



CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**CRESCENT AFFORDABLE HOUSING
CORPORATION AND AFFILIATES**

DECEMBER 31, 2010 AND 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/13/11

Crescent Affordable Housing Corporation and Affiliates

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Crescent Affordable Housing Corporation and Subsidiaries

We have audited the accompanying consolidated statements of financial position of Crescent Affordable Housing Corporation and Affiliates (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crescent Affordable Housing Corporation and Affiliates as of December 31, 2010 and 2009, and the changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2011, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provision 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 provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.



Reznick Group

ACCOUNTING • TAX • BUSINESS ADVISORY

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 26 through 31 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied to the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Reznick Group, P.C.

Charlotte, North Carolina
June 30, 2011

Crescent Affordable Housing Corporation and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 8,581,814	\$ 12,686,577
Accounts receivable - tenant	39,521	41,092
Accounts receivable - other	484,595	479,495
Prepaid expenses	34,829	56,266
Total Current Assets	9,140,759	13,263,430
Restricted Deposits and Funded Reserves		
Resident security deposits	31,779	28,720
Replacement reserves	170,321	168,698
Other escrows	2,639,391	2,746,636
Total Restricted Deposits and Funded Reserves	2,841,491	2,944,054
Rental Property		
Buildings and improvements	33,211,144	33,184,209
Land improvements	4,860,619	4,860,619
Furniture, equipment and machinery	880,539	880,539
Construction in progress	27,869,522	20,518,379
	66,821,824	59,443,746
Less accumulated depreciation	(5,529,734)	(4,239,178)
Total Rental Property	61,292,090	55,204,568
Other Noncurrent Assets		
Loan fees	1,339,657	1,447,308
Tax credit monitoring fees	9,898	10,804
Prepaid ground lease	881,907	964,669
Other assets	271,552	271,477
Total Other Noncurrent Assets	2,503,014	2,694,258
Total Assets	\$ 75,777,354	\$ 74,106,310

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Accounts payable	\$ 120,157	\$ 97,415
Accrued expenses	547,537	469,665
Asset management fee payable	38,855	23,305
Due to related parties	9,020,419	5,676,884
Construction note payable to related party	25,344,940	25,344,940
Accrued interest payable to related party	<u>9,337,496</u>	<u>8,577,149</u>
Total Current Liabilities	<u>44,409,404</u>	<u>40,189,358</u>
Deposits and Prepaid Liability		
Resident security deposits	31,717	26,620
Prepaid rent	<u>1,172</u>	<u>5,397</u>
Total Deposits and Prepaid Liability	<u>32,889</u>	<u>32,017</u>
Long-Term Liabilities		
Notes payable - related party	37,779,894	37,779,894
Accrued interest payable	<u>4,012,624</u>	<u>2,501,130</u>
Total Long-Term Liabilities	<u>41,792,518</u>	<u>40,281,024</u>
Unrestricted Net Assets, Crescent Affordable Housing Corporation	1,934,655	3,663,260
Unrestricted Net Assets, Noncontrolling Interest	<u>(12,392,112)</u>	<u>(10,059,349)</u>
Total Liabilities and Net Assets	<u>\$ 75,777,354</u>	<u>\$ 74,106,310</u>

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues		
Rental income	\$ 1,455,632	\$ 1,533,804
Vacancies and concessions	(143,324)	(80,862)
Other operating income	385,760	335,626
	<u>1,698,068</u>	<u>1,788,568</u>
Operating Expenses		
Salaries and employee benefits	329,313	445,755
Repairs and maintenance	436,165	500,249
Utilities	228,228	258,094
Property management fee	62,370	101,539
Property insurance	367,623	414,214
Miscellaneous operating expenses	576,332	201,420
	<u>2,000,031</u>	<u>1,921,271</u>
Net Operating Income (Loss)	<u>(301,963)</u>	<u>(132,703)</u>
Nonoperating Income (Expenses)		
Interest income	12,064	20,556
Interest expense	(2,252,640)	(3,140,580)
Other financial income (expense)	(5,094)	(2,149)
Miscellaneous other income (expense)	(52,121)	(50,872)
Annual fee to affiliate of limited partner	(15,550)	(13,661)
Gain (loss) disposal of assets	-	188,915
Other related party fees and expenses	(46,951)	-
Depreciation	(1,290,556)	(1,318,927)
Amortization	(108,557)	(108,257)
	<u>(3,759,405)</u>	<u>(4,424,975)</u>
Change in Net Assets	(4,061,368)	(4,557,678)
Attributable to Non-controlling Interest	<u>(2,332,763)</u>	<u>(4,680,499)</u>
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	<u>\$ (1,728,605)</u>	<u>\$ 122,821</u>

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF NET ASSETS

Years ended December 31, 2010 and 2009

	Unrestricted Net Assets, Crescent Affordable Housing Corporation	Unrestricted Net Assets, Noncontrolling Interest
	<u> </u>	<u> </u>
Balance January 1, 2009	\$ 3,540,439	\$ (5,378,850)
Change in Net Assets	<u>122,821</u>	<u>(4,680,499)</u>
Balance December 31, 2009	3,663,260	(10,059,349)
Change in Net Assets	<u>(1,728,605)</u>	<u>(2,332,763)</u>
Balance December 31, 2010	<u>\$ 1,934,655</u>	<u>\$ (12,392,112)</u>

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,061,368)	\$ (4,557,678)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	1,290,556	1,318,927
Amortization	108,557	108,257
Gain on disposal of assets	-	(188,915)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable - tenant	1,571	(9,968)
Accounts receivable - other	(5,100)	(270,548)
Prepaid expenses	104,199	718,145
Tenant security deposits, net	2,038	(20,562)
Other assets	(75)	50,400
Accounts payable	22,742	28,458
Accrued expenses	77,872	233,363
Asset management fee payable	15,550	13,641
Prepaid rent	(4,225)	(1,988)
Accrued interest payable to related party	2,252,640	2,549,784
	<u>(195,043)</u>	<u>(28,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,358,877)	(10,340,695)
Replacement reserve, net	(1,623)	(168,698)
Other escrows, net	107,245	644,133
Construction cost payable, net	-	(742,832)
	<u>(7,253,255)</u>	<u>(10,608,092)</u>

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable - related party	-	(643,075)
Due to related party	<u>3,343,535</u>	<u>456,529</u>
Net cash provided (used) by financing activities	<u>3,343,535</u>	<u>(186,546)</u>
Net increase (decrease) in cash and cash equivalents	(4,104,763)	(10,823,322)
Cash and cash equivalents, beginning of year	<u>12,686,577</u>	<u>23,509,899</u>
Cash and cash equivalents, end of year	<u>\$ 8,581,814</u>	<u>\$ 12,686,577</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 590,796</u>
Supplemental disclosure of noncash investing and financing information:		
Interest capitalized	<u>\$ 19,201</u>	<u>\$ 2,043,262</u>
Gain (loss) on disposal of assets:		
Notes payable - related party, net of cash paid of \$0 and \$46,304,923 in 2010 and 2009, respectively	\$ -	\$ (2,045,311)
Accrued interest payable	-	(590,796)
Accounts payable	-	(1,608)
Prepaid ground lease	-	379,938
Development costs	-	2,068,862
	<u>\$ -</u>	<u>\$ (188,915)</u>
End cash check:	<u>-</u>	<u>-</u>

See notes to consolidated financial statements

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Organization

Crescent Affordable Housing Corporation ("CAHC") is a Louisiana not-for-profit corporation created in December 2003 by the Housing Authority of New Orleans ("HANO") for the purpose of providing a financial entity to assist HANO in acquiring, financing, redeveloping, rehabilitating, and constructing affordable housing. CAHC is the sole member of Lune d'Or Enterprises, LLC ("Lune d'Or"), a for-profit entity created by HANO that serves as the managing member of several for-profit Limited Liability Companies (the "LLC's") that own and operate affordable housing projects developed on properties owned by HANO. CAHC is also the sole member of Place D'Genesis, LLC ("Place D'Genesis"); a for-profit entity with the purpose to acquire, finance, construct, redevelop and rehabilitate affordable housing.

CAHC is a component unit of the Authority under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. CAHC is presented as a blended component unit of HANO as there is a financial benefit/burden relationship with HANO. HANO has the ability to influence the operations of CAHC as its board of directors is appointed by HANO and any changes to CAHC's by-laws must be approved by HANO.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CAHC, Lune d'Or, and Place D'Genesis. In addition, the balances of Lune d'Or include investments in limited liability companies in which Lune d'Or has a controlling interest and accounts of 3 limited liability companies in which Lune d'Or has a .01 percent interest. These entities are included in the consolidation according to generally accepted accounting principles which require that partnership accounts be consolidated for all limited partnerships (or limited liability companies) which are deemed to be controlled by Lune d'Or. All significant intercompany transactions have been eliminated in consolidation. The limited liability companies included in the consolidation (in the balances of Lune d'Or) are as follows:

<u>Entity</u>	<u>Percentage Ownership</u>
BW Cooper I, LLC	100.00%
Florida IIa, LLC	100.00%
Fischer I, LLC	0.01%
Fischer III, LLC	0.01%
Guste I, LLC	0.01%

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Fischer IV-3, LLC, Guste IIb, LLC, Imperial I, LLC, Imperial II, LLC, General Ogden, LLC, Tchoupitoulas, LLC and Mazant Royal, LLC were dissolved as of December 31, 2009.

There are two additional entities, CJP Rental I, LLC and St. Bernard Rental I, LLC, in which CAHC has a minority interest, which are not controlled by CAHC and do not required inclusion in the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

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

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.

Tax credit monitoring fees are being amortized using the straight-line method over the fifteen-year tax credit compliance period.

Amortization expense for the years ended December 31, 2010 and 2009 was \$108,557 and \$108,257, respectively.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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

2011	\$ 108,557
2012	108,557
2013	108,557
2014	108,557
2015	108,557
Thereafter	<u>806,770</u>
	<u>\$ 1,349,555</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>Useful Lives</u>	<u>Method</u>
Building	40 years	Straight-line
Land and improvements	20 years	Declining balance
Furniture and equipment	10 years	Declining balance

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, 2010 and 2009.

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 properties are operating leases.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Advertising Costs

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

Income Taxes

CAHC has been classified as a publicly supported organization under Internal Revenue Code Section 501(c)(3) and not as a private foundation. Therefore, it is generally not subject to income tax.

Lune d'Or and Place D'Genesis have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to CACH. Lune d'Or and Place D'Genesis' federal tax status as pass-through entities is based on their legal status as single-member limited liability companies. Accordingly, neither entity is required to take any tax positions in order to qualify as pass-through entities. Three limited liability companies included in Lune d'Or are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure.

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

Lune d'Or has ownership in three entities in which each operates a property in New Orleans, Louisiana. In addition, BW Cooper, LLC is developing a residential rental 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.

Unrestricted Net Assets Noncontrolling interest

Interests held by investor members in limited liability companies consolidated into Lune d'Or are reflected in unrestricted net assets non-controlling interest on the consolidated financial statements. Noncontrolling interest represents the 99.99 percent share of the

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

underlying negative equity of those limited liability companies, not wholly owned by Lune d'Or.

NOTE 3 - RESTRICTED CASH

Restricted Cash

A Revolving Line of Credit Loan Agreement between CAHC and Lune d' Or was executed on January 20, 2005, which provides a \$1,300,000 revolving line of credit to Lune d' Or. The line of credit was established to enable Lune d' Or to guarantee obligations as the managing member of 3 limited liability companies in which Lune d'Or is the managing member. As part of the agreement, CAHC established a restricted cash account to maintain an amount not less than \$1,300,000. As of December 31, 2010 and 2009, the balance of the restricted funds account was \$554,810 and \$553,516, respectively, and was not in compliance with the agreement.

Pursuant to the construction loan agreements between HANO and Guste I, LLC, Fischer I, LLC and Fischer III, LLC, HANO established a cash collateral account which is used to deposit the proceeds of the respective construction loans. As of December 31, 2010 and 2009, the balance of the restricted cash was \$2,084,581 and \$2,193,120, respectively.

The above funds are in a money market account and are stated at fair value. The fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, fair value is determined using quoted market prices, a Level 1 or an observable input. At December 31, 2010 and 2009, the fair value approximated the carrying value.

Replacement Reserve

Pursuant to the Operating Agreement, Guste I, LLC is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Required monthly deposits are required in the amount of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2010 and 2009, no amounts had been funded.

Pursuant to the Operating Agreement, Fischer I, LLC shall establish a reserve account for capital replacements, funded by monthly deposits of \$417, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2010 and 2009, the replacement reserve balance was \$45,917 and \$45,879, respectively.

Pursuant to the Operating Agreement, Fischer III, LLC shall establish a reserve account for capital replacements, funded by monthly deposits of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2010 and 2009, the replacement reserve balance was \$124,404 and \$122,819, respectively.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

NOTE 4 - RELATED PARTY TRANSACTIONS

Operating Subsidy

Guste I, LLC received rental subsidy from HANO amounting to \$212,486 and \$208,953 during 2010 and 2009, respectively. In addition, the Guste I, LLC received operating subsidy for expenses paid by HANO on Guste I, LLC's behalf of \$115,503 and \$286,526 during the years ended December 31, 2010 and 2009, respectively, which is included in other operating income in the statements of activities. Total due from HANO as a result of the operating subsidy and contract subsidy from HUD was \$484,595 and \$479,495 at December 31, 2010 and 2009, respectively. Subsequent to year end, Guste I, LLC has received \$252,000 from HANO. The balance is expected to be received in 2011 thus has been classified as a current asset in the accompanying statement of financial position.

Fischer III, LLC received operating subsidy from HANO amounting to \$176,730 during 2010. This amount was the allocated insurance premium paid by HANO on Fischer III, LLC's behalf and is included in other operating income in the statement of activities.

Asset Management Fee

Pursuant to the Operating Agreement, the Investor Member of Guste I, LLC, Fischer I, LLC and Fischer III, LLC shall earn an annual, cumulative fee. The fee is adjusted each year for the changes in the Consumer Price Index. Total fees earned and payable as of December 31, 2010 and 2009 and for the years then ended is as follows:

	2010		2009	
	Fees Earned	Amount Payable	Fees Earned	Amount Payable
Guste I, LLC	\$ 5,570	\$ 11,057	\$ 5,487	\$ 5,487
Fischer I, LLC	4,063	6,563	2,500	2,500
Fischer III, LLC	5,917	21,235	5,674	15,318
	<u>\$ 15,550</u>	<u>\$ 38,855</u>	<u>\$ 13,661</u>	<u>\$ 23,305</u>

Due to HANO

During 2006 through 2010, the Company incurred costs due to HANO. The advances related to the miscellaneous costs associated with the construction and operations of various projects. The advances do not bear interest and are to be paid from any remaining mortgage proceeds, capital contributions, and cash flow. As of December 31, 2010 and 2009, advances totaling \$8,412,638 and \$5,069,103, respectively, is payable to HANO and is included in due to related party in the accompanying consolidated statement of financial position.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

City Grant Funds due to HANO

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 balance due to HANO at December 31, 2010 and 2009 is \$558,901 for both years. The amount is included in due to related party and is payable out of the other escrow deposits.

Management Fees

Fischer III, LLC incurred management fees due to HANO prior to 2009 of which the outstanding balance of \$48,880 remains payable at December 31, 2010 and 2009 and are included in due to related party in the accompanying consolidated statement of financial position.

NOTE 5 - CONSTRUCTION NOTES PAYABLE

Guste I, LLC

In December 2003, Guste I, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of the note was \$13,189,372. In January 2005, Guste I, LLC entered into a new financing agreement in the amount of \$10,643,312 with HANO. The loan bears interest at 3 percent with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended through December 31, 2011. The outstanding principal as of December 31, 2010 and 2009 was \$10,634,312 for both years. For the years ended December 31, 2010 and 2009, Guste I, LLC incurred interest in the amount of \$319,029 and \$1,276,117, respectively. Accrued interest was \$2,857,969 and \$2,538,940, respectively.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member.

Fischer III, LLC

In December 2003, Fischer III, LLC entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of the note was \$13,634,195. In January 2005, Fischer III, LLC entered into a new financing agreement in the amount of \$14,710,628 with HANO. The loan bears interest at 3 percent with both the unpaid principal and interest due and payable on February 1, 2007. During 2010, the loan was extended to December 31, 2011. The outstanding principal as of December 31, 2010 and 2009 was \$14,710,628 for both years. For the years ended

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

December 31, 2010 and 2009, Fischer III, LLC incurred interest in the amount of \$441,318 and \$1,765,275, respectively. Accrued interest was \$6,479,527 and \$6,038,209, respectively.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member. The conversion of the permanent loan is expected to close during 2011.

NOTE 6 - NOTES PAYABLE - RELATED PARTY

Notes payable to HANO consists of the following at December 31, 2010 and 2009:

	2010	2009
<u>Guste I, LLC</u>		
In November 2006, a supplemental loan in the amount of \$2,939,498 was obtained from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061.	\$ 2,939,498	\$ 2,939,498
In January 2005, a construction loan in the amount of \$248,999 was obtained from HANO. The construction loan accrues interest at 3 percent with both the unpaid principal and interest due on January 31, 2060. For the years ended December 31, 2010 and 2009, interest incurred interest was \$7,470 for both years. Accrued interest was \$44,509 and \$37,039 at December 31, 2010 and 2009, respectively.	248,999	248,999

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

	2010	2009
<u>Fischer I, LLC</u>		
<p>During 2005, a Capital Funds Note was obtained from HANO to provide financing for the development of the Project. During 2007, there was an addition to the balance of this loan when HANO reimbursed JPMorgan Chase Bank for an outstanding construction loan. The loan bears interest at the long term applicable federal rate, which was 4.68 percent at the time the loan was funded, and is collateralized by the Project. All unpaid principal and interest is due on January 31, 2060, and payments on the loan are to be made from surplus cash. Interest incurred during the years ended December 31, 2010 and 2009 was \$76,158 and \$72,753, respectively. Accrued interest payable as of December 31, 2010 and 2009 is \$279,396 and \$203,238, respectively.</p>	1,424,059	1,424,059
<p>On January 20, 2005, a Program Income Construction Mortgage Note was obtained from HANO in the amount of \$196,300. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Projects, and bears interest annually at the long term applicable federal rate, which was 4.76 percent at the time the loan was funded. The loan is collateralized by the Project, and the entire amount of unpaid principal and interest is due and payable on January 31, 2060. Interest incurred during the years ended December 31, 2010 and 2009 was \$11,731 and \$11,198, respectively. Accrued interest payable as of December 31, 2010 and 2009 is \$61,883 and \$50,152, respectively.</p>	196,300	196,300

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
On November 1, 2006, a Supplemental Loan was obtained from HANO in the amount of \$130,000. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash.	130,000	130,000
On November 16, 2005, an Affordable Housing Program Loan was obtained from HANO in the amount of \$100,000, to assist with financing the Project. The loan bears no interest, and is collateralized by the Project. The loan matures fifteen years from completion of the Project, which occurred on May 27, 2006. The Affordable Housing Program Loan is payable from remaining mortgage proceeds, capital contributions, and available cash flow from the Project.	100,000	100,000
<u>Fischer III, LLC</u>		
On November 1, 2006, a Supplemental Loan was obtained with HANO in the amount of \$3,064,919. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and payments on the loan are to be made from surplus cash.	3,064,919	3,064,919
On November 16, 2005, an Affordable Housing Program Loan) was obtained HANO, in the amount of \$350,000, to assist the Company in financing the Project. The loan bears no interest, is collateralized by the Project, and is payable from remaining mortgage proceeds, capital contributions, and available cash flows from the Project. The loan will be maintained for 15 years from the date of Project completion.	350,000	350,000

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
In November 2005, a Program Income Loan was obtained HANO, in the amount of \$344,314. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Project, is collateralized by the Project, and accrues interest at 0.5 percent. The loan is due January 2, 1060 and payments are to be made from cash flow as defined by the Operating Agreement. Interest incurred during the years ended December 31, 2010 and 2009 was \$1,722 for both years. Accrued interest at December 31, 2010 and 2009 as \$10,236 and \$8,514, respectively.	344,314	344,314

B. W. Cooper I, LLC

Developer services agreement obtained from HANO in the maximum original amount of \$10,926,688. The note will become due based on certain events that occur during construction. The note will accrue interest monthly at a rate of 4.89 percent. Unpaid principal and accrued interest will be due as close to the date the amounts are earned by HANO as possible; all unpaid principal will be due at maturity on December 31, 2019. On October 6, 2008 HANO advanced \$20,130,056 to B.W. Cooper I, LLC in order to fund predevelopment, demolition and infrastructure expenses for the development of mixed finance housing. Interest costs of \$1,414,413 incurred during 2009 was expensed. Interest cost of \$2,043,262 incurred during 2010 was capitalized. Accrued interest was \$3,616,600 and \$2,202,187 at December 31, 2010 and 2009, respectively.	<u>28,981,805</u>	<u>28,981,805</u>
	<u>\$ 37,779,894</u>	<u>\$ 37,779,894</u>

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

NOTE 7 - MANAGEMENT AGREEMENT

Guste I, LLC

Guste I, LLC has entered into a management agreement with Guste Homes Resident Management Corporation for a monthly management fee equal to \$23.50 per each occupied unit per month. For the years ended December 31, 2010 and 2009, \$22,560 and \$60,499 was charged to operations, of which no amounts remain payable. As no management fee was charged in prior periods, the amounts charged to operations for 2009 were from lease-up through December 31, 2009.

Fischer I, LLC

Fischer I, LLC entered into a management agreement with Latter & Blum Property Management, Inc., in connection with the management of the rental operations of the Project. The Property Management Fee is calculated in the amount of \$30 per occupied unit per month for which rent is actually received. For the years ended December 31, 2010 and 2009, \$6,540 and \$6,570, respectively, has been charged to operations and has been paid.

Fischer III, LLC

Fischer III, LLC entered into a management agreement with Latter & Blum Property Management, Inc., in connection with the management of the rental operations of the Project. The Property Management Fee is calculated in the amount of \$30 per occupied unit per month for which rent is actually received. For the years ended December 31, 2010 and 2009, \$33,270 and \$34,470, respectively, has been charged to operations and has been paid.

NOTE 8 - 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, 2010 and 2009.

NOTE 9 - GROUND LEASE

Guste I, LLC

On December 30, 2003, Guste I, LLC entered into an 89-year ground lease with HANO. In consideration of a \$41,979 lump sum payment from the Company on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2010 and 2009, the prepaid ground lease was \$38,677 and \$39,149, respectively.

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Fischer I, LLC

Fischer I, LLC entered into a ground lease with HANO. Fischer I, LLC is bound by the responsibilities and obligations of the ground lease. Under the ground lease, annual rent of \$10 is due and payable for each lease year in advance on the first day of each lease year. The lease term ends at the latest to occur of (1) the expiration of the minimum period during which the Public Housing Units are required by law to be operated as public housing, (2) 40 years from the date the Project becomes available for occupancy, and (3) 89 years. The lease also has provisions extending the ground lease, but in no event will the lease extend beyond 95 years.

Fischer III, LLC

On December 30, 2003, Fischer III, LLC entered into an 89-year ground lease (the "Ground Lease") with HANO. In consideration of a \$41,979 lump sum payment from Fischer III on January 20, 2005, the payment obligations have been fully satisfied and discharged. As of December 31, 2010 and 2009, the prepaid ground lease was \$38,684 and \$39,156, respectively.

B.W. Cooper I, LLC

On September 24, 2007, B.W. Cooper I, LLC entered into a 99-year ground lease (the "Ground Lease") with HANO. A payment of \$1,050,000 was paid and is being amortized using the straight-line basis. In addition, an annual rent of \$10 is due. As of December 31, 2010 and 2009, the prepaid ground lease was \$804,546 and \$886,364, respectively.

NOTE 10 - CONTINGENCIES

Tax Credits

For Guste I, LLC, Fischer I, LLC, and Fischer III, LLC, the low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Limited Partner of each entity.

NOTE 11 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet

Crescent Affordable Housing Corporation and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

date are recognized in the accompanying consolidated 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 June 30, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

SUPPLEMENTAL INFORMATION

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Crescent Affordable Housing Corporation	Place d'Y Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 535,623	\$ 25,334	\$ 8,020,857	\$ -	\$ 8,581,814
Development program fees receivable	2,186,110	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	39,521	-	39,521
Accounts receivable - other	-	-	484,595	-	484,595
Prepaid expenses	-	-	34,829	-	34,829
Total Current Assets	2,721,733	25,334	8,579,802	(2,186,110)	9,140,759
Restricted Deposits and Funded Reserves					
Resident security deposits	-	-	31,779	-	31,779
Replacement reserves	-	-	170,321	-	170,321
Other escrows	554,810	-	2,084,581	-	2,639,391
Total Restricted Deposits and Funded Reserves	554,810	-	2,286,681	-	2,841,491
Rental Property					
Buildings and improvements	-	-	33,211,144	-	33,211,144
Land improvements	-	-	4,860,619	-	4,860,619
Furniture, equipment and machinery	-	-	880,539	-	880,539
Construction in progress	-	-	27,869,522	-	27,869,522
	-	-	66,821,824	-	66,821,824
Less accumulated depreciation	-	-	(5,529,734)	-	(5,529,734)
Total Rental Property	-	-	61,292,090	-	61,292,090
Other Noncurrent Assets					
Loan fees	-	-	1,339,657	-	1,339,657
Tax credit monitoring fees	-	-	9,898	-	9,898
Prepaid ground lease	-	-	881,907	-	881,907
Other assets	651,342	-	271,552	(651,342)	271,552
Total Other Noncurrent Assets	651,342	-	2,503,014	(651,342)	2,503,014
Total Assets	\$ 3,927,885	\$ 25,334	\$ 74,661,587	\$ (2,837,452)	\$ 75,777,354

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2010

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 22,898	\$ 6,734	\$ 90,525	\$ -	\$ 120,157
Accrued expenses	-	-	547,537	-	547,537
Asset management fee payable	-	-	38,855	-	38,855
Developer fee payable	-	-	2,186,110	(2,186,110)	-
Due to related parties	487,493	-	8,532,926	-	9,020,419
Construction note payable to related party	-	-	25,344,940	-	25,344,940
Accrued interest payable to related party	-	-	9,337,496	-	9,337,496
Total Current Liabilities	510,391	6,734	46,078,389	(2,186,110)	44,409,404
Deposits and Prepaid Liability					
Resident security deposits	-	-	31,717	-	31,717
Prepaid rent	-	-	1,172	-	1,172
Total Deposits and Prepaid Liability	-	-	32,889	-	32,889
Long-Term Liabilities					
Notes payable - related party	-	-	37,779,894	-	37,779,894
Accrued interest payable	-	-	4,012,624	-	4,012,624
Total Long-Term Liabilities	-	-	41,792,518	-	41,792,518
Unrestricted Net Assets, Crescent Affordable Housing Corporation	3,417,494	18,600	(850,097)	(651,342)	1,934,655
Unrestricted Net Assets, Noncontrolling Interest	-	-	(12,392,112)	-	(12,392,112)
Total Liabilities and Net Assets	\$ 3,927,885	\$ 25,334	\$ 74,661,587	\$ (2,837,452)	\$ 75,777,354

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2009

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 822,102	\$ 25,304	\$ 11,839,171	\$ -	\$ 12,686,577
Development program fees receivable	2,186,110	-	-	(2,186,110)	-
Accounts receivable - tenant	-	-	41,092	-	41,092
Accounts receivable - other	-	-	479,495	-	479,495
Prepaid expenses	-	-	56,266	-	56,266
Total Current Assets	3,008,212	25,304	12,416,024	(2,186,110)	13,263,430
Restricted Deposits and Funded Reserves					
Resident security deposits	-	-	28,720	-	28,720
Replacement reserves	-	-	168,698	-	168,698
Other escrows	553,516	-	2,193,120	-	2,746,636
Total Restricted Deposits and Funded Reserves	553,516	-	2,390,538	-	2,944,054
Rental Property					
Buildings and improvements	-	-	33,184,209	-	33,184,209
Land improvements	-	-	4,860,619	-	4,860,619
Furniture, equipment and machinery	-	-	880,539	-	880,539
Construction in progress	-	-	20,518,379	-	20,518,379
	-	-	59,443,746	-	59,443,746
Less accumulated depreciation	-	-	(4,239,178)	-	(4,239,178)
Total Rental Property	-	-	55,204,568	-	55,204,568
Other Noncurrent Assets					
Loan fees	-	-	1,447,308	-	1,447,308
Tax credit monitoring fees	-	-	10,804	-	10,804
Prepaid ground lease	-	-	964,669	-	964,669
Other assets	651,342	-	271,477	(651,342)	271,477
Total Other Noncurrent Assets	651,342	-	2,694,258	(651,342)	2,694,258
Total Assets	\$ 4,213,070	\$ 25,304	\$ 72,705,388	\$ (2,837,452)	\$ 74,106,310

(continued)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2009

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 21,314	\$ 6,734	\$ 69,367	\$ -	\$ 97,415
Accrued expenses	-	-	469,665	-	469,665
Asset management fee payable	-	-	23,305	-	23,305
Developer fee payable	-	-	2,186,110	(2,186,110)	-
Due to related parties	487,493	-	5,189,391	-	5,676,884
Construction note payable to related party	-	-	25,344,940	-	25,344,940
Accrued interest payable to related party	-	-	8,577,149	-	8,577,149
Total Current Liabilities	508,807	6,734	41,859,927	(2,186,110)	40,189,358
Deposits and Prepaid Liability					
Resident security deposits	-	-	26,620	-	26,620
Prepaid rent	-	-	5,397	-	5,397
Total Deposits and Prepaid Liability	-	-	32,017	-	32,017
Long-Term Liabilities					
Notes payable - related party	-	-	37,779,894	-	37,779,894
Accrued interest payable	-	-	2,501,130	-	2,501,130
Total Long-Term Liabilities	-	-	40,281,024	-	40,281,024
Unrestricted Net Assets, Crescent Affordable Housing Corporation	3,704,263	18,570	591,769	(651,342)	3,663,260
Unrestricted Net Assets, Noncontrolling Interest	-	-	(10,059,349)	-	(10,059,349)
Total Liabilities and Net Assets	\$ 4,213,070	\$ 25,304	\$ 72,705,388	\$ (2,837,452)	\$ 74,106,310

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2010

	Crescent Affordable Housing Corporation	Place D' Genesis, LLC	Lune d'Or Enterprises, LLC	Eliminations	Total
Revenue					
Rental income	\$ -	\$ -	\$ 1,455,632	\$ -	\$ 1,455,632
Vacancies and concessions	-	-	(143,324)	-	(143,324)
Other operating income	-	-	385,760	-	385,760
Total Revenue	-	-	1,698,068	-	1,698,068
Operating Expenses					
Salaries and employee benefits	-	-	329,313	-	329,313
Repairs and maintenance	-	-	436,165	-	436,165
Utilities	-	-	228,228	-	228,228
Property management fee	-	-	62,370	-	62,370
Property insurance	-	-	367,623	-	367,623
Miscellaneous operating expenses	288,067	-	288,265	-	576,332
Total Operating Expenses	288,067	-	1,711,964	-	2,000,031
Net Operating Income (Loss)	(288,067)	-	(13,896)	-	(301,963)
Nonoperating Income (Expense)					
Interest income	1,782	30	10,252	-	12,064
Interest expense	-	-	(2,252,640)	-	(2,252,640)
Other financial income (expense)	(744)	-	(4,350)	-	(5,094)
Miscellaneous other income (expense)	260	-	(52,381)	-	(52,121)
Annual fee to affiliate of limited partner	-	-	(15,550)	-	(15,550)
Other related party fees and expenses	-	-	(46,951)	-	(46,951)
Depreciation	-	-	(1,290,556)	-	(1,290,556)
Amortization	-	-	(108,557)	-	(108,557)
Total Nonoperating Income (Expense)	1,298	30	(3,760,733)	-	(3,759,405)
Change in Net Assets	(286,769)	30	(3,774,629)	-	(4,061,368)
Attributable to Non-controlling Interest	-	-	(2,332,763)	-	(2,332,763)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ (286,769)	\$ 30	\$ (1,441,866)	\$ -	\$ (1,728,605)

Crescent Affordable Housing Corporation and Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2009

	Crescent Affordable Housing Corporation	Place D' Genesis, I.L.C.	Lune d'Or Enterprises, LLC	Eliminations	Total
Revenue					
Rental income	\$ -	\$ -	\$ 1,533,804	\$ -	\$ 1,533,804
Vacancies and concessions	-	-	(80,862)	-	(80,862)
Other operating income	-	-	335,626	-	335,626
Total Revenue	-	-	1,788,568	-	1,788,568
Operating Expenses					
Salaries and employee benefits	-	-	445,755	-	445,755
Repairs and maintenance	-	-	500,249	-	500,249
Utilities	-	-	258,094	-	258,094
Property management fee	-	-	101,539	-	101,539
Property insurance	-	-	414,214	-	414,214
Miscellaneous operating expenses	54,108	-	147,312	-	201,420
Total Operating Expenses	54,108	-	1,867,163	-	1,921,271
Net Operating Income (Loss)	(54,108)	-	(78,595)	-	(132,703)
Nonoperating Income (Expense)					
Interest income	1,610	21	18,925	-	20,556
Interest expense	-	-	(3,140,580)	-	(3,140,580)
Other financial income (expense)	-	-	(2,149)	-	(2,149)
Miscellaneous other income (expense)	-	-	(50,872)	-	(50,872)
Annual fee to affiliate of limited partner	-	-	(13,661)	-	(13,661)
Gain (loss) on disposal of assets	-	-	188,915	-	188,915
Depreciation	-	-	(1,318,927)	-	(1,318,927)
Amortization	-	-	(108,257)	-	(108,257)
Total Nonoperating Income (Expense)	1,610	21	(4,426,606)	-	(4,424,975)
Change in Net Assets	(52,498)	21	(4,505,201)	-	(4,557,678)
Attributable to Non-controlling Interest	-	-	(4,680,499)	-	(4,680,499)
Change in Net Assets Attributable to Crescent Affordable Housing Corporation	\$ (52,498)	\$ 21	\$ 175,298	\$ -	\$ 122,821

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

To the Board of Directors
Crescent Affordable Housing Corporation and Subsidiaries

We have audited the consolidated financial statements of Crescent Affordable Housing Corporation and Subsidiaries (the Company) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance but did disclose another matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2010-1. The Company's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members, management, and others within the Company, and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Charlotte, North Carolina
June 30, 2011

Crescent Affordable Housing Corporation and Affiliates

SCHEDULE OF FINDINGS AND RESPONSES

Years ended December 31, 2010 and 2009

2010-1 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Condition

The auditor noted instances of poor controls over financial reporting. Among the items noted were the following:

Accounting standards were not applied to consolidate the financial statements in accordance with generally accepted accounting principles.

Cause

There has been a lack of management oversight over the financial reporting process.

Recommendation

We recommend that personnel are appointed to oversee the financial reporting process in order to properly reflect the financial position and results of operations of the Company.

Management Response

The financial reporting responsibilities of Crescent Affordable Housing Corporation have been re-assigned to an individual so that the financial statements will be consolidated in accordance with generally accepted accounting principles.

Crescent Affordable Housing Corporation and Affiliates

SCHEDULE OF PRIOR YEARS FINDINGS

Year ended December 31, 2010

Finding - Deficiency in Internal Control over Financial Reporting

Deficiency 2009-1, 2008-1 and 2007-1

Accounting standards were not applied to consolidate the financial statements in accordance with generally accepted accounting principles, which required consolidation of limited liability companies in which Lune d'Or had controlling interest.

Certain transactions in prior years were not recorded, also resulting in a restatement of previously issued financial statements.

Status

Partially implemented, see finding 2010-1.

Deficiency 2009-1, 2008-1 and 2007-04

The financial statements were not filed timely with the State of Louisiana.

Status

Closed.