Westlawn Renaissance LLC

Financial Report

December 31, 2024

WESTLAWN RENAISSANCE LLC

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Members
Westlawn Renaissance LLC
Milwaukee, WI

Opinion

We have audited the accompanying financial statements of Westlawn Renaissance LLC, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, members' equity, 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 financial position of Westlawn Renaissance LLC as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Westlawn Renaissance LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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.

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 Westlawn Renaissance LLC'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 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, including omissions, 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, 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 Westlawn Renaissance LLC'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 Westlawn Renaissance LLC'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.

Madison, Wisconsin

REPORT DATE

WESTLAWN RENAISSANCE LLC

BALANCE SHEETS

December 31, 2024 and 2023

	2024	2023
ASSETS		
Cash and cash equivalents	$ 795,677	$ 1,159,912
Restricted cash	2,025,365	1,908,589
Accounts receivable	350,600	378,897
Prepaid expenses	114,111	99,192
Rental property, net	51,114,576	52,981,936
Tax credit fees, net	99,919	149,679
TOTAL ASSETS	$ 54,500,248	$ 56,678,205
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	$ 9,249,777	$ 9,249,361
Accounts payable	899,096	758,809
Accrued interest	3,391,681	2,904,026
Accrued real estate taxes	450,525	405,018
Accrued expenses	650,000	1,165,479
Prepaid rents	58,954	46,647
Tenants' security deposits payable	133,035	133,667
Total liabilities	14,833,068	14,663,007
MEMBERS' EQUITY	39,667,180	42,015,198
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 54,500,248	$ 56,678,205

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

WESTLAWN RENAISSANCE LLC
STATEMENTS OF OPERATIONS
Years ended December 31, 2024 and 2023

	2024	2023
Revenue:		
Rental income	$ 2,585,242	$ 2,540,367
Vacancies and concessions	(277,626)	(324,147)
Bad debt expense	7,190	(308,665)
Other revenue	7,228	42,675
Total revenue	2,322,034	1,950,230
Rental expenses:		
Administrative	449,000	316,118
Utilities	449,344	353,798
Operating and maintenance	906,533	782,646
Taxes and insurance	232,839	217,206
Total rental expenses	2,037,716	1,669,768
Net rental income	284,318	280,462
Financial income (expense):		
Interest income	54,021	50,678
Interest expense	(488,071)	(469,275)
Total financial income (expense)	(434,050)	(418,597)
Loss before other expenses	(149,732)	(138,135)
Other expenses:		
Depreciation	1,998,527	1,981,424
Amortization	49,759	49,759
Asset management fee	12,500	12,500
Company management fee	37,500	37,500
Authority oversight fee	100,000	100,000
Total other expenses	2,198,286	2,181,183
Net loss	$ (2,348,018)	$ (2,319,318)

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

WESTLAWN RENAISSANCE LLC
STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2024 and 2023

	Manager member	Investor member	Special member	Total
Balances, December 31, 2022	(2,501)	44,337,007	10	$ 44,334,516
Net loss	(232)	(2,319,086)	0	(2,319,318)
Balances, December 31, 2023	(2,733)	42,017,921	10	42,015,198
Net loss	(235)	(2,347,783)	0	(2,348,018)
Balances, December 31, 2024	$ (2,968)	$ 39,670,138	$ 10	$ 39,667,180
Percentage interest	0.01%	99.99%	0.00%	100.00%

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

WESTLAWN RENAISSANCE LLC
STATEMENTS OF CASH FLOWS
Years ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,348,018)	$ (2,319,318)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,048,286	2,031,183
Amortization of debt issuance costs	416	416
Bad debt expense	(7,190)	308,665
Increase (decrease) in cash due to changes in:		
Accounts receivable	35,487	(283,117)
Prepaid expenses	(14,919)	(29,266)
Accounts payable	140,287	(50,689)
Accrued interest	487,655	468,859
Accrued real estate taxes	45,507	60,415
Accrued expenses	(515,479)	327,979
Prepaid rents	12,307	7,769
Tenants' security deposits payable	(632)	(15,893)
Net cash provided by (used in) operating activities	(116,293)	507,003
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of rental property	(131,166)	(239,509)
CASH FLOWS FROM FINANCING ACTIVITIES	0	0
Change in cash, cash equivalents, and restricted cash	(247,459)	267,494
Cash, cash equivalents, and restricted cash:		
Beginning	3,068,501	2,801,007
Ending	$ 2,821,042	$ 3,068,501
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET		
Cash and cash equivalents	$ 795,677	$ 1,159,912
Restricted cash	2,025,365	1,908,589
Total cash, cash equivalents, and restricted cash	$ 2,821,042	$ 3,068,501

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

NOTE A -- Nature of business and significant accounting policies

Nature of business

Westlawn Renaissance LLC (the company), was organized on November 8, 2010, as a limited liability company (LLC) formed under the Wisconsin Limited Liability Company Act (the Act). It has constructed and is operating a multiple building, 250-unit apartment complex called Westlawn Redevelopment (the project) located in Milwaukee, Wisconsin, which qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The project was placed in service on multiple dates between February and October of 2012.

The company consists of one manager member, one special member, and one investor member, with rights, preferences and privileges as described in the Second Amended and Restated Operating Agreement (operating agreement). Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the accompanying financial statements do not include the personal or corporate assets and liabilities of the members, their obligation for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The operating agreement states that the company shall be perpetual unless sooner terminated in accordance with the operating agreement.

A summary of significant accounting policies follows:

Use of estimates

The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The City of Milwaukee Assessor classified the non-public housing parcels as exempt from property taxes in 2014 which appears to be in error. Management has recorded an estimated property tax liability of $139,836. Management’s estimate of the 2014 property taxes that the company owes is based on the actual 2013 property tax liability and is comparable to the actual 2015 liability. As of December 31, 2024 and 2023, the City of Milwaukee has not requested payment and management continues to work with the City to resolve.

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the company due to restrictions placed on it.

The company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE A -- Nature of business and significant accounting policies (Continued)

Accounts receivable and revenue recognition

The company utilizes the direct write-off method of accounting for credit losses for any accounts receivable outside the scope of FASB Codification Topic 842 *Leases*. The use of this method has no material effect on the financial statements. The company follows FASB Codification Topic 842 *Leases* to account for its operating lease receivables included in accounts receivable. When the company concludes collectability of specific operating lease receivables is not probable, those receivables are written off to bad debt expense which is presented as a reduction to revenue in the statement of operations.

The company leases apartments to eligible residents under operating leases which are substantially all on a yearly basis. Rental revenue is recognized, net of vacancies and concessions, on a straight-line basis over the term of the leases.

Other revenue also consists of various tenant charges provided for in the lease contract, such as late fees, cleaning fees, and damages fees which are variable payments that do not provide a transfer of a good or service to the tenants and are not considered components of the lease contract. These fees are recognized as revenue when assessed. Certain services are also provided to tenants outside of the lease contract and are recognized when the service is complete.

As of December 31, 2024 and 2023, all of the company’s real estate assets are subject to operating leases.

The residential leases do not provide extension options. A new lease agreement is executed if both parties wish to continue the tenancy upon expiration of the existing lease term. As of December 31, 2024, the average remaining term of the company’s residential leases is less than 12 months.

The components of rental revenue for all resident operating leases are as follows for the years ended December 31:

	2024	2023
Fixed operating lease revenue from apartment rentals, net of vacancies and concessions and bad debt expense	$ 2,314,806	$ 1,907,555
Variable operating lease revenue included in other revenue	7,228	40,971
Total lease income	$ 2,322,034	$ 1,948,526

Supplemental statement of cash flows information related to leases as of December 31, is as follows:

	2024	2023
Cash received from operating leases		
Operating cash flows from operating leases	$ 2,314,809	$ 2,029,672

NOTE A -- Nature of business and significant accounting policies (Continued)

Rental property

Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	Years
Land improvements	20
Buildings and improvements	10 - 40
Furnishings and equipment	5 - 10

Maintenance and repairs of rental property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Impairment of long-lived assets

The company reviews long-lived assets, including rental property and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling $746,394 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees on the straight-line method over the related tax credit compliance period of 15 years.

Debt issuance costs

Debt issuance costs incurred by the company totaled $16,632. The company is amortizing these costs into interest expense using the straight-line method over approximately 40 years, the life of the loan. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements.

Amortized costs included in interest expense totaled $416 for each of the years ended December 31, 2024 and 2023.

NOTE A -- Nature of business and significant accounting policies (Continued)

Current vulnerability due to certain concentrations

The project's operations are concentrated in the low-income, residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to the Housing Authority of the City of Milwaukee (HACM) under the Project Based Voucher Housing Assistance Payments Contract and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HACM or HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Reclassifications

Some items in the 2023 financial statements have been reclassified to be consistent with the current year's presentation.

Subsequent events

These financial statements have not been updated for subsequent events occurring after REPORT DATE, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date. Management evaluated the activity of the company through the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	2024	2023
Replacement reserve	$ 1,246,276	$ 1,163,306
Operating reserve	643,597	627,147
Tenants' security deposits	135,492	118,136
	$ 2,025,365	$ 1,908,589

NOTE B -- Restricted cash (Continued)

Replacement reserve

In connection with the Rental Assistance Demonstration (RAD) conversion (see Note E), the amended operating agreement requires deposits of $350 per unit per year, increasing by 3% every June 1 thereafter. In addition, the RAD conversion commitment required an additional deposit of $420,875, of which $339,343 was funded by additional proceeds from the HACM construction and term loan described in Note D. The replacement reserve shall be used to fund repairs, capital expenditures, and other costs as approved by the investor member.

	2024	2023
Balance, beginning	$ 1,163,306	$ 1,114,218
Monthly deposits	48,997	28,542
Interest earned	33,973	32,571
Approved withdrawals	0	(12,025)
Balance, ending	$ 1,246,276	$ 1,163,306

Operating reserve

The operating agreement requires the company to establish an operating reserve of at least $600,000. Funds from the operating reserve may be used to pay for operating or other expenses with the consent of the investor member. The company is required to fund the operating reserve from available cash flow as defined in the operating agreement, in order maintain a balance at all times of $600,000. The reserve shall be maintained throughout the 15-year tax credit compliance period. Upon the 3-year anniversary of the achievement of stabilized occupancy, as defined in the operating agreement, any excess amounts in the operating reserve shall be released to pay applicable principal and interest on the mortgage notes payable due to HACM (see Note D). Beginning June 2024, and each year thereafter, the required balance in the operating reserve may be reduced in accordance with the operating agreement.

	2024	2023
Balance, beginning	$ 627,147	$ 611,425
Interest earned	16,450	15,722
Balance, ending	$ 643,597	$ 627,147

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	2024	2023
Land	$ 2,637,572	$ 2,637,572
Land improvements	3,030,034	3,030,034
Buildings and improvements	68,110,540	68,083,410
Furnishings and equipment	2,891,106	2,787,070
	76,669,252	76,538,086
Less accumulated depreciation	25,554,676	23,556,150
	$ 51,114,576	$ 52,981,936

NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consist of the following:

	2024	2023
HACM, sole member of the manager member; land loan; recourse; principal amount not to exceed $1,610,911; interest accrues at a rate of 4.05%, compounded annually; monthly payments of $6,733 including interest from available cash flow; due June 15, 2051; prepayment allowed anytime without penalty; collateralized by a mortgage on the rental property, including the assignment of rents thereon and a general business security agreement; interest expense was $86,143 and $82,790 for the years ended December 31, 2024 and 2023, respectively; accrued interest was $602,225 and $516,082 as of December 31, 2024 and 2023, respectively.	$ 1,610,911	$ 1,610,911
Balance carried forward	1,610,911	1,610,911

NOTE D -- Mortgage notes payable, net (Continued)

	2024	2023
Balance brought forward	$ 1,610,911	$ 1,610,911
HACM; construction and term loan; recourse; principal amount not to exceed $9,726,214; principal and interest are payable to the extent of available cash flow; interest accrues at a rate of 4%, compounded annually; due June 15, 2051; prepayment allowed anytime without penalty; collateralized by a mortgage on the rental property, including the assignment of rents thereon and a general business security agreement; interest expense was $401,512 and $386,069 for the years ended December 31, 2024 and 2023, respectively; accrued interest was $2,789,456 and $2,387,944 as of December 31, 2024 and 2023, respectively; unamortized debt issuance costs associated with this note totaled $10,984 and $11,400 as of December 31, 2024 **and 2023**, respectively.	7,649,850	7,649,850
Total mortgage notes payable	9,260,761	9,260,761
Less unamortized debt issuance costs	10,984	11,400
	$ 9,249,777	$ 9,249,361

Repayment of principal on the mortgage notes payable as of December 31, 2024, is as follows:

Year ending December 31,	
2025	$ 0
2026	0
2027	0
2028	0
2029	0
Thereafter	9,260,761
	$ 9,260,761

NOTE E -- Related-party transactions

Related party payables

Related party payables, included in accounts payable on the balance sheet, had a balance of $748,100 and $722,265 as of December 31, 2024 and 2023, respectively, for reimbursement of operating expenses. These amounts are payable to the following as of December 31:

	2024	2023
HACM	$ 440,766	$ 275,116
Travaux, affiliate of manager member	307,334	447,149
	$ 748,100	$ 722,265

Asset management fee

The company is obligated to pay an annual cumulative asset management fee to the investor member in the amount of $12,500 commencing in 2013. Asset management fees incurred totaled $12,500 for each of the years ended December 31, 2024 and 2023. Included in accrued expenses are accrued asset management fees totaling $12,500 as of December 31, 2024 and 2023.

Company management fee

The company is obligated to pay an annual cumulative company management fee to the manager in an amount equal to $37,500 commencing in 2013. Such fee is payable only from cash flow and shall be paid pursuant to the terms of the operating agreement. Company management fees incurred totaled $37,500 for each of the years ended December 31, 2024 and 2023. Included in accrued expenses are accrued company management fees totaling $300,000 and $262,500 as of December 31, 2024 **and 2023**, respectively.

Authority oversight fee

The company is obligated to pay HACM an annual cumulative authority oversight fee in the amount of $100,000 commencing in 2013 and every year thereafter. Authority oversight fees incurred totaled $100,000 for each of the years ended December 31, 2024 and 2023. Included in accrued expenses are accrued authority oversight fees totaling $337,500 and $700,000 as of December 31, 2024 and 2023, respectively.

Regulatory and Operating Agreement (R&O)

There are operating subsidy payables of $10,042 as of December 31, 2024 and 2023 included in accounts payable on the balance sheet in accordance with the R&O Agreement with HACM prior to termination in 2017.

Management fee

The company entered into a management agreement with HACM, under which the company is obligated to pay a management fee equal to 6% of gross residential rents on a monthly basis. The management agreement automatically renews from year to year unless terminated. Management fees incurred under this agreement totaled $129,457 and $111,079 for the years ended December 31, 2024 and 2023, respectively. Included in accrued expenses are accrued management fees totaling $0 and $190,479 as of December 31, 2024 and 2023, respectively.

NOTE E -- Related-party transactions (Continued)

Project Based Voucher Housing Assistance Payments (HAP) Contract

The company and HACM entered into a RAD Conversion Commitment with HUD in April 2017 pursuant to which the public housing units were converted to Section 8 project based-vouchers effective November 30, 2017.

The company entered into a Project Based Voucher Housing Assistance Payments Contract with HACM whereby HACM agrees to make housing assistance payments to the project for 64 of the units. 47 of these units have been designated for elderly families under the contract. The HAP contract is effective December 1, 2017 and has an initial term of 20 years set to expire December 31, 2037. Gross rental income under the HAP contract represents approximately 49% and 46% of rental income for the years ended December 31, 2024 and 2023, respectively. Included in accounts receivable are amounts due under the contract of $233,967 and $91,674 as of December 31, 2024 and 2023, respectively. The HAP receivable as of December 31, 2024 will be repaid either from HACM unrestricted funds or coincide with repayment of current operating payables due to HACM as the balance is a result of either tenants not certified under the program or HAP received by HACM but that did not flow through to the company.

The company and HACM entered into a RAD Use Agreement with HUD pursuant to the RAD HAP contract which will coincide with the term of the HAP contract. The assisted units are to be leased in accordance with the RAD HAP contract, including applicable eligibility and income requirements.

NOTE F -- Commitments and contingencies

Land Use Restriction Agreement

The company entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the company must continuously comply with Internal Revenue Code (IRC) Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor member. The company is obligated to certify tenant eligibility.

Cooperation Agreement

HACM had entered into a cooperation agreement with the City of Milwaukee whereby any low-rent housing developed by HACM receiving federal assistance from the United States of America shall make annual payments in lieu of taxes (PILOT) in an amount equal to 10% of the shelter rent. Shelter rent is defined as the total of all rents charged to tenants less the cost of utilities. The company is subject to the same agreement with respect to the project-based voucher units (previously the public housing units).