



Financial Statements

December 31, 2024 and 2023

# Heartland Heights Apartments II Limited Partnership

# Heartland Heights Apartments II Limited Partnership

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December 31, 2024 and 2023

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## Independent Auditor's Report

To the Partners  
Heartland Heights Apartments II 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 II Limited Partnership, which comprise the balance sheets as of December 31, 2024 and 2023, 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 II Limited Partnership 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 (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 II 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 II 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 II 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 II 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 audits.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
February 26, 2025

# Heartland Heights Apartments II Limited Partnership

Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash	\$ 110,020	\$ 102,973
Tenant accounts receivable, net of allowance of \$1 in 2024 and \$380 in 2023	1,097	4,311
Other accounts receivable	442	-
Prepaid expenses	882	-
Total current assets	112,441	107,284
Restricted Cash		
Tenant security deposits	17,350	16,010
Replacement reserve	25,576	11,044
Operating reserve	155,543	-
Total restricted cash	198,469	27,054
Tax Credit Fees, Net of Accumulated Amortization of \$7,561 in 2024 and \$3,024 in 2023	60,489	65,026
Property and Equipment, at cost		
Land	260,000	260,000
Land improvements	377,099	377,099
Building	6,579,703	6,579,703
Furniture and equipment	597,642	597,642
	7,814,444	7,814,444
Less accumulated depreciation	(489,505)	(180,344)
Property and equipment, net	7,324,939	7,634,100
	\$ 7,696,338	\$ 7,833,464

## Heartland Heights Apartments II Limited Partnership

Balance Sheets

December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Liabilities and Partners' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 62,374	\$ 62,066
Accounts payable	12,949	12,636
Construction payables	-	72,808
Accrued interest	1,953	-
Accrued real estate taxes	15,015	11,914
Prepaid rent	2,530	3,588
Total current liabilities	<u>94,821</u>	<u>163,012</u>
Tenant Security Deposits Payable	18,350	16,810
Developer Fee Payable	186,354	449,500
Long-Term Debt, less Current Maturities and Net of Unamortized Debt Issuance Costs	<u>2,104,617</u>	<u>2,010,109</u>
Total liabilities	<u>2,404,142</u>	<u>2,639,431</u>
Partners' Equity		
General partner	(47)	(26)
Limited partners	<u>5,292,243</u>	<u>5,194,059</u>
Total partners' equity	<u>5,292,196</u>	<u>5,194,033</u>
	<u>\$ 7,696,338</u>	<u>\$ 7,833,464</u>

Heartland Heights Apartments II Limited Partnership  
Statements of Operations and Partners' Equity  
Years Ended December 31, 2024 and 2023

	2024	2023
Operations		
Revenue		
Tenant rent, net of vacancies of \$18,535 in 2024 and \$79,978 in 2023	\$ 385,052	\$ 190,000
Tenant charges	4,321	2,527
Interest	1,538	99
Other income	4,924	227
Total revenue	395,835	192,853
Expenses		
Administrative		
Management fees	28,509	14,336
Professional fees	25,861	6,715
Reimbursed salaries and wages	18,280	11,127
Bad debt expense	16,446	380
Information technology	3,637	3,230
Screening costs	2,196	1,260
Training expense	2,155	2,169
Advertising	2,521	1,240
Commissions	1,032	16,150
Office supplies and expenses	738	1,360
Other administrative	844	1,559
Total administrative expenses	102,219	59,526
Operating		
Utilities	55,995	27,100
Maintenance and repairs	27,373	20,832
Cleaning	10,262	6,420
Trash removal	6,484	4,739
Grounds	4,347	6,982
Snow removal	3,538	2,618
Exterminating	956	100
Total operating expenses	108,955	68,791
Depreciation		
Building	164,493	95,954
Furniture and equipment	119,528	69,726
Land improvements	25,140	14,664
Total depreciation	309,161	180,344

Heartland Heights Apartments II Limited Partnership  
Statements of Operations and Partners' Equity  
Years Ended December 31, 2024 and 2023

	2024	2023		
Expenses (Continued)				
Taxes, licenses and insurance				
Real estate taxes	\$ 15,015	\$ 14,754		
Insurance	10,295	6,588		
Payroll taxes and benefits	6,685	2,255		
Licenses and fees	1,158	-		
Total taxes, licenses and insurance	33,153	23,597		
Interest expense	39,514	91,427		
Total expenses	593,002	423,685		
Loss from Operations	(197,167)	(230,832)		
Partnership Expense				
Amortization expense	(4,537)	(3,024)		
Compliance monitoring fee	(4,182)	(4,100)		
Organizational expenses	-	(18,122)		
Net Loss	\$ (205,886)	\$ (256,078)		
Partners' Equity				
	General Partner	Investor Limited Partner	Special Limited Partner	Total
Balance, December 31, 2022	\$ -	\$ 20,000	\$ 10	\$ 20,010
Partner contributions	-	5,430,101	-	5,430,101
Net loss	(26)	(256,052)	-	(256,078)
Balance (Deficit), December 31, 2023	(26)	5,194,049	10	5,194,033
Partner contributions	-	304,049	-	304,049
Net loss	(21)	(205,865)	-	(205,886)
Balance (Deficit), December 31, 2024	\$ (47)	\$ 5,292,233	\$ 10	\$ 5,292,196

## Heartland Heights Apartments II Limited Partnership

Statements of Cash Flows  
Years Ended December 31, 2024 and 2023

	2024	2023
<b>Operating Activities</b>		
Net loss	\$ (205,886)	\$ (256,078)
Adjustments to reconcile net loss to net cash from (used for) operating activities		
Depreciation	309,161	180,344
Amortization	4,537	3,024
Interest expense attributable to amortization of debt issuance costs	751	188
Bad debts expense	16,446	380
Changes in operating assets and liabilities		
Tenant accounts receivable	(13,232)	(4,691)
Other accounts receivable	(442)	-
Prepaid expenses	(882)	-
Accounts payable	313	12,636
Accrued liabilities	5,054	11,914
Prepaid rent	(1,058)	3,588
Tenant security deposits payable	1,540	16,810
<b>Net Cash from (used for) Operating Activities</b>	<b>116,302</b>	<b>(31,885)</b>
<b>Investing Activities</b>		
Payment of tax credit fees	(47,110)	(20,940)
Purchase of property and equipment	(25,698)	(3,856,049)
<b>Net Cash used for Investing Activities</b>	<b>(72,808)</b>	<b>(3,876,989)</b>
<b>Financing Activities</b>		
Payment of debt issuance costs	-	(11,269)
Payment of developer fees	(263,146)	-
Proceeds from issuance of long-term debt	100,000	2,083,256
Net payments on construction loan	-	(3,463,187)
Principal payments on long-term debt	(5,935)	-
Partner contributions	304,049	5,430,101
<b>Net Cash from Financing Activities</b>	<b>134,968</b>	<b>4,038,901</b>
<b>Net Change in Cash and Restricted Cash</b>	<b>178,462</b>	<b>130,027</b>
Cash and Restricted Cash, Beginning of Year	130,027	-
Cash and Restricted Cash, End of Year	\$ 308,489	\$ 130,027
Cash	\$ 110,020	\$ 102,973
Total Restricted Cash	198,469	27,054
<b>Total Cash and Restricted Cash</b>	<b>\$ 308,489</b>	<b>\$ 130,027</b>

See Notes to Financial Statements

## Heartland Heights Apartments II Limited Partnership

### Statements of Cash Flows

Years Ended December 31, 2024 and 2023

	2024	2023
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash payments for interest, net of capitalized interest	\$ 36,810	\$ 91,239
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Property and equipment purchases included as		
Developer fee payable	\$ -	\$ 449,500
Construction payables	-	25,698
Tax credit fees included as construction payables	-	47,110

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

Heartland Heights Apartments II Limited Partnership (Partnership) was formed in August 2021 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 Rapid City, South Dakota. Substantially all the Partnership's revenue is derived from the rental of its apartment units. The Partnership began operations in May 2023.

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 federally insured 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, 2024 and 2023, the Partnership had no amounts in excess of FDIC-insured limits.

**Receivables and Credit Policy**

Accounts receivable are rents and charges currently due from residential tenants. Payments on accounts receivable are applied to specific months. The Partnership 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. All of the Partnership's property and equipment is subject to operating leases with residential tenants as of December 31, 2024 and 2023.

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, 2024 and 2023.

#### **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 \$4,537. As of December 31, 2024 and 2023, tax credit fees of \$0 and \$47,110, respectively, are included in construction payables.

#### **Debt Issuance Costs**

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which 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 financial statements.

#### **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, 2024 and 2023, 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.

#### **Capitalized Interest**

During 2023, interest of \$92,468 was capitalized into building costs.

### **Rental Revenue**

Housing units are rented under operating lease agreements with terms of one year or less. Tenant rent revenue is 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, 2024 in 2025 are approximately \$82,200.

### **Advertising Costs**

Advertising costs are expensed as incurred. Such costs were \$2,521 and \$1,240 for the years ended December 31, 2024 and 2023, respectively.

### **Organizational Costs**

Costs of \$18,122 incurred for the organization of the Partnership were expensed in 2023.

### **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 February 26, 2025, 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.

# Heartland Heights Apartments II Limited Partnership

Notes to Financial Statements  
December 31, 2024 and 2023

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## Replacement Reserve

Pursuant to the terms of the Partnership agreement, and as a condition of the allocation of low-income housing credits and the HOME regulatory 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. Funds in the replacement reserve shall be used to fund the cost of improvements and replacements to the project.

Replacement reserve activity for the years ended December 31, 2024 and 2023 is as follows:

	2024	2023
Balance, January 1	\$ 11,044	\$ -
Deposits	14,077	10,974
Interest	455	70
Balance, December 31	<u>\$ 25,576</u>	<u>\$ 11,044</u>

## Operating Deficit Reserve

Pursuant to the terms of the Partnership agreement, the Partnership was required to establish an operating deficit reserve at the stabilization date in the amount of \$154,549 in a segregated reserve with Horizon Bank. The operating deficit reserve is to be used to fund excess operating expenses, debt service obligations or other expenses of the Partnership. Any disbursements from the operating deficit reserve are to be made with the consent of the general partner and the special limited partner. The operating deficit reserve was funded during 2024.

## Note 3 - Construction Loan

Acquisition and construction was financed by a 3.75% construction loan payable to a financial institution of up to \$6,135,000. The construction loan was paid in full in October 2023.

## Heartland Heights Apartments II Limited Partnership

Notes to Financial Statements  
December 31, 2024 and 2023

### Note 4 - Long-Term Debt

Long-term debt at December 31, 2024 and 2023 consists of:

	2024	2023
5% \$697,256 mortgage payable to bank, due in monthly installments of \$3,562 including interest, beginning December 2023 and continuing through November 2038, secured by all land, buildings, equipment, and an assignment of all rents and leases	\$ 691,321	\$ 697,256
Unamortized debt issuance costs, based on effective interest rate of 5.11%	(10,330)	(11,081)
	680,991	686,175
0% \$400,000 Housing Trust Fund (HTF) note payable to South Dakota Housing Development Authority due in various monthly payments, beginning January 2036 through December 2056, secured by all land, buildings, equipment and an assignment of all rents and leases	400,000	360,000
0% \$1,140,000 note payable to South Dakota Housing Development Authority (\$54,000 is undisbursed as of December 31, 2024) due in various monthly payments, beginning January 2024 through December 2048, secured by all land, buildings, equipment and an assignment of all rents and leases	1,086,000	1,026,000
	2,166,991	2,072,175
Less current maturities	(62,374)	(62,066)
Long-term debt, less current maturities and net of unamortized debt issuance costs	\$ 2,104,617	\$ 2,010,109

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2025	\$ 62,374
2026	62,802
2027	63,253
2028	59,726
2029	60,224
Thereafter	1,868,942
Less unamortized debt issuance costs	(10,330)
	\$ 2,166,991

**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 2023. During 2024 and 2023, the Partnership incurred compliance monitoring fees of \$4,182 and \$4,100, respectively. Compliance monitoring fees of \$4,182 and \$4,100 were included in accounts payable as of December 31, 2024 and 2023, respectively.

**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 \$20,000 or 12% of gross rent receipts. No incentive management fee was incurred or paid in 2024 and 2023.

**Developer Fees**

A developer fee payable to the general partner of \$599,000 was capitalized as part of the building costs. During 2024 and 2023, the Partnership paid \$263,146 and \$74,750 for developer fees which are included in the purchase of property and equipment on the cash flow statement during 2023. As of December 31, 2024 and 2023, the Partnership owed the general partner \$186,354 and \$449,500, respectively, for developer fees, which are expected to be paid from available cash flow.

**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 2024 and 2023, the Partnership incurred and paid management fees of \$28,509 and \$14,336, respectively.

During 2024 and 2023, the Partnership reimbursed Lloyd Property Management \$50,463 and \$30,953, respectively, for payroll and other expenses.

**Note 7 - Partners' Equity**

<u>Partners</u>	<u>Ownership Percentages</u>
General Partner Heartland Heights II, LLC	0.01%
Investor Limited Partner MHEG Fund 55, 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 are required to make capital contributions totaling \$575 and \$5,754,150, respectively. As of December 31, 2024, no contributions have been made by the general partner. As of December 31, 2024, contributions of \$5,754,150 have been made by the investor limited partner. The special limited partner was required to make, and has 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 \$154,549;
4. Fourth, to pay the deferred developer fee;
5. Fifth, to repay the general partner for any operating deficit loans;
6. Sixth, 10% of the remaining balance, if any, to the investor limited partner;
7. Seventh, to pay the incentive management fee to the general partner;
8. Eighth, the balance, if any, shall be distributed .01% to the general partner and 99.99% to the investor limited partner.

During 2024 and 2023, no cash was distributed to the partners.