Financial Statements
December 31, 2025 and 2024

Heartland Heights Apartments Limited Partnership

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, 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 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 Limited Partnership and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland Heights Apartments Limited Partnership's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Heartland Heights Apartments Limited Partnership's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland Heights Apartments Limited Partnership's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Sioux Falls, South Dakota
February 25, 2026

	2025	2024
Assets		
Current Assets		
Cash	$ 63,020	$ 201,166
Tenant accounts receivable, net of allowance for doubtful accounts of $252 in 2025 and $144 in 2024	8,080	1,397
Prepaid expense	2,044	883
Total current assets	73,144	203,446
Restricted Cash		
Tenant security deposits	16,553	17,525
Operating reserve	188,437	184,996
Replacement reserve	67,067	47,886
Total restricted cash	272,057	250,407
Tax Credit Fees, Net of Accumulated Amortization of $14,491 in 2025 and $10,575 in 2024	44,242	48,158
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	(1,042,066)	(757,848)
Property and equipment, net	5,972,498	6,256,716
	$ 6,361,941	$ 6,758,727

	2025	2024
Liabilities and Partners' Equity		
Current Liabilities		
Current maturities of long-term debt	$ 57,000	$ 56,914
Accounts payable	8,797	9,182
Developer fee payable	-	100,000
Accrued liabilities		
Real estate taxes	15,585	20,954
Interest	1,524	1,497
Prepaid rent	2,213	4,572
Total current liabilities	85,119	193,119
Tenant Security Deposits Payable	16,628	17,525
Long-Term Debt, less Current Maturities and Net of Unamortized Debt Issuance Costs	1,432,858	1,488,519
Total liabilities	1,534,605	1,699,163
Partners' Equity		
General partner	794,781	794,804
Limited partners	4,032,555	4,264,760
Total partners' equity	4,827,336	5,059,564
	$ 6,361,941	$ 6,758,727

	2025	2024
Operations		
Revenue		
Tenant rent, net of vacancies of $17,365 in 2025 and $19,592 in 2024	$ 391,957	$ 385,585
Tenant charges	7,772	2,730
Interest	4,854	4,555
Other income	1,659	6,019
Total revenue	406,242	398,889
Expenses		
Administrative		
Management fees	29,365	28,593
Reimbursed salaries and wages	25,821	20,065
Bad debt expense	14,981	19,023
Information technology	11,166	7,468
Professional fees	9,546	10,426
Commissions	2,877	1,383
Advertising	2,460	3,404
Office supplies and expenses	1,199	2,002
Training expense	1,085	871
Screening costs	922	648
Other administrative	901	2,886
Total administrative expenses	100,323	96,769
Operating		
Utilities	66,170	58,710
Maintenance and repairs	54,358	43,808
Trash removal	6,897	6,504
Grounds	5,026	5,375
Snow removal	3,441	3,538
Exterminating	212	690
Total operating expenses	136,104	118,625
Depreciation		
Building	144,348	144,348
Furniture and equipment	113,242	113,242
Land improvements	26,628	26,628
Total depreciation	284,218	284,218

	2025	2024
Expenses (Continued)		
Taxes, licenses and insurance		
Real estate taxes	$ 15,585	$ 20,954
Insurance	15,079	13,939
Payroll taxes and benefits	13,880	7,223
Licenses and fees	2,199	1,297
Total taxes, licenses and insurance	46,743	43,413
Interest expense	27,378	27,716
Total expenses	594,766	570,741
Loss from Operations	(188,524)	(171,852)
Partnership Expense		
Compliance monitoring fee	(4,351)	(4,266)
Incentive management fees	(25,000)	-
Amortization expense	(3,916)	(3,966)
Net Loss	$ (221,791)	$ (180,084)

Partners' Equity

	General Partner	Investor Limited Partner	Special Limited Partner	Total
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
Partner distributions	(1)	(10,436)	-	(10,437)
Net loss	(22)	(221,769)	-	(221,791)
Balance, December 31, 2025	$ 794,781	$ 4,032,545	$ 10	$ 4,827,336

	2025	2024
Operating Activities		
Net loss	$ (221,791)	$ (180,084)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	284,218	284,218
Amortization	3,916	3,966
Interest expense attributable to amortization of debt issuance costs	667	667
Bad debts expense	14,981	19,023
Changes in operating assets and liabilities		
Tenant accounts receivable	(21,664)	(11,328)
Prepaid expense	(1,161)	(883)
Accounts payable	(385)	(8,404)
Accrued liabilities	(5,342)	5,633
Prepaid rent	(2,359)	1,933
Tenant security deposits payable	(897)	1,089
Net Cash from Operating Activities	50,183	115,830
Investing Activities		
Payment of tax credit fees	-	(41,113)
Purchases of property and equipment	(100,000)	(80,000)
Net Cash used for Investing Activities	(100,000)	(121,113)
Financing Activities		
Proceeds from issuance of long-term debt	-	100,000
Principal payments on long-term debt	(56,242)	(55,810)
Partner contributions	-	361,553
Partner distributions	(10,437)	-
Net Cash used for Financing Activities	(66,679)	405,743
Net Change in Cash and Restricted Cash	(116,496)	400,460
Cash and Restricted Cash, Beginning of Year	451,573	51,113
Cash and Restricted Cash, End of Year	$ 335,077	$ 451,573
Cash	$ 63,020	$ 201,166
Total Restricted Cash	272,057	250,407
Total Cash and Restricted Cash	$ 335,077	$ 451,573

	2025	2024
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 26,684	$ 27,117
Supplemental Disclosure of Noncash Investing Activities		
Property and equipment purchases included as developer fee payable	$ -	$ 100,000

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 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 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 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 and 2024, the Partnership had $6,000 and $0 respectively 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, 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 $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, 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 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, 2025 in 2026 are approximately $41,000.

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.

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 fully funded as of December 31, 2025 and 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.

Replacement reserve activity for the year ended December 31, 2025 is as follows:

	2025	2024
Balance, January 1	$ 47,886	$ 26,693
Deposits	17,866	20,172
Interest	1,315	1,021
Balance, December 31	$ 67,067	$ 47,886

Note 3 - Long-Term Debt

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

	2025	2024
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	$ 593,691	$ 601,933
Unamortized debt issuance costs, based on an effective interest rate of 4.51%	(7,833)	(8,500)
	585,858	593,433
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	904,000	952,000
	1,489,858	1,545,433
Less current maturities	(57,000)	(56,914)
Long-term debt, less current maturities and net of unamortized debt issuance costs	$ 1,432,858	$ 1,488,519

Future maturities of long-term debt are as follows:

Years Ending December 31,	Amount
2026	$ 57,000
2027	57,404
2028	51,827
2029	52,268
2030	52,729
Thereafter	1,226,463
Less unamortized debt issuance costs	(7,833)
	$ 1,489,858

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 2025 and 2024, the Partnership incurred compliance monitoring fees of $4,351 and $4,266, respectively, which were 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. Incentive management fees of $25,000 and $0 were paid in 2025 and 2024, respectively.

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 was capitalized as part of building costs during 2022. During 2025 and 2024, the Partnership paid $100,000 and $80,000, respectively, for developer fees which are included in the purchase of property and equipment on the statements of cash flows. As of December 31, 2025 and 2024, the Partnership owed the developer $0 and $100,000, 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 management fees of $29,365 and $28,593, respectively.

During 2025 and 2024, the Partnership reimbursed Lloyd Property Management approximately $107,000 and $73,000, respectively, for payroll and other expenses.

Note 6 - Partners' Equity

Partners	Ownership Percentages
General Partner	
Heartland Heights, LLC	0.01%
Investor Limited Partner	
MHEG Fund 54, 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, 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 2025 and 2024, cash distributions of $10,436 and $0, respectively, were paid to the limited partner. During 2025 and 2024, cash distributions of $1 and $0, respectively, were paid to the general partner.