

# Merritt Community Capital Corporation



**2005 Annual Report**

# Mission Statement



Merritt Community Capital Corporation was formed in 1989 to provide equity capital to housing developments serving low income residents in Oakland, California. This geographic area was later extended to include the entire state of California. Through its investments, Merritt works to increase the organizational capacity of nonprofit housing developers and to spur the revitalization of low income and minority communities. Merritt invests in a range of developments from multifamily housing to single-room-occupancy hotels. Merritt offers competitive returns through Low Income Housing Tax Credits while addressing California's affordable housing needs.

## Merritt Staff

Top row, left to right: **Mark Baldwin**, Director of Communications; **Denise Taplin**, Administrative Assistant; **Barney Deasy**, President; **Maria Duarte**, Director of Asset Management, and **Dan Kiernan**, Corporate Finance Officer. Bottom row, left to right: **Julie Sonntag Newquist**, Operations Director; **Kristy Ball**, Asset Manager; **Karen Smyda**, Director of Acquisitions; and **Birute Skurdenis**, Asset Manager.



**Front Cover Photo:** Brothers Aaron Sims, left, and Areion Sims, right, play at Lorenzo Creek Apartments in Castro Valley.

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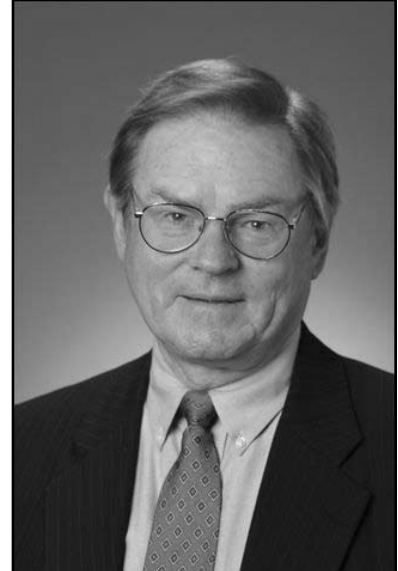
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# Leadership Message

Throughout 2005 the tax credit equity market was superheated nationwide. This was particularly evident in California where prices per tax credit dollar averaged around \$1.07, with some deals hitting the \$1.17 mark. Merritt did its best to weather this unsustainable market, bidding on projects only when it made economic sense and when we could provide a reasonable return for our investors.

Merritt established first-time partnerships with three nonprofit developers in 2005—Allied Housing, Inc., EAH, Inc., and Resources for Community Development (RCD). Merritt provided equity for Lorenzo Creek Apartments in Castro Valley, a 28-unit complex designed for formerly homeless residents of Southern Alameda County, co-sponsored by Allied Housing based in Hayward, and RCD located in Berkeley. EAH, Inc. was the nonprofit developer of Point Reyes Family Homes, a 27-unit new construction project for low income residents and farm workers in Point Reyes Station. We welcome these new partners and look forward to providing equity to them on other affordable housing projects in the future.

In 2005 we said goodbye to two long-time board members, Ilene Weinreb and



*Bernard T. Deasy*

Bernard T. Deasy, President

Margaret Schrand. Both had served three consecutive three-year terms on Merritt's board. Ilene Weinreb has a long history of public service as a member of the City Council and as Mayor of Hayward. In addition she provided invaluable leadership as director on the boards of Eden Housing, Alameda County Medical Center, Satellite Senior Homes and Bay Area Community Services. Her knowledge of the East Bay affordable housing was unmatched and she will be hard to replace. Margaret Schrand



A handwritten signature in black ink that reads "John T. Sheldon".

John Sheldon, Board Chair

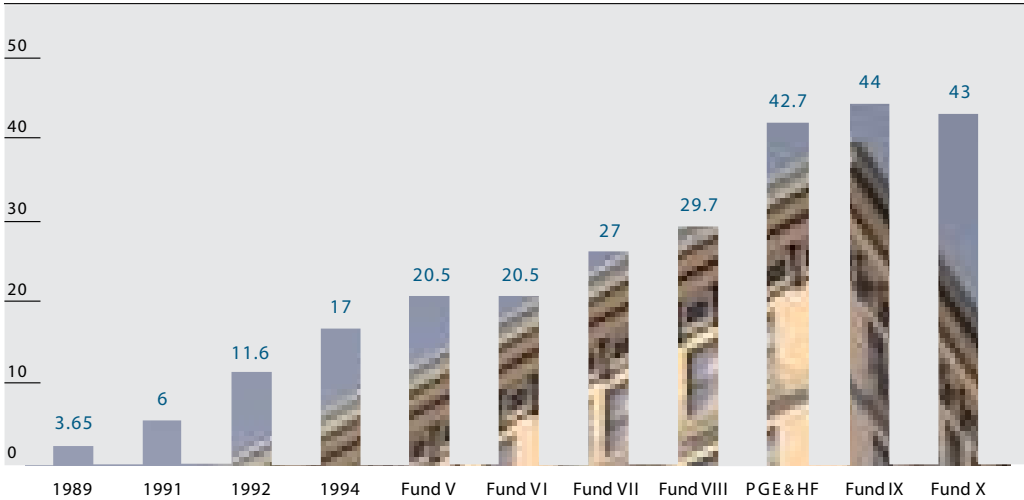
is a life-long advocate of affordable housing having served at HUD, and as a housing lender at First Interstate and Senior Vice President of the Community Lending Department at Wells Fargo Bank. She served as Chair of Merritt's board of directors bringing her vast knowledge of housing programs and lending experience to a wide range of program and policy issues. Her intellect and compassion will be sorely missed. Margaret Schrand was succeeded by John Sheldon as board Chair.

Chris Long of Bank of America has long been active in affordable housing tax credit investing and he was added to Merritt Capital board in the fall of 2005. He has eight years of commercial and real estate lending experience in Southern California banks and has spent the past 15 years at Bank of America, most recently supervising the underwriting of investments placed through syndicators for the Community Development Banking Group. Long serves on the board's Finance, Operations & Audit Committee and we look forward to his counsel on market conditions throughout California and his perspective as a long-time Merritt investor.

We anticipate closing Merritt Capital's Equity Partnership Fund X in 2006 and we want to express our appreciation to all the investors, developers and affordable housing professionals who assisted Merritt in accomplishing our mission in 2005.

# Equity Investments

TOTAL CAPITAL RAISED (Equity in Millions)



Merritt Capital raises equity from financial institutions and corporations interested in the benefits provided by the Low Income Housing Tax Credit program. Through this program, Merritt provides a competitive rate of return while promoting community investment through the production of affordable housing.

By investing in one of Merritt’s partnership funds, a corporation becomes a limited partner in that fund. Merritt serves as the fund’s general partner. It uses the pooled capital in these funds to make investments in affordable housing throughout California.

Tax credits flow to investors, but as limited partners in the fund, investors are protected from liability. Investors receive benefits over a fifteen-year period.

To date, Merritt Capital has raised nearly \$223 million through its pooled partnership funds and direct investments. This capital has financed 3,266 units of affordable housing.

# 2005 Acquisition Highlights

## **Klimm Apartments, San Francisco**

The Klimm Apartments were built in 1913 and provide 42 units of housing in a seven story hotel. The Klimm is unique in that while most of the units are single room occupancy, they all contain full kitchens and bathrooms. Merritt Capital provided an equity investment for this acquisition and rehabilitation project sponsored by the Tenderloin Neighborhood Development Corporation. This rehabilitation will ensure the long term integrity of the building's systems and structure, improve life safety and provide an attractive, sanitary, safe and affordable living environment.

## **Baywood Apartments, Fremont**

Built by Eden Housing in 1990 and owned by an Eden affiliate and the Chevron Corporation, Baywood Apartments were purchased, refinanced and recapitalized with equity provided by Merritt Capital. The deal was accomplished with a significant level of soft debt provided by the City of Fremont. Current tenants of the 83-unit complex will remain in place and are expected to qualify

with incomes ranging from 30 to 60 percent of the area median income.

## **Point Reyes Family Homes**

Point Reyes Family Homes consists of 26 affordable rental units in Point Reyes Station. Merritt Capital provided equity to construct these apartments which serve residents at or below 60 percent of the area median income. Some of the units are earmarked for farm workers, a population that is in great need of affordable housing.

## **Josephine Lumm Lodge, Hayward**

Josephine Lumm Lodge was built in 1973 and it was Eden Housing's first multifamily development. The 150-unit building serves independent seniors and it is being refinanced and rehabilitated with equity from Merritt Capital's Fund IX Partnership. Over \$10 million in repairs and upgrades will be made. With the debt restructuring this results in a total project cost of \$24 million.

# Asset Management

Merritt Capital's Asset Management staff reviews the financial and physical operations of each investment property to ensure tax credit compliance. Merritt monitors the operational integrity of each property providing streamlined reporting systems to its investment and housing development partners.

Merritt also conducts regular asset management training for its partners' site supervisors, property managers and other interested compliance professionals. These workshops provide training in Tenant Certification for Tax Credit Properties, Finance and Budget Planning, and Advanced Tax Credit Compliance.

In 2005, Merritt Capital's Asset Management Department :

- Placed in service 276 units of affordable housing
- Provided 16 trainings to 560 participants
- Participated in presentations at the Assisted Housing Management Agents Conference, NeighborWorks Conference, and the National Association of State and Local Equity Funds Conference
- Hosted informal support group for 60 compliance managers and property manager supervisors in the San Francisco Bay Area
- Increased the total number of units under active asset management to 3,542





# Communications

Merritt Capital assists in media outreach, event planning and promoting its investors and housing development partners. Staff are dedicated to recognizing the critical role our partners play in the creation of affordable housing and we highlight their efforts on our web site, in our publications, and through our awards and outreach activity.

Every year an investor, a nonprofit housing developer, and an affordable housing project are recognized at Merritt's Partnership Luncheon. Each are honored for their special contributions to the affordable housing industry in California.

In 2005, Merritt honored Washington Mutual Bank for its increasing support in Merritt's partnership funds. The Tenderloin Neighborhood Development Corporation was recognized for its achievement in creating and preserving affordable housing in San Francisco. Finally, Citrus Grove Apartment was named Project of the Year for its extraordinarily efficient rehabilitation and provision of high quality service-enriched housing.



Board Chair John Sheldon and Barney Deasy present the Investor of the Year award to Eric Hester of Washington Mutual. Below: Barney Deasy holds the ribbon at the Grand Opening of Magnolia Park Apartments in Napa.



Project of the Year award for Citrus Grove Apartments went to Laura Archuleta of Jamboree Housing and Augusto Sasso of Preservation Partners.



# Development Profile

## *Magnolia Park*

When Magnolia Park's 1.8 acre site was bought in an estate sale, it consisted of seven shacks that provided ten units of sub-standard housing. Napa Valley Community Housing transformed this site into 29 units of safe, clean, affordable housing for low income individuals and families.

Magnolia Park was built with energy efficiency in mind and its kitchens feature energy efficient lighting and ENERGY STAR appliances. High energy efficiency gas-fueled heating is used in Magnolia Park's townhouses and hydronic heating is used in the



The Grand Opening for Magnolia Park was held on October 3, 2005. Below: the Jose Israel Iruca family live in a three-bedroom townhouse at Magnolia Park.





Magnolia Park consists of four studio apartments, four one-bedroom units, four two-bedroom units, 12 three-bedrooms, and four four-bedroom apartments. Pictured above is a children's play area.

other units. According to Sue Dee Shenk, Napa Valley Community Housing's Executive Director, "We strive to exceed California's Energy Efficiency Standards and we use green building materials whenever we can."

Magnolia Park was financed with equity from Merritt Capital's Fund IX Partnership Fund. Fund IX investors are Bank of America, Bank of the West, Fannie Mae, Freddie Mac, Union Bank of California, Washington Mutual and Wells Fargo Bank.

## **Napa Valley Community Housing**

Napa Valley Community Housing was formed as a result of a merger between two local nonprofit housing agencies in 1996. In combination with the work of its predecessors, NVCH has over 30 years of experience and accomplishments in the field of affordable housing. In the last decade it has developed more than 600 new apartments and rental homes and supervised the rehabilitation of an additional 218 units. As the county's primary housing manager, it currently manages over 350 units of rental units in the pre-development or construction stages.

# Property Investment List

Property	Fund	Location	Units	Type
California Hotel	1989/Fund V	Oakland	151	SRO
Marcus Garvey Commons	1991	Oakland	22	Family
Riverhouse Hotel	1991/1992	Martinez	75	Seniors/Disabled
San Pablo Hotel	1991/1992	Oakland	144	Senior SRO
Madison Park Apartments	1992	Oakland	98	Family
Hismen Hin-Nu Terrace	1992	Oakland	92	Family
Lyric Hotel	1994	San Francisco	58	Disabled
Main Street Park	1994	Half Moon Bay	36	Family
School House Station	1994/Fund V	Daly City	46	Family
Jardines Del Valle	1994	Watsonville	18	Family
Madison Place Apartments	Fund V	Bakersfield	56	Family
Shattuck Senior Homes	Fund V	Berkeley	27	Seniors
Pensione Esperanza	Fund V	San Jose	110	SRO
Grant Village Townhomes	Fund V	Stockton	40	Family
Harris Court	Fund VI	Hayward	20	Family
Canon Barcus	Fund VI/VII	San Francisco	48	Family/Disabled
Notre Dame Apartments	Fund VI/VII	San Francisco	204	Seniors/Disabled
Belvedere Place	Fund VI	San Rafael	26	Family
Namiki Apartments	Fund VI	San Francisco	34	Seniors
Redwood Oaks	Fund VI	Redwood City	36	Family
HomeSafe Santa Clara	Fund VI	Santa Clara	25	Special Needs
Antonia Manor	Fund VII	San Francisco	133	SRO
Maria Manor	Fund VII	San Francisco	119	SRO
Union Court Apartments	Fund VII	Manteca	68	Family
Hotel Redding	Fund VII/VIII	Redding	49	Seniors
West Rivertown Apartments	Fund VIII	Antioch	57	Family
HomeSafe San Jose	Fund VII	San Jose	25	Special Needs
Burgess Point	Fund VIII	Benicia	56	Family
Lorenzo Creek Apartments	Fund VIII	Castro Valley	28	Family/Special Needs
Union Square II	Fund VIII	Fairfield	24	Family
Citrus Grove	Fund VIII	Fontana	50	Family
St. Vincent's	Fund IX	Santa Barbara	74	Family
Magnolia Park	Fund IX	Napa	29	Family
Klimm Apartments	Fund IX	San Francisco	42	SRO
Baywood Apartments	Fund IX	Fremont	83	Family
Josephine Lumm Lodge	Fund IX	Hayward	150	Seniors
Point Reyes Family Homes	Fund IX	Point Reyes	27	Family/Farmworkers
<b>Total</b>			<b>2380</b>	

# Direct Investments

Property	Investor	Location	Units	Type
Plaza & Ramona	PG&EHF	San Francisco	61	Disabled
Madison Place	PG&EHF/Fund V	Bakersfield	Listed in Fund V	Family
Marina Vista/Hgts.	PG&EHF	Vallejo	388	Family/ Individual
Papago Court	PG&EHF	Santa Rosa	48	Family
W. Capital Crtyrd. II	PG&EHF	West Sacramento	75	Family
Greenridge Apts.	PG&EHF	S. San Francisco	34	Family
Light Tree Apts.	PG&EHF	East Palo Alto	94	Family
Paulin Creek	PG&EHF	Santa Rosa	48	Family
Adeline Lofts	Silicon Valley Bank	Oakland	38	Live/Work Lofts
Rich Sorro Commons	PG&EHF	San Francisco	100	Family
<b>Total</b>			<b>886</b>	



Greenridge Apartments (above) provide 34 units of family housing in South San Francisco. Developed by Mid-Peninsula Housing Coalition, Greenridge offers two-, three- and four-bedroom townhouse apartments for very low income residents.

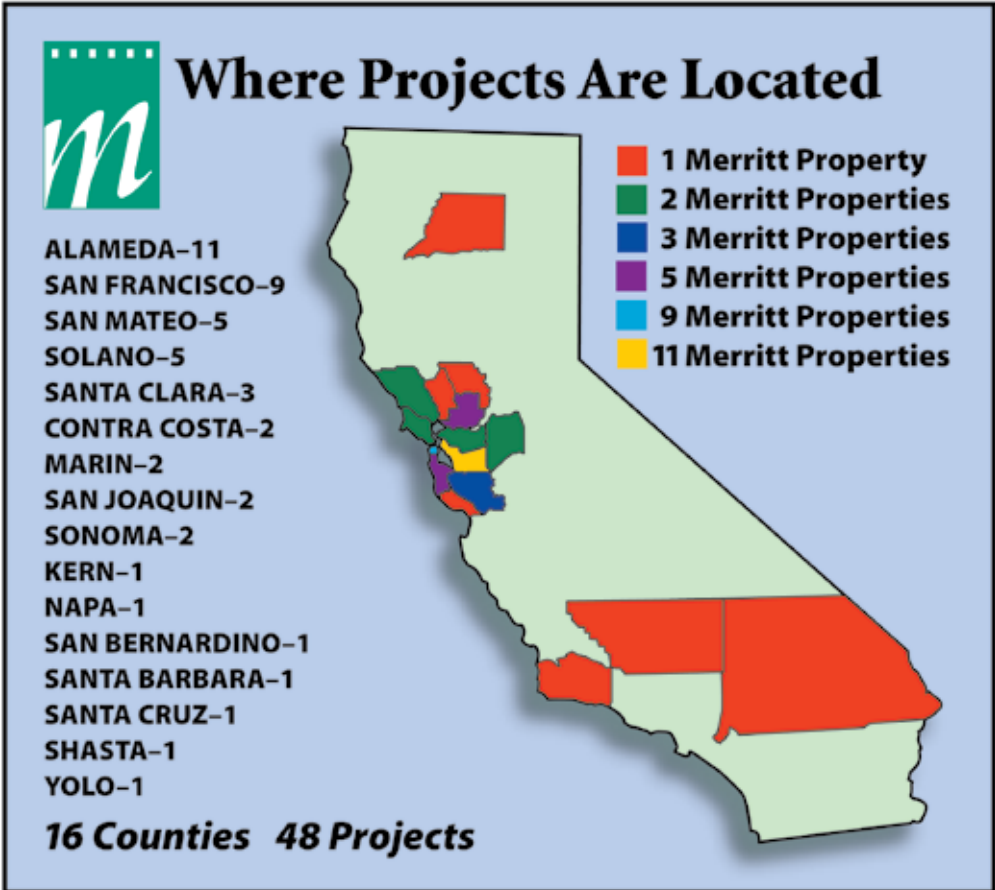
Rich Sorro Commons (below) is a 100-unit family development sponsored by Mission Housing Development Corporation. It is located across from AT&T Ballpark in San Francisco.



# Portfolio Profile

Merritt Capital makes investments throughout the state of California. Merritt has worked with 30 housing development partners in the creation and rehabilitation of a wide variety of affordable housing including single-room-occupancy hotels, senior developments, family housing, special needs projects and co-housing developments.

Family housing makes up 62 percent of Merritt’s investment portfolio. Senior housing makes up 19 percent and SRO/Special Needs housing comprises the remaining 19 percent. The majority of Merritt investment properties (59 percent) are acquisition and rehabilitation projects; the remaining 41 percent are new construction.



# Fund Investors

## 1989 Fund Investors

Bank of America  
Bank of the West  
Bramalea Pacific, Inc.  
Dreyer's Grand Ice Cream, Inc.  
First Nationwide Bank  
PG&E Corporation  
Quaker Oats

## 1991 Fund Investors

Bank of America  
Bank of the West  
Bay View Capital Corporation  
Dreyer's Grand Ice Cream, Inc.  
Fannie Mae  
Freddie Mac  
Union Bank

## 1992 Fund Investors

Bank of America  
Bank of California  
Bank of the West  
Bay View Capital Corporation  
Fannie Mae  
First Interstate Bank  
Freddie Mac  
PG&E Corporation  
Sanwa Bank  
Union Bank

## 1994 Fund Investors

Bank of America  
Bank of California  
Bank of the West  
Fannie Mae  
First Interstate Bank  
Freddie Mac  
Home Savings of America  
PG&E Corporation  
Sanwa Bank of California  
Union Bank

## Fund V Investors

Bank of America  
Bank of the West  
Fannie Mae  
Freddie Mac  
Home Savings of America  
PG&E Corporation  
Sanwa Bank of California  
Union Bank of California  
Wells Fargo Bank

## Fund VI Investors

Bank of America  
Bank of the West  
Comerica Bank  
Fannie Mae  
Freddie Mac  
Sanwa Bank of California  
Union Bank of California  
United Commercial Bank  
Wells Fargo Bank

## Fund VII Investors

Bank of America  
Bank of the West  
Comerica Bank  
Downey Savings & Loan  
Fannie Mae  
Freddie Mac  
Sanwa Bank of California  
Silicon Valley Bank  
Union Bank of California  
Washington Mutual  
Wells Fargo Bank  
Westamerica Bank

## Fund VIII Investors

Bank of America  
Bank of the West  
Fannie Mae  
Freddie Mac  
Union Bank of California  
Washington Mutual  
Wells Fargo Bank

## Fund IX Investors

Bank of America  
Bank of the West  
Fannie Mae  
Freddie Mac  
Union Bank of California  
Washington Mutual  
Wells Fargo Bank

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
MERRITT COMMUNITY CAPITAL CORPORATION

We have audited the accompanying statements of financial position of MERRITT COMMUNITY CAPITAL CORPORATION (a California Non-Profit Public Benefit Corporation), as of December 31, 2005 and 2004, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MERRITT COMMUNITY CAPITAL CORPORATION as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Reznick  
Group

Skokie, Illinois  
January 25, 2006



**MERRITT COMMUNITY CAPITAL CORPORATION**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2005 AND 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents Unrestricted	\$ 352,593	\$ 373,271
Cash and Cash Equivalents Held on Behalf of Related Entities	15,095	15,020
Accounts Receivable	3,117	548
Partnership Fees Receivable	1,965,161	1,505,740
Receivable from Managed Funds	1,198,098	2,617,684
Prepaid Expenses	<u>20,952</u>	<u>15,927</u>
<u>TOTAL CURRENT ASSETS</u>	<u>\$ 3,555,016</u>	<u>\$ 4,528,190</u>
<u>FIXED ASSETS</u>		
Furniture, Equipment, and Software (Net of Accumulated Depreciation of \$100,317 and \$94,321 in 2005 and 2004)	<u>\$ 24,777</u>	<u>\$ 8,729</u>
<u>OTHER ASSETS</u>		
Partnership Fees Receivable	\$ 3,471,116	\$ 2,940,819
Note Receivable - City of Oakland	<u>992,500</u>	<u>992,500</u>
<u>TOTAL OTHER ASSETS</u>	<u>\$ 4,463,616</u>	<u>\$ 3,933,319</u>
<u>TOTAL ASSETS</u>	<u>\$ 8,043,409</u>	<u>\$ 8,470,238</u>

**MERRITT COMMUNITY CAPITAL CORPORATION**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2005 AND 2004**

**LIABILITIES AND NET ASSETS**

	<u>2005</u>	<u>2004</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 10,767	\$ 37,481
Deferred Revenue	79,090	79,092
Due to Affiliates	71,441	70,449
Due to Bank	<u>1,500,000</u>	<u>2,460,000</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>\$1,661,298</u>	<u>\$ 2,647,022</u>
<u>OTHER LIABILITIES</u>		
Deferred Revenue	\$ 384,095	\$ 463,183
Loan Payable - City of Oakland	<u>685,800</u>	<u>685,800</u>
<u>TOTAL OTHER LIABILITIES</u>	<u>\$1,069,895</u>	<u>\$ 1,148,983</u>
<u>TOTAL LIABILITIES</u>	<u>\$2,731,193</u>	<u>\$ 3,796,005</u>
<u>COMMITMENT</u>	<u>\$ -</u>	<u>\$ -</u>
<u>NET ASSETS</u>		
Capital Contribution - Demand Note	\$ 992,500	\$ 992,500
Net Assets - Unrestricted	<u>4,319,716</u>	<u>3,681,733</u>
<u>TOTAL NET ASSETS</u>	<u>\$5,312,216</u>	<u>\$ 4,674,233</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$8,043,409</u>	<u>\$ 8,470,238</u>

**MERRITT COMMUNITY CAPITAL CORPORATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

<u>UNRESTRICTED NET ASSETS</u>	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
Partnership Fees	\$ 1,920,237	\$ 1,469,309
Direct Investment Services Fee	213,458	200,362
Interest Income	14,272	4,241
Other Income	<u>43,909</u>	<u>63,534</u>
<u>TOTAL REVENUES</u>	<u>\$ 2,191,876</u>	<u>\$ 1,737,446</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	\$ 1,073,800	\$ 1,004,323
Legal and Accounting	216,154	239,212
Consultants	12,707	42,869
Office Rent and Parking	76,640	51,148
Office Expense	43,839	30,255
Dues and Subscriptions	5,137	6,913
Travel	30,126	36,911
Events	6,891	8,402
Marketing	31,528	36,451
Insurance	5,516	6,141
Contributions	20,050	18,900
Miscellaneous	25,509	19,111
Depreciation	<u>5,996</u>	<u>12,168</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 1,553,893</u>	<u>\$ 1,512,804</u>
<u>INCREASE IN NET ASSETS – UNRESTRICTED</u>	<u>\$ 637,983</u>	<u>\$ 224,642</u>
<u>NET ASSETS UNRESTRICTED - BEGINNING OF YEAR</u>	<u>3,681,733</u>	<u>3,457,091</u>
<u>NET ASSETS UNRESTRICTED - END OF YEAR</u>	<u>\$ 4,319,716</u>	<u>\$ 3,681,733</u>

**MERRITT COMMUNITY CAPITAL CORPORATION**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase in Unrestricted Net Assets	\$ <u>637,983</u>	\$ <u>224,642</u>
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	\$ 5,996	\$ 12,168
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(2,569)	6,415
Partnership Fees Receivable	(989,718)	(1,103,320)
Prepaid Expenses	(5,025)	252
(Decrease) Increase in Operating Liabilities:		
Accounts Payable	26,714	36,347
Deferred Revenue	(79,090)	(83,875)
<u>TOTAL ADJUSTMENTS</u>	<u>\$(1,097,120)</u>	<u>\$(1,132,013)</u>
<u>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>	<u>\$ (459,137)</u>	<u>\$ (907,371)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	\$ (22,044)	\$ -
Receivable from Upper Tier Partnerships	1,419,586	(2,617,684)
(Increase) in Cash – Held on Behalf of Related Entities	<u>(75)</u>	<u>(41)</u>
<u>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</u>	<u>\$ 1,397,467</u>	<u>\$ (2,617,725)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
(Repayment of) Proceeds from Line of Credit	\$ (960,000)	\$ 2,460,000
Proceeds from Affiliates	<u>992</u>	<u>35,996</u>

**MERRITT COMMUNITY CAPITAL CORPORATION**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2005 AND 2004 -- CONTINUED**

	<u>2005</u>	<u>2004</u>
<u>NET CASH PROVIDED BY (USED IN) FINANCING</u> <u>ACTIVITIES</u>	\$ (959,008)	\$ 2,495,996
<u>NET INCREASE (DECREASE) IN CASH</u>	\$ (20,678)	\$ (1,029,100)
<u>CASH AND CASH EQUIVALENTS -</u> <u>BEGINNING OF YEAR</u>	<u>373,271</u>	<u>1,402,371</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 352,593</u>	<u>\$ 373,271</u>

**MERRITT COMMUNITY CAPITAL CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

NOTE 1 - ORGANIZATION

MERRITT COMMUNITY CAPITAL CORPORATION (the "Corporation") is a nonprofit public benefit corporation. It is organized under the California Nonprofit Public Benefit Corporation Law for charitable purposes and not for the private gain of any person. The Corporation is to have and exercise all rights and powers conferred on nonprofit corporations under the laws of the State of California, provided that it shall not, except to an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the primary purposes of this Corporation. The directors of the Corporation shall be elected by the board and shall number no less than seven and no more than twenty-one.

The specific charitable and public purposes for which the Corporation is organized are:

- (i) Support the development of low to moderate-income housing in the State of California primarily in the San Francisco Bay area;

- (ii) Raise capital for housing equity by marketing state and federal tax credits for low-income housing;
- iii) Enter into limited partnerships (the Partnerships) with individuals and/or legally constituted entities;
- (iv) Act as Managing or General Partner of any such Partnership, venture or as sociation;
- (v) Engage in any other activity which may be necessary to carry out the purposes of supporting the development of low to moderate income housing in the State of California primarily in the San Francisco Bay area.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Corporation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

### RELATED PARTIES

The Corporation serves as the General Partner of the following Partnerships:

1989 - Oakland Housing Partnership Associates (1989 OHPA)  
1991 - Oakland Housing Partnership Associates (1991 OHPA)  
1992 - Oakland Regional Housing Partnership Associates (1992 ORHPA)  
1994 - Oakland Regional Housing Partnership Associates (1994 ORHPA)  
Merritt Community Capital Fund V, L.P. (MCC Fund V)  
Merritt Community Capital Fund VI, L.P. (MCC Fund VI)  
Merritt Community Capital Fund VII, L.P. (MCC Fund VII)  
Merritt Community Capital Fund VIII, L.P. (MCC Fund VIII)  
Merritt Community Capital Fund IX, L.P. (MCC Fund IX)  
Pacific Gas and Electric Housing Fund, L.P. (PG & EHF)

### REVENUE RECOGNITION

### PARTNERSHIP FEES

As General Partner of the Partnerships, the Corporation is entitled to reasonable investment and management fees for its services to the Partnerships and reimbursement for all accounting, administrative, legal, technical and management services incurred on their behalf. The Corporation and the Partnerships have agreed that total fees and reimbursements will not exceed ten percent of Partnership capital.

## DIRECT INVESTMENT FEES – PACIFIC GAS AND ELECTRIC HOUSING FUND

The Corporation will receive a project investment service fee for Low Income Housing Tax Credit projects. The Corporation will receive a general partnership management service fee plus project investment fees annually. The fee will commence upon execution of the Project Limited Partnership Agreement by General and Limited Partners. The Corporation will also receive asset management service fees. The fee will be payable annually in arrears on the project anniversary date established by the Corporation.

## 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

## CAPITALIZATION AND DEPRECIATION

Furniture and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives as follows:

	<u>Estimated Life</u>	<u>Method</u>
Furniture, Equipment, and Software	5 and 7 years	Accelerated

## INCOME TAXES

The Corporation is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

## INVESTMENTS IN PARTNERSHIPS

Investments in partnerships are accounted for on the equity method. Under this method, losses are recognized as a reduction of the carrying value of the investment but not in

excess of its initial cost.

Investment in partnerships consisted of the following at December 31, 2005 and 2004:

	Investment in Partnerships December 31, 2005	Share of 2005 Partnership Income (Loss)	Ownership Interest as a General Partner
1) 1989 OHPA	-	-	.1%
2) 1991 OHPA	-	-	1%
3) 1992 ORHPA	-	-	1%
4) 1994 ORHPA	-	-	1%
5) MCC Fund V	-	-	1%
6) MCC Fund VI	-	-	.1%
7) MCC Fund VII	-	-	.1%
8) MCC Fund VIII	-	-	.1%
9) MCC Fund IX	-	-	.1%
10) PG & EHF	-	-	.1%

NOTE 3 - CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Corporation may maintain its cash in bank deposit and money market accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 4 - CASH HELD ON BEHALF OF RELATED ENTITIES

The Corporation holds cash on behalf of related entities for the following purpose:

As a holding account for capital calls received and disbursements made to project partnerships on behalf of the 1991 OHP and 1992 ORHP Partnerships.

<u>2005</u>	<u>2004</u>
<u>\$ 15,095</u>	<u>\$ 15,020</u>



NOTE 5 - DEDICATION AND DISPOSITION OF ASSETS

The property of the Corporation is irrevocably dedicated to charitable purposes, and no part of the excess of revenues over expenditures or assets of this corporation shall ever inure to the benefit of any director, officer, or member of this corporation or to the benefit of any private individual.

Upon the time of its dissolution, the Corporation has an obligation to distribute assets to the City of Oakland in an amount not to exceed \$500,000. The obligation is subordinate to any and all other loans, obligations, and liabilities of the Corporation and is not secured by any of the assets of the Corporation. After paying or adequately providing for the debts and obligations of the Corporation, the remaining assets shall be distributed to a nonprofit fund, foundation, or corporation that is organized and operated exclusively for charitable purposes, and which has established and maintained its tax exempt status.

NOTE 6 - LIMITATION OF CORPORATE ACTIVITIES

This Corporation is organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. As such, the Corporation shall not carry on any activities not permitted to be carried on by: (i) a corporation exempt from federal income tax under Section 501(c)(3); or (ii) by a corporation, contributions to which are deductible under Section 170 of the Internal Revenue Code or the corresponding provisions of any other United States Internal Revenue Law.

No substantial part of the activities of this Corporation shall consist of lobbying or propaganda, or otherwise attempting to influence legislation, except as provided in Section 501(h) of the Internal Revenue Code. This Corporation shall not participate in or interfere in (including publishing or distributing statements) any political campaign on behalf of any candidate for public office except as provided in Section 501(h) of the Internal Revenue Code.

NOTE 7 - LOAN PAYABLE TO THE CITY OF OAKLAND

The Corporation has entered into a loan agreement with the City of Oakland dated November 1, 1995 in the amount of \$685,800. The loan bears no interest and is unsecured. The repayment obligation is subordinate to any and all other loans, obligations, and liabilities of the Corporation. At the sole discretion of the Corporation, loan repayments shall be directed to fund Partnership reserves as follows:

NOTE 7 - LOAN PAYABLE TO THE CITY OF OAKLAND – Continued

<u>Partnership</u>	<u>Amount</u>
1989 OHPA	\$ 157,000
1991 OHPA	180,000
1992 ORHPA	348,800
<u>Total</u>	<u>\$ 685,800</u>

Upon dissolution of each Partnership, and following satisfaction of all Partnership liabilities, the balance of each reserve shall be paid to the City of Oakland.

NOTE 8 - CAPITAL CONTRIBUTION DEMAND NOTE

The Corporation and the Redevelopment Agency of the City of Oakland (ORA) have entered into an agreement whereby ORA has provided additional capital to the Corporation by issuing to it two irrevocable unconditional letters of credit. The letters of credit, which authorize draws up to \$992,500, expire December 31, 2022. Drafts drawn under the letters of credit must be accompanied by a signed certification stating that the draw will be used for net worth obligations of the Corporation in its capacity as General Partner of 1989 OHPA and 1991 OHPA or for the capitalization of those Partnerships.

NOTE 9 - PARTNERSHIP FEES RECEIVABLE

Amounts receivable from Partnerships represent cumulative investment and management fee income earned but not received at year end as follows:

	<u>December 31, 2005</u>		
<u>Partnership</u>	<u>Fees Receivable Current</u>	<u>Fees Receivable Noncurrent</u>	<u>Total</u>
MCC Fund V	\$ -	\$ -	\$ -
MCC Fund VI	14,233	-	14,233
MCC Fund VII	1,103,847	39,781	1,143,628
MCC Fund VIII	847,081	1,781,336	2,628,417
MCC Fund IX	-	1,649,999	1,649,999
<u>Total</u>	<u>\$ 1,965,161</u>	<u>\$ 3,471,116</u>	<u>\$5,436,277</u>

NOTE 9 - PARTNERSHIP FEES RECEIVABLE – Continued

December 31, 2004

<u>Partnership</u>	<u>Fees Receivable Current</u>	<u>Fees Receivable Noncurrent</u>	<u>Total</u>
MCC Fund V	\$ 158,233	\$ 26,939	\$ 185,172
MCC Fund VI	7,600	-	7,600
MCC Fund VII	597,470	722,143	1,319,613
MCC Fund VIII	582,377	1,153,677	1,736,054
MCC Fund IX	<u>160,060</u>	<u>1,038,060</u>	<u>1,198,120</u>
<u>Total</u>	<u>\$ 1,505,740</u>	<u>\$ 2,940,819</u>	<u>\$ 4,446,559</u>

NOTE 10 - MANAGED FUNDS ADVANCES

The amounts due from the upper tier partnerships represent advances to the upper tier for capital advances to the project limited partnerships in which the upper tier is an investor. The amounts advanced to the upper tier partnerships were \$1,500,000 and \$2,617,684 during 2005 and 2004, respectively. The amounts repaid to the Corporation were \$2,919,586 and \$0- during 2005 and 2004, respectively. The amount due from the upper tier partnerships as of December 31, 2005 and 2004 were \$1,198,098 and \$2,617,684, respectively.

NOTE 11 - DUE TO PARTNERSHIPS

Amounts due to the Partnerships totaling \$34,453 and \$34,453 at December 31, 2005 and 2004, represent capital contributions received on behalf of those entities in December 2005 and 2004. During 2005 and 2004, \$0- and \$0- was paid to the Partnerships, respectively.

The amount due to MCC Fund V and 1994 ORHPA represent advances to the Corporation for future audit fees and California franchise tax. The amounts advanced to the Corporation during 2005 and 2004 were \$992 and \$35,996, respectively. The amounts due to MCC Fund V and 1994 ORHPA as of December 31, 2005 and 2004 are \$36,998 and \$35,996, respectively.

NOTE 12 - DEFERRED REVENUE

Under the arrangements for the provision of investment and management services, the Corporation collects Partnership Fees in the early years of the Partnerships. These fees

are recognized as income when earned over a period of ten to fifteen years. Certain partnership fees have been collected in advance, thus creating deferred revenue totaling \$463,185 and \$542,275 as of December 31, 2005 and 2004.

NOTE 13 - LEASE COMMITMENTS

The Corporation is obligated under a lease for office space dated January 27, 2005 with a base rent of \$85,170 per year increasing annually. Under the terms of the amended lease, which commenced April 1, 2005 and expires May 31, 2012, the future minimum lease payments are as follows:

Year Ended December 31,	2006	\$	86,661
	2007		89,260
	2008		91,938
	2009		94,696
	2010		97,537
	Thereafter		<u>142,837</u>
	Total	\$	<u>602,929</u>

NOTE 14 - BENEFIT PLANS

The Corporation has a Simple Employee Pension Plan that allows for employer contributions to be made. The Corporation contributions for the plan as of December 31, 2005 and 2004 were \$59,014 and \$50,951, respectively.

NOTE 15 - LINE OF CREDIT

As of January 29, 2004, the Corporation entered into a Credit Agreement with Bank of the West. The Corporation's credit limit is not to exceed \$2,500,000 including all the Corporation's other outstanding loans. The interest rate is at the option of the Corporation as defined in the Agreement as follows: the adjusted LIBOR or Prime Rate. Interest is to be paid monthly. The repayment of principal is due the earliest of the date upon which the Project being funded by the underlying Partnership Loan and the applicable borrowing partnership shall have acquired the property associated with the Project, or June 30, 2006, as such date may be extended from time to time. The credit line is collateralized by cash and cash equivalents, receivables and equipment.

<u>2005</u>	<u>2004</u>
<u>\$ 1,500,000</u>	<u>\$ 2,460,000</u>

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