Financial Statements
December 31, 2025

Blackstone Flats Apartments Limited Partnership

Independent Auditor's Report

To the Partners
Blackstone Flats Apartments Limited Partnership
Sioux Falls, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Blackstone Flats Apartments Limited Partnership, which comprise the balance sheet as of December 31, 2025, and the related statements of operations and partners' equity, and cash flows for the year 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 Blackstone Flats Apartments Limited Partnership as of December 31, 2025, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Blackstone Flats Apartments Limited Partnership and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Blackstone Flats 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.

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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 Blackstone Flats 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 Blackstone Flats 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
February 27, 2026

Assets	
Current Assets	
Cash	$ 295,389
Tenant accounts receivable, net of allowance of $5,711	14,535
Prepaid expenses	885
Total current assets	310,809
Restricted Cash	
Tenant security deposits	16,000
Tax Credit Fees, Net of Accumulated Amortization of $2,693	66,557
Property and Equipment, at Cost	
Land	212,680
Land improvements	616,428
Building	6,415,041
Furniture and equipment	652,929
	7,897,078
Less accumulated depreciation	(193,700)
Property and equipment, net	7,703,378
	$ 8,096,744

Liabilities and Partners' Equity	
Current Liabilities	
Current maturities of long-term debt	$ 67,221
Accounts payable	9,799
Tax credit fees payable	47,950
Construction payable	54,203
Developer fee payable	380,385
Accrued liabilities	
Interest	14,147
Real estate taxes	3,164
Prepaid rent	4,089
Total current liabilities	580,958
Tenant Security Deposits Payable	16,500
Long-Term Debt, Less Current Maturities and Net of Unamortized Debt Issuance Costs	2,573,892
Total liabilities	3,171,350
Partners' Equity (Deficit)	
General partner	(23)
Limited partners	4,925,417
Total partners' equity	4,925,394
	$ 8,096,744

Operations	
Revenue	
Tenant rent, net of concessions and vacancies of $77,437	$ 180,288
Tenant charges	2,230
Interest income	34
Other income	3,681
Total revenue	186,233
Expenses	
Administrative	
Commissions	19,671
Management fees	13,526
Reimbursed salaries and wages	13,478
Information technology	7,633
Bad debts	5,711
Office supplies and expenses	4,534
Screening costs	3,104
Professional fees	2,110
Advertising	1,906
Training expense	257
Other administrative	7,637
Total administrative expenses	79,567
Operating	
Utilities	25,613
Maintenance and repairs	23,001
Trash removal	5,869
Grounds	4,504
Snow removal	1,929
Total operating expenses	60,916
Depreciation	
Building	93,553
Furniture and equipment	76,175
Land improvements	23,972
Total depreciation	193,700

Expenses (Continued)	
Taxes, licenses and insurance	
Insurance	$ 6,604
Real estate taxes	3,164
Payroll taxes and benefits	3,315
Total taxes, licenses and insurance	13,083
Interest expense	61,701
Total expenses	408,967
Loss from Operations	(222,734)
Partnership Expense	
Compliance monitoring fee	(3,500)
Amortization expense	(2,693)
Net Loss	$ (228,927)

Partners' Equity

	General Partner	Investor Limited Partner	Special Limited Partner	Total
Balance, January 1, 2025	$ -	$ 20,000	$ 10	$ 20,010
Partner contributions	-	5,134,311	-	5,134,311
Net loss	(23)	(228,904)	-	(228,927)
Balance (Deficit), December 31, 2025	$ (23)	$ 4,925,407	$ 10	$ 4,925,394

Operating Activities	
Net loss	$ (228,927)
Adjustments to reconcile net loss to net cash used for operating activities	
Depreciation	193,700
Amortization	2,693
Interest expense attributable to amortization of debt issuance costs	285
Bad debts	5,711
Changes in operating assets and liabilities	
Tenant accounts receivable	(20,246)
Prepaid expenses	(885)
Accounts payable	9,108
Accrued liabilities	(1,831)
Prepaid rent	4,089
Tenant security deposits payable	16,500
Net Cash used for Operating Activities	(19,803)
Investing Activities	
Payment of tax credit fees	(21,300)
Purchase of property and equipment	(5,309,116)
Net Cash used for Investing Activities	(5,330,416)
Financing Activities	
Proceeds from issuance of long-term debt	1,900,308
Proceeds from construction loan	3,848,707
Payments on debt issuance costs	(8,750)
Principal payments on long-term debt	(730)
Payments on construction loan	(5,212,238)
Partner contributions	5,134,311
Net Cash from Financing Activities	5,661,608
Net Change in Cash and Restricted Cash	311,389
Cash and Restricted Cash, Beginning of Year	-
Cash and Restricted Cash, End of Year	$ 311,389
Cash	$ 295,389
Restricted Cash - Tenant Security Deposits	16,000
Total Cash and Restricted Cash	$ 311,389

Supplemental Disclosure of Cash Flow Information		
Cash payments for interest, net of capitalized interest	$	66,411
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment purchases included as construction payable	$	54,203
Property and equipment purchases included as developer fee payable	$	380,385
Tax credit fees included as tax credit fees payable	$	47,950

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity, Risks, and Uncertainty

Blackstone Flats Apartments Limited Partnership (the Partnership) was formed August 2023 as a limited partnership under the laws of the state of South Dakota and shall continue until December 31, 2073, unless dissolved or terminated at an earlier date. It was formed for the purpose of owning and operating one building, 35-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 June 2025.

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 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 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 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, 2025, the Partnership had approximately $61,000 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. 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 and equipment is subject to operating leases with residential tenants as of December 31, 2025.

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, 2025.

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 $4,617. As of December 31, 2025, tax credit fees of $47,950 are included in tax credit fees payables.

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 sheet. Amortization of debt issuance costs is included in interest expense in the statement 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, 2025, 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 2025, interest of $128,913 was capitalized as a cost of property and equipment.

Rental Income

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 it is 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, 2025 in 2026 are approximately $264,000.

Advertising Costs

Advertising costs are expensed as incurred.

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 27, 2026, 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.

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 was 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, beginning six months after the date placed in service. 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. The replacement reserve was not funded as of December 31, 2025.

Operating Deficit Reserve

Pursuant to the terms of the Partnership agreement, the Partnership will be required to establish an operating deficit reserve at the stabilization date in the amount of $181,075 in a segregated reserve with Horizon Bank. The operating deficit reserve is to be used to pay operating deficits of the Partnership. Any disbursements from the operating deficit reserve are to be made with the consent of the partners. The operating deficit reserve was not funded as of December 31, 2025.

Note 3 - Long-Term Debt

Long-term debt as of December 31, 2025 consists of:

7% $460,308 note payable to Midwest Housing Development Fund, Inc., due in monthly installments of $3,094 including interest, beginning December 2024 and continuing through December 2040, secured by all land, buildings, equipment, and an assignment of all rents and leases	$ 459,578
Unamortized debt issuance costs, based on effective interest rate of 7.07%	(4,861)
	454,717
0% $600,000 note payable to South Dakota Housing Development Authority, due in various monthly payments, beginning January 2056 through December 2066, secured by all land, buildings, equipment and an assignment of all rents and leases, $60,000 remains to be disbursed	540,000
3% $750,000 note payable to Black Hills Area Community Foundation, due in annual payments of $49,914 beginning June 2026 through June 2040, secured by all land, buildings, equipment and an assignment of all rents and leases	750,000
Unamortized debt issuance costs, based on effective interest rate of 3.03%	(3,604)
	746,396
0% $1,000,000 note payable to South Dakota Housing Development Authority due in various monthly payments, beginning January 2026 through December 2056, secured by all land, buildings, equipment and an assignment of all rents and leases, $100,000 remains to be disbursed	900,000
	2,641,113
Less current maturities	(67,221)
Long-term debt, less current maturities and net of unamortized debt issuance costs	$ 2,573,892

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2026	$ 67,221
2027	78,415
2028	72,662
2029	70,963
2030	65,321
Thereafter	2,294,996
Less unamortized debt issuance costs	(8,465)
	$ 2,641,113

Note 4 - Construction Loan

Acquisition and construction was financed by a 8.25% construction loan payable to a financial institution of up to $5,600,000. The construction loan was paid in full in July 2025.

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 $3,500, to increase by 2% each year, commencing in 2025. During 2025, the Partnership incurred compliance monitoring fees of $3,500. Compliance monitoring fees of $3,500 were included in accounts payable as of December 31, 2025.

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 lessor of $20,000 or 12% of gross rent receipts. No incentive management fee was incurred or paid in 2025.

Developer Fees

A developer fee payable to the general partner of $662,000 was capitalized as a cost of property and equipment. Through December 31, 2025, the Partnership paid $281,615 for developer fees which are included in the purchase of property and equipment on the statement of cash flows. As of December 31, 2025, the Partnership owed the general partner $380,385 for developer fees, which are expected to be paid from future capital contributions or cash flows.

Mortgage and Note Payable to Related Party

The Partnership has entered into a mortgage agreement and a promissory note agreement with Midwest Housing Development Fund, Inc., an entity affiliated with the limited partner (see Note 3). Accrued interest on this agreement was $2,681 as of December 31, 2025, and interest expense on this note was $13,860 for the year ended December 31, 2025.

Operating Deficit Guaranty

Pursuant to the terms of the partnership agreement, the general partner is required to fund any operating deficits without limitation during the compliance period. All operating deficit loans shall bear interest at a rate of 5% and shall be payable form cash flow as stated in the agreement. As of December 31, 2025, the general partner has not had to fund any operating deficits.

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 2025, the Partnership incurred and paid management fees of $13,526.

During 2025, the Partnership reimbursed Lloyd Property Management approximately $66,000 for payroll and other expenses. Included in accounts payable as of December 31, 2025 was approximately $700 for these payroll and other expenses.

Note 7 - Partners' Equity

Partners	Ownership Percentages
General Partner	
Blackstone Flats, LLC	0.01%
Investor Limited Partner	
MHEG Fund 59, LP	99.99%
Special Limited Partner	
Midwest Housing Assistance Corporation	0.00%
	100.00%

Pursuant to the Partnership agreement, the general partner and investor limited partner were required to make capital contributions totaling $562 and $5,617,000, respectively. As of December 31, 2025, cumulative contributions of $5,154,311 have been made 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 unpaid compliance monitoring fees;
3. Third, to maintain and replenish the operating deficit reserve up to $181,075;
4. Fourth, to pay the deferred development 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 2025, no cash was distributed to the partners.