



MIDWEST HOUSING EQUITY GROUP INC.



TAKING THE *NEXT* STEP
2006 ANNUAL REPORT



With each passing year comes change and growth.

New developments, new objectives, new ambitions.

This year MHEG has been more determined than ever to achieve our mission. In order to make our vision a success there was progress to be made throughout the company.

More people. More support. More work space.

This year MHEG is taking the next step to ensure a better tomorrow through quality affordable housing.

TAKING THE *NEXT* STEP

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Message from the *President*

Somebody said it was 2007 already. Somewhere along the line, 2006 snuck in and went on by. You will see that the Annual Report is labeled, **Taking the Next Step** and 2006 was marked with many new steps that will help strengthen Midwest Housing Equity Group, Inc. into a better company.

At the end of 2005, the company started the transition of operating as one company instead of four separate companies, but at the same time, we wanted to keep each state as independent as possible for the local markets that we serve in each of our four states. With this transition came the need to hire additional staff to meet the objectives we laid out. Our goal was to put the staff where they would be working most. The biggest change was the hiring of Development Coordinators for each state. The entire transition is planned to take a total of two years. With one year under our belt, it is exciting to see that we may actually be able to get this done in 2007. As with any change, there have been a lot of headaches and extra hours put in by all to get us as far as we are today. While tough, it is exciting to see the changes unfold.

During 2006, we moved into a new office building. It is hard to believe we were in our old location for almost 8 years. When it came time to move, it was less difficult to believe after looking at all the "stuff" that needed moved. Regardless, we have room to grow and operate in much more productive space. If you haven't stopped by to see us, please do so. We enjoy showing off our new home.

Another change we did in 2006 was in the release of four new funds - one in each state. The release of the funds isn't new as we have done that in previous years; however, we typically stagger the release of these funds on an as needed basis. We have never had more than one or two funds out at any given time. This year, as timing worked out, we released all four funds on the same day, totaling \$131,000,000. This is the biggest venture we have ever taken on as a company. The upside is that many of our national investors can work on all four funds at once, saving time and legal costs for all parties. The downside, I think staff referred to it as the killing off of the EVPs and me.

Along with the changes in how we raised money, we also received news that our two largest investors were pulling back in the market or getting out of the market all together. Fortunately, the former was true and not the latter but the reduced commitments have left us with big holes to fill in our fundraising. Thankfully, several of the investors have stepped

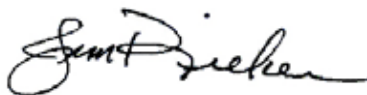
up their investment amounts while we look at renewing old relationships and building new ones.

If you would have told me that we, as a company, would grow from one employee in 1993 to 27 employees today, I would have never believed you. The growth of MHEG and the expansion into other states has been fun to experience and watch. As we grow, the question is always, "What is next?" Right now, we are comfortable in our four states as we continue to grow and establish ourselves in each. The nice thing is there are so many similarities in all four states that it does make it easier to operate. The **Next Step** for us is to refine and perfect what we have to make us the best that we can be and serve those people that need affordable housing the most. That sounds simple but in an ever changing industry, that will be an ongoing feat to accomplish.

Even though I make it sound like 2006 was a blur, it really was an enjoyable and productive year. It isn't every day that you watch a company transform right in front of your eyes. None of this would have been possible without the hard work of the dedicated MHEG staff, MHEG Board of Directors and Sub-Committees in each state. I say it every year that I would put this group of people up against any in the country. Sometimes I hear a few of my counterparts around the country say they feel lucky to have a few good employees but I would consider myself blessed in the great people that I have been surrounded by - all of them, not just a few.

Along with the people mentioned above it is our investors, developers, lenders, property managers and contractors that stick with us time and time again that make us successful. We could not even come close to being able to accomplish what we have without you. You are all great partners to us and we value your continued support. I've always said this industry thrives on the relationships and partnerships we develop, and we appreciate everyone who has created a connection with MHEG.

Thank you all and we look forward to another great year in 2007.



Jim Rieker
President/Chief Executive Officer



As we grow, the question is always,
"What is next?"

MHEG Board



Sister Marilyn Ross
Holy Name Housing



Dick Schenck
Wells Fargo



Gary Petersen
Bank of the West



Steve Bodner
U.S. Bank



Dick Hoiekvam
Retired



Rick Jackson
Capitol Federal
Savings Bank



Rick Krueger
Krueger Development



James Laphen
TierOne Bank



Jim Rieker
MHEG



Barry Sandstrom
Home Federal
Savings & Loan

OEF Operations & Investment Committee



Roger Beverage
Oklahoma Bankers
Association



Kenyon Morgan
Prime Time
Environments, LLC



H.E. Rainbolt
BancFirst



Jim Rieker
MHEG

IEF Operations & Investment *Committee*



Tom Hanafan
Mayor of
Council Bluffs



Chris Hensley
Bank of the West



Jim Rieker
MHEG



Dick Schenck
Wells Fargo



John Sorensen
Iowa Bankers
Association

KEF Operations & Investment *Committee*



Bob Arthur
Commerce Bank



Mark Dennett
Intrust Bank



Rick Jackson
Capitol Federal
Savings Bank



Andy Jetter
Federal Home Loan
Bank of Topeka



Pat Michaelis
UMB Bank



Jim Rieker
MHEG



Michael Scheopner
Landmark National Bank

MHEG Staff



Becky Christoffersen
Director of Development
& Underwriting



Bill Caton
EVP - Kansas Operations



Chris Pangkerego
Director of Information
Technology



Chuck Kane
Asset Manager



Cindy Koster
EFN Development
Coordinator



Dan Garrett
EVP - Iowa Operations



Jacinth Montez
Compliance Specialist



Jamie Wilson
EVP - Oklahoma Operations



Jason Main
CFO / COO



Jenni Taylor
MHEG Admin. Assistant



Jennie Lattimer
Asset Manager



Jennifer Baldwin
MHEG Admin. Assistant



Jim Rieker
President / CEO



Keely Burns
PR Specialist



Laurie Stephenson
Compliance Manager



Lisa Bryan
KEF Admin. Assistant



Melissa Miller-Atwood
KEF Development
Coordinator



Sammy Ehtisham
OEF Development
Coordinator



Shannon Foster
Corporate Accountant
& Office Manager



Shannon Johnson
Senior Asset Manager



Shannon Powers
Paralegal & Due Diligence
Administrator



Shellie Vandeman
Compliance Specialist



Sherri Teel
OEF Admin. Assistant



Staci Williams
Asset Stabilization Manager



Tami Savard
Executive Assistant



Ted Witt
Director of Asset
Management



Thomas Judds
EVP - Nebraska
Operations



Tom Stratman
Senior Asset Manager

“Don't be afraid to take a big step.
You can't cross a chasm
in two small jumps.”

- David Lloyd George

Report from the *Nebraska* Operations



EQUITY FUND OF
NEBRASKA

Message from the *Executive Vice President*

Passion. As I look back over my experiences from the past year the common theme that stands out for me was "passion."

To begin my message I feel it would only be appropriate to start with my teammates at MHEG. To each one of them I want to express my heartfelt thanks. I am so blessed to be a part of a group that possesses such exceptional gifts and talents. The example they set on a daily basis is one of deep commitment and devotion. In addition to my teammates, I would be remiss if I didn't include the board members as well. Their leadership, wisdom and direction are genuine and appreciated.

During the year I've been very fortunate to have the opportunity to meet some very special people. All of whom have a passion to serve others through housing. Three organizations that made a significant impact on me were the Open Door Mission (Omaha), Stephen Center (Omaha) and People's City Mission (Lincoln). Each shares a selfless spirit and authentic heart to reach the homeless people in our communities. As I reflect on the experiences and images it reminds me of the real purpose of our work.

We will never be able to measure the impact our jobs and investments will have on individuals and families. By making a difference in one person's life we can change the lives of many for generations to come. This is the ultimate calling for us as a company and personally.

In closing, the definition of affordable housing is as diverse as our culture and subsequently the need is great. The passion I've seen in others this past year has challenged and inspired me to embrace the platform I've been given and take the **Next Step** to making a difference.



Thomas Judds
Executive Vice President
of Nebraska Operations

Investors to Date

as of 12/31/06

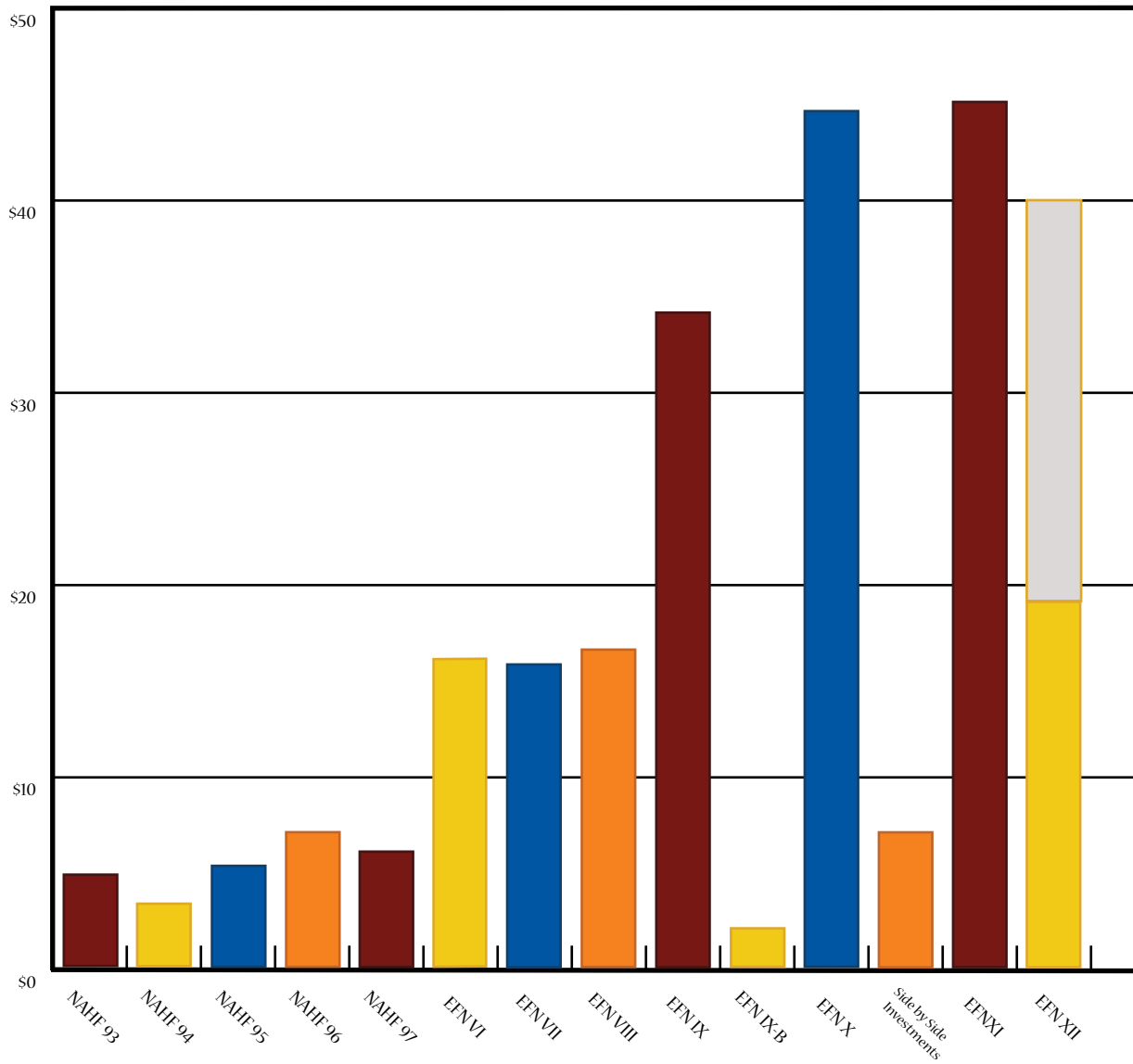
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	NAHF 93	NAHF 94	NAHF 95	NAHF 96	NAHF 97	EFN VI	EFN VII	EFN VIII	EFN IX	EFN IX-B	EFN X	EFN XI	EFN XII
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- Alltel
- Ameritas Life Insurance Corporation
- Bank of America Community Development Corp.
- Bank of the West
- Berkshire Hathaway, Inc.
- Behlen Mfg. Company
- Cargill Financial Service Corporation
- 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
- Jefferson Pilot
- Level 3 Communications
- Marine Bank
- Mutual of Omaha Insurance Company
- National Education Loan Network, Inc.
- Pinnacle Bank
- Qwest
- Tier One Bank
- US Bancorp Community Development Corp.
- Wells Fargo Bank Nebraska, N.A.

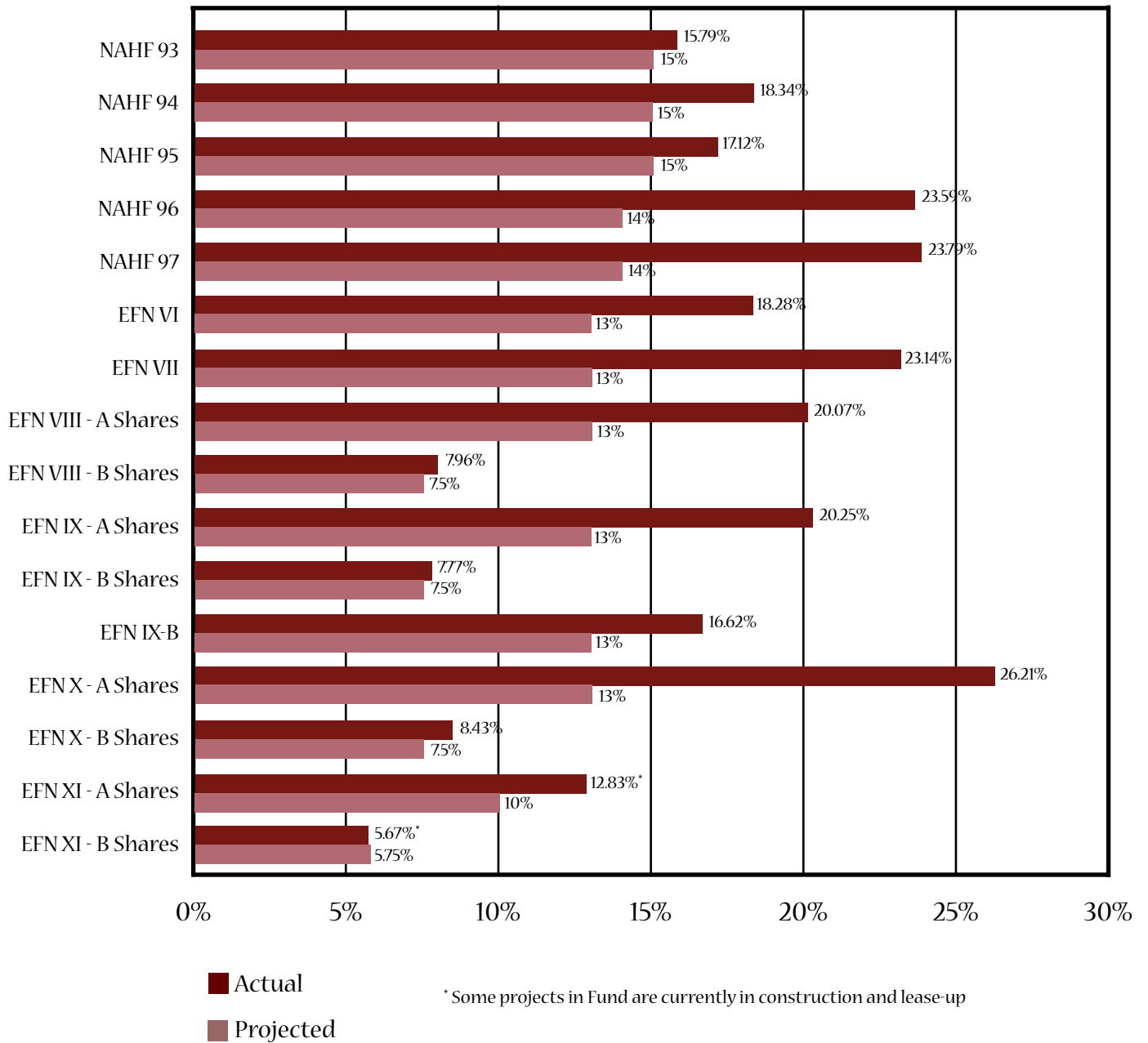
Equity Raised

as of 12/31/06



**EEN XII represents total equity raised as of 12/31/06. Total committed equity = \$40,000,000.

Actual vs. Projected Return



EFN Fund XI *Spotlight*

Equity Fund of Nebraska XI, L.P. is a \$45 million Fund. The fund had 9 projects close in 2005 and as of 12/31/06 has invested in 6 additional projects combined of senior, multifamily, single family and special needs properties.

West Wing Apartments Limited Partnership

- *Scottsbluff, NE • Special Needs • 8 units*



West Wing Apartments Limited Partnership is testimony to the successful projects MHEG has had in the past and will continue to have in the future. West Wing Apartments (also known as Cirrus House II) involved the construction of 8 additional units, an activity room, laundry room and medical room to the Cirrus House Apartments in Scottsbluff, NE. Cirrus House I consisted of 29 units and was an investment of EFN IX, L.P. Both projects are managed by Cirrus House Inc. the only provider of housing and services in the region for adults with mental illness.

General Partner - Cirrus House, Inc.

Developer - Cirrus House, Inc.

Contractor - Rusch's General Contracting LLC

Property Management - Cirrus House, Inc.

Cirrus House, Inc.'s mission is to provide quality of life, independence and community integration for people managing mental illness. Services that are provided to tenants include meals, transportation and assistance with laundry, cleaning, planning, budgeting and setting goals and objectives for continued rehabilitation. In addition, Cirrus House contracts with a registered nurse to provide health care services, which include personal care assessments.

The addition of the West Wing Apartments means additional opportunities will be provided for special needs individuals so they get the care and assistance they need. MHEG hopes West Wing will follow in the success of Cirrus House I, which has a waiting list and receives dozens of referrals each year.



North Omaha Crown V Limited Partnership

Omaha, NE • Single Family • 24 units
General Partner - Holy Name Properties, Inc.
Developer - Holy Name Housing Corporation
Contractor - Holy Name Housing Corporation
Property Management - Holy Name Properties, Inc.



Village Place I Limited Partnership

Omaha, NE • Senior • 51 units
General Partner - Village Place Corporation
Developer - New Community Development Corporation
Consultants - Charles Peters (CAP Investments)
& Rob Woodling (Foundations Development, LLC)
Contractor - Lund Ross
Property Management - NP Dodge



Great West Townhomes, L.L.C.

Ogallala, NE • Multifamily • 16 units
Managing Member - Keith County Housing Development Corporation
Developer - Excel Development Group
Contractor - R.L. Fauss Builder's, Inc.
Property Management - Keith County Housing Development Corporation

James Tinsley Villas, LLC

Omaha, NE • Senior • 28 units
Managing Member - Fort Street Church of Christ
Developer - Excel Development Group
Contractor - Buland Group, Inc.
Property Management - Excel Development Group



Goldenrod Village, LLC

Crete, NE • Senior • 24 units
Managing Member - Crown Pointe Properties, LLC
Developer - Crown Pointe Properties, LLC
Contractor - Vantage Pointe Homes, Inc.
Property Management - Crown Pointe Management & Development



“The most successful men in the end are those whose success is the result of steady accretion...

It is the man who carefully advances step by step, with his mind becoming wider and wider...”

- Alexander Graham Bell

Report from the *Iowa* Office



IOWA
EQUITY FUND

Message from the *Executive Vice President*

When a person looks at their life, they often use goals or steps as a way of defining their success and failures. We graduate high school, and the **Next Step** is college and after college, the **Next Step** is getting a job, and so forth. These “steps” can provide us with that sense of accomplishment. However, we often forget the impact that those achievements have. We get to the **Next Step** and are in such a hurry to continue on that we do not take the moment to savor those individual levels of steps that gave us those successes.

So when presented with the theme for the 2006 year, I immediately asked, “Did the Iowa office do what it should, did we take the **Next Step** in providing a strong return to our investors and play a part in providing affordable housing to the citizens of the state of Iowa?” The answer is a resounding yes!

As many may know in 2005, the Iowa Office was in danger of shutting down. We had no projects in our pipelines, and investors were getting worried as Fund II was languishing. However, with the hard work of everyone involved with MHEG, we were able to turn this around. IEF's success this past year happened through the efforts of many people. Kutak Rock stepped up to issue opinions in an incredibly short time span; Horizon Bank provided crucial bank loans on projects that other institutions passed on; our underwriting staff worked hours long past when they should have; the President had the confidence in an individual, to let him make his own decisions and mistakes; and finally the investors who had much patience with a very green, naïve Executive Vice President. They asked tough questions and gave of their time to really assist in making all of our projects stronger.

IEF took the **Next Step** in being a force to be reckoned with. When people talk about affordable housing in Nebraska, in short order the Equity Fund of Nebraska comes up. The same is true in Kansas. That is my **Next Step** in Iowa, to be that obvious choice. Again, this could not have happened by my efforts alone (there is a reason why my mother once called me abrasive, when I would have chosen the term, aggressive).

How successful was IEF?

We closed nine projects, the most ever.

We placed over \$13 million in equity, again the most ever.

We put in sponsor letters numbering 12, representing over \$35 million dollars of possible equity. Again, the highest amount we have ever agreed to.

What does this mean? To me, it means that through the efforts of everyone involved at and with the Midwest Housing Equity Group, that the Iowa office is a player in tax credit syndication. No longer are we the syndicator of last resort. We are the syndicator that developers go to when they want a project to get done.

2006 was a huge step taking year for Iowa. We proved that we will be around, we proved that we are a viable entity and we proved that we can provide a strong product in this business world we call tax credit syndication. What is the **Next Step**? All I can say for now is that 2007 will be one fun ride!



Dan Garrett
Executive Vice President
of Iowa Operations

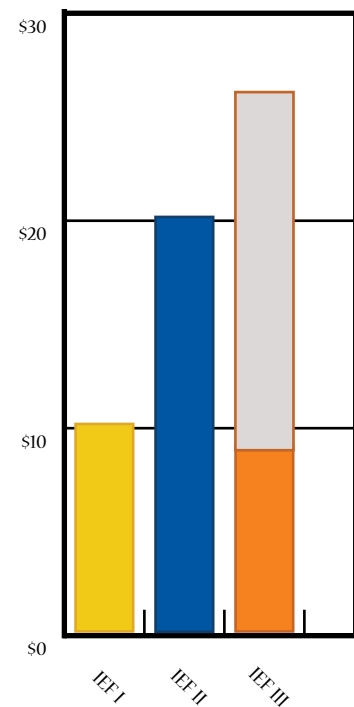
Investors to Date

as of 12/31/06

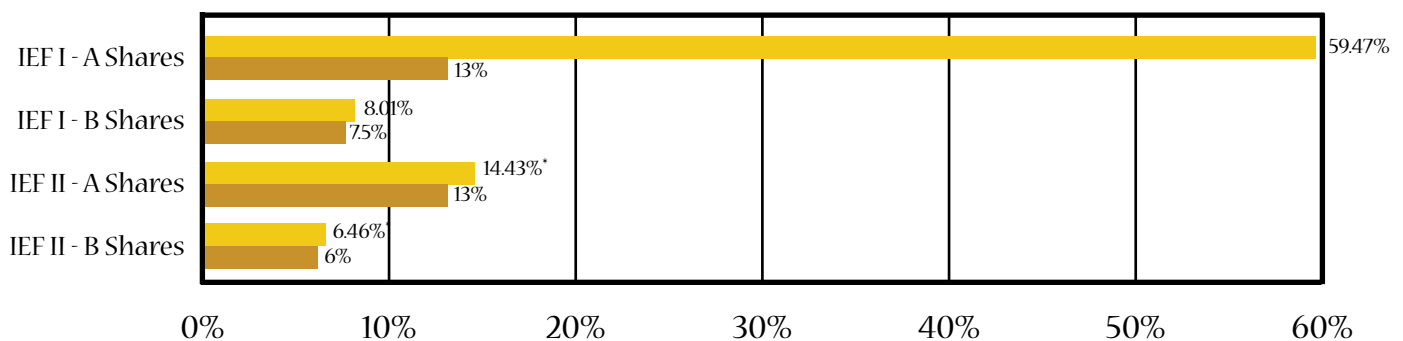
IEF I	IEF II	IEF III	
●	●		Bank of the West
●			Central State Bank
●			Dubuque Bank & Trust Community Development Corp.
●	●	●	Fannie Mae
	●		Farmers and Merchants
●	●		The First National Bank of Waverly
●			The Grundy National Bank of Grundy Center
●			Maquoketa State Bank
	●		Principal Financial Services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

Equity Raised as of 12/31/06

**IEF III represents total equity raised as of 12/31/06.
Total committed equity = \$26,000,000.



Actual vs. Projected Return



■ Actual
■ Projected

* Some projects in Fund are currently in construction and lease-up

IEF Fund II *Spotlight*

Iowa Equity Fund II, L.P. is a \$20 million fund that has closed 4 projects in previous years and invested in its final 9 projects this year, creating just under 500 units of affordable housing.

Dunlap, Lamoni, Odebolt & Panora Assisted Living, L.L.C.

- *Dunlap, Lamoni, Odebolt & Panora, IA • Assisted Living • 39 units*

Managing Member - Care Initiatives, Inc.

Developer - Care Initiatives, Inc.

Consultant - Excel Development Group

Contractor - Ball Construction

Property Management - Care Initiatives, Inc.

Dunlap, Lamoni, Odebolt, & Panora Assisted Living, L.L.C.

Known as the Care Initiatives projects, these four properties are similar in many aspects. Each property will be a newly constructed assisted living center, consisting of eight to eleven rooms, which will be added to an already established nursing home facility. Often in these small Iowa towns, seniors do not have many options for living arrangements. And many who are not yet at the level for full time care end up on a waiting list for a nursing home. These new assisted living centers will offer the opportunity for elderly to live in an environment other than a nursing home but still have the support of a trained staff.

Although these are the first projects MHEG has done with Care Initiatives, Inc., the organization itself has a distinguished resume. Created in 1988, Care Initiatives, Inc. is now the largest operator of quality nursing homes in Iowa with over 40 nursing home facilities as well as several independent living units and assisted living locations. All of their homes are licensed by the state of Iowa, certified by Medicaid and Medicare and are members of the Iowa and American Health Care Association. It is easy to see why MHEG is delighted to be working with such a remarkable organization.



Dunlap Assisted Living, L.L.C. • Dunlap, IA • 10 units



Lamoni Assisted Living, L.L.C. • Lamoni, IA • 8 units



Panora Assisted Living, L.L.C. • Panora, IA • 11 units

IEF Fund II *Projects*



Antlers, L.P.

Spirit Lake, IA • Multifamily • 14 units
General Partner - Antlers GP, Inc.
Developer - Community Housing Initiatives, Inc.
Contractor - Schelling Construction
Property Management - Community Housing Initiatives, Inc.



Spruce Hills Village, LLC

Bettendorf, IA • Senior • 63 units
Managing Member - CCM-Spruce Hills Village, LLC
Developer - Cardinal Capital Management, Inc.
Contractor - Cardinal Capital Management, Inc.
Property Management - HOMZ



Spring Village Apartments of Iowa, LLC

Davenport, IA • Senior • 120 units
Managing Member - CCM Spring Village Apts. LLC
Developer - Cardinal Capital Management, Inc.
Contractor - Cardinal Capital Management, Inc.
Property Management - HOMZ

Pioneer Woods, L.L.C.

Des Moines, IA • Multifamily • 67 units
Managing Member - ANAWIM
Developer - ANAWIM and Mercy Housing
Contractor - Pacesetter Company, Inc.
Property Management - ANAWIM



Stone Ridge, LLLP

Webster City, IA • Multifamily • 42 units
General Partner - Aequitas Partners, Inc.
Developer - Aequitas Development, Inc.
Contractor - Kester Construction
Property Management - National Management Corporation



“A journey of a thousand miles
begins with one step”

- *Confucius*

Report from the *Kansas* Office



KANSAS
EQUITY FUND

Message from the *Executive Vice President*

When I took this position five years ago, I really had no idea what was in store for Kansas Equity Fund, much less the whole organization. But what I did know from being part of the original attempts to create a local equity fund in Kansas a few years back and being on the executive committee for over a year was a general knowledge of the industry and a good idea of how an equity fund could benefit and serve Kansas. Now I also realize that I had no idea how much work it took to raise equity, find quality projects, close deals and get them operating smoothly.

Early on, I calculated how much equity we would need to raise annually and how many projects we would need to close in Kansas to make ends meet and contribute something to MHEG's bottom line. It was between ten and twelve million dollars with about six to eight projects per year. It was a haughty goal considering the first fund was a little over \$3 million and the second fund was a little less than \$8 million. I thought if we were able to raise enough money to syndicate about 20% of the total Kansas allocation annually, we would have a successful operation and be significant enough to make a real contribution to affordable housing in Kansas.

The first "real" step came in midst of the offering of our third fund. We set a lofty goal of raising \$15 million as we had a growing project pipeline that exceeded \$30 million. Jim Rieker had spent a lot of time developing a relationship with Freddie Mac and asked them to consider an investment in the Kansas fund in conjunction with a Nebraska offering. Freddie decided to invest (thank you, Margaret) and due to their investment policy, they had a minimum investment of \$10 million, and at the same time, they could not be a majority investor in a multi-investor fund. I had already raised about \$10 million and had additional commitments for another \$3 million, so the logical solution was to increase the fund offering to \$24 million, doubling the lofty goals I initially set. And we haven't looked back! Ironically, this is a similar story for our three other state operations as well, just slightly different time lines. Or is it ironic? Maybe we just think too small.

Now, there is so much more at stake. Mistakes are more costly and devour precious time and resources. The balancing of responsibilities, delegation and time management is critical. The complexity of the deals has increased regardless of the size. Evaluating the multiple risk factors and then mitigating those risks to our tolerance has become harder to negotiate because the competition has been "giving away the farm" chasing deals. This isn't pessimism setting in – it is reality.

The **Next Step**? In my opinion, we must maintain, no, we must increase our commitment to the "Six H's of Prosperity" (it used to be five – I added one): *Hard work, Harmony, Honesty, Humility, Hunger* and, most of all, *Housing!* If we do, I believe the rest will fall in place. As in the past, there will be highs and lows, but MHEG will be taking the **Next Step** to a bright future.

In closing, I do have to share probably the biggest high for me in 2006. Last year in my letter, I highlighted a rehab project in a tough neighborhood in Topeka, Paradise Plaza Apartments. Well, on November 17th we had a dedication ceremony to commemorate the completion of the renovation of a long-troubled and run-down apartment complex. We had the dignitary speeches, we sang, we laughed, we bowed in prayer giving thanks and glory, we met the property-sponsored YMCA youth basketball team (undefeated), we heard long-term tenants marvel in the transformation, we feasted, we were introduced to a staff dedicated to improving the lives of the tenants, and we saw the visionary's vision of true neighborhood revitalization.

It reinforced to me what I really do for a living. One can never have enough of those uplifting and fulfilling experiences!



Bill Caton

Executive Vice President
of Kansas Operations

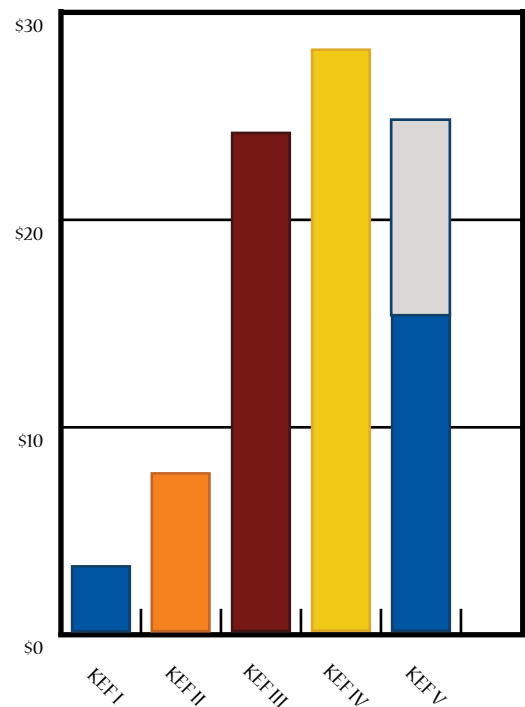
Investors to Date

as of 12/31/06

KEF I	KEF II	KEF III	KEF IV	KEF V	
●	●	●	●	●	Bank of the West
	●			●	Capital City Bank
	●	●	●		Capitol Federal Savings Bank
●					Central National Bank
●	●	●	●		Commerce Bank N.A.
●	●	●	●	●	Fannie Mae
	●	●	●	●	Farmers and 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

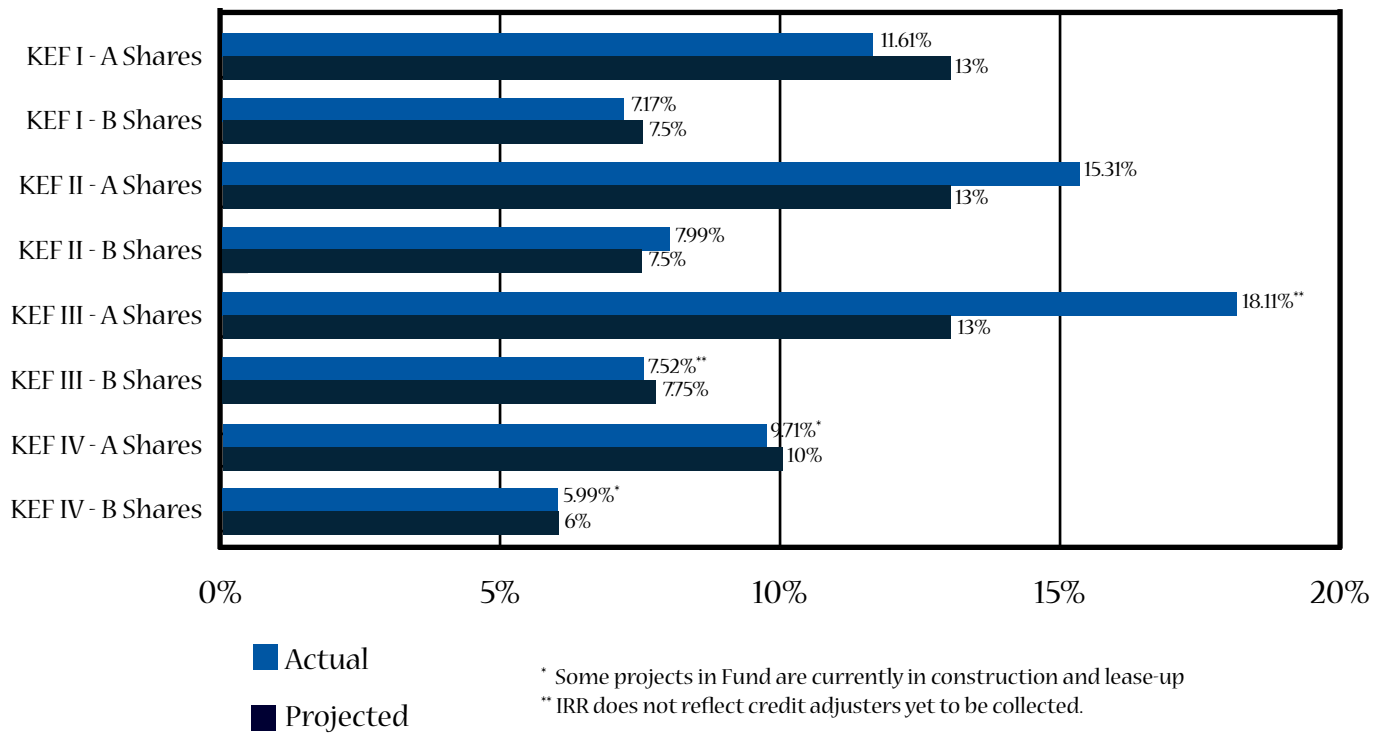
Equity Raised

as of 12/31/06



**KEF V represents total equity raised as of 12/31/06. Total committed equity = \$25,000,000.

Actual vs. Projected Return



Kansas Equity Fund III, L.P. is a \$24 million fund that closed its final project in 2006. The fund which opened in 2004 has invested in a total of 16 properties, creating over 400 affordable housing units

Russell Housing, LLC

Russell, KS • Single Family • 6 units



Managing Member - Northwest Housing, Inc.

Developer - Northwest Housing, Inc.

Contractor - Budget Plumbing Htg & A/C

Property Management - Northwest Housing, Inc.

Russell Housing, LLC was the final project for KEF III, L.P. The six unit project consists of single family homes scattered throughout the town of Russell, Kansas and is structured very similar to the Six Units I and II projects constructed in Manhattan, Kansas. Tenants will be able to purchase these homes at the end of the 15 year compliance period for a fraction of the market value, making the homeownership dream come true for six families/individuals who would most likely never be able to afford a quality home of their own.

Russell, although having experienced moderate declines in their population in the past few decades, continues to have a strong employment rate. Unfortunately many of the houses in this rural community have been continually deteriorating and the need for quality affordable housing is in great demand. Russell Housing will not only provide better housing in the town, but will also carry out MHEG's mission by improving the lives in this community with housing.

KEF Fund IV *Spotlight*

Kansas Equity Fund IV, L.P is a \$28 million fund that closed 7 projects in 2005 and as of 12/31/06 has invested in 5 additional projects including single family, multifamily and senior properties.

Rural Housing & Development, L.P.

Beloit, Minneapolis, Ness City, Oberlin, Phillipsburg & Wakeeney, KS

Multifamily · 76 units

General Partner - Neighborhood Renaissance Foundation

Developer - RAH Investments, LLC

Contractor - MAACO Construction Inc.

Property Management - Belmont Management

Rural Housing and Development, L.P.

might seem like the ordinary rehabilitation of older units in hopes to keep their tenants in place by providing more quality of housing. But the Rural Housing project is far from ordinary. These rural properties were the first-ever consolidation of six projects into one for Kansas USDA Rural Development and the Housing Assistance Councils (HAC) first project to receive funds from the Preservation Revolving Loan Fund. This project was the first in the nation to be structured with these various financial pieces and will most likely be used as a model for other renovation projects for the aging Rural Development affordable rental housing stock.

The project consists of 76 multifamily units in total, scattered throughout six rural towns in central and east-central Kansas. Beloit Center Apartments in Beloit, Pheasant Run in Minneapolis, Wheatland Manor in Ness City, Parkview Apartments in Oberlin, Harvestwoods Apartments in Phillipsburg, and Apple Junction Apartments in Wakeeney. Each of the properties went through extensive renovations to rejuvenate the units inside and out.

Although the project was difficult and complex MHEG was proud to be involved in such a groundbreaking project.



Beloit Center Apartments · Beloit, KS · 12 units



Harvestwoods Apartments · Phillipsburg, KS · 12 units



Parkview Apartments · Oberlin, KS · 14 units

KEF Fund IV *Projects*



Crown Homes of Hutchinson, L.L.C.

Hutchinson, KS • Single Family • 9 units
Managing Member - New Beginnings, Inc.
Developer - Manske & Associates, L.L.C.
Contractor - Strawn Contracting, Inc.
Property Management - New Beginnings, Inc.



CLASS Homes I, L.L.C.

Columbus, Pittsburg & Parsons, KS • Single Family • 12 units
Managing Member - CLASS, LTD.
Developer - Manske & Associates, L.L.C.
Contractor - Strawn Homes, Inc.
Property Management - CLASS, LTD.

Friendship Place I, L.L.C.

South Hutchinson, KS • Multifamily • 20 units
Managing Member - Mennonite Friendship Manor, Inc.
Developer - Manske & Associates, L.L.C.
Contractor - Mennonite Friendship Manor, Inc.
Property Management - Mennonite Friendship Manor, Inc.



CenterView Place, LLC

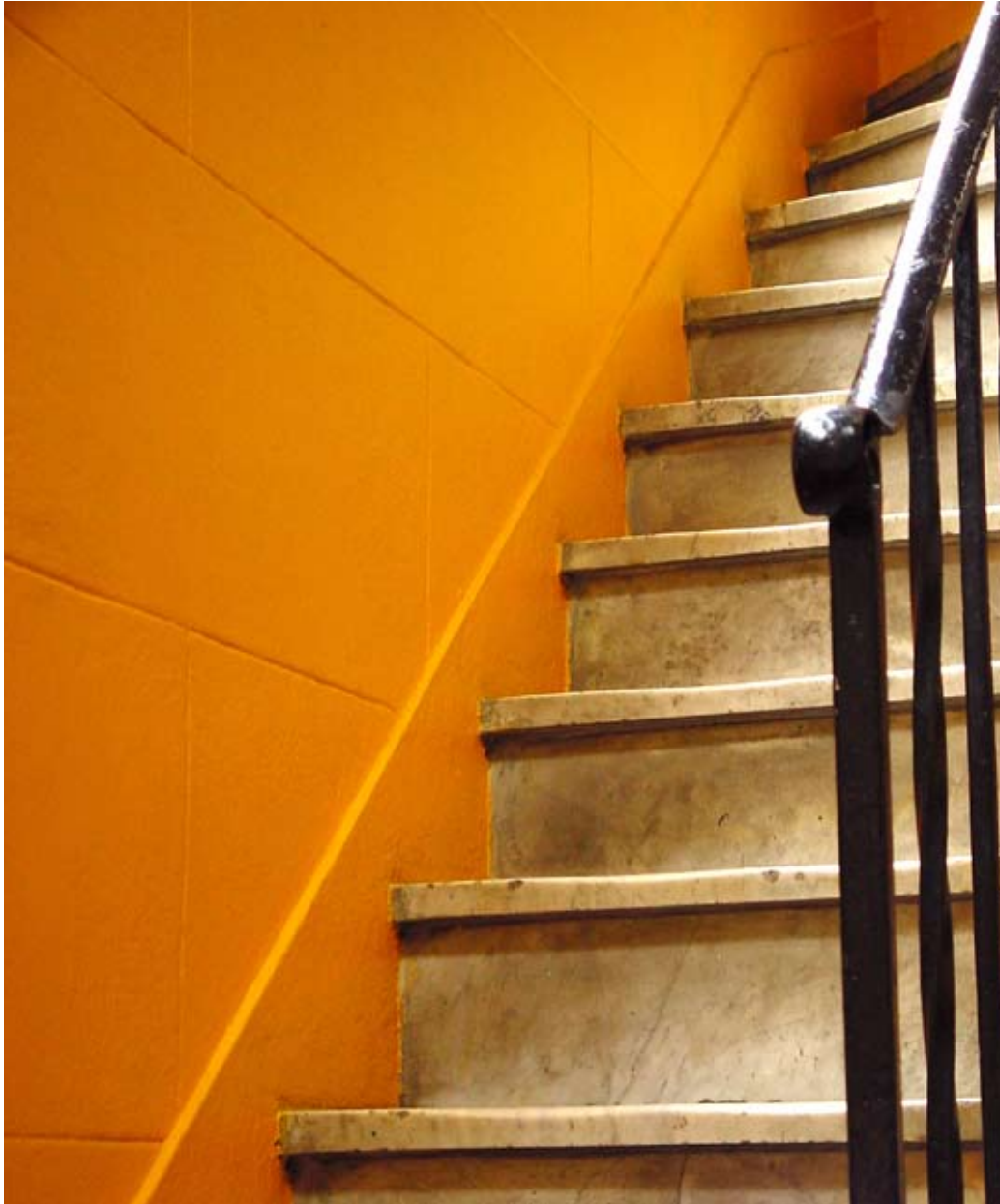
Smith Center, KS • Multifamily • 10 units
Managing Member - Northwest Kansas Housing, Inc.
Developer - Mesner Development Co.
Contractor - Tim Schaller
Property Management - Northwest Kansas Housing, Inc.



“Faith is taking the first step even when you don’t see the whole staircase.”

- Martin Luther King, Jr.

Report from the *Oklahoma* Office



OKLAHOMA
EQUITY FUND

Message from the *Executive Vice President*

In Oklahoma, with the exception of football, people are pretty laid back and don't get distracted by too many things and that's a good thing. However, sometimes things will happen to people that they aren't expecting and their lives are changed, sometimes in a small way and sometimes in a big way. Nevertheless, their lives are changed and that scares people in different ways. Even in small towns where things are steady and calm, change can cause stress on a person or family, stress over even the basic of things, that the rest of us don't even notice. Housing is a basic need people have that Oklahoma Equity Fund can help with.

In 2006 OEF began funding projects for the first time ever. We raised \$25 million, and basically, have spent it all as well. We grew in size and in reputation and hired a Development Coordinator as a result of our growth. We closed five projects in five towns throughout Oklahoma. In some small way this makes me feel as if I was able to affect people, like the ones mentioned above, in a way that I will never know and hopefully for the better. Our company has been able to provide families with new, clean and safe places to live that they may not have had otherwise. We provided them the opportunity to take their **Next Step**. And to me, there is no better feeling in the world than to see someone better themselves and have a good place to live.

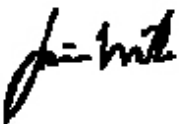
Reflecting on 2006, it was both a good and bad year as OEF took off and soared, but on the other hand my father passed away. The highs and lows of 2006 are trials that I cannot change but I can embrace those events and use them to grow. Needless to say, I am quite ready for 2007 and the challenges it will bring.

So what is OEF's **Next Step**?

Oklahoma is embracing the MHEG philosophy and developers are enjoying their experience with our company. In 2007, we plan on continued growth and a new \$40 million fund, OEF II. If that's not taking the **Next Step**, I don't know what is.

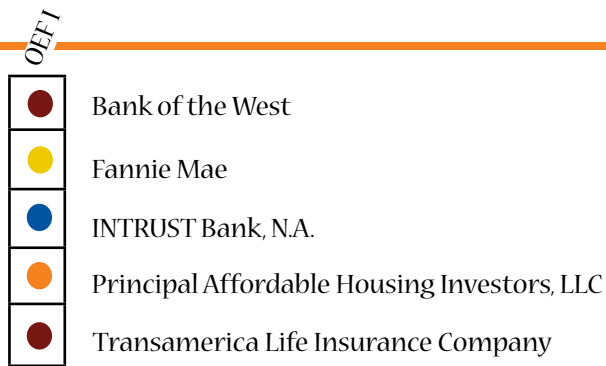
We welcome the opportunity to affect people's lives and to see the change that our efforts bring to their lives. With 2006 behind us, 2007 is looking very promising and we can't wait to see what some of our **Next Steps** are going to be.

In His Love,



Jamie Wilson
Executive Vice President
of Oklahoma Operations

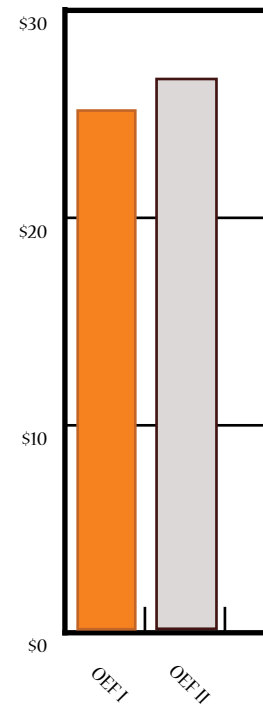
as of 12/31/06



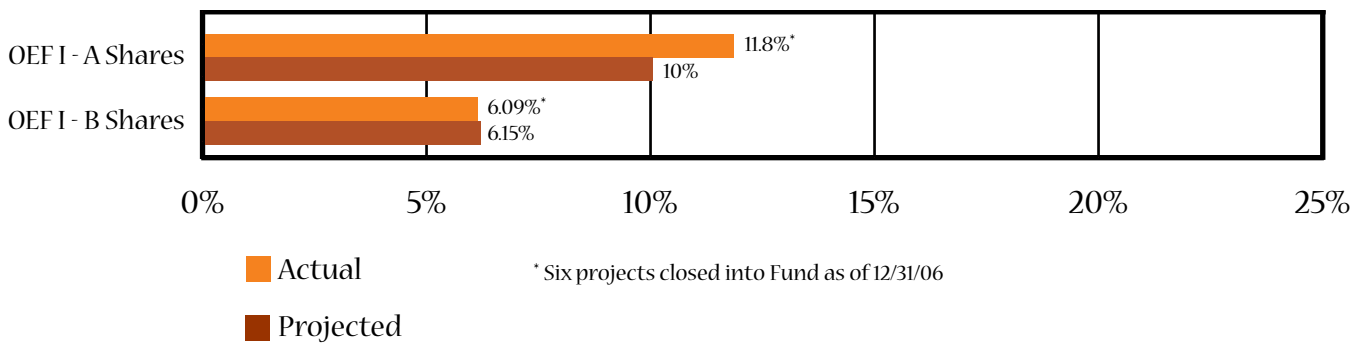
Equity Raised

as of 12/31/06

**OEI II represents total equity raised as of 12/31/06.
Total committed equity = \$40,000,000.



Actual vs. Projected Return



OEF Fund I *Spotlight*

Oklahoma Equity Fund I, L.P. is a \$25 million fund. In its first year OEF I has invested in 6 projects. The final projects for this fund are slated to close in 2007.

Quail Ridge Homes LLC

- Broken Bow, OK • Single Family • 26 units



Managing Member - Broken Bow Housing Authority

Developer - Excel Development Group

Contractor - Broken Bow Housing Authority

Property Management - Broken Bow Housing Authority

Quail Ridge Homes LLC was the very first project OEF I, L.P. invested in. The project is located on about 15 acres of land in the very southeast corner of Oklahoma in the rural areas of Broken Bow, which happens to be just south of the Ouachita National Forest making for a scenic picture. The 26 single family homes were

constructed to reflect the natural backdrop using wood and stone from the surrounding areas. The end result was a collection of stunning lodges that definitely achieved our mission of quality affordable housing.

The project consists of 7 two-bedrooms, 17 three-bedrooms and 2 four-bedrooms scattered throughout the new subdivision. All of the units qualified for the low-income housing tax credits per specifications of the Oklahoma Housing Finance Authority.

MHEG partnered with Broken Bow Housing Authority, a reliable and efficient organization that operates their own construction company, management company and maintenance company.

Quail Ridge definitely makes for an impressive first project and MHEG is enthusiastic to watch OEF's portfolio grow.



Chickasha Senior, Limited Partnership

Chickasha, OK • Senior • 48 units
General Partner - Chameleon Development, Inc.
Developer - Chameleon Development, Inc.
Contractor - Chameleon Development, Inc.
Property Management - Chameleon Development, Inc.



Grand Prairie, Limited Partnership

Watonga, OK • Multifamily • 40 units
General Partner - Southridge Apts, Inc.
Developer - Southridge Apts, Inc.
Contractor - Southridge Apts, Inc.
Property Management - Western Property Management

Broadway Pointe Apartments, Limited Partnership

Seminole, OK • Senior • 46 units
General Partner - Housing Concepts, Inc.
Developer - Housing Concepts, Inc.
Contractor - Housing Concepts, Inc.
Property Management - Housing Concepts, Inc.



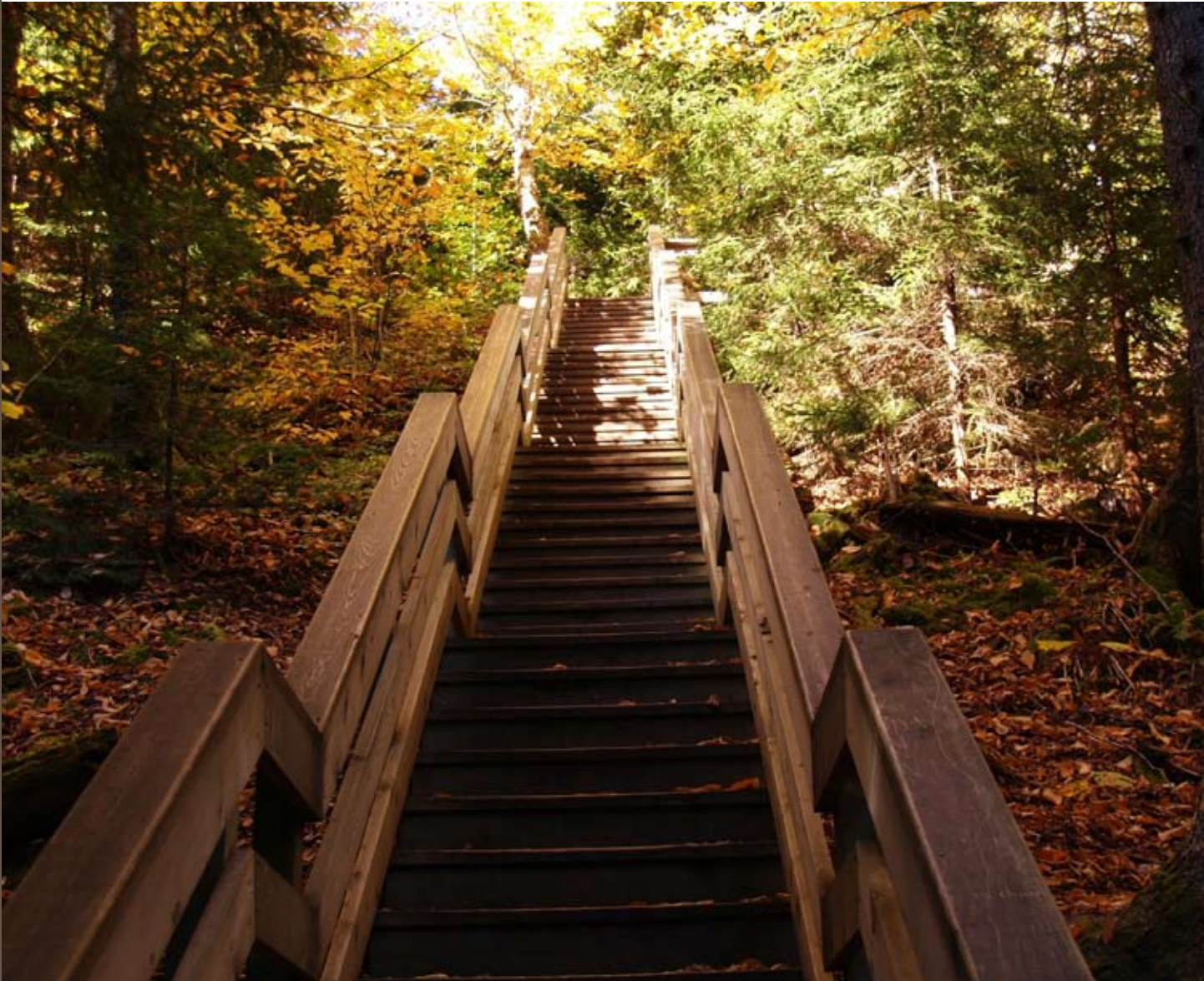
CHARMED-Perkins Affordable Housing Partners LLC

Charmed, OK • Single Family • 30 units
General Partner - CHARMED
Developer - Excel Development Group
Contractor - R.L. Fauss Builders Inc.
Property Management - CHARMED



*“It is not enough to stare up the steps -
we must step up the stairs.”*

- Vance Havner





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