

**GUSTE  
HOMES III, LLC**

**Financial Statements  
and Supplementary  
Information**

**December 31, 2023 and 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of  
Guste Homes III, LLC

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Guste Homes III, LLC (the "Company"), which comprises the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, members' capital (deficit), and cash flows for the years 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 2022, 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.

#### *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.

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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 HOMES III, LLC****BALANCE SHEETS**

December 31,

<b>ASSETS</b>	2023	2022, restated
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - unrestricted	\$ 246,009	\$ 14,086
Cash and cash equivalents - restricted	1,684,065	1,616,870
Tenants accounts receivable	36,656	41,755
Due from affiliates	414,795	-
Due from HANO	-	52,343
Accounts receivable - other	-	3,288
Prepaid expenses	115,393	69,060
Total current assets	<u>2,496,918</u>	<u>1,797,402</u>
<b>NONCURRENT ASSETS</b>		
Tax credit monitoring fees	54,921	61,787
Investment in rental property, net	40,239,358	42,103,981
Total noncurrent assets	<u>40,294,279</u>	<u>42,165,768</u>
Total assets	<u>\$ 42,791,197</u>	<u>\$ 43,963,170</u>
 <b>LIABILITIES AND MEMBERS' CAPITAL (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 689,500	\$ 302,307
Tenant security deposits	41,700	35,500
Developer fee payable	3,982,645	3,982,645
Due to affiliates	828,133	777,855
Other current liabilities	159,202	-
Total current liabilities	<u>5,701,180</u>	<u>5,098,307</u>
<b>NONCURRENT LIABILITIES</b>		
Mortgage loan due to affiliates	38,045,199	38,045,199
Total liabilities	<u>43,746,379</u>	<u>43,143,506</u>
<b>MEMBERS' CAPITAL (DEFICIT)</b>		
Managing member's deficit	(1,027)	(850)
Investor member capital (deficit)	(954,155)	820,514
Total members' capital (deficit)	<u>(955,182)</u>	<u>819,664</u>
Total liabilities and members' capital (deficit)	<u>\$ 42,791,197</u>	<u>\$ 43,963,170</u>

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

# GUSTE HOMES III, LLC

## STATEMENTS OF OPERATIONS

For the years ended December 31,

	2023	2022, restated
<b>REVENUES</b>		
Total tenant revenue, net	1,738,041	1,502,061
Other operating income	439,810	5,720
Total operating revenues	<u>2,177,851</u>	<u>1,507,781</u>
<b>OPERATING EXPENSES</b>		
Utilities	514,673	443,372
Repairs and maintenance	374,353	311,110
Insurance	372,891	304,516
Protective services	228,382	166,728
Other general and administrative	212,784	209,930
Salaries	154,787	113,752
Tenant services	80,284	74,494
Management fees	65,550	60,270
Advertising and marketing	707	165
Bad debt expense	79,808	-
Total operating expenses	<u>2,084,219</u>	<u>1,684,337</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>93,632</u>	<u>(176,556)</u>
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	3,011	2,265
Depreciation	(1,864,623)	(1,864,664)
Amortization - tax credit monitoring fee	(6,866)	(6,866)
Total other income (expenses)	<u>(1,868,478)</u>	<u>(1,869,265)</u>
<b>NET LOSS</b>	<u>\$ (1,774,846)</u>	<u>\$ (2,045,821)</u>

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

**GUSTE HOMES III, LLC**

**STATEMENTS OF MEMBERS' CAPITAL (DEFICIT)**

	Managing member	Special member	Investor member	Total members' capital (deficit)
Members' capital (deficit), January 1, 2022	\$ (722)	\$ -	\$ 2,214,279	\$ 2,213,557
Prior period adjustment, restated	77	-	651,851	651,928
Net loss, restated	(205)	-	(2,045,616)	(2,045,821)
Members' capital (deficit), December 31, 2022, restated	(850)	-	820,514	819,664
Net loss	(177)	-	(1,774,669)	(1,774,846)
Members' capital (deficit), December 31, 2023	\$ (1,027)	\$ -	\$ (954,155)	\$ (955,182)

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



**GUSTE HOMES III, LLC**

**STATEMENTS OF CASH FLOWS**

**For the years ended December 31,**

	2023	2022, restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,774,846)	\$ (2,045,821)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation	1,864,623	1,864,664
Amortization - tax credit monitoring fees	6,866	6,866
Change in provisions for credit losses	79,808	-
(Increase) decrease in assets:		
Tenant accounts receivable	(74,709)	(28,704)
Due from affiliates	(414,795)	-
Due from HANO	52,343	(37,172)
Accounts receivable - other	3,288	43,425
Prepaid expenses	(46,333)	735
Increase (decrease) in liabilities:		
Accounts payable	387,193	50,083
Tenant security deposits	6,200	6,100
Due to affiliates	50,278	(990,239)
Other current liabilities	159,202	-
Net cash provided by (used in) operating activities	299,118	(1,130,063)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in rental property	-	(37,172)
<b>NET INCREASE (DECREASE) IN CASH</b>	299,118	(1,167,235)
Cash and cash equivalents - beginning of the year	1,630,956	2,798,191
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	\$ 1,930,074	\$ 1,630,956
<b>RECONCILIATION TO BALANCE SHEET</b>		
Cash and cash equivalents - unrestricted	\$ 246,009	\$ 14,086
Cash and cash equivalents - restricted	1,684,065	1,616,870
	\$ 1,930,074	\$ 1,630,956
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ -	\$ -

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

# GUSTE HOMES III, LLC

## NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Nature of operations

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

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

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

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

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

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

## GUSTE HOMES III, LLC

### NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

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

1. Nature of operations (continued)

The Company is a component unit of the Housing Authority of New Orleans (“HANO”) under the requirements of Governmental Accounting Standards Board Codification of *Governmental Accounting and Financial Reporting Standards* Section 2100, *Defining 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.

2. Accounting method

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

3. Use of estimates

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

4. 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 include 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.

## GUSTE HOMES III, LLC

### NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

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

##### 5. Tenant accounts receivable (continued)

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

	2023	2022
Balance, beginning of year	\$ -	\$ -
Increase in allowance for credit losses	79,808	-
Write-offs	(79,808)	-
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

##### 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 to be provided using the straight-line method over the estimated useful lives of 27.5 years for buildings and improvements and 5-7 years for furniture and equipment.

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

	2023	2022
Buildings and improvements	\$ 51,272,028	\$ 51,272,028
Less accumulated depreciation	(11,032,670)	(9,168,047)
	<u>\$ 40,239,358</u>	<u>\$ 42,103,981</u>

##### 7. Impairment of long-lived assets

The Company evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Company determines that a long-lived asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Company's financial statements. Management has determined that there were no impairments as of December 31, 2023 and 2022.

**GUSTE HOMES III, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2023 and 2022**

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

8. Leases

Under Financial Accounting Standards Board (“FASB”) 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. Leases with an initial term of 12 months or less are not recorded on the balance sheets.

9. Rental income

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

10. Income taxes

The Company is not a taxpaying entity for federal or state income tax purposes since taxable income or loss passes through to, and is reportable by, the members individually. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements. The Company accounts for income taxes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*, which clarifies the accounting and disclosure requirements for uncertainty in tax positions. It requires a two-step approach to evaluate tax positions and determine if they should be recognized in the financial statements. The two-step approach involves recognizing any tax positions that are “more likely than not” to occur and then measuring those positions to determine if they are recognizable in the financial statements. Management regularly reviews and analyzes all tax positions and has determined no aggressive tax positions have been taken. 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.

11. Economic concentrations

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

# GUSTE HOMES III, LLC

## NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

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

#### 12. Tax credit monitoring fees

Costs totaling \$102,983 related to obtaining low-income housing tax credits will be amortized over the mandatory 15-year compliance period. Accumulated amortization at December 31, 2023 and 2022 is \$48,062 and \$41,196, respectively. Estimated amortization expense for each of the following years is as follows:

2024	\$	6,866
2025		6,866
2026		6,866
2027		6,866
2028		6,866
Thereafter		20,591
		<u>\$ 54,921</u>

#### 13. Standards that were adopted

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.

#### 14. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

# GUSTE HOMES III, LLC

## NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

### NOTE B - CASH AND CASH EQUIVALENTS

As of December 31, 2023 and 2022, the Company's restricted cash and cash equivalents totaled \$1,688,601 and \$1,616,870, respectively.

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	2022
ACC subsidy reserve	\$ 367,607	\$ 367,058
Replacement reserve	202,898	143,993
Operating reserve	482,024	481,304
Rental achievement reserve	100,422	100,272
Property security reserve	175,738	175,475
Tax and insurance escrow	272,608	272,200
Development escrow	41,068	41,068
Tenant security deposits	41,700	35,500
	<u>\$ 1,684,065</u>	<u>\$ 1,616,870</u>

#### 1. ACC subsidy reserve

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

	2023	2022
Balance, January 1,	\$ 367,058	\$ 366,509
Deposits	549	549
Balance, December 31,	<u>\$ 367,607</u>	<u>\$ 367,058</u>

# GUSTE HOMES III, LLC

## NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

### NOTE B - CASH AND CASH EQUIVALENTS (continued)

#### 2. Replacement reserve

Pursuant to the Operating Agreement, the Company is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Annual deposits are required in the amount of \$46,500, increasing annually by 3% commencing on the date of substantial completion.

	2023	2022
Balance, January 1,	\$ 143,993	\$ 90,101
Deposits	51,065	53,892
Balance, December 31,	<u>\$ 195,058</u>	<u>\$ 143,993</u>

#### 3. Operating reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish an operating reserve of \$480,000 in a separate reserve account to fund excess operating expenses over revenues and debt service, to the extent required, subject to any requisite approvals and to the consent of the Special Member.

#### 4. Rental achievement reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish a rental achievement reserve of \$100,000 in a separate reserve account in order to ensure that the Project will maintain an average income to expense ratio of 1.05 to 1.0 or such greater ratio as may be required to maintain breakeven operations throughout the Compliance Period.

#### 5. Property security reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish an initial Property Security Reserve of \$175,000 in a separate reserve account in order to provide for physical security of the Project. The reserve is to be funded from capital contributions and/or loan proceeds and shall be held throughout the Compliance Period. CAHC may draw down up to \$35,000 annually for providing security to the Project without consent of the Special Member, provided CAHC verifies that such funds are utilized for security purposes.

#### 6. Tax and insurance escrow

Pursuant to the Operating Agreement, the Managing Member is required to establish an initial tax and insurance escrow of \$271,463 in a separate escrow account in order to provide for insurance and tax payments for the Project. The initial escrow was to be funded from capital contributions and/or loan proceeds.



## GUSTE HOMES III, LLC

### NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

#### NOTE B - CASH AND CASH EQUIVALENTS (continued)

7. Development escrow

In connection with the construction of the Project, the Investor Member has established an escrow account to pay for future development costs.

#### NOTE C - RELATED PARTY TRANSACTIONS

1. Operating subsidy from HANO

The Company has entered into a Regulatory and Operating Agreement (the "Agreement") with HANO that provides for an operating subsidy amount for annual operations. Pursuant to the Agreement, 109 units of the Apartments are to be operated as Public Housing Units and are subject to all regulations therein. During 2023 and 2022, the Company received an operating subsidy from HANO in the amount of \$537,439 and \$566,139, respectively which is included in rental subsidy on the statement of operations.

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 and 2022, the Company received voucher subsidy from HANO in the amount of \$528,544 and \$434,124, respectively which is included in rental subsidy on the statement of operations.

3. Receivables from HANO

As of December 31, 2023 and 2022, HANO owed the Company for reimbursement of miscellaneous costs associated with ongoing operation of the Project. The amount due from HANO as of December 31, 2023 and 2022 is \$0 and \$52,343, respectively and is included in due from HANO in the accompanying balance sheets.

4. Asset management fee

Pursuant to the Operating Agreement, a one-time asset management fee in the amount of \$75,000 was paid to the Investor Member for an annual review, during the 15-year compliance period, of the operations of the Company and the Project. The asset management fee is being amortized over the 15 year compliance period. As of December 31, 2023 and 2022, \$25,000 and \$30,000, respectively remains unamortized and is included in prepaid expenses on the balance sheets.

## GUSTE HOMES III, LLC

### NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

#### NOTE C - RELATED PARTY TRANSACTIONS (continued)

5. Developer fee payable

The Company has entered into a development agreement with CAHC. The agreement provides for a development fee in the amount of \$5,310,193, for services in connection with the development of the Project and the supervision of construction. Development fees are recognized as incurred ratably over the course of construction. Development fees are deferred until certain Investor Member capital contributions milestones are met. As of December 31, 2023 and 2022, the entire amount has been earned by CAHC, of which \$3,982,645 remains unpaid.

6. Due from/to affiliates

The Company has entered into a management agreement with Guste Homes Resident Management Corporation (“GHRMC”) for a monthly management fee equal to \$35 per month per unit for all units, whether they are occupied or not. The agreement is effective upon completion of the Project. For the years ended December 31, 2023 and 2022, \$65,550 and \$60,270, respectively was charged to operations.

The Company has a receivable from GHRMC at December 31, 2023 of \$414,795 for operating expenses paid on their behalf. As of December 31, 2022 the Company had a payable to GHRMC of \$374,782 for unpaid management fees, reimbursement of payroll, and other services.

In addition, in the normal course of operations, the Company has amounts due to Crescent Affordable Housing Corporation and HANO for payment on common costs and other interprogram amounts. As of December 31, 2023 and 2022, the Company owed \$828,133 and \$403,073, respectively.

#### NOTE D - MORTGAGE LOAN DUE TO AFFILIATE

On February 1, 2021, the Company converted a construction loan to permanent financing through a multifamily leasehold mortgage in the amount of \$38,045,199 from HANO. This loan bears interest at a rate of 0.95% and the principal and interest are due upon maturity on February 1, 2071.

#### NOTE E - MEMBERS' CAPITAL

Capital contributions totaling \$18,109,177 are due from the Investor Member when certain milestones are achieved as disclosed in the Operating Agreement. As of December 31, 2023 and 2022, the Investor Member has funded \$9,497,969. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member was required to make contributions of \$100 and the Special member was required to make contributions of \$10.

**GUSTE HOMES III, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2023 and 2022**

**NOTE F - COMMITMENTS AND CONTINGENCIES**

1. Ground lease

On November 1, 2013, the Company entered into a 40 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, 2022, the base rent for the entire term has been paid in full.

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. Tax credits

The Company's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Member. Management is not aware of any non-compliance as of the date of this report.

**NOTE G - PRIOR PERIOD ADJUSTMENT**

For the fiscal year ended December 31, 2022, the statement of members' capital (deficit) reflects a prior period adjustment increasing equity by \$651,828. During fiscal year 2022, a reconciliation was performed that resulted in restatements of historical amounts due from affiliates and due to affiliates. The prior period adjustment reflects restatements to due from affiliates and due to affiliates that have been recorded as of January 1, 2022.

**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 issues to be disclosed.

## **SUPPLEMENTARY INFORMATION**

**GUSTE HOMES III, 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

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

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

See independent auditor's report.

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

To the Members of  
Guste Homes III, LLC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Guste Homes III, LLC (the "Company"), as of and for the years ended December 31, 2023 and 2022, 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 have not been 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 statement. 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 Homes III, LLC**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the year ended December 31, 2023**

SUMMARY SCHEDULE OF PRIOR 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 30<sup>th</sup> deadline of each fiscal year.

Current Year Status: Cleared.