Financial Statements
December 31, 2025 and 2024

Heartland Heights Apartments II Limited Partnership

Independent Auditor's Report 1

Financial Statements

- Balance Sheets 3
- Statements of Operations and Partners' Equity 5
- Statements of Cash Flows 7
- Notes to Financial Statements 8

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, 2025 and 2024, 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, 2025 and 2024, 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.

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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 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 audit.

Eide Bailly LLP

Sioux Falls, South Dakota
February 25, 2026

	2025	2024
Assets		
Current Assets		
Cash	$ 73,617	$ 110,020
Tenant accounts receivable, net of allowance of $49 in 2025 and $1 in 2024	4,108	1,097
Other accounts receivable	-	442
Prepaid expenses	1,037	882
Total current assets	78,762	112,441
Restricted Cash		
Tenant security deposits	17,300	17,350
Replacement reserve	43,717	25,576
Operating reserve	158,437	155,543
Total restricted cash	219,454	198,469
Tax Credit Fees, Net of Accumulated Amortization of $12,098 in 2025 and $7,561 in 2024	55,952	60,489
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	(798,666)	(489,505)
Property and equipment, net	7,015,778	7,324,939
	$ 7,369,946	$ 7,696,338

	2025	2024
Liabilities and Partners' Equity		
Current Liabilities		
Current maturities of long-term debt	$ 62,802	$ 62,374
Accounts payable	9,173	12,949
Accrued interest	1,993	1,953
Accrued real estate taxes	15,585	15,015
Prepaid rent	2,228	2,530
Total current liabilities	91,781	94,821
Tenant Security Deposits Payable	17,800	18,350
Developer Fee Payable	138,335	186,354
Long-Term Debt, less Current Maturities and Net of Unamortized Debt Issuance Costs	2,043,058	2,104,617
Total liabilities	2,290,974	2,404,142
Partners' Equity		
General partner	(68)	(47)
Limited partners	5,079,040	5,292,243
Total partners' equity	5,078,972	5,292,196
	$ 7,369,946	$ 7,696,338

	2025	2024
Operations		
Revenue		
Tenant rent, net of vacancies of $18,198 in 2025 and $18,535 in 2024	$ 386,680	$ 385,052
Tenant charges	3,540	4,321
Interest	3,785	1,538
Other income	718	4,924
Total revenue	394,723	395,835
Expenses		
Administrative		
Management fees	28,358	28,509
Reimbursed salaries and wages	25,756	18,280
Bad debt expense	17,675	16,446
Professional fees	9,464	25,861
Information technology	6,011	3,637
Commissions	3,069	1,032
Advertising	2,486	2,521
Training expense	1,348	2,155
Screening costs	1,242	2,196
Office supplies and expenses	776	738
Other administrative	725	844
Total administrative expenses	96,910	102,219
Operating		
Utilities	61,910	55,995
Maintenance and repairs	26,935	27,373
Cleaning	9,505	10,262
Trash removal	6,766	6,484
Grounds	6,035	4,347
Snow removal	3,441	3,538
Exterminating	-	956
Total operating expenses	114,592	108,955
Depreciation		
Building	164,493	164,493
Furniture and equipment	119,528	119,528
Land improvements	25,140	25,140
Total depreciation	309,161	309,161

	2025	2024
Expenses (Continued)		
Taxes, licenses and insurance		
Real estate taxes	$ 15,585	$ 15,015
Insurance	11,752	10,295
Payroll taxes and benefits	13,830	6,685
Licenses and fees	1,659	1,158
Total taxes, licenses and insurance	42,826	33,153
Interest expense	35,655	39,514
Total expenses	599,144	593,002
Loss from Operations	(204,421)	(197,167)
Partnership Expense		
Amortization expense	(4,537)	(4,537)
Compliance monitoring fee	(4,266)	(4,182)
Net Loss	$ (213,224)	$ (205,886)

Partners' Equity

	General Partner	Investor Limited Partner	Special Limited Partner	Total
Balance, 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
Net loss	(21)	(213,203)	-	(213,224)
Balance (Deficit), December 31, 2025	$ (68)	$ 5,079,030	$ 10	$ 5,078,972

	2025	2024
Operating Activities		
Net loss	$ (213,224)	$ (205,886)
Adjustments to reconcile net loss to net cash from (used for) operating activities		
Depreciation	309,161	309,161
Amortization	4,537	4,537
Interest expense attributable to amortization of debt issuance costs	751	751
Bad debts expense	17,675	16,446
Changes in operating assets and liabilities		
Tenant accounts receivable	(20,686)	(13,232)
Other accounts receivable	442	(442)
Prepaid expenses	(155)	(882)
Accounts payable	(3,776)	313
Accrued liabilities	610	5,054
Prepaid rent	(302)	(1,058)
Tenant security deposits payable	(550)	1,540
Net Cash from Operating Activities	94,483	116,302
Investing Activities		
Payment of tax credit fees	-	(47,110)
Purchase of property and equipment	-	(25,698)
Net Cash used for Investing Activities	-	(72,808)
Financing Activities		
Payment of developer fees	(48,019)	(263,146)
Proceeds from issuance of long-term debt	-	100,000
Principal payments on long-term debt	(61,882)	(5,935)
Partner contributions	-	304,049
Net Cash from (used for) Financing Activities	(109,901)	134,968
Net Change in Cash and Restricted Cash	(15,418)	178,462
Cash and Restricted Cash, Beginning of Year	308,489	130,027
Cash and Restricted Cash, End of Year	$ 293,071	$ 308,489
Cash	$ 73,617	$ 110,020
Total Restricted Cash	219,454	198,469
Total Cash and Restricted Cash	$ 293,071	$ 308,489
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 34,864	$ 36,810

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 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, 2025 and 2024, 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, 2025 and 2024.

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 and 2024.

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.

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, 2025 and 2024, 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 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, 2025 in 2026 are approximately $49,000.

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 25, 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 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, 2025 and 2024 is as follows:

	2025	2024
Balance, January 1	$ 25,576	$ 11,044
Deposits	17,346	14,077
Interest	795	455
Balance, December 31	$ 43,717	$ 25,576

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 is fully funded.

Note 3 - Long-Term Debt

Long-term debt at December 31, 2025 and 2024 consists of:

	2025	2024
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	$ 683,439	$ 691,321
Unamortized debt issuance costs, based on effective interest rate of 5.11%	(9,579)	(10,330)
	673,860	680,991
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	400,000

	2025	2024
0% $1,140,000 note payable to South Dakota Housing Development Authority, 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	$ 1,032,000	$ 1,086,000
	2,105,860	2,166,991
Less current maturities	(62,802)	(62,374)
Long-term debt, less current maturities and net of unamortized debt issuance costs	$ 2,043,058	$ 2,104,617

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2026	$ 62,802
2027	63,253
2028	59,726
2029	60,224
2030	60,747
Thereafter	1,808,687
Less unamortized debt issuance costs	(9,579)
	$ 2,105,860

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 2023. During 2025 and 2024, the Partnership incurred compliance monitoring fees of $4,266 and $4,182, respectively. Compliance monitoring fees of $4,266 and $4,182 were included in accounts payable as of December 31, 2025 and 2024, 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 2025 and 2024.

Developer Fees

A developer fee payable to the general partner of $599,000 was capitalized as part of the building costs. During 2025 and 2024, the Partnership paid $48,019 and $263,146, respectively, for developer fees. As of December 31, 2025 and 2024, the Partnership owed the general partner $138,335 and $186,354, respectively, for developer fees.

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 2025 and 2024, the Partnership incurred and paid management fees of $28,358 and $28,509, respectively.

During 2025 and 2024, the Partnership reimbursed Lloyd Property Management approximately $70,000 and $50,500, respectively, for payroll and other expenses.

Note 6 - Partners' Equity

Partners	Ownership Percentages
General Partner	
Heartland Heights II, LLC	0.01%
Investor Limited Partner	
MHEG Fund 55, 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 are required to make capital contributions totaling $575 and $5,754,150, respectively. As of December 31, 2025, no contributions have been made by the general partner. As of December 31, 2025, 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 2025 and 2024, no cash was distributed to the partners.