsidy from HANO

The Company is eligible to house tenants receiving Housing Choice Voucher rental assistance through vouchers issued by HANO. During 2023, the Company received voucher subsidy from HANO in the amount of \$182,393, which is included in rental income on the statements of operations.

3. Receivable from HANO

As of December 31, 2023, HANO owed the Company for reimbursement of miscellaneous costs associated with ongoing operation of the Company. The amount due from HANO as of December 31, 2023 is \$156,682 and is included in due from HANO in the accompanying balance sheet.

4. Due to affiliates

a. Due to management company

The Company has entered into a management agreement with Guste Homes Resident Management Corporation ("GHRMC") for a monthly management fee equal to \$23.50 per each occupied unit per month. For the year ended December 31, 2023, \$22,067 was charged to operations and is included in other general and administrative expense on the statement of operations.

The Company has a payable to GHRMC of \$729,469 at December 31, 2023 for unpaid management fees, reimbursement of payroll, and other services.

b. Due to Crescent Affordable Housing Corporation ("CAHC")

During the development period, Crescent Affordable Housing Corporation ("CAHC"), an affiliate of the Managing Member, paid certain development costs for the Company and it is to be paid back in the amount of \$30,112 as of December 31, 2023. These development expenses typically pertain to construction, maintenance, and rehabilitation of the property.

c. Asset management fee

Pursuant to the Operating Agreement, the Assigned 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 year ended December 31, 2023, \$7,550 was charged to operations and is included in the statement of operations as asset management fee.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE C - RELATED PARTY TRANSACTIONS (continued)

4. Due to affiliates (continued)

Due to affiliates consists of the following at December 31, 2023:

| | | |
|------------------------------|----|-----------------------|
| Due to management company | \$ | 729,469 |
| Due to CAHC | | 30,112 |
| Asset management fee payable | | <u>7,550</u> |
| | \$ | <u><u>767,131</u></u> |

NOTE D - NOTES PAYABLE – RELATED PARTY

Notes payable consists of the following at December 31, 2023:

| | | |
|-----------------------|----|--------------------------|
| Mortgage note payable | \$ | 12,672,614 |
| Supplemental loan | | 2,039,988 |
| Construction loan | | <u>140,511</u> |
| | \$ | <u><u>14,853,113</u></u> |

1. Mortgage note payable

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 Apartments 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 \$10,634,312 with HANO. During 2014, the Company converted the construction mortgage note into the permanent loan of \$8,698,042 plus capitalized interest of \$3,974,572 for a total of \$12,672,614 which accrues interest at 3.00%. Any principal and interest payments are subject to available cash flow. The entire amount of unpaid principal and interest is due January 31, 2060. This note is secured by the real property. Outstanding principal as of December 31, 2023 was \$12,672,614. Total interest expense for 2023 was \$380,178 and accrued interest as of December 31, 2023 was \$3,489,397.

Debt issuance costs of \$1,253,887 were fully amortized during the fiscal year ending December 31, 2023. Amortization of debt issuance costs of \$11,471 was charged to operations for the year ended December 31, 2023 and is included in interest expense - notes payable on the statement of operations.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE D - NOTES PAYABLE (continued)

2. Supplemental loan

In November 2006, the Company obtained a supplemental loan in the amount of \$2,939,998 from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061. This loan is secured by a program income construction loan mortgage. The outstanding principal as of December 31, 2023 is \$2,039,988.

3. 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, 2023 is \$140,511. For the year ended December 31, 2023, the Company incurred interest of \$4,215, and it is included in interest expense - note payable in the accompanying statements of operations. Accrued interest associated with the construction loan at December 31, 2023 is \$110,588.

NOTE E - MEMBERS' CAPITAL AND CASH FLOW DISTRIBUTION

Capital contributions totaling \$4,817,971, including an upward adjuster of \$11,722, were originally to be funded from the withdrawing Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2023 the withdrawing Investor Member has funded \$4,163,722. The withdrawing investor member funded the remaining balance of \$654,249 during the execution of the investor exit agreement on January, 31, 2024.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE E - MEMBERS' CAPITAL AND CASH FLOW DISTRIBUTION (continued)

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

1. To the payment of any Tax Credit Shortfall Payments owed to the Assigned Member;
2. To replenish any amounts withdrawn in such year from the Operating Reserve or the ACC Subsidy Reserve;
3. To pay the Company Management Fee to the Managing Member;
4. To the repayment of any Operating Expense Loans or Working Capital Loans then outstanding;
5. 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. Any balance shall be distributed, 0.01% to the Managing Member and 99.99% to the Assigned Member.

NOTE F - COMMITMENTS AND CONTINGENCIES

1. 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, 2023, the prepaid ground lease was \$32,544.

2. Legal

The Company may be party to various pending or threatened legal actions in the normal course of operations. As of the date of this report, management is not aware of any material threatened or pending legal actions against the Company.

3. 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 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, 2023, no amounts have been funded.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2023

NOTE F - COMMITMENTS AND CONTINGENCIES (continued)

4. 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.

NOTE G - PRIOR PERIOD ADJUSTMENT

For the fiscal year ended December 31, 2023, the statement of members' capital (deficit) reflects a prior period adjustment decreasing equity by \$656,850. During fiscal year 2023, a reconciliation was performed that resulted in restatements of historical accounts receivable and accounts payable balances. The prior period adjustment reflects restatements to due from affiliates and due to affiliates that have been recorded as of January 1, 2023.

NOTE H - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through June 27, 2024, the date which the financial statements were available to be issued, and noted no items to be disclosed.

SUPPLEMENTARY INFORMATION

GUSTE I, LLC

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

December 31, 2023

Agency Head Name: Evette Hester
Executive Director and Chief Administrative Officer of the
Housing Authority of New Orleans

| Purpose | Amount |
|--|---------------|
| Salary | None |
| Benefits-insurance | None |
| Benefits-retirement | None |
| Benefits-deferred comp | None |
| Car allowance | None |
| Vehicle provided by government | None |
| Per diem | None |
| Reimbursements | None |
| Travel | None |
| Registration fees | None |
| Conference travel | None |
| Continuing professional education fees | None |
| Housing | None |
| Unvouchered expenses | None |
| Special meals | None |

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

See independent auditor's report.

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

To the Members of
Guste I, LLC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Guste I, LLC (the “Company”), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements, and have issued our report thereon dated June 27, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

June 27, 2024
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Guste I, LLC

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended December 31, 2023

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2022-001 Financial Reporting

Significant Deficiency in Internal Control

Condition: The audited financial statements were completed and submitted to the Louisiana Legislative Auditor after the State statutory deadline of June 30, 2023.

Auditor Recommendation: The Company should ensure that the year-end reconciliations are completed timely to allow for the completion of the audited financial statements by the June 30th deadline of each fiscal year.

Current Year Status: Cleared.