



Financial Statements
December 31, 2023 and 2022

Heartland Heights Apartments Limited Partnership

Heartland Heights Apartments Limited Partnership

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December 31, 2023 and 2022

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Independent Auditor's Report

To the Partners
Heartland Heights Apartments Limited Partnership
Sioux Falls, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Heartland Heights Apartments Limited Partnership, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations and partners' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Heartland Heights Apartments Limited Partnership as of December 31, 2023 and 2022, 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 (GAAS). 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 Heartland Heights Apartments Limited Partnership 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 these 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 Heartland Heights Apartments Limited Partnership's ability to continue as a going concern for 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 Heartland Heights Apartments Limited Partnership'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 Heartland Heights Apartments Limited Partnership'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.

Eide Bailly LLP

Sioux Falls, South Dakota
March 26, 2024

Heartland Heights Apartments Limited Partnership

Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash	\$ 8,384	\$ 173,074
Tenant accounts receivable, net of allowance for doubtful accounts of \$4,655 in 2023 and \$247 in 2022	9,092	5,498
Total current assets	17,476	178,572
Restricted Cash		
Tenant security deposits	16,036	16,058
Replacement reserve	26,693	13,233
Total restricted cash	42,729	29,291
Tax Credit Fees, Net of Accumulated Amortization of \$6,610 in 2023 and \$2,644 in 2022	52,875	56,841
Property and Equipment, at cost		
Land	275,000	275,000
Land improvements	399,424	399,424
Building	5,773,933	5,771,631
Furniture and equipment	566,207	566,207
	7,014,564	7,012,262
Less accumulated depreciation	(473,630)	(189,440)
Property and equipment, net	6,540,934	6,822,822
	\$ 6,654,014	\$ 7,087,526

Heartland Heights Apartments Limited Partnership

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities and Partners' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 56,304	\$ 7,298
Accounts payable	17,586	28,842
Tax credit fees payable	41,864	41,864
Developer fee payable	180,000	480,000
Accrued liabilities		
Real estate taxes	15,253	7,895
Interest	1,565	1,764
Prepaid rent	2,639	17,054
Total current liabilities	<u>315,211</u>	<u>584,717</u>
Tenant Security Deposits Payable	16,436	16,858
Long-Term Debt, less Current Maturities and Net of Unamortized Debt Issuance Costs	<u>1,444,272</u>	<u>1,349,004</u>
Total liabilities	<u>1,775,919</u>	<u>1,950,579</u>
Partners' Equity		
General partner	794,822	794,848
Limited partners	4,083,273	4,342,099
Total partners' equity	<u>4,878,095</u>	<u>5,136,947</u>
	<u>\$ 6,654,014</u>	<u>\$ 7,087,526</u>

Heartland Heights Apartments Limited Partnership
Statements of Operations and Partners' Equity
Years Ended December 31, 2023 and 2022

	2023	2022
Operations		
Revenue		
Tenant rent, net of vacancies	\$ 378,841	\$ 176,382
Tenant charges	10,103	4,337
Interest	504	71
Other income	890	13,708
Total revenue	390,338	194,498
Expenses		
Administrative		
Professional fees	28,977	6,710
Reimbursed salaries and wages	28,566	30,547
Management fees	27,926	14,293
Bad debt expense	20,290	247
Advertising	8,193	12,788
Information technology	5,283	3,935
Commissions	4,727	17,987
Office supplies and expenses	1,344	4,283
Screening costs	1,152	1,872
Training expense	973	749
Other administrative	7,048	2,493
Total administrative expenses	134,479	95,904
Operating		
Maintenance and repairs	66,008	47,153
Utilities	52,537	33,761
Grounds	15,992	3,112
Snow removal	10,510	5,251
Trash removal	6,920	5,311
Exterminating	2,698	666
Cleaning	-	727
Total operating expenses	154,665	95,981
Depreciation		
Building	144,320	96,194
Furniture and equipment	113,242	75,494
Land improvements	26,628	17,752
Total depreciation	284,190	189,440

Heartland Heights Apartments Limited Partnership
Statements of Operations and Partners' Equity
Years Ended December 31, 2023 and 2022

	2023	2022		
Expenses (Continued)				
Taxes, licenses and insurance				
Real estate taxes	\$ 15,253	\$ 7,895		
Payroll taxes and benefits	13,135	9,088		
Insurance	10,203	6,231		
Licenses and fees	116	192		
Total taxes, licenses and insurance	38,707	23,406		
Interest expense	29,001	85,694		
Total expenses	641,042	490,425		
Loss from Operations	(250,704)	(295,927)		
Partnership Expense				
Compliance monitoring fee	(4,182)	(4,100)		
Amortization expense	(3,966)	(2,644)		
Organizational expense	-	(15,440)		
Net Loss	\$ (258,852)	\$ (318,111)		
Partners' Equity				
	General Partner	Investor Limited Partner	Special Limited Partner	Total
Balance, January 1, 2022	\$ -	\$ 20,000	\$ 10	\$ 20,010
Partner contributions	794,880	4,640,168	-	5,435,048
Net loss	(32)	(318,079)	-	(318,111)
Balance, December 31, 2022	794,848	4,342,089	10	5,136,947
Net loss	(26)	(258,826)	-	(258,852)
Balance, December 31, 2023	\$ 794,822	\$ 4,083,263	\$ 10	\$ 4,878,095

Heartland Heights Apartments Limited Partnership

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net loss	\$ (258,852)	\$ (318,111)
Adjustments to reconcile net loss to net cash from (used for) operating activities		
Depreciation	284,190	189,440
Amortization	3,966	2,644
Interest expense attributable to amortization of debt issuance costs	667	167
Bad debts expense	20,290	247
Changes in operating assets and liabilities		
Tenant accounts receivable	(23,884)	(5,745)
Accounts payable	(11,256)	28,842
Accrued liabilities	7,159	9,659
Prepaid rent	(14,415)	17,054
Tenant security deposits payable	(422)	16,858
Net Cash from (used for) Operating Activities	7,443	(58,945)
Investing Activities		
Payment of tax credit fees	-	(17,621)
Purchase of property and equipment	(302,302)	(3,884,166)
Net Cash used for Investing Activities	(302,302)	(3,901,787)
Financing Activities		
Payment of loan fees	-	(10,000)
Proceeds from issuance of long-term debt	150,000	1,366,135
Principal payments on long-term debt	(6,393)	-
Payments on construction loan	-	(2,628,086)
Partner contributions	-	5,435,048
Net Cash from Financing Activities	143,607	4,163,097
Net Change in Cash and Restricted Cash	(151,252)	202,365
Cash and Restricted Cash, Beginning of Year	202,365	-
Cash and Restricted Cash, End of Year	\$ 51,113	\$ 202,365
Cash	\$ 8,384	\$ 173,074
Restricted Cash - Tenant Security Deposits	16,036	16,058
Restricted Cash - Replacement Reserve	26,693	13,233
Total Cash and Restricted Cash	\$ 51,113	\$ 202,365

Heartland Heights Apartments Limited Partnership

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

Supplemental Disclosure of Cash Flow Information			
Cash payments for interest, net of amounts capitalized	\$	28,533	\$ 83,763
Supplemental Disclosure of Noncash Investing Activities			
Property and equipment purchases included as developer fee payable		180,000	480,000
Tax credit fees included as construction payables		41,864	41,864

Note 1 - Principal Business Activity and Significant Accounting Policies**Principal Business Activity, Risks, and Uncertainty**

Heartland Heights Apartments Limited Partnership (Partnership) was formed September 2020 as a limited partnership under the laws of the state of South Dakota and shall continue until December 31, 2066, unless dissolved or terminated at an earlier date. It was formed for the purpose of owning and operating a one building, 41-unit low-income housing project in Sioux Falls, South Dakota. Substantially all the Partnership's revenue is derived from the rental of its apartment units. The Partnership began operations in May 2022.

The Partnership has qualified and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the complex as to occupant eligibility and unit gross rent, among other requirements. The Partnership must meet the provisions of these regulations during each of fifteen consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partner. All units within this project are subject to the rent restrictions and qualified tenant restrictions as required by the Low Income Housing Tax Credit Program.

Concentrations of Credit Risk

The Partnership maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federal limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023 and 2022, the Partnership had no amounts in excess of FDIC-insured limits.

Receivables and Credit Policy

Accounts receivable are rents and charges currently due from tenants. Payments on accounts receivable are applied to specific months. Management estimates an allowance for doubtful accounts based upon an evaluation of the status of receivables, historical experience and other factors as necessary. It is reasonably possible that the Partnership's estimate of the allowance for doubtful accounts will change.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in revenue.

Depreciation is computed principally by the straight-line method over the following estimated useful lives:

Building	40 years
Land improvements	15 years
Furniture and equipment	5 years

The Partnership reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the way the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at December 31, 2023 and 2022.

Tax Credit Fees

Tax credit fees are being amortized over a fifteen-year compliance period using the straight-line method of amortization. Amortization expense for each of the next five years is expected to be \$3,966. As of December 31, 2023 and 2022, tax credit fees of \$41,864 are included in tax credit fees payable.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method. The straight-line method is a reasonable estimate of the effective interest method. Debt issuance costs are included within long-term debt on the balance sheets. Amortization of debt issuance costs is included in interest expense on the statements of operations.

Income Taxes

As a limited partnership, the Partnership's taxable income or loss is allocated to partners in accordance with the Partnership agreement. Therefore, no provision for income taxes has been included in the financial statements.

The Partnership evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2023 and 2022, the unrecognized tax benefit accrual was zero. The Partnership will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Rental Revenue

Housing units are rented under operating lease agreements with terms of one year or less. Tenant rent revenue and rental assistance payments are recognized in the month in which they are earned rather than received. Any rent received prior to the month of occupancy is reported as prepaid rent. Tenant rent represents gross rent for all units in the project. Vacancy losses for unrented units and rental concessions are recorded as a reduction to gross rent potential to arrive at net tenant rent.

The future cash flows from operating lease payments to be received as of December 31, 2023 in 2024 are approximately \$220,900.

Advertising Costs

Advertising costs are expensed as incurred. Such costs were \$8,193 and \$12,788 respectively for the year ended December 31, 2023 and 2022.

Organizational Costs

Costs of \$0 and \$15,440 incurred for the organization of the Partnership have been expensed in 2023 and 2022, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Subsequent Events

The Partnership has evaluated subsequent events through March 26, 2024, the date which the financial statements were available to be issued.

Note 2 - Restricted Cash**Tenant Security Deposits**

Pursuant to the Partnership agreement, the Partnership has set aside funds to repay tenant security deposits after lease termination in accordance with requirements by the state.

	<u>2023</u>	<u>2022</u>
Tenant security deposits	\$ 16,036	\$ 16,058
Tenant security deposits payable	(16,436)	(16,858)
Tenant security deposit receivable	<u>400</u>	<u>800</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>

Replacement Reserve

Pursuant to the terms of the Partnership agreement, the Partnership is required to establish and maintain a replacement reserve with deposits made at a rate of \$400 per unit per year, increasing by 3% each 12-month period thereafter, commencing in the month after issuance of a certificate of occupancy. No disbursements are allowed in the first 24 months of operations. As a condition of the allocation of low-income housing credits and the HOME regulatory agreement, deposits made at a rate of \$400 per unit per year, increasing by 3% annually, are required each year during the affordability period, commencing in 2022. Funds in the replacement reserve shall be used to fund the cost of improvements and replacements to the project.

Replacement reserve activity for the year ended December 31, 2023 is as follows:

	<u>2023</u>	<u>2022</u>
Balance, January 1	\$ 13,233	\$ -
Deposits	13,021	13,200
Interest	<u>439</u>	<u>33</u>
Balance, December 31	<u>\$ 26,693</u>	<u>\$ 13,233</u>

Operating Deficit Reserve

Pursuant to the terms of the Partnership agreement, the Partnership is required to establish an operating deficit reserve at the stabilization date in the amount of \$181,553 in a segregated reserve with Horizon Bank. The operating deficit reserve is to be used to pay operating deficits of the Partnership. The operating deficit reserve was not funded as of December 31, 2023.

Heartland Heights Apartments Limited Partnership

Notes to Financial Statements

December 31, 2023 and 2022

Note 3 - Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consists of:

	2023	2022
4.4% \$616,135 mortgage payable to bank, due in monthly installments of \$2,911 including interest, beginning December 2022 and continuing through November 2037, secured by all land, buildings, equipment and an assignment of all rents and leases, net of unamortized debt issuance costs of \$9,166 in 2023 and \$9,833 in 2022 (based on an effective interest rate of 4.51%)	\$ 600,576	\$ 606,302
0% \$1,000,000 note payable to South Dakota Housing Development Authority due in various monthly payments, beginning January 2024 through December 2053, secured by all land, buildings, equipment and an assignment of all rents and leases	900,000	750,000
	1,500,576	1,356,302
Less current maturities	(56,304)	(7,298)
Long-term debt, less current maturities and net of unamortized debt issuance costs	\$ 1,444,272	\$ 1,349,004

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2024	\$ 56,304
2025	56,676
2026	57,066
2027	57,473
2028	51,898
Thereafter	1,230,325
Less unamortized debt issuance costs	(9,166)
	\$ 1,500,576

During 2023 and 2022, interest of \$0 and \$69,456, respectively, was capitalized into building costs.

Note 4 - Construction Loan

Acquisition and construction was financed by a 4.0% construction loan payable to a financial institution of up to \$5,500,000. The construction loan was paid in full in October 2022.

Note 5 - Related Party Transactions**Compliance Monitoring Fee**

Pursuant to the Partnership agreement, Midwest Housing Equity Group Inc., an affiliate of the limited partner, is to be paid an annual compliance monitoring fee of \$4,100, to increase by 2% each year, commencing in 2022. During 2023 and 2022, the Partnership incurred compliance monitoring fees of \$4,182 and \$4,100, respectively, which was included in accounts payable.

Incentive Management Fees

Pursuant to the Partnership agreement, an additional incentive management fee may be paid to the general partner equal to remaining cash flow after required payments and distributions. The fee is limited each year to the lesser of \$25,000 or 12% of gross rent receipts. No incentive management fee was paid in 2023 and 2022.

Developer Fees

Pursuant to the Partnership agreement, the general partner is to be paid a developer fee in the amount of \$660,000 for services rendered in developing the project. The developer fee of \$660,000 was capitalized as part of building costs during 2022. During 2023 and 2022, the Partnership paid \$300,000 and \$180,000, respectively, for developer fees which are included in the purchase of property and equipment on the statements of cash flows. As of December 31, 2023 and 2022, the Partnership owed the developer \$180,000 and \$480,000, respectively, for developer fees, which are expected to be paid from capital contributions and available cash flow.

Due to Related Party

During 2023, the Partnership received a deposit of funds intended for Heartland Heights Apartments II Limited Partnership, a related entity, and replacement reserve funds were inadvertently deposited to that entity. As of December 31, 2023, \$11,209 is included in accounts payable to account for these transactions.

Note 6 - Management Fees

The Partnership has entered into an agreement with Lloyd Property Management to provide management services. Under terms of the agreement, the management company is to receive management fees of 7% of monthly gross receipts plus sales tax. During December 31, 2023 and 2022, the Partnership incurred management fees of \$27,926 and \$14,293, respectively.

Note 7 - Partners' Equity

<u>Partners</u>	<u>Ownership Percentages</u>
General Partner Heartland Heights, LLC	0.01%
Investor Limited Partner MHEG Fund 54, LP	99.99%
Special Limited Partner Midwest Housing Assistance Corporation	<u>0.00%</u>
	<u><u>100.00%</u></u>

Pursuant to the Partnership agreement, the general partner and investor limited partner were required to make capital contributions totaling \$794,880 and \$5,021,721, respectively. As of December 31, 2023, contributions of \$794,880 have been made by the general partner. As of December 31, 2023, contributions of \$4,660,168 have been made by the investor limited partner. The special limited partner made a capital contribution of \$10 on the date of admission.

Operating profits and losses and available tax credits are allocated 99.99% to the investor limited partner and 0.01% to the general partner.

Distribution of Cash Flow

Cash Flow is defined in the Partnership agreement as, for any period of time, the excess, if any, of cash receipts for ordinary operations over cash disbursements for such period, including amounts paid to establish or maintain reserves. As a condition to the Partnership agreement, cash flow shall be applied or distributed within 60 days after the end of each year in the following priority:

1. First, to the limited partners to repay any partner loans for operating deficits;
2. Second, to the investor limited partner for any unpaid credit adjustor payments and the compliance monitoring fee;
3. Third, to maintain and replenish the operating deficit reserve up to \$181,553;
4. Fourth, to pay the deferred developer fee;
5. Fifth, to repay any deferred management fees to the management agent;
6. Sixth, to repay the general partner for any operating deficit loans;
7. Seventh, 10% of the remaining balance, if any, to the investor limited partner;
8. Eighth, to pay the incentive management fee to the general partner;
9. Ninth, the balance, if any, shall be distributed .01% to the general partner and 99.99% to the investor limited partner.

During 2023 and 2022, no cash was distributed to the partners.