

PAYETTE TOWNHOUSE ASSOCIATES
SECOND AMENDMENT TO
FIRST AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT AND
CERTIFICATE OF LIMITED PARTNERSHIP

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THIS SECOND AMENDMENT TO FIRST AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT AND CERTIFICATE OF LIMITED PARTNERSHIP is effective as of the 15th day of April, 1988 by and between HEARTLAND REALTY INVESTORS, INC., a Minnesota corporation, the General Partner; and the Limited Partner.

RECITALS:

WHEREAS, PAYETTE TOWNHOUSE ASSOCIATES (the "Partnership") is an Idaho limited partnership existing under "Limited Partnership Agreement and Certificate of Limited Partnership" dated November 20, 1980, filed of record with the Payette County Recorder, on November 21, 1980, as Document^C No. 186772; as amended by "First Amended and Restated Limited Partnership Agreement and First Amended and Restated Certificate of Limited Partnership," dated December 31, 1980 filed of record with the County Clerk of Payette County, Idaho, as Document No. 201836; as amended by "Assignment of Partnership Interest and Amendment to Limited Partnership Agreement and Certificate of Amendment to Limited Partnership Agreement," dated December 24, 1983, filed of record with the County Clerk of Payette County, Idaho on March 28, 1984, as Document No. 203285; which amended agreement is referred to as the "Limited Partnership Agreement";

WHEREAS, Final Treasury Regulations under Internal Revenue Code Section 704(b), on special allocations, were adopted on December 24, 1985, except for provisions regarding nonrecourse deductions;

WHEREAS, Final Treasury Regulations regarding nonrecourse deductions were adopted on September 8, 1986;

03848

WHEREAS, the Partners desire to amend the Limited Partnership Agreement to comply with certain aspects of the Regulations;

WHEREAS, the Partners have determined that it is necessary to amend the Limited Partnership Agreement to correctly reflect the address of the Limited Partner and to change the registered agent of the Partnership.

IT IS THEREFORE AGREED:

Anything in the Limited Partnership Agreement to the contrary notwithstanding the following provisions shall apply from and after the effective date as set forth in Section 8 hereof. Provided, however, that the legal rights of any Partner under the Limited Partnership Agreement shall not be abridged in any respect.

Section 1. Capital Accounts.

(a) A separate Capital Account shall be established and maintained on the books and records of the Partnership for each Partner in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv). For example, by way of illustration rather than limitation, the Capital Account of each Partner shall be credited (increased) with the amount of such Partner's Capital Contributions to the Partnership increased, from time to time, and by each Partner's share of net income as allocated to such Partner; and decreased by any distributions of cash and by each Partner's share of net loss as allocated to such Partner; and decreased by each Partner's share of syndication expenses allocated to the Partners. The amount of expenditures of the Partnership which are neither deductible nor properly chargeable to capital account under Code Section 705(a)(2)(B) or which are treated as such expenditures under Treasury Regulation Section 1.704-1(b)(2)(iv)(i) shall reduce Capital Accounts and shall be allocated among the Partners pro rata.

(b) Any Partner, including any Substitute Limited Partner, who shall receive a Partnership Interest in the Partnership or whose Partnership

Interest shall be transferred by means of the transfer to him or her of any Partnership Interest of another Partner shall have a Capital Account that has been appropriately adjusted to reflect such transfer, initially equal to the Capital Account with respect to such Interest of the Partner from whom such Interest is acquired, except as otherwise required to account for any step up in basis resulting from a Code Section 708 termination of the Partnership by reason of said Interest transfer (Code Section 708 deemed distribution and recontribution of property).

(c) In addition, the Capital Accounts shall be adjusted in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(g) for allocations to the Partners' Capital Accounts of depreciation, amortization, and gain and loss (including from the sale of the assets of the Partnership) as computed for book, not tax, purposes, with respect to the assets of the Partnership.

(d) In the event that property (other than cash) is contributed (or deemed contributed pursuant to the provisions of Code Section 708) by a Partner to the Partnership, the computation of capital accounts shall be adjusted as follows:

(i) the contributing Partner's capital account shall be increased by the fair market value of the property contributed to the Partnership by such Partner (net of liabilities secured by such contributed property that the Partnership is considered to assume or take subject to under Code Section 752); and

(ii) the adjustments required by Treasury Regulation Sections 1.704-1(b)(2)(iv)(g) and 1.704-1(b)(4)(i), shall be made to such Partner's Capital Account.

(e) In the event that property (other than cash) is distributed (or deemed distributed pursuant to the provisions of Code Section 708) by the Partnership to a Partner, the following special rules shall apply:

93848

(i) the Capital Accounts of the Partners shall be adjusted as provided in Treasury Regulation Sections 1.704-1(b)(2)(iv)(e) to reflect the manner in which the unrealized income, gain, loss and deduction inherent in such property (that has not already been reflected in the Partners' Capital Accounts) would be allocated to such Partners if there were a taxable disposition of such property for its fair market value on the date of distribution; and

(ii) the Capital Account of the Partner who is receiving the distribution of property from the Partnership shall be charged with the fair market value of the property at the time of distribution (net of liabilities secured by such distributed property that such Partner is considered to assume or take subject to under Code Section 752).

Section 2. Minimum Gain Chargeback.

If there is a net decrease in Partnership minimum gain during a Partnership taxable year, all Partners with a deficit Capital Account balance at the end of such year, computed as described in Treasury Regulation Section 1.704-1(b)(4)(iv)(e), shall be allocated, before any other allocation of Partnership items for such taxable year is made under Code Section 704(b), items of income and gain for such year (and, if necessary, subsequent years) in the amount and in the proportions sufficient to eliminate such deficits as quickly as possible. For purposes of this Section, "minimum gain" shall be determined in accordance with Treasury Regulation Section 1.704-1(b)(4)(iv), and shall be determined with respect to each nonrecourse liability and the Partnership property subject to such liability. This Section is intended to constitute a "minimum gain chargeback" within the meaning of Treasury Regulation Section 1.704-1(b)(4)(iv)(e).

Section 3. Limitation on Loss Allocations to Limited Partners.

Notwithstanding any provision to the contrary, if any of the Limited Partners have a negative balance in their capital accounts at the close of any Partnership taxable year (after such capital accounts have been adjusted to reflect tentative allocations of Net Income or Net Loss for such taxable year and any Distributions made during such taxable year), the Net Loss of the Partnership for such taxable year shall be allocated to the Limited Partners only to the extent that such Partner's share of the "minimum gain" exceeds or is equal to such negative balance. The portion of Net Loss for such taxable year otherwise allocable to the Limited Partners but for the foregoing limitations shall be allocated to the General Partners.

Section 4. Qualified Income Offset.

Notwithstanding anything to the contrary, if any Partner unexpectedly receives any adjustments, allocations or distributions described in Sections (4), (5) or (6) of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) that results in a deficit balance in such Partner's Capital Account, or increases a deficit balance (to the extent that such deficit or increase in deficit is in excess of the sum of the amount, if any, that the Partner is obligated to restore and the amount of the Partner's share of minimum gain), such Partner will be allocated corresponding items of Partnership income and gain (consisting of a pro rata portion of each item of partnership income, including gross income, and gain for such year) in an amount and manner sufficient to eliminate such deficit or such increase in deficit in such Partner's Capital Account as quickly as possible. This Section is intended to constitute a "qualified income offset" within the meaning of Treasury Regulation Section 1.704-1(b)(2)(ii)(d).

Section 5. Mandatory Allocations.

Notwithstanding the foregoing,

(i) in the event Code Section 704(c) or Code Section 704(c) principles applicable under Treasury Regulation Section 1.704-1(b)(2)(iv)(d)(3) require allocations of income or loss of the Partnership in a manner different than that set forth above, the provisions of Section 704(c) and the regulations thereunder shall control such allocations among the Partners, and

(ii) all deductions of the Partnership which are attributable to (A) any loan of the Partnership which is guaranteed by a Partner or (B) any loan made to the Partnership by a Partner (or which are treated as such by Treasury Regulation Section 1.704-1(b)(4)(iv)(h) when issued in final form by the Treasury Department) shall be allocated solely to such Partner if so required by Treasury Regulation Section 1.704-1(b)(4)(iv)(g).

Section 6. Liquidating Distributions.

Upon liquidation of the Partnership (or any Partner's interest in the Partnership), liquidating distributions are required in all cases to be made in accordance with the positive capital account balances of the Partners, as determined after taking into account all capital account adjustments for the Partnership taxable year during which such liquidation occurs.

Section 7. Effect of Allocations.

It is the express intention of the Partners that all allocations of income, gain, loss, deduction or credit be treated as having substantial economic effect under Section 704(b) of the Code and that each Partner's share of Partnership items be determined and allocated to the fullest extent permitted by Section 704(b) of the Code. Therefore, if the Partnership is advised that the allocations are unlikely to be respected for federal income

03848

tax purposes, the General Partners have been granted the power to amend the allocation provisions to the minimum extent necessary to effect the plan of allocations and distributions provided.

Section 8. Effective Date.

Pursuant to Treasury Regulation Section 1.761-1(c), the amendments appearing in Sections 1 through 7 hereof shall be effective with respect to the taxable year ending December 31, 1987.

Section 9. Name and Addresses - Designation of Partners.

Section 1.3(b) of the Limited Partnership Agreement is hereby amended in its entirety to read in full as follows:

(b) Limited Partner: Heartland Rocky Mountain Partners,
Limited Partnership
4802 Nicollet Avenue South
Minneapolis, MN 55409

Section 10. Registered Agent.

Section 1.2 of the Partnership Agreement is amended to change the name and address of the registered agent to Jerry Griggs, 10480 Garverdale Court, Suite 802, Boise, Idaho 83704.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to Limited Partnership Agreement and Certificate of Limited Partnership as of the day and year first above-written.

GENERAL PARTNER:

HEARTLAND REALTY INVESTORS, INC.,
A Minnesota corporation

By

H. William Walter
H. William Walter, President

LIMITED PARTNER:

HEARTLAND ROCKY MOUNTAIN PARTNERS,
LIMITED PARTNERSHIP
A Minnesota Limited Partnership

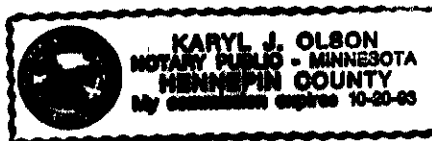
By: Heartland Realty Investors, Inc.
A Minnesota corporation
General Partner

By: H. William Walter
H. William Walter, President

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

The foregoing instrument was acknowledged before me this 29th day of DECEMBER, 1988, by H. William Walter, President of Heartland Realty Investors, Inc. a Minnesota corporation, a General Partner of Payette Townhouse Associates.

Karyl J. Olson
Notary Public



STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

The foregoing instrument was acknowledged before me this 29th day of DECEMBER, 1988, by H. William Walter, as President of Heartland Realty Investors, Inc., a Minnesota corporation, a General Partner of Heartland Rocky Mountain Partners, Limited Partnership, a Minnesota limited partnership, the Limited Partner of Payette Townhouse Associates, on behalf of said corporation and limited partnership.

Karyl J. Olson
Notary Public



This Instrument Drafted By:

MOSS & BARNETT (WAH/SLT)
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