



transformations

2 0 0 5 A n n u a l R e p o r t



transformations

This year's theme of **transformation** comes from the idea that MHEG is not only going through a stage of change and growth within our organization, but that we are **transforming** our mission into a reality. We are changing the lives of today for a better tomorrow through quality affordable housing. With the help and support from our investors, lenders, developers, contractors and property managers we can **transform** an empty piece of land or an existing property into a quality and affordable home.

Contents



- Message from the President.....2
- Message from Investor3
- Equity Fund of Nebraska5**
- Message from EFN Executive Vice President.....6
- Message from EFN Developer7
- Investors to Date.....8
- Equity Raised to Date.....9
- Actual vs. Projected Return.....10
- EFN Fund XI11
- MHEG Board/EFN Management Committee15
- MHEG Staff16
- Iowa Equity Fund17**
- Message from IEF Executive Vice President.....18
- Message from IEF Developer19
- Investors to Date.....20
- Equity Raised to Date.....20
- Actual vs. Projected Return.....21
- IEF Fund II.....22
- IEF Management Committee.....24
- IEF Staff.....24
- Kansas Equity Fund25**
- Message from KEF Executive Vice President26
- Message from KEF Developer27
- Investors to Date.....28
- Equity Raised to Date.....28
- Actual vs. Projected Return.....29
- KEF Fund III30
- KEF Fund IV32
- KEF Management Committee35
- KEF Staff.....35
- Oklahoma Equity Fund37**
- Message from OEF Executive Vice President.....38
- OEF Management Committee.....39
- OEF Staff.....39

I hope all had a great 2005. As I write my annual message in early 2006, thinking back on 2005 just becomes a blur. Not because things from 2005 are not worthy to remember, but 2006 has started off with such a bang that we've had to move on quickly. I think that is the nature of this industry, which is good for affordable housing.

In 2004, we had the theme of getting back into focus what Midwest Housing Equity Group started early on. The MHEG staff has done a tremendous job of regaining that focus. Yes, we are a growing company but we also know that every step we take impacts the ability to house people that need decent affordable housing. As a result, we had another record year in 2005; we surpassed the \$330 million mark in equity placed since our inception in 1993 and the 3,300 unit mark in total units. None of this would have been possible without the help and support from the MHEG staff. You know what they say, every great leader surrounds themselves with greater people (not saying I'm a great leader – just using the analogy). I'm glad for having such great people surround me, other than having to admit, they know so much more than me.


operate in all four states as one company, Midwest Housing Equity Group, with one common mission of changing lives for a better tomorrow by promoting the development and sustainability of quality affordable housing. We still do business as Equity Fund of Nebraska, Kansas Equity Fund, Iowa Equity Fund and Oklahoma Equity Fund. We continue and pledge to continue to operate each state as independently as possible. We feel that each state has its own characteristics and deserves its own identity.

Some people ask me what my role is now that we have made all these changes. With Thomas Judds, EVP for Nebraska operations; Bill Caton, EVP for Kansas operations; Dan Garrett, EVP for Iowa operations and Jamie Wilson, EVP for Oklahoma operations doing such a great job, why do they need me? All I can say is that my job is to keep them heading in the right direction. Others might say this is more like herding cats with these four! Truthfully, MHEG couldn't make it without them or any of the staff.

As we continue our transition into the future, I have to thank the MHEG Board of Directors and all the Sub-Committees that help us in the four states. You all are a great group; we appreciate your expertise and wisdom. We also say thank you for letting us keep our creativity. This great staff has some wonderful ideas and you all have helped us make those dreams realities.

Thank you also to our investors, developers, lenders, property managers and construction contractors. We cherish the relationships we have with this group. These relationships help all of us build a partnership that goes well beyond MHEG just being a tax credit syndicator. We mean it when we say, thanks for being part of the MHEG family.

As I wrap up this message, I say thanks again to all of you but I also must say that while you all are critical to the success of MHEG, it is the faith and trust we put in God our Father for his blessings on us. To think that we do this all on our own would be a huge mistake. I know I feel blessed every day just having the ability to work for this great company and work with all of you.



Jim Rieker
President



2005 also brought about the addition of Oklahoma to the MHEG family. We started very small and felt it would be a long start up process with so much competition in the tax credit syndication market. We did have tremendous support from the Oklahoma Housing Finance Agency and I especially want to thank Dennis Shockley and the rest

of the OHFA staff for their assistance. The only thing we did underestimate was the reception we received in Oklahoma. The deals are coming in much quicker than we thought and as a result, we have had to increase our fund size and our projections for 2006. Part of that success is the addition of Jamie Wilson to our staff, as the Executive Vice President for Oklahoma Operations. His office is located in Oklahoma City and he comes to us with a tremendous background in affordable housing.

With the addition of Oklahoma to our family, we decided to make some additional changes to the company. We had been operating as wholly owned Limited Liability Companies in Iowa and Kansas, but were operating as MHEG in Nebraska and Oklahoma. To make things simpler, we dissolved all of the LLC's and decided to



GARY R. PETERSEN
Vice President

Mr. Jim Rieker
President
Midwest Housing Equity Group, Inc.
13057 West Center Road, Suite 20
Omaha, NE 68144

Dear Jim:

Although it doesn't seem that long ago, in 1993 we were invited to participate and invest in a new venture formed to address a pressing need throughout Nebraska and the Midwest – the lack of affordable housing. Jim Rieker had just resigned his position at the Nebraska Investment Finance Authority to take on a new challenge for raising equity in support of affordable housing through a unique vehicle, the newly formed Equity Fund of Nebraska.

Our Bank (formerly Commercial Federal Bank), with its longstanding tradition and commitment in support of housing, invested in this very first Fund. We certainly could not have predicted its future success, or the success of many future Funds, and the tremendous impact this organization would make in the lives of people in need of affordable housing.


Today, Bank of the West is proud of our record as being the only investor to have invested in each and every Fund offered by MHEG in Nebraska, Kansas, Iowa, and Oklahoma. And equally proud of the truly dedicated and hard working people at MHEG that provide the leadership and skills required to achieve this elevated level of success.

But our commitment to MHEG is not solely based on its record of performance or its effectiveness, but rather it is also in recognition of MHEG's ability to respond to diverse housing needs in many areas throughout the Midwest. MHEG has recognized opportunities in new markets and managed its growth internally in order to fulfill those needs, without disruptive effect. In particular, we support its investments in housing for many underprivileged persons, including families, the elderly, and persons with special needs, often in geographic areas lacking any type of affordable housing. As a result, we shall continue to partner with MHEG due to its effectiveness in providing affordable housing to low and moderate income persons in the communities served by Bank of the West.

For MHEG, it has been a record year, and also a year of transition with the addition of the Oklahoma Equity Fund. Much of the credit for these achievements is due to the superior efforts of the staff at MHEG, including the new additions to staff this year. The growth has been significant, but it has occurred in a manner that balances the importance of creating additional housing with adherence to investment objectives and parameters. We commend the employees of MHEG for their contributions in a year of rapid change, innovation, and high achievement.

At Bank of the West, we are pleased to partner with MHEG in support of housing initiatives throughout the Midwest that truly make a difference in people's lives and build stronger communities. We are confident that MHEG shall "make a difference" in the years ahead as well.

Sincerely,



Gary R. Petersen
Vice President

transformations



EQUITY FUND OF
NEBRASKA

As I reflect on the events of 2005 for purposes of this letter; I realize it has been one year since I've accepted the position of Executive Vice President for Nebraska operations. Personally speaking, this in itself is the most significant event of 2005. Having said this, I would like to share some of my journey with you.

In offering me this position, Jim gave me a great opportunity for leadership and responsibility. One, quite honestly, that I wasn't sure I could fulfill. It has been a year of growth and moving away from comfort zones for me.



In this capacity, I have been blessed and touched to be able to spend time in the communities in which we are investing, seeing first hand how the lives of individuals, families and communities are positively influenced by our work. Recently I drove through Harvard, Nebraska a town where safe and decent affordable housing is so badly needed. It inspires me to make a difference for as many Nebraska families as we can.

Through my experiences this year I have gained a new understanding of just how basic the need for housing is. I, personally, often take my own home for granted.

Seeing the housing needs that are present in our state, has transformed my thinking not only to be more diligent in counting my own blessings, but to continue to look for opportunities to provide those same blessings to others.

In closing, I would like to thank our investors, board members, staff, developers and housing partners. Each one has played a part in MHEG's success and I value the relationships sincerely.

Thomas Judds
Executive Vice President

Mesner Development Co.

Clifford F. Mesner
Kathryn L. Mesner

P.O. Box 335 • 1635 16th Street
Central City, Nebraska 68826
(308) 946-3826

FAX (308) 946-3827
cliff@mesnerlaw.com
kathy@mesnerlaw.com

Dear Jim:

On behalf of Mesner Development Co., I would like to congratulate Midwest Housing Equity Group (MHEG) on another very successful year. We are pleased and proud to be one of MHEG's partners in providing high quality affordable housing to persons in Nebraska and Kansas.

Our company has worked with Low Income Housing Tax Credit (LIHTC) developments for 15 years. We are committed to this industry and to providing high quality affordable housing to persons in need. Because we know MHEG shares these commitments, we feel our organizations have developed a strong long term relationship.

Over the years we have come in contact with many housing professionals. We often get calls from other developers, nonprofit housing organizations, lenders and syndicators involving a story about an LIHTC project that just didn't go quite the way it was planned. As practicing attorneys I think we understand, perhaps better than many other developers, just how complicated this industry is. On the one hand, this complexity means we are continually challenged by what we are doing. On the other hand it means there is lots of room for costly errors.

We appreciate that MHEG as an entire organization understands the risks and knows there can be no short cuts taken in this industry. When we work with MHEG we know we get long term solid financial planning for our projects. MHEG's in house staff, associate lending organization, legal team and accounting experts do everything possible to strengthen and support our financial plan. When we work with MHEG we know we will have a team behind us making sure we understand the many changing rules and regulations for development and certification of an LIHTC project. And long after we are done with the project, we know that our property managers and non-profit partners will have immediate technical support from MHEG when those inevitable tenant certification and compliance problems arise. In short, when we work with MHEG we know we will get the help we need to ensure the lasting success of our projects. While we feel very confident in the organizational support we receive from MHEG, if someone asked me why we have developed such a long term relationship I would have to say it is the people at MHEG. Jim, you and your staff are truly remarkable! We consider each of you our teammate and partner, not just business associates. Everyone at MHEG is personable, highly professional and truly committed to the mission of providing high quality affordable housing. Even when you tell us something we don't want to hear, we know it will come with constructive advice, not negative assessment. I can't tell you how many times our staff and our managers have remarked about the positive way they are helped, supported and encouraged by the people at MHEG. You and your staff make working in this crazy industry well worth the effort.

I hope everyone has time to sit back for a moment and celebrate the successes of the past year. Some times our lives move so quickly we fail to realize just how much we accomplish. In MHEG's case those accomplishments are truly amazing and mean so much to the persons receiving the benefit. We are happy to have been a small part of the year's work and we look forward to our continuing partnership with MHEG.

Congratulations and best wishes.

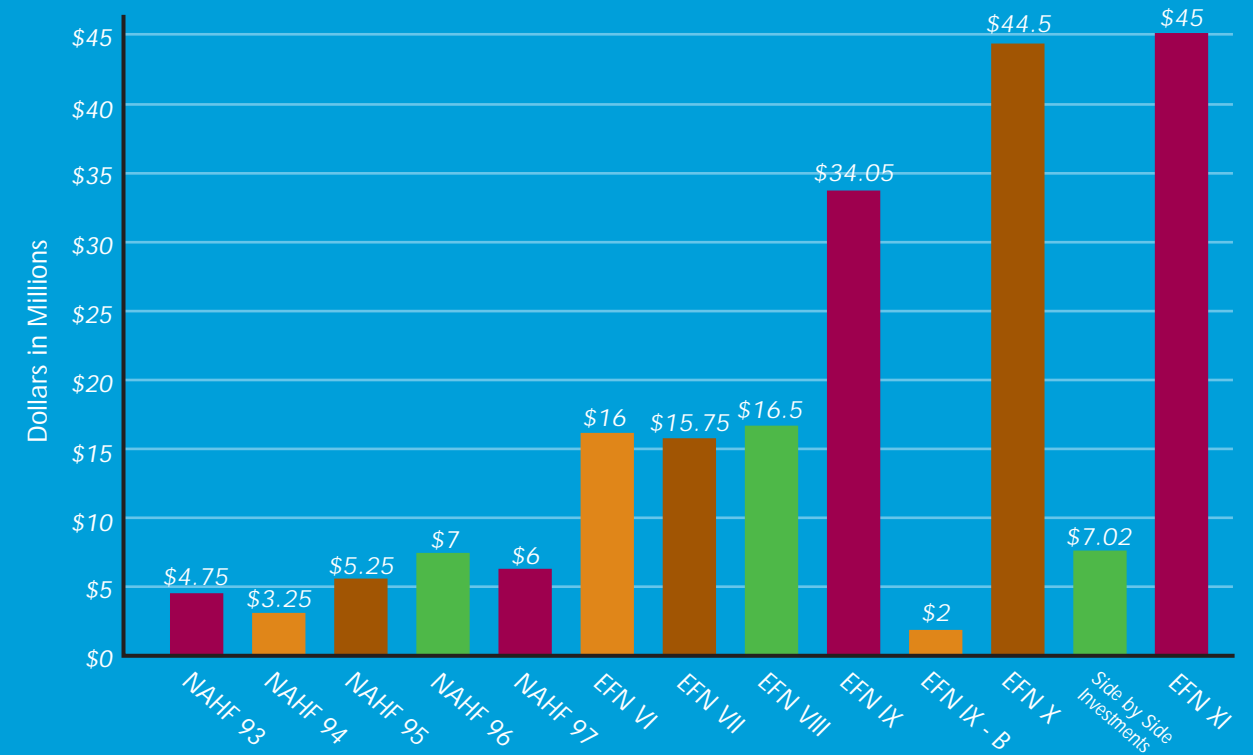
Sincerely,

Kathryn L. Mesner, President
Mesner Development Co.

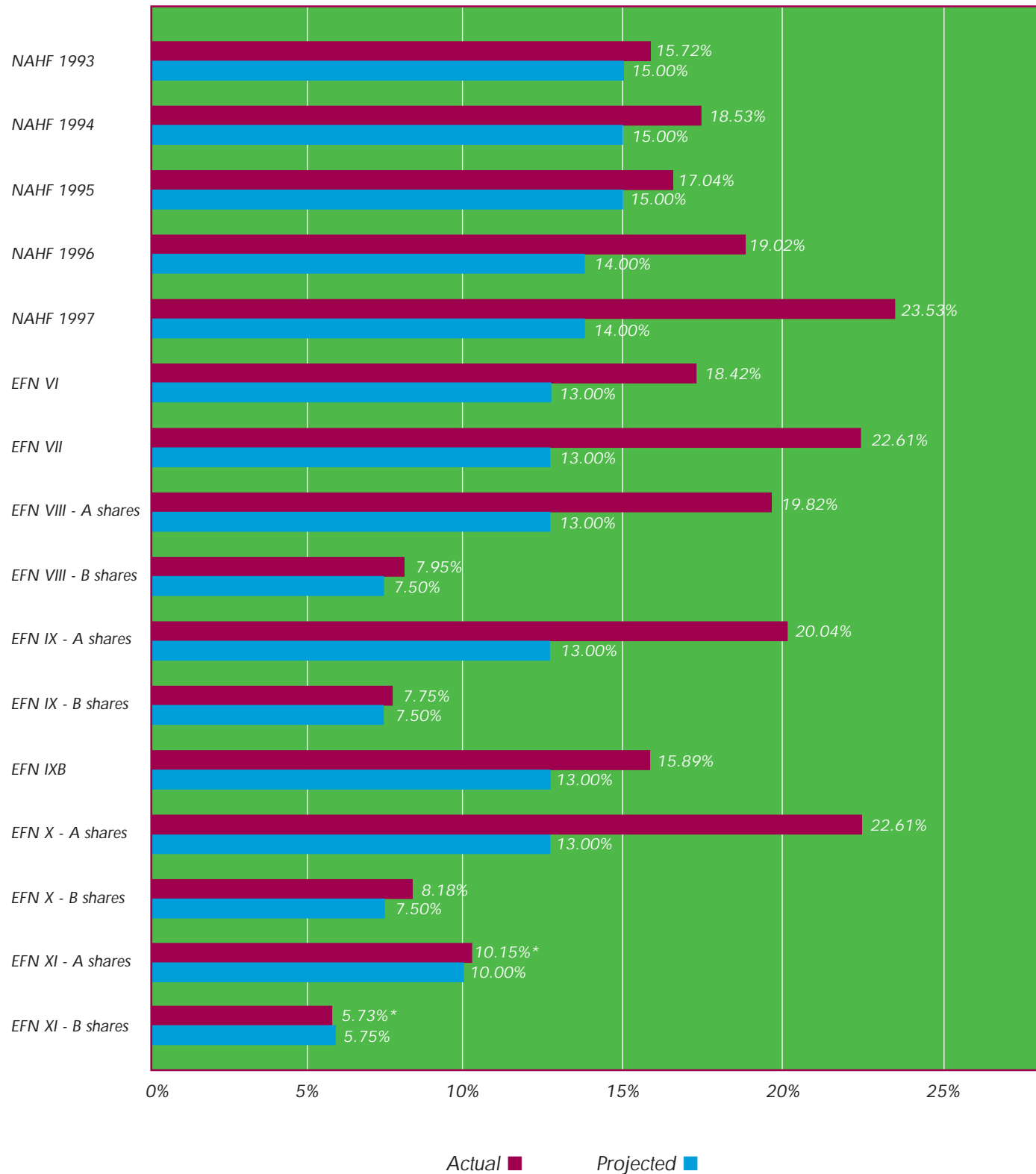
Investors as of 12/31/05

	NAHF 1993 LP	NAHF 1994 LP	NAHF 1995 LP	NAHF 1996 LP	NAHF 1997 LP	EFN VI LP	EFN VII LP	EFN VIII LP	EFN IX LP	EFN IX-B LP	EFN X	EFN XI
Alltel (formerly Aliant Communications Co.)												
Ameritas Life Insurance Corporation												
Bank of America Community Development Corp.												
Bank of the West (fka Commercial Federal Bank)												
Berkshire Hathaway, Inc. (OBH, Inc.)												
Behlen Mfg. Company												
Cargill Financial Service Corporation (Crosstonka III)												
Central States Health & Life Company of Omaha												
Commerce Bank, N.A.												
Consolidated Companies												
Country Bank Shares												
Equitable Federal Savings Bank												
Fannie Mae												
Farm & Home Insurance Agency, Inc.												
Farmers and Merchants Investment, Inc.												
First State Bank												
First State Bancshares												
Freddie Mac												
Home Federal Savings & Loan of Grand Island												
Info USA (fka American Business Information, Inc.)												
Jefferson Pilot (fka The Guarantee Life Companies)												
Level 3 Communications (fka Kiewit Diversified Group, Inc.)												
Marine Bank												
Mutual of Omaha Insurance Company												
National Education Loan Network, Inc. (NelNet, Inc.)												
Pinnacle Bank												
Qwest (fka U S WEST, Inc.)												
Tier One Bank (fka First Federal Lincoln Bank)												
US Bancorp Community Development Corp.												
Wells Fargo Bank Nebraska, N.A. (fka Norwest Bank)												

Equity raised as of 12/31/05



Actual vs. Projected Return



* All projects in Fund currently in construction. Return subject to change as Fund is closed out.

Equity Fund of Nebraska XI, L.P. is a \$45 million Fund. The Fund as of 12/31/05 has invested in 10 projects combined of multi-family and elderly properties.



**Livestock Exchange Building, LLC
Omaha, NE**

The Stockyard Redevelopment Plan for the Livestock Exchange Building, LLC consisted of making 102 apartments, two ballrooms, and commercial space for OneWorld Community Health Center.

The affordable apartments consist of 48 one-bedroom apartments and 54 two-bedroom apartments. The apartments are truly rich with amenities including a washer/dryer, dishwasher, microwave, range and refrigerator. The residents have a secured entrance, community room and fitness facility on site.

The Livestock Exchange Building has two magnificent ballrooms that have been restored to their past historic grace. Both are located on the 10th floor with a spectacular view of the city, and have 22-foot ceilings with an elegant Romanesque and Northern Italian Renaissance Revival style.

The OneWorld Health Center, occupying the commercial space of the building, has a mission of partnering with communities to provide culturally respectful, quality health care to the underserved. The facility is 40,000 square feet of medical, dental, pharmacy, professional and enabling services for residents of the Livestock Exchange Building as well as the surrounding community.

The renovation of this grand old building into a true mixed-use development of commercial, residential and assembly is a glowing beacon to the continuing rebirth of the South Omaha Historic District.



Strehlow Housing Partners, L.P.
Omaha, NE
Multifamily



Terrace Heights Village II, L.L.C.
Auburn, NE
Senior



Keystone Crown I, L.P.
Omaha, NE
Multifamily



The Nathan Limited Partnership
Omaha, NE
Multifamily



Sutton Horseshoe Bend Villas, LLC
Sutton, NE
Senior



North Omaha Affordable Homes, L.P.
Omaha, NE
Multifamily



5217 S. 28th Street LLC
(Stephen's Center)
Omaha, NE
SRO



Apple River Crown, LLC
Auburn & Nebraska City, NE
Multifamily

Villa de Sante II LP
Omaha, NE
Multifamily

Under Construction

MHEG Board/
EFN Management Committee



Top Row from Left: Barry Sandstrom, Dick Hoiekvam, Dick Schenck, Jon Hrabe
Bottom Row from Left: Gary Petersen, Sister Marilyn Ross, James Laphen



Rick Jackson



Rick Krueger

MHEG Staff



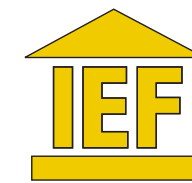
Bottom Row from Left: Becky Christoffersen, Tom Stratman, Rob Woodling, Shannon Foster, Keely Burns

2nd Row from Left: Jennie Lattimer, Shannon Johnson, Shannon Powers, Laurie Stephenson, Bill Caton

3rd Row from Left: Jamie Wilson, Jas Heye, Cindy Koster, Cathy Smith, Shellie Vandeman

4th Row from Left: Jim Rieker, Tami Savard, Chris Pangkerego, Staci Williams

5th Row from Left: Jason Main, Dan Garrett, Thomas Judds



IOWA
EQUITY FUND

When posed with the task of preparing the annual summary for the Iowa Equity Fund, many thoughts flooded through my mind. The opportunity to use the theme of transformation seemed so appropriate considering what the staff, the board members, and investors went through in 2005.

IEF started the year off with an interim ED and a much traveled Construction Manager charged with the task of transforming an equity fund that closed only one project in eighteen months, and had no foreseeable projects forthcoming in the immediate future.



With the move to a new office, a renewed vigor in getting deals occurred. Developers were courted, doors previously closed were opened; relationships once seen as unsalvageable were renewed. IEF proceeded to close 3 deals in 2005 and then signed on with 12 deals for the 2006 tax credit round (5 were awarded credits), a new record.

With the help of Jon Hrabe, Jim Rieker, a patient staff, an incredible supportive board and investors, IEF is now a force to be reckoned with. The fund that people were expecting to go away is now the fund that people turn to when they want answers or ideas on projects, and most importantly when they want the service that no one else can provide.

What has been proven time and time again to me is the level of commitment shown from everyone involved in making sure that the Iowa Equity Fund succeeds. With their continual assistance and dedication, IEF was able to transform into a valuable fund. So I would like to thank all of our investors, developers, lenders and staff for their help and hard work in making 2005 a remarkable year and look forward to the future to come.

Dan Garrett
Executive Vice President
Iowa Equity Fund

AEQUITAS DEVELOPMENT, INC.

6145 NW 86th STREET JOHNSTON, IA 50131
515.727.1796 OFFICE 515.727.1707 FAX

To Whom It May Concern:

My name is Jon A. Coons, and I am the President of Aequitas Development, Inc., a small Des Moines, Iowa based low income tax credit housing developer. The following is a brief account of our experience working with the Iowa Equity Fund, a division of the Midwest Housing Equity Group.

Aequitas Development, Inc. first started working with Dan Garrett of the Iowa Equity Fund in Spring of 2005 after receiving an allocation of Federal tax credits for our Northpark Apartments, located in Storm Lake, Iowa. Being new to low income housing development, the process seemed quite overwhelming. The complexity of a small-community, small-scope project, coupled with subsidy layering of USDA 515 Rental Assistance proved to be quite challenging. Throughout the entire process, however, IEF's assistance and leadership proved integral to bringing the project to fruition. When there were issues with permanent financing, IEF was there; when there were issues with the USDA transfer, IEF was there. Every step of the way, I grew to know that we had established a true partnership, far beyond what my expectations of a tax credit Syndicator.

That partnership experience, we discovered, extends to the tax credit application process as well. For the 2005-06 LIHTC round in Iowa, the Iowa Equity Fund worked along side the development team, assisting in evaluating acquisition/ rehabilitation targets and touring projects to help assess capital needs. During the preparation of our applications, the underwriting oversight provided by Dan Garrett and Becky Christoffersen ensured that application errors were zero to marginal. Having that second and third "set of eyes" reviewing each application provided Aequitas Development, Inc. with the competitive edge we were looking for.

Working with the Iowa Equity Fund has proven to be a very positive experience for Aequitas Development, Inc. In searching for a Syndicator, we found a Partner, and within that partnership we found a true and indispensable asset to our Company.

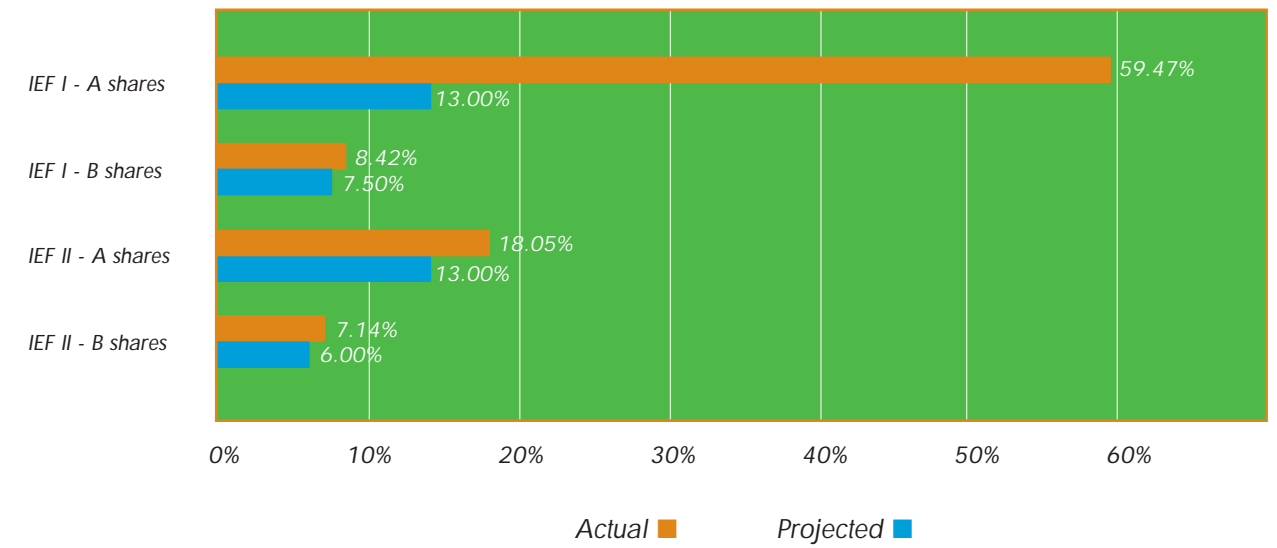
Kind regards,

Jon A. Coons, President
Aequitas Development, Inc.

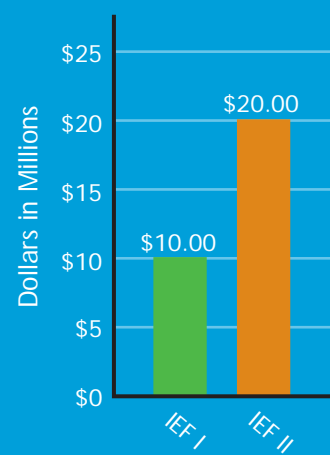
Investors *as of 12/31/05*

	IEF I	IEF II
Fannie Mae	●	●
Bank of the West (fka Commercial Federal Bank)	●	●
Wells Fargo Community Development Corp.	●	●
Maquoketa State Bank	●	
Dubuque Bank & Trust Community Development Corp.	●	
The First National Bank of Waverly	●	●
The Grundy National Bank of Grundy Center	●	
Central State Bank	●	
Principal Financial Services		●
Farmers and Merchants		●

Actual vs. Projected Return



Equity *raised as of 12/31/05*



Iowa Equity Fund II, LP is a \$20 million Fund that had 1 project close in 2004 and has invested in an additional 3 projects this past year. There are several projects slated to close in 2006.



Adel Assisted Living Apartments, L.P
Adel, IA
Assisted Living



Cedar Park Preservation, LP
Muscatine, IA
Multifamily



North Park Apartments, LLP
Storm Lake, IA
Multifamily

adel is the fourth project to be done with Community Housing Initiatives and we are confident this project will be as much a success as the others currently in our portfolio. It is collaboration between the leading non-profit housing developer, a non-profit medical service provider and community leaders to provide for housing for the growing sector of the elderly population.

This property is located in the City of Adel, which is in Dallas County, one of the fastest growing counties in the nation due to its proximity to nearby Des Moines.

Adel was designed for senior citizens who need daily assisted living. Services will include assistance for healthcare and medication, as well daily living activities. Many future tenants will most likely hail from Adel Manor, a neighboring ground floor senior housing apartment complex, as they age and need more care.

This property consists of 24 one-bedroom apartments. And will also provide the amenities, such as a dining and media room, club house, access to public transportation, central air/heat and salon.

IEF Management Committee



Top Row: Jim Rieker

Bottom Row from Left: Richard Schenck, Chris Hensley, Jon Hrabe



John Sorensen

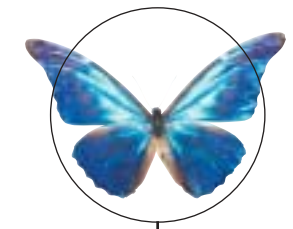


Tom Hanafan

IEF Staff



Dan Garrett



KANSAS
EQUITY FUND

As I reflect on the events and accomplishments of 2005, I keep thinking to myself that it seems like I just did this little exercise for 2004. And to keep this letter consistent with the theme of this annual report – transformation – I will focus on the changes that have occurred at KEF. I will keep digressions to a minimum to the best of my ability, but I assure you there will be a few.

Structurally, the biggest change, which is also the littlest change, actually occurred on January 1, 2006, although we had been working toward this transformation for most of the latter part of 2005. What we did is drop the “L.L.C.” off of Kansas Equity Fund and we are now legally Midwest Housing Equity Group Inc. d/b/a Kansas Equity Fund. The good news is that investors in Kansas Funds can now look to the full strength of MHEG to back these individual funds. The bad news is that we had to spend some money on legal fees and name changes on office supplies. The good news is that we will save money going forward on audit fees. The bad news is I have to explain the change to people to whom the change is transparent except that they see a change in the name and my title.



Probably the biggest transformation at KEF in 2005 was that we now have enough properties in our portfolios in various stages of development, construction, lease-up, stabilization and maturation that it takes much more energy and time to administer and watch over them. As of December 31, 2005, we had 32 projects on board and we plan on adding an additional fifteen or so per year. The MHEG asset management staff provides excellent support and oversight services, yet we all know the hands-on approach from the local office adds comfort and resources to the asset management team.

We are also seeing more opportunities to transform existing properties into renovated tax credit units as much of the subsidized multifamily housing stock of the 1960s and 70s is in dire need of renovation. While many of these properties are still partially or fully occupied, they do not provide decent, safe, accessible and affordable housing for our lower income families and elderly citizens. By the way, in 2006, I become age-eligible to occupy an elderly/senior tax credit unit.

One perfect example of this kind of property is the Paradise Plaza Apartments, an original 172 unit troubled HUD “project” in east-central Topeka, built circa 1970, that had many, many owners and managers that allowed this project to get in such disrepair that less than half of the units were inhabitable and you could justifiably call it a slum. Then came along an African-American minister, Daniel O. Jackson, who co-pastors a neighboring church. Elder Jackson decided to tackle this property and improve the living conditions of his neighborhood, which is predominately minority and low income families. This two-phase, \$9 million dollar project is transforming this slum into 132 units of quality, affordable and safe housing and is in its final stages of renovation. The apartments fill up immediately when they are ready to occupy and has received a national award for improving energy efficiency. This is remarkably a tremendous success story. As Elder Jackson said, “Miracles continue to happen and God still uses people to help people.” There are a couple of pictures of “before” and “after” on a following page. Judge for yourself.

Well, there you have it. That's what has been transforming at KEF in 2005. We have definitely been busy. And to end on an uplifting spiritual note, I am compelled to say that with all the good transformation going on at MHEG this past year, it does not even begin to compare to how our Heavenly Father can transform ordinary lost sinners into His children through His love and the sacrifice of His Son, Jesus. Now that's transformation!

Bill Caton
Executive Vice President

MANSKE & ASSOCIATES, L.L.C.

April 12, 2006

Mr. William F. Caton
Kansas Equity Fund, L.L.C.
3706 South Topeka Boulevard
Suite 408
Topeka, Kansas 66609

Dear Bill:

We would like to take this opportunity to express our appreciation to the Kansas Equity Fund for its invaluable assistance in our effort to provide decent, affordable rental housing throughout the state. Although our company has developed over sixty properties utilizing Federal Housing Tax Credits during the past sixteen years and currently has seven more applications pending with the Kansas Housing Resources Corporation, your involvement was absolutely critical in the successful development of several of the properties – especially in rural areas and those targeted for residents with special needs.

Please allow us to list just a few properties which would have been impossible to complete without the Kansas Equity Fund's guidance and support: Northview Village in McPherson (14 units for developmentally disabled individuals completed in November, 2001); Coventry Court in Hutchinson (12 units for physically and developmentally disabled individuals completed in August, 2003); Northfield Village in Everest (8 units for elderly citizens completed in November, 2004); Walnut Court in Hutchinson (24 units of multi-family housing and 16 units of transitional housing completed in December, 2004); and Crown Homes in Parsons (12 single family "rent-to-own" homes completed in February, 2006).

We truly value our relationship with the Kansas Equity Fund and look forward to working with you, your staff and investors for many years to come. Speaking on behalf of the many Kansas communities with which we have had the privilege of working and our residents whose quality of life has been immensely improved because of your creative leadership and financial support, please accept our sincerest gratitude.

Best regards,

MANSKE & ASSOCIATES, L.L.C.

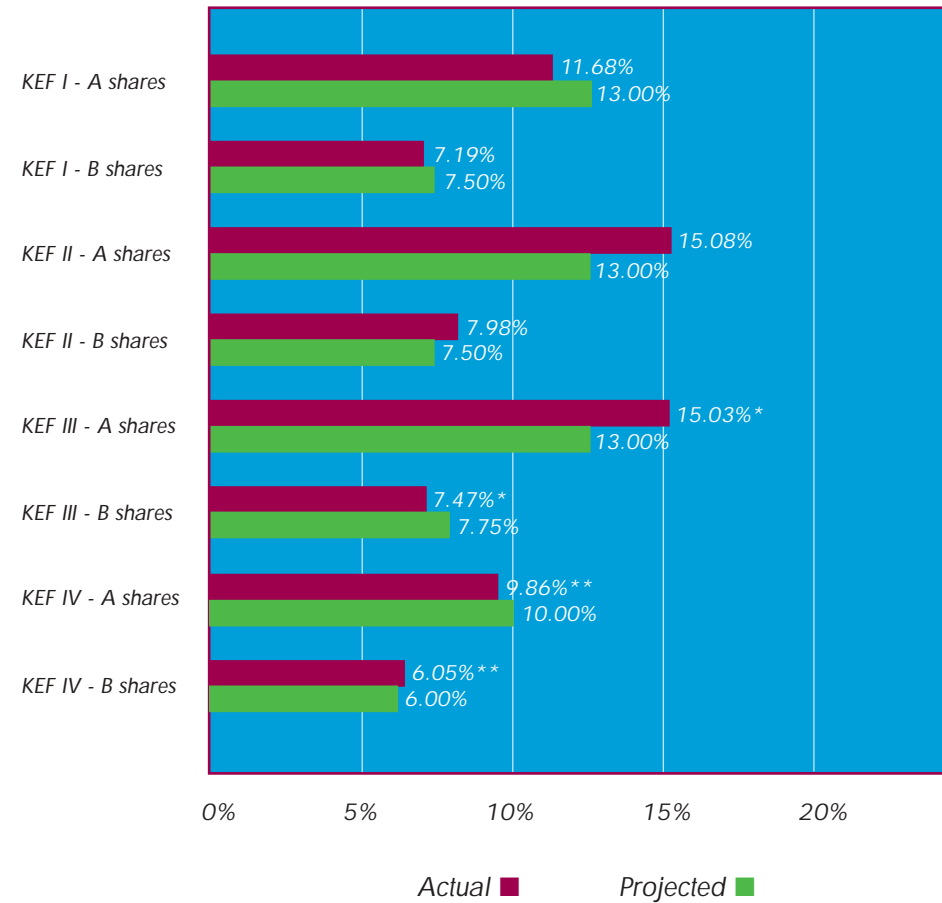
Jack Manske

4516 NORTH IRONWOOD CIRCLE • WICHITA, KANSAS 67226-3370
TELEPHONE & FAX 316-630-8344
manske@sbcglobal.net

Investors as of 12/31/05

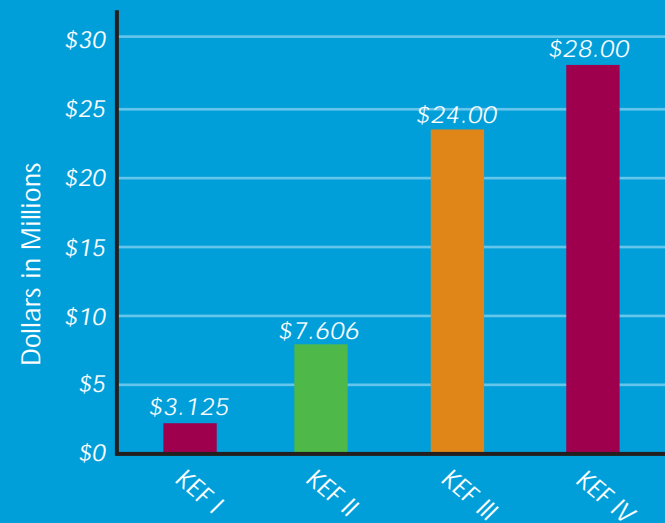
	KEF I	KEF II	KEF III	KEF IV
Capital City Bank		●		
Capitol Federal Savings Bank		●	●	●
Central National Bank	●			
Commerce Bank N.A.	●	●	●	●
Bank of the West (fka Commercial Federal Bank)	●	●	●	●
Fannie Mae	●	●	●	●
Farmers & Merchants Investment, Inc.		●	●	●
First National Bank of Hutchinson	●			
First National Bank of Olathe		●		
Freddie Mac			●	●
Industrial State Bank	●	●		
Intrust			●	●
Landmark National Bank	●	●		
The Mission Bank	●	●	●	
UMB Bank				●
Valley View Bank	●	●	●	

Actual vs. Projected Return



* IRR does not reflect credit adjusters yet to be collected.
 ** All projects in Fund currently in construction. Return subject to change as Fund is closed out.

Equity raised as of 12/31/05





KEF III: Kansas Equity Fund III, LP is a \$24 million Fund that had 10 projects close in 2004 and has invested in an additional 5 projects this past year.

Before



After



Paradise Plaza I, LLC
Topeka, KS
Multifamily

Paradise Plaza I, LLC is the first phase of a rehabilitation program sponsored by a local Topeka pastor, Dan Jackson. This property built in the 1970's had been handled by numerous owners and managers, and the buildings were showing the negligent care.

The first phase consists of 69 affordable multifamily units with one manager's unit located within 13 buildings. The units consist of 36 two-bedroom apartments that rent for \$380 and 33 three-bedroom apartments that rent for \$405.

The property provides the following amenities for all units: parking, washer/dryer hookups, laundrymat, storage, access to office complex/clubhouse with a computer center and internet/fax access. The property also offers social development classes and English to Spanish classes, along with a paved walking path and green areas.

The community surrounding Paradise Plaza has taken great pride in the renovation of this property. Paradise Plaza has provided an opportunity for many low income families to have a top-quality home of their own. Phase II will be completed in 2006.



Delaware Highlands Assisted Living, LLC
Kansas City, KS
Assisted living



Ivory Street Apartments, LLC
Oakley, KS
Multifamily



Maplewood Townhomes, LLC
Hutchinson, KS
Senior



Glenn Oaks City Centre, L.P.
Topeka, KS
Multifamily

Kansas Equity Fund IV, LP is a \$28 million Fund that as of 12/31/05 has invested in 7 projects including single-family, multi-family and elderly properties. There are several projects slated to close in 2006.



Crown Homes of Parsons, L.L.C.
Parsons, KS
Single family

Crown Homes of Parsons, L.L.C. is a rent-to-own project is sponsored by the City of Parsons Housing Authority and has tremendous community support. Although Labette County has had declining population since the farm crisis in the 1980s, Parsons has been stable and has a decent local economy with the city planning and working on more employment opportunities.

The property consists of 12 newly constructed single family units scattered through out Parsons. Three of the units will be at 50% of Labette County's area median gross income ("AMGI") with the other nine units at 60% of Labette County's AMGI. The proposed unit mix will consist of three 3-bedroom homes that will rent for \$395/month and nine 3-bedroom homes that will rent for \$445/month.

Each unit has the following amenities: central air/heat, refrigerator, dishwasher, garage with opener, storage, washer/dryer, and a balcony/patio. The units are also located within just a few blocks of local schools and a grocery store.



Walnut Creek Apartments, LLC
Great Bend, KS
Senior



Garden at Flint Hills, LP
Manhattan, KS
Multifamily

West Crest, LLC
Clearwater, KS
Senior

Under Construction



Walnut Glenn Apartments, LLC
Great Bend, KS
Senior



Goddard Senior Housing Apartments, L.P.
Goddard, KS
Senior



Paradise Plaza II, LLC
Topeka, KS
Multifamily

KEF Management Committee



Top Row from Left: Bob Arthur, Mark Dennett, Pat Michaelis, Michael Scheopner
Bottom Row from Left: Rick Jackson, Gary Petersen, Jim Rieker, Andy Jetter

KEF Staff



From Left: Staci Williams, Bill Caton, Jennie Lattimer

transformations



OKLAHOMA
EQUITY FUND

during your lifetime, there are many opportunities for that famed term "Leap of Faith" in which you can choose one path or another. In 2005, one of those opportunities took place in Oklahoma; the creation of the Oklahoma Equity Fund. The fund began its roots in Oklahoma in April and I was hired in November. After spending the past 18 years in the banking industry concentrating on Community Development and Community Investment throughout Oklahoma, the decision to change jobs was my "Leap of Faith."

In taking this position as the Executive Vice President for the Oklahoma Equity Fund, I was charged with two great tasks. One was to raise an initial \$15 million for OEF I and the other was to find a few good projects on which to spend that money. Let's just say that both tasks are easier said than done. Within a couple of months, MHEG management and Oklahoma Management decided that to cover the great number of projects in the pipeline, the \$15 million target was inadequate. So, we raised the initial offering to a mind boggling \$25 million; all this within my first two months on the job. With that amount now set in stone, the task of raising funds for OEF I is well under way.

In November our pipeline started with one project located in Broken Bow, a community known for enjoying rural life to the fullest. The setting of the 26 homes that make up that development in Broken Bow is a picture directly out of Field & Stream magazine, with homes being placed where a forest once stood. This project's closing is scheduled for early 2006. However, since I began my tenure as the manager for Oklahoma, our pipeline of great projects with great developers has steadily increased. And at the writing of this letter, it consists of 18 developments throughout urban and rural Oklahoma. Not once in my wildest dreams did I think that the need for a local tax credit syndicator would be so great.

The initial success of the OEF can be attributed to many things; the least of which has to do with me and more to do with a philosophy of doing business in Oklahoma. These attributes are rock solid in my philosophy and will be the key to any and all success in Oklahoma, they are FAITH, TRUST, DETERMINATION, HONESTY and RELATIONSHIPS. Without all of these present, each developer and each project we touch, success will sit on shaky ground. And, a house built on shaky ground will not last.

The "Leap of Faith" that MHEG took in hiring me to manage Oklahoma was enough for me to take my own "Leap of Faith" in making this operation a success. We all look forward to a great 2006 and a great future of the Oklahoma Equity Fund. If the first couple of months are any indication of future success, we will be around a long, long time.

Jamie Wilson
Executive Vice President
Oklahoma Equity Fund

OEF Management Committee



Roger Beverage



Kenyon Morgan



Gene Rainbolt

OEF Staff



Jamie Wilson

transformations





MIDWEST HOUSING EQUITY GROUP INC.

13057 W. Center Road, Suite 20
Omaha, Nebraska 68144-3723
Phone: 402.334.8899
Fax: 402.334.5599
www.mheginc.com