



Financial Statements
December 31, 2024 and 2023

Heartland Heights Apartments Limited Partnership

Heartland Heights Apartments Limited Partnership

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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, 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 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 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 audits.

Eide Bailly LLP

Sioux Falls, South Dakota
February 26, 2025

Heartland Heights Apartments Limited Partnership

Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash	\$ 201,166	\$ 8,384
Tenant accounts receivable, net of allowance for doubtful accounts of \$144 in 2024 and \$4,655 in 2023	1,397	9,092
Prepaid expense	883	-
Total current assets	203,446	17,476
Restricted Cash		
Tenant security deposits	17,525	16,036
Operating reserve	184,996	-
Replacement reserve	47,886	26,693
Total restricted cash	250,407	42,729
Tax Credit Fees, Net of Accumulated Amortization of \$10,575 in 2024 and \$6,610 in 2023	48,158	52,875
Property and Equipment, at cost		
Land	275,000	275,000
Land improvements	399,424	399,424
Building	5,773,933	5,773,933
Furniture and equipment	566,207	566,207
	7,014,564	7,014,564
Less accumulated depreciation	(757,848)	(473,630)
Property and equipment, net	6,256,716	6,540,934
	\$ 6,758,727	\$ 6,654,014

Heartland Heights Apartments 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	\$ 56,914	\$ 56,304
Accounts payable	9,182	17,586
Tax credit fees payable	-	41,864
Developer fee payable	100,000	180,000
Accrued liabilities		
Real estate taxes	20,954	15,253
Interest	1,497	1,565
Prepaid rent	4,572	2,639
Total current liabilities	<u>193,119</u>	<u>315,211</u>
Tenant Security Deposits Payable	17,525	16,436
Long-Term Debt, less Current Maturities and Net of Unamortized Debt Issuance Costs	<u>1,488,519</u>	<u>1,444,272</u>
Total liabilities	<u>1,699,163</u>	<u>1,775,919</u>
Partners' Equity		
General partner	794,804	794,822
Limited partners	4,264,760	4,083,273
Total partners' equity	<u>5,059,564</u>	<u>4,878,095</u>
	<u>\$ 6,758,727</u>	<u>\$ 6,654,014</u>

Heartland Heights Apartments 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 \$19,592 in 2024 and \$25,292 in 2023	\$ 385,585	\$ 378,841
Interest	4,555	504
Tenant charges	2,730	10,103
Other income	6,019	890
	398,889	390,338
Expenses		
Administrative		
Management fees	28,593	27,926
Reimbursed salaries and wages	20,065	28,566
Bad debt expense	19,023	20,290
Professional fees	10,426	28,977
Information technology	7,468	5,283
Advertising	3,404	8,193
Office supplies and expenses	2,002	1,344
Commissions	1,383	4,727
Training expense	871	973
Screening costs	648	1,152
Other administrative	2,886	7,048
	96,769	134,479
Operating		
Utilities	58,710	52,537
Maintenance and repairs	43,808	66,008
Trash removal	6,504	6,920
Grounds	5,375	15,992
Snow removal	3,538	10,510
Exterminating	690	2,698
	118,625	154,665
Depreciation		
Building	144,348	144,320
Furniture and equipment	113,242	113,242
Land improvements	26,628	26,628
	284,218	284,190

Heartland Heights Apartments 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	\$ 20,954	\$ 15,253		
Insurance	13,939	10,203		
Payroll taxes and benefits	7,223	13,135		
Licenses and fees	1,297	116		
Total taxes, licenses and insurance	43,413	38,707		
Interest expense	27,716	29,001		
Total expenses	570,741	641,042		
Loss from Operations	(171,852)	(250,704)		
Partnership Expense				
Compliance monitoring fee	(4,266)	(4,182)		
Amortization expense	(3,966)	(3,966)		
Net Loss	\$ (180,084)	\$ (258,852)		
Partners' Equity				
	General Partner	Investor Limited Partner	Special Limited Partner	Total
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
Partner contributions	-	361,553	-	361,553
Net loss	(18)	(180,066)	-	(180,084)
Balance, December 31, 2024	\$ 794,804	\$ 4,264,750	\$ 10	\$ 5,059,564

Heartland Heights Apartments Limited Partnership

Statements of Cash Flows

Years Ended December 31, 2024 and 2023

	2024	2023
Operating Activities		
Net loss	\$ (180,084)	\$ (258,852)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	284,218	284,190
Amortization	3,966	3,966
Interest expense attributable to amortization of debt issuance costs	667	667
Bad debts expense	19,023	20,290
Changes in operating assets and liabilities		
Tenant accounts receivable	(11,328)	(23,884)
Prepaid expense	(883)	
Accounts payable	(8,404)	(11,256)
Accrued liabilities	5,633	7,159
Prepaid rent	1,933	(14,415)
Tenant security deposits payable	1,089	(422)
Net Cash from Operating Activities	115,830	7,443
Investing Activities		
Payment of tax credit fees	(41,113)	-
Purchase of property and equipment	(80,000)	(302,302)
Net Cash used for Investing Activities	(121,113)	(302,302)
Financing Activities		
Proceeds from issuance of long-term debt	100,000	150,000
Principal payments on long-term debt	(55,810)	(6,393)
Partner contributions	361,553	-
Net Cash from Financing Activities	405,743	143,607
Net Change in Cash and Restricted Cash	400,460	(151,252)
Cash and Restricted Cash, Beginning of Year	51,113	202,365
Cash and Restricted Cash, End of Year	\$ 451,573	\$ 51,113
Cash	\$ 201,166	\$ 8,384
Total Restricted Cash	250,407	42,729
Total Cash and Restricted Cash	\$ 451,573	\$ 51,113

Heartland Heights Apartments Limited Partnership

Statements of Cash Flows

Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest, net of amounts capitalized	<u>\$ 27,117</u>	<u>\$ 28,533</u>
Supplemental Disclosure of Noncash Investing Activities		
Property and equipment purchases included as developer fee payable	<u>\$ 100,000</u>	<u>\$ 180,000</u>
Tax credit fees included as construction payables	<u>\$ -</u>	<u>\$ 41,864</u>

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, 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 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. All of the Partnership's property is subject to operating leases with the residential tenants at 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 \$3,916.

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, 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.

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, 2024 in 2025 are approximately \$78,900.

Advertising Costs

Advertising costs are expensed as incurred. Such costs were \$3,404 and \$8,193 for the year ended December 31, 2024 and 2023, 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 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.

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 funded as of December 31, 2024.

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.

Heartland Heights Apartments Limited Partnership

Notes to Financial Statements
December 31, 2024 and 2023

Replacement reserve activity for the year ended December 31, 2024 is as follows:

	2024	2023
Balance, January 1	\$ 26,693	\$ 13,233
Deposits	20,172	13,021
Interest	1,021	439
Balance, December 31	\$ 47,886	\$ 26,693

Note 3 - Long-Term Debt

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

	2024	2023
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	\$ 601,933	\$ 609,742
Unamortized debt issuance costs, based on an effective interest rate of 4.51%	(8,500)	(9,166)
	593,433	600,576
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	952,000	900,000
Less current maturities	1,545,433	1,500,576
	(56,914)	(56,304)
Long-term debt, less current maturities and net of unamortized debt issuance costs	\$ 1,488,519	\$ 1,444,272

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2025	\$ 56,914
2026	57,000
2027	57,404
2028	51,827
2029	52,268
Thereafter	1,278,520
Less unamortized debt issuance costs	(8,500)
	\$ 1,545,433

Note 4 - 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 2024 and 2023, the Partnership incurred compliance monitoring fees of \$4,266 and \$4,182, 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 2024 and 2023.

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 2024 and 2023, the Partnership paid \$80,000 and \$300,000, respectively, for developer fees which are included in the purchase of property and equipment on the statements of cash flows. As of December 31, 2024 and 2023, the Partnership owed the developer \$100,000 and \$180,000, respectively, for developer fees, which are expected to be paid from 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 party, and replacement reserve funds were inadvertently deposited to that entity. As of December 31, 2023, \$11,209 was included in accounts payable for these transactions, which were repaid in 2024.

Note 5 - 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 management fees of \$28,593 and \$27,926, respectively.

During 2024 and 2023, the Partnership reimbursed Lloyd Property Management approximately \$73,000 and \$135,202, respectively, for payroll and other expenses.

Note 6 - 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, and have made, capital contributions totaling \$794,880 and \$5,021,721, respectively. 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 2024 and 2023, no cash was distributed to the partners.