

REPORT DATE

Kenneth Barbeau
Brad Leak
Merrill Park LLC
c/o Housing Authority of the City of Milwaukee
809 N. Broadway
Milwaukee, WI 53202

PRELIMINARY DRAFT
FOR INTERNAL USE ONLY
NOT TO BE COPIED OR DISTRIBUTED
SUBJECT TO CHANGE AND THEREFORE
NOT TO BE RELIED UPON
(c) SVA CERTIFIED PUBLIC ACCOUNTANTS, S.C.

This letter includes a summary of our comments and suggestions with respect to financial, administrative, and other matters that came to our attention during the course of our audit engagement. These matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of improving accounting controls and other financial practices and procedures. This letter also includes a brief summary of our responsibilities regarding considerations of internal control and fraud in the performance of our audit engagement. In addition, this letter summarizes certain matters required to be communicated to you under professional standards in your oversight responsibilities for the entity's financial reporting process.

Financial information presented in this letter was derived from the entity's financial statements which were audited by us, and such financial information should be read in conjunction with those financial statements and our report thereon.

RECOMMENDATIONS AND SUGGESTIONS

Cash in Excess of FDIC Limits

During the course of our audit, we noted that the cash balances held at Associated Bank in the project's name exceeded the current FDIC limit of \$250,000. We recommend that you frequently monitor the bank's rating to assess its condition and consider ensuring that the company's deposits in financial institutions are under the FDIC limit at all times.

Security Deposit Funding

The tenant security deposits account is underfunded by \$8,272. We recommend you make additional deposits to cover the security deposit liability.

Available Cash Flow

Based on the cash flow analysis previously provided to you, the company has \$1,571,635 of surplus cash as of December 31, 2024. Bear in mind this includes a receivable of \$286,593 due from Travaux for payments made in excess of operating costs and \$203,472 due from HACM for prior year subsidy receivables not collected, which should be collected prior to paying out the cash surplus in accordance with the operating agreement waterfall. The cash surplus of \$18,545 should be applied to the accrued managing member asset management fee and remainder should be applied to the HACM federal funds note payable. We recommend you communicate with your investor to approve.

Non-Payment of PILOT

During the course of our audit, we noted that the PILOT has not been paid for the past few years. As this is not a consistent monthly transaction, we recommend management ensure that this fee is being paid timely.

REQUIRED COMMUNICATIONS

Professional standards require that we provide you with certain information related to our audit. These Required Communications are attached to this letter.

(c) SVA CERTIFIED PUBLIC ACCOUNTANTS, S.C.

CONSIDERATION OF INTERNAL CONTROL AND FRAUD

Internal Control Considerations

As described in our engagement letter, our audit included obtaining an understanding of the system of internal control sufficient to identify and assess the risks of material misstatement and perform audit procedures responsive to those risks. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we would communicate to you internal control matters that are required to be communicated under professional standards. Our findings are presented in the Internal Control Communication attached to this letter.

In addition to matters that are required to be disclosed in accordance with professional standards, we have the following recommendation with regard to another internal control matter:

Super User Access YARDI

During our review of internal controls, we noted that the Finance Director of HACM has Super User Access to YARDI, which allows him full access to the general ledger, including the ability to post journal entries, access to tenant ledgers, create vendors, and assign YARDI access to other individuals.

Admin User Rights YARDI

During our review of internal controls, we noted that the Accounting Manager of Travaux has Admin User rights to YARDI, which allows him the ability to print checks; the Accounting Manager reconciles bank accounts and has full general ledger access. The access was removed at time of our internal control review.

Fraud Considerations

As described in our engagement letter, we planned and performed our audit to obtain reasonable assurance about whether the financial statements were free of material misstatements, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. An audit is not designed to provide absolute assurance, and because we do not perform a detailed testing of all transactions, there is a risk that material misstatements may exist and not be detected by us. An audit is also not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements.

CONCLUSION

We would like to thank you and your employees for the assistance provided to us in the performance of our engagement. We hope we have provided you with valuable information during the course of our engagement. We have already discussed many of these recommendations and suggestions with you, and we will be pleased to discuss them in further detail at your convenience, to perform any other additional study of these matters, or to assist you in implementing the recommendations.

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

Sincerely,

Sheri L. Springer, CPA

Principal

608-826-2531 | springers@sva.com

REQUIRED COMMUNICATIONS

We have audited the financial statements of Merrill Park LLC for the year ended December 31, 2024, and have issued our report thereon dated REPORT DATE. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 16, 2024. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT MATTERS

Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Merrill Park LLC are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2024. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable assets and the related depreciation methods, as described in Note A, are based on historical factors and industry practice. We evaluated the key factors and assumptions used to develop the estimated useful lives and related depreciation methods in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were the disclosure of the PBV HAP Contract and Land Use Restriction Agreements in the notes to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

There were no significant unusual transactions identified during the course of our audit.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed due to tenant and subsidy receivables not reconciled by management in a timely manner.

Upon management's reconciliation of tenant and subsidy receivables, it was discovered that HACM had held checks payable to certain projects for subsidy received from HUD, causing increased subsidy receivable balances. Additionally, it was determined that management engaged in the practice of leasing units to individuals prior to receiving signed 50058 certifications. As a result, a portion of the subsidy receivable was determined not to be collectible from HUD; rather HACM assumed responsibility to reimburse the project for the ineligible certifications. We considered the effects of this non-compliance under the RAD contract and determined there was not a material effect to the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Following is a summary of uncorrected misstatements noted during our audit:

- Prior year sample testing of tenant and subsidy receivable balances resulted in a projected overstatement of \$13,803 and a projected understatement of expenses of \$15,968. The impact of the remaining \$2,165 of this projected misstatement is not determinable, however it is anticipated to be an understatement of current year beginning equity or understatement of prior year receivables from HACM or some combination thereof.
- Prior year reconciliation of tenant accounts receivable to the tenant ledger by management resulted in an original client adjustment to bad debt expense of \$90,589, however, not supported by individual accounts written-off. The impact of this misstatement is not determinable.
- Based on testing of tenant and subsidy rental revenue, there was an unreconciled variance between reports and the general. Tenant and subsidy rental revenue was understated by \$45,375 and the debit side of this entry is indeterminable.

The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

SUPPLEMENTARY INFORMATION ACCOMPANYING THE FINANCIAL STATEMENTS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles the method of preparing it has not changed from the prior period; and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

INTERNAL CONTROL COMMUNICATION

In planning and performing our audit of the financial statements of Merrill Park LLC as of and for the year ended December 31, 2024 in accordance with auditing standards generally accepted in the United States of America, we considered the entity's system of internal control over financial reporting (internal control) as a basis for designing auditing 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the entity's internal control to be material weaknesses:

Tenant and Subsidy Accounts Receivable

During the course of our audit, we noted that tenant and subsidy receivable accounts were not reconciled to tenant ledgers or analyzed for collectability by management due to several factors. We recommend management develop processes and procedures to review tenant collectability on a monthly basis, not only from a financial perspective, but also from a tenant management perspective. Additionally, we recommend that management not recognize a subsidy receivable for tenants until eligibility is determined and Form 50058 completed and signed by the tenant.

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