LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

dba LEGEND OAKS II

REPORT ON AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

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Dauby O'Connor & Zaleski, LLC
A Limited Liability Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of
Legend Oaks II, LLC
(A Nebraska Limited Liability Company)

Report on the Financial Statements

We have audited the accompanying financial statements of Legend Oaks II, LLC, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in Members' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Legend Oaks II, LLC's preparation and fair presentation of the financial statements 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 Legend Oaks II, LLC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legend Oaks II, LLC as of December 31, 2019 and 2018, 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.

Dauby O'Connor & Zaleski, LLC

February 29, 2020
Carmel, Indiana

Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents		
Cash in bank	$ 49,682	$ 46,109
Operating reserve	41,711	41,404
Reserve for replacements	39,144	32,689
Total cash and cash equivalents	**130,537**	**120,202**
Other assets	3,695	4,720
Property and equipment, net	1,811,592	1,923,202
Unamortized costs, net	11,846	13,776
	$ 1,957,670	**$ 2,061,900**

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

	2019	2018
Accounts payable	$ 7,726	$ 13,729
Accrued interest	3,613	3,661
Accrued real estate taxes	4,675	9,449
Resident security deposits	8,647	8,647
Mortgage notes and loans payable	290,713	290,931
Total liabilities	**315,374**	**326,417**
Members' equity (deficit)	**1,642,296**	**1,735,483**
	$ 1,957,670	**$ 2,061,900**

LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenues		
Rental income	$ 96,214	$ 95,410
Interest	892	766
Other	3,426	4,246
Total revenues	**100,532**	**100,422**
Expenses		
Depreciation and amortization	115,762	136,182
Administrative	25,286	26,511
Operating and maintenance	16,268	15,604
Taxes and insurance	26,949	26,157
Interest expense	9,454	9,632
Total expenses	**193,719**	**214,086**
Net income (loss)	**$ (93,187)**	**$ (113,664)**

See notes to financial statements

LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)
YEAR ENDED DECEMBER 31, 2019 AND 2018

	Investor Member	Special Member	Managing Member	Total
Balance, January 1, 2018	**$ 1,849,169**	**$ 10**	**$ (32)**	**$ 1,849,147**
Net income (loss)	(113,653)	-	(11)	(113,664)
Balance, December 31, 2018	**1,735,516**	**10**	**(43)**	**1,735,483**
Net income (loss)	(93,178)	-	(9)	(93,187)
Balance, December 31, 2019	**$ 1,642,338**	**$ 10**	**$ (52)**	**$ 1,642,296**
Ownership Percentage	99.99%	0.0000%	0.01%	100.00%

See notes to financial statements

LEGEND OAKS II, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Reconciliation of net income (loss) to net cash provided by (used in) operating activities		
Net income (loss)	$ (93,187)	$ (113,664)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	115,762	136,182
Capitalization of interest into mortgage notes and loans payable	3,301	3,288
Changes in:		
Other assets	1,025	(195)
Accounts payable	(6,003)	(3,431)
Accrued interest	(48)	4
Accrued real estate taxes	(4,774)	(3,941)
Resident security deposits liability	-	17
Total adjustments	109,263	131,924
Net cash provided by (used in) operating activities	16,076	18,260
Cash flow from investing activities		
Purchase of property and equipment	(2,222)	-
Cash flow from financing activities		
Repayment of mortgage notes and loans payable	(3,519)	(11,127)
Change in cash and cash equivalents	10,335	7,133
Cash and cash equivalents at beginning of year	120,202	113,069
Cash and cash equivalents at end of year	$ 130,537	$ 120,202
Supplemental disclosure		
Interest paid	$ 6,201	$ 6,340

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Legend Oaks II, LLC (the "Company") is a Nebraska Limited Liability Company formed to acquire, develop, and construct an 18 unit multifamily residential rental community known as Legend Oaks II (the "Property") located in Lexington, Nebraska. The Company has qualified 100% of the units in the Property for low-income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. Generally, the low-income housing credit is computed as a percentage of the qualified basis of the property and is allowed annually during a period of ten years commencing with the year the building is placed in service. The applicable units must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits. The Company has received an annual maximum allocation of credits of $266,018. The final year of tax credits is 2024.

The ownership of the Company is as follows:

Housing Authority of the City of Lexington, Nebraska (the "Managing Member")	00.010%
MHEG Fund 40, LP (the "Investor Member")	99.990%
Midwest Housing Assistance Corporation (the "Special Member")	00.000%
	100.00%

The term of the Company shall extend in perpetuity, unless sooner terminated as provided in the Operating Agreement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the financial statements

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update* ("ASU") 2016-02, Leases, which once implemented will result in lessees recognizing most leased assets and corresponding lease liabilities on the Balance Sheets. The standard is effective January 1, 2021 for the Company.

The Company is subject to the provisions of the Revenue from Contracts with Customers topic of the FASB ASU 2014-09. The FASB ASU 2014-09 amended the existing accounting standards for revenue recognition. The new standard (i) provides guidance for all revenue arising from contracts with customers and (ii) provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property, including real estate. The Company adopted the FASB ASU 2014-09 on January 1, 2019 and there was no cumulative effect recognized.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting pronouncements (continued)

The Company is subject to the provisions of the Statement of Cash Flows topic of the FASB ASU 2016-18. The FASB ASU 2016-18 amended the existing accounting standards for the Statement of Cash Flows. The new standard requires cash, cash equivalents, and restricted cash be included when reconciling the beginning of period and end of period cash in the Statements of Cash Flows. The Company adopted the FASB ASU 2016-18 on January 1, 2019 and there was no cumulative effect recognized.

Cash

For the Statements of Cash Flows, all unrestricted investments with original maturities of three months or less are cash equivalents. At December 31, 2019 and 2018, cash consists of operating checking and savings accounts.

Resident receivable and bad debt policy

Resident rent charges for the current month are due on the first of the month. Residents who are evicted or move-out are charged with damages or cleaning fees, if applicable. Resident receivables consist of amounts due for rental income, security deposit or the charges for damages and cleaning fees. The Company does not accrue interest on the resident receivable balances.

The Company reviews its outstanding resident receivables on a regular basis and records an allowance for the outstanding resident receivables over 60 days. There were no bad debts expensed for the years ended December 31, 2019 and 2018.

Property and equipment

Property and equipment is recorded at cost. Depreciation is provided principally on the straight line method over the remaining estimated useful lives of the assets, which range from 5 to 27.5 years. Expenditures for repairs and betterments, which do not materially extend the life of the asset, are charged to expense.

The Company is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB *Accounting Standards Codification* ("ASC") 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on the Company's financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment loss was recognized for the years ended December 31, 2019 and 2018.

Unamortized costs

Unamortized costs consist of costs to obtain the tax credits. These costs are being amortized over the compliance period or credit period, as applicable, on a straight line basis.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Rental revenue attributable to residential operating leases is recorded when due from residents, generally upon the first day of each month for periods of up to one year, and are considered operating leases. Advance receipts of rental income will be deferred until earned. Other income results from fees for late payments, cleaning, damages and laundry facilities and is recorded when earned.

Syndication costs

Costs incurred in connection with the Investor Member's investment in the Company of $6,000 have been netted against the Investor Member's capital contributions for reporting purposes.

Advertising costs

Advertising costs are expensed as incurred and are included in administrative expenses in the Statements of Operations.

Property taxes

Property taxes are expensed in the year of the lien such that twelve months of expense are recorded.

Concentration of credit risk

The Company places its temporary cash investments with high credit quality financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At times, the account balances may exceed the FDIC insurance limits.

The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by regulatory agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value

The Company is subject to the provisions of the Fair Value Measurement topic of the FASB *Accounting Standards Codification* (ASC) 820-10 which provides guidance for assets and liabilities which are required to be measured at fair value and requires expanded disclosure for fair value measurement. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not require any new fair value measurements. The Fair Value Measurement did not have a material impact on the Company's financial statements for the years ended December 31, 2019 and 2018.

Accounting for uncertainty in income taxes

The Company is treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which it must consider for disclosure. There has been no interest or penalties recognized in the Statements of Operations or Balance Sheets for the years ended December 31, 2019 and 2018. Generally, the federal and state returns are subject to examination for three years after the later of the original or extended due date or the date filed with the applicable tax authorities.

Subsequent events

Management performed an evaluation of the Company's activity through February 29, 2020, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through the date these financial statements were available to be issued.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications had no effect on the reported net income (loss) of the Company.

NOTE 2-UNAMORTIZED COSTS

Unamortized costs consist of costs for obtaining the tax credits. The following summarizes the cost:

	2019	2018
Tax credit fees	$ 22,301	$ 22,301
Accumulated amortization	(10,455)	(8,525)
Unamortized costs, net	**$ 11,846**	**$ 13,776**

Amortization expense for the years ended December 31, 2019 and 2018 totaled $1,930 and $1,931, respectively.

Estimated amortization expense for each of the next five years and thereafter is as follows:

2020	$ 1,930
2021	1,930
2022	1,930
2023	1,930
2024	1,376
Thereafter	2,750
	$ 11,846

NOTE 3-PROPERTY AND EQUIPMENT

Property and equipment have been recorded at cost and consist of the following:

	2019	2018
Land	$ 40,000	$ 40,000
Buildings	2,227,569	2,227,569
Furniture and equipment	250,797	248,575
Subtotal	2,518,366	2,516,144
Accumulated depreciation	(706,774)	(592,942)
Ending balance	**$ 1,811,592**	**$ 1,923,202**

For the years ended December 31, 2019 and 2018, depreciation expense totaled $113,832 and $134,251, respectively.

NOTE 4-MORTGAGE NOTES AND LOANS PAYABLE

Mortgage notes and loans payable consist of the following at December 31:

Description of debt	Interest Rate	Payments	Maturity	Principal Balance 2019	Principal Balance 2018
Managing Member loan, in the original principal amount of $151,851, collateralized by a security interest in Legend Oaks II, LLC	2.37%	From available cash flow	November 5, 2029	$ 137,598	$ 134,297
Managing Member perm loan, in the original principal amount of $169,620, collateralized by a security interest in Legend Oaks II, LLC	4%	Monthly principal and interest payments of $810	November 10, 2030	153,115	156,634
				$ 290,713	$290,931

The property and equipment and other assets are pledged as collateral on the mortgage notes and loans payable. For the years ended December 31, 2019 and 2018, interest expense totaled $9,454 and $9,632, respectively. At December 31, 2016, accrued interest totaled $3,613 and $3,661, respectively.

Principal payments related to the mortgage notes and loans payable for the next five years and thereafter are as follows:

2020	$ 3,645
2021	3,811
2022	3,966
2023	4,128
2024	4,280
Thereafter	270,883
	$ 290,713

NOTE 5-RELATED PARTIES

The Company has entered into an agreement with the Managing Member for management of the rental operations of the Property. For the years ended December 31, 2019 and 2018, management fees totaled $9,964 and $9,399, respectively. These expenses are included in administrative expenses on the Statements of Operations.

Midwest Housing Equity Group, Inc., an affiliate of the Investor Member, earned a compliance monitoring and consulting service fee of $1,948 for each of the years ended December 31, 2019 and 2018. These fees are included in administrative expenses on the Statements of Operations. At December 31, 2019 and 2018, $1,948 remained payable. These fees are included in accounts payable on the Balance Sheets.

NOTE 5-RELATED PARTIES (CONTINUED)

The Company entered into a perm loan payable with the Managing Member in the amount of $169,620, to fund construction of the property and provide long term financing after construction. The loan payable accrues interest at 4% and is payable in monthly installments of $810. At December 31, 2019 and 2018, the outstanding loan balance was $153,115 and $156,634 and accrued interest was $352 and $360, all respectively. The Managing Member perm loan is included in mortgage notes and loans payable on the Balance Sheets.

Incentive management fee

In consideration for the efficient management of the Company and business, the Company shall pay to the Managing Member an annual non-cumulative incentive management fee of 100% of cash flow remaining after certain payments, as defined, to the extent that the Company has net cash flow available for payment of such fee. In no year will the incentive management fee exceed 12% of gross rental receipts. For the years ended December 31, 2019 and 2018, no incentive management fee was earned.

Managing Member loan

The Managing Member advanced funds in the form of a loan to pay a portion of the costs incurred in connection with the construction of the property. The loan accrues interest at 2.37% and is payable from available cash flow. During the years ended December 31, 2019 and 2018, accrued interest of $3,301 and $3,288 was capitalized into the principal and $-0- and $7,746 were repaid, all respectively. At December 31, 2019 and 2018, the outstanding loan balance was $137,598 and $134,297 and accrued interest was $3,261 and $3,301, all respectively. The Managing Member loan is included in mortgage notes and loans payable on the Balance Sheets.

NOTE 6-MEMBERS' EQUITY (DEFICIT)

Except as otherwise provided in the Operating Agreement, all net profits, net losses and each item of income, gain, loss, deduction and/or low income housing tax credit shall be allocated 99.99% to the Investor Member and .01% to the Managing Member.

As of December 31, 2019, the Investor Member has contributed $2,281,374, per the Operating Agreement.

In accordance with the Operating Agreement, the Special Member has made a capital contribution of $10, and the Managing Member has made a capital contribution of $10.

NOTE 7-CONTINGENCY

The Company expects to generate an aggregate of $2,660,180 of low-income housing tax credits ("Tax Credits") issued by Nebraska Investment Finance Authority. Generally, such low-income housing credits become available for use by its Partners pro-rata over a ten-year period that began in 2014. Because the Tax Credits are subject to complying with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized and failure to meet all such requirements may result in generating a lesser amount of Tax Credits than the expected amount. Also, low-income housing tax credits are contingent on the Company's ability to maintain compliance with Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct non-compliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the capital contributed by the Investor Member, which could reduce the fair value of the property.

Extended Use Agreement and Declaration of Restrictive Covenants

The Company has entered into an Extended Use Agreement and Declaration of Restrictive Covenants with the Nebraska Investment Finance Authority, which restricts the use of the Property to low-income and very low-income families, as defined, for twenty years after the close of the compliance period, as defined.