

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2008-08-29** | Period of Report: **2006-03-31**  
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### FILER

#### **BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP**

CIK: **874662** | IRS No.: **113022123** | State of Incorporation: **DE** | Fiscal Year End: **0331**

Type: **10-K** | Act: **34** | File No.: **000-19258** | Film No.: **081048938**

SIC: **6513** Operators of apartment buildings

#### Mailing Address

*C/O MEGAN ASSET  
MANAGEMENT INC  
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AVENUE SUITE 102  
BISMARCK ND 58501*

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CO INC  
BISMARCK ND 58501  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2006 or

// Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-19258

**BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-3022123  
(I.R.S. Employer  
Identification Number)

c/o Paul J. Maddock, Megan Asset Management, Inc.  
1424 West Century Avenue, Suite 102, Bismarck, ND 58503  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (701) 223-2923

Securities registered pursuant to Section 12(b) of the Act: NONE.

Securities registered pursuant to Section 12(g) of the Act: LIMITED PARTNERSHIP  
INTERESTS  
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes // No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).  
// Yes /  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  
// Yes /  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

## DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospects filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933: NONE

**BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP  
FORM 10-K  
FOR THE YEAR ENDED MARCH 31, 2006**

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## PART I

### Item 1. Business

#### Organization

Bayfield Low Income Housing Limited Partnership (the "Partnership") is a Delaware limited partnership organized as of July 1, 1990 pursuant to the provisions of a Joint Plan of Reorganization of 52 Debtors (investor limited partnerships - the "Debtor Investor Partnerships"), dated May 9, 1990, pursuant to the provisions of Chapter 11 of Title 11, United States Code, as confirmed July 13, 1990 and amended from time to time thereafter (the "Plan"). Each of the Debtor Investor Partnerships was a newly formed Delaware limited partnership which was originally formed to and did acquire equity interests in limited partnerships (the "Operating Partnerships"), each of which developed and owned and operates or operated a multi-family apartment complex for low to moderate income tenants (each, a "Project" - See "Ownership Interest in Operating Partnerships" chart below).

The Partnership was created under the Plan as a master limited partnership into which all of the assets and liabilities of the Debtor Investor Partnerships were "rolled-up" as of July 1, 1990. Pursuant to the Plan, the Partnership has succeeded to the interests of the Debtor Investor Partnerships in the Operating Partnerships, and the Debtor Investor Partnerships were liquidated in 1990.

The 52 Debtor Investor Partnerships were the following Delaware limited partnerships:

**Arlington Estates Limited Partnership**  
**Barrington Estates Limited Partnership**  
**Bayfield Estates Limited Partnership**  
**Beechfield Estates Limited Partnership**  
**Birchfield Estates Limited Partnership**  
**Blakefield Estates Limited Partnership**  
**Brighton Estates Limited Partnership**  
**Brookline Estates Limited Partnership**  
**Candle Ridge Estates Limited Partnership**  
**Canterbury Estates Limited Partnership**  
**Carlyle Estates Limited Partnership**  
**Cherrywood Estates Limited Partnership**  
**Chesterfield Estates Limited Partnership**  
**Clarkson Estates Limited Partnership**  
**Clayton Estates Limited Partnership**  
**Cloverfield Estates Limited Partnership**  
**Copperfield Estates Limited Partnership**  
**Crescent Estates Limited Partnership**  
**Deerfield Estates Limited Partnership**  
**Delafield Estates Limited Partnership**  
**Edenfield Estates Limited Partnership**  
**Emerald Estates Limited Partnership**  
**Everest Estates Limited Partnership**  
**Evergreen Estates Limited Partnership**  
**First Estates Limited Partnership**  
**Glenwood Estates Limited Partnership**

**Greenfield Estates Limited Partnership**

**Greenwood Estates Limited Partnership**  
**Harborfield Estates Limited Partnership**  
**Holly Estates Limited Partnership**  
**Hunter Estates Limited Partnership**  
**Kehrs Mill Estates Limited Partnership**  
**Littlefield Estates Limited Partnership**  
**Livingston Realty Investors Limited**  
**Meadowfield Estates Limited Partnership**  
**Mitchellfield Estates Limited Partnership**  
**Northfield Estates Limited Partnership**  
**Norwich Estates Limited Partnership**  
**Oleander Estates Limited Partnership**  
**Pine Hollow Estates, A Delaware Ltd. Partnership**  
**Plainfield Estates Limited Partnership**  
**Plantingfield Estates Limited Partnership**  
**Redwood Estates Limited Partnership**  
**Rosewood Estates Limited Partnership**  
**Sagewood Estates Limited Partnership**  
**Southfield Estates Limited Partnership**  
**Springfield Estates Limited Partnership**  
**Summerfield Estates Limited Partnership**  
**Sycamore Realty Investors Limited Partnership**  
**Walnut Estates Limited Partnership**  
**Wynnfield Estates Limited Partnership**  
**Wilshire Estates Limited Partnership**

First American Holdings, Inc., a Delaware corporation ("First American"), was the sole general partner of each of the Debtor Investor Partnerships, and was the initial General Partner of the Partnership under the Plan. The Plan required that an independent manager that was not affiliated with First American take over the responsibility for the administration of the Partnership. A committee formed by the representatives of the three principal creditor classes in the bankruptcy proceedings (respectively, the "Developer Committee", the "Secured Lender Group", and the "Investors Committee") selected Megan Management Company, Inc. ("Megan Management") as the independent manager and entered into a management agreement with Megan Management as of July 10, 1990 (as amended by that Amended and Restated Management Agreement as of December 23, 1991 the "Management Agreement").

Effective December 23, 1991, First American withdrew as general partner, subject to the approval of the Limited Partners, pursuant to a Settlement Agreement (the "Settlement Agreement") with the Partnership and Megan Management. Among other things, the Settlement Agreement provided for certain amendments to the partnership agreement of the Partnership and, at the request of the Investors Committee, for the replacement of First American as General Partner of the Partnership by Megan Management or an affiliated company which were effected by the Second Amended and Restated Agreement of Limited Partnership of Bayfield Low Income Housing Limited Partnership entered into as of the 23rd day of December, 1991 (the "Partnership Agreement"). The Settlement Agreement was approved by the bankruptcy court, and the Plan modified in accordance therewith, by an order entered June 22, 1992. Consent of the Limited Partners of the Partnership was obtained in October 1992.





As of December 31, 1992, Megan Management's rights and obligations as General Partner and Independent Manager of the Partnership were assigned to, and assumed by, Megan Asset Management, Inc. ("Megan Asset Management" or the "Independent Manager"), a corporation which was under common ownership and control with Megan Management.

Megan, as the General Partner has full, exclusive and complete discretion in the management and control of the Partnership, except as limited by the Partnership Agreement, by the Plan or by the Management Agreement as its Independent Manager. Megan Asset Management, in its capacity as Independent Manager under the Plan, is responsible for the day-to-day management of the Partnership's operations.

Each of the Debtor Investor Partnerships' offerings of Limited Partnership Interests (as hereinafter defined) had been closed prior to the organization of the Partnership. Accordingly, no additional interests in the Partnership are being made available and only limited transfers of Limited Partnership Interests in the Partnership are being effected in accordance with the Partnership Agreement, except pursuant to the Tender Offer (as hereinafter defined) and the purchase of the Defaulted Unit Holders' Limited Partnership Interests by Megan pursuant to the Plan and Limited Partner Security Agreement.

### **Description of Business**

The Partnership's principal business was to maintain its investments in the form of limited partnership interests in the Operating Partnerships (the "Partnership Interests" and, through such investments, in the Projects) and to carry out the provisions of the Plan. Generation of low income housing tax credits (the "Tax Credits"), under Section 42 of the Internal Revenue Code of 1986, as amended (the "Tax Code"), which was enacted by the United States Congress to promote the development of low income rental housing, by the Partnership and the receipt thereof by the Limited Partners was one of the primary business objectives of the Partnership.

A majority of the Projects received financing under Section 515 of the Housing Act of 1949, as amended ("Section 515"), which authorized Rural Housing Service, the successor agency to the Farmers Home Administration of the Department of Agriculture (collectively referred to here in as "RD") to provide direct below-market-rate mortgage loans for rural rental housing.

For Projects funded under Section 515 after December 21, 1979, which include substantially all of those in which the Partnership owns an interest, applicable law and regulations require the owner to utilize the housing for eligible low income tenants at restricted lower rents for a period of 20 years following closing of the RD mortgage.

The direct below-market-rate mortgage loans for rural rental housing provided by RD under Section 515, in amounts up to 97% of an apartment complex's cost as determined pursuant to RD regulations and for terms up to 50 years, were extended to qualified sponsors/owners organized exclusively for the purpose of providing housing. In addition, RD provided each owner with mortgage interest subsidies, which effectively lowered the interest rate of the loan to 1% after the completion of the apartment complex, the benefits of which the owner must pass through to eligible tenants in the form of lower rents. RD regulations limit cash distributions to owners of apartment

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complexes which it finances to a maximum annual return of 8% per annum, on a non-cumulative basis, on the owner's equity contribution of 3% to 5% of the cost of the apartment complex.

RD approval is required if an owner wishes to sell a Project. In addition, applicable law and regulations also preclude prepayment of mortgage loans, except in certain very limited circumstances and unless the owner agrees to utilize the project for eligible tenants for a specified period.

Each of the Projects indirectly owned by the Partnership qualified for Tax Credits. In order to generate Tax Credits and avoid recapture thereafter, there were significant additional continuing occupancy requirements with which each Project must comply for a 15-year Tax Credit compliance period under the Tax Code ("15-year Tax Credit Compliance Period"). Each Project must be rented to tenants whose incomes are below certain levels established by the federal government, and the rents, which are permitted to be charged, are strictly limited by government regulations. To the extent a Project did not comply with the Tax Credit occupancy requirements, all of the Tax Credits previously generated by the non-complying dwelling units in the applicable Project, and used by the Limited Partners, would have to be recaptured ("Tax Credit Recapture"). If this occurred the Limited Partners would have to pay a tax equal to one-third of the Tax Credits so generated by such Project and used by the Limited Partners to reduce their tax liability, together with possible penalties and interest.

Since the inception of the Partnership, ten of its Operating Partnerships became insolvent or bankrupt and RD has commenced foreclosure proceedings against three other Operating Partnerships (See "Item 2. Properties" below). A portion of the Tax Credits generated and to be generated by these Operating Partnerships were, therefore, lost. This loss of Tax Credits had a direct effect on the Limited Partners since one-third of the amount of Tax Credits allocated to the Limited Partners from these Operating Partnerships were recaptured and those to be generated and allocated to them were reduced correspondingly.

For the tax year ended December 31, 2005, there were no Tax Credits generated by the Projects or passed through by the Partnership to the Limited Partners, and net income of \$5,033,995 was passed through to the investors on their 2005 K-1's, which income included \$5,991,063 of gain the majority of which is recapture of loss deductions taken by the Limited Partners since the inception of the Partnership, rather than cash proceeds, as a result of the sale of Operating Partnership interests pursuant to its Liquidity Program, (See "Item 2. Properties" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity", below).

The following Tax Credits were generated by the Projects or passed through by the Partnership to the Limited Partners for the tax years ended:

- December 31, 2005, \$ -0-;
- December 31, 2004, \$ -0-;
- December 31, 2003, \$21,637;
- December 31, 2002, \$96,208;
- December 31, 2001, \$102,890;



- December 31, 2000, \$201,794; and
- December 31, 1999\$1,232,441

As of December 31, 1999, with substantially all of the Tax Credits having been realized from the Operating Partnerships and passed through to the Limited Partners and most of the Operating Partnerships nearing the end of their 15-year Tax Credit Compliance Period, the Partnership had reached the end of its economic useful life. Accordingly, the General Partner began exploring various exit strategies, including the sale of the Limited Partner Interests in the Partnership, the sale of the Partnership's Interests in the Operating Partnerships that own the Projects and the sale/ or refinancing by the Operating Partnerships of their Projects. However, as explained above, various restrictions in connection with the RD mortgage loans, including the continuing occupancy requirements and market conditions severely restricted the Partnership's flexibility in considering various exit strategies and the value to be received from the exit strategies considered and implemented.

In view of these governmental restrictions and requirements, as well as the resulting legal complexities and costs involved in exploring and attempting to structure various exit strategies, the annual payments to be received from the Operating Partnerships, in combination with the Partnership's reserves, were not sufficient to permit the Partnership to meet its operating expenses, other than through the sale of the Partnership' s Assets, until a complete exit strategy has been implemented. Accordingly, to continue to maintain its operations a until a complete exit strategy could be implemented, the Partnership began accepting offers it had received to sell the Partnership' s Interests in a number of Operating Partnerships that own the Projects and sold 50% of its interests in 77 of its Operating Partnerships to MPFBA [as hereafter defined] (as set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity", below).

In view of the facts that the annual payments to be received from the Operating Partnerships, in combination with the Partnership's reserves, were insufficient to permit the Partnership to meet its operating expenses without the sale of the Partnership' s Assets, and in view of the fact that the Partnership had achieved its primary objectives and didn' t appear to be able to raise more capital to continue to maintain its operations and pay it' s debts, the General Partner determined that it was in the best interests of the Partnership to and it liquidated all of the Partnership' s Assets and thereafter dissolved the Partnership on March 28, 2008.

### **Business Objectives**

Although there was no assurance that the Partnership's purpose or objectives would be achieved, the sole purposes of the Partnership as set forth in the Partnership Agreement were (i) to acquire the Debtor Investor Partnerships' equity interests as a limited partner in each of the Operating Partnerships, which developed and were to own, hold, manage, operate, lease, mortgage, sell and otherwise deal with the Projects, (ii) to assume liabilities of the Debtor Investor Partnerships in accordance with the Plan, (iii) to fulfill such other undertakings of the Partnership as are set forth in the Plan, and (iv) to conduct such other activities as may be necessary or appropriate to carry out the foregoing.



Purpose (i) - the acquisition of the Debtor Investor Partnerships' equity interests as a limited partner in each of the Operating Partnerships, which developed and were to own, hold, manage, operate, lease, mortgage, sell and otherwise deal with the Projects, was completed in July, 1990 (See Item 1. Business - Organization, above);

Purpose (ii) - the liabilities of the Debtor Investor Partnerships were assumed by and have been substantially paid by the Partnership (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity", below);

Purpose (iii) - in attempting to fulfill such other undertakings of the Partnership as are set forth in the Plan the Partnership has, among other things:

- a) Used its capital resources, to maintain, to the extent possible, the Partnership's Interests in the Operating Partnerships in order to provide Tax Credits to the Limited Partners and achieve the end of each Project' s 15-Year Tax Credit Compliance Period so as to avoid, to the extent possible, Tax Credit Recapture.

For the fiscal years ended March 31, 2006 (the "2006 Fiscal Year"), March 31, 2005 (the "2005 Fiscal Year"), and March 31, 2004 (the "2004 Fiscal Year") the Partnership had cash and cash reserves totaling \$620,060, \$351,088, and \$258,095 respectively.

The Partnership has achieved this purpose. As of December 31, 1999, substantially all of the Tax Credits had been realized from the Operating Partnerships and passed through to the Limited Partners. As of January 1, 2006 all of the Operating Partnerships in which the Partnership continued to own an interest had achieved the end of their 15-year Tax Credit Compliance Period and thus, were no longer subject to the Tax Credit occupancy requirements, or, absent of a finding by the IRS of fraud by the Developer/Operating General Partners, none of the Operating Partnerships should subject the Limited Partners to recapture of Tax Credits used by them.

- b) Provided to the extent available cash distributions to the Limited Partners.

Beyond those previously made, the Partnership does not expect to make material distributions, even upon liquidation of the Partnership, as its sources of liquidity are limited and are being used to meet its operating expenses, the payment of the Partnership' s obligations and the costs of the sale of the Partnership' s Interests in the Operating Partnerships, its principal assets, which have little value (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" - "Overview" and "Liquidity").

The Partnership used its capital resources during these periods to fund its



operations, including the payment of fees to the Independent Manager under the Management Agreement, for professional fees attributed to costs relating to preparation and review of a proposed Consent Solicitation or Tender Offer and related issues and preparation and review of documents in connection with the implementation of the sales of the Partnership's Interests in the Operating Partnerships pursuant to the Liquidity Program and exit strategy for the ultimate liquidation of the Partnership (See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity").

Purpose (iv) - conduct such other activities as may be necessary or appropriate to carry out the foregoing, the Partnership has focused on the following long-term objectives:

- a) Capital appreciation through increases in the value of the Partnership's investments in the Operating Partnerships; and
- b) Providing cash distributions to the Limited Partners from the proceeds of the sale or refinancing of the Projects.

Objective a) - The Partnership's investments are in Operating Partnerships which own the Projects and provide housing to low income tenants pursuant to government sponsored programs. Therefore, in addition to market-related risks, which any real estate investment is subject to, capital appreciation of the Partnership's investment in the Operating Partnerships is subject to the restrictions set by government policy. As further explained below, the Projects owned by the Operating Partnerships and the Partnership's investment in the Operating Partnerships therefore have not significantly increased, if at all, in value.

The vast majority of the Projects owned by the Operating Partnerships are located in small, rural communities. As such, the market rents in many of these rural communities are not significantly higher than the RD restricted rents eligible tenants are currently charged. Therefore, the valuation of many of the Operating Partnerships' Projects, even if based upon market rents, results in little or no appreciation from their valuation at the time the Partnership acquired its interest in the Operating Partnership.

In the event that the projected cash flow from any of the Projects in a market rate environment is significantly greater than that in a restricted rent environment, the Operating Partnership can seek RD approval to prepay a specific Project's 50-year mortgage and then sell the Project or convert it to market rate property, or upon RD's refusal to allow prepayment, seek an equity loan from RD to use to repay a portion of the equity the Partnership contributed to the Operating Partnership. However, the instances where market rents might be significantly higher are rare and there are numerous government restrictions in connection with such a course of action. In addition, most of the Operating Partnerships' Project's mortgages have an absolute restriction which will not allow prepayment until approximately 2009.



Accordingly, based on market conditions and government regulations, it did not appear that the value of the Projects owned by the Operating Partnerships and the Partnership's investment in the Operating Partnerships would increase significantly, if at all. The value of the Projects was adversely affected by the restricted use limitations which limit the amount of income a tenant may have and the amount of rent a Project can charge a tenant. Under current RD regulations, these restrictions will continue to be in place until the Projects are in their 20<sup>th</sup> year of existence or approximately the year 2009. These regulations make capital appreciation in the Partnership's Projects much more difficult than is the case with market rate properties. The apparent trade-off to this lack of appreciation through the investment in RHS financed projects, has been the ability of the Projects to operate with the 50-year RHS mortgage loans and subsidized interest reduced to 1% to successfully produce substantially all of the Tax Credits anticipated. Over the years the Partnership invested in approximately nine, non-RHS, conventionally financed, low income housing Projects. All but one of those Projects were foreclosed upon by the market-rate lenders and the Partnership lost all future Tax Credits and the Limited Partners had to recapture the Tax Credits allocated to them from those conventionally financed Projects.

Despite the 1990 bankruptcy of the Unit Holders' original Debtor Investor Partnerships, and in spite of the above market conditions and foreclosures, most Limited Partners have already received in the form of Tax Credits, 98% of the approximately \$25,000 per unit, original investment made in the Debtor Investor Partnerships. In addition to the Tax Credits, the General Partner estimates that each Unit Holder, on average, would have received approximately \$30,000 in passive activity loss deductions over the years. However, due to the limitations on passive activity loss deductions, most Limited Partners would not have been able to use the loss deductions, and continue to carry them over as "suspended" passive activity losses. While there are certain restrictions on their use, in general, for those Limited Partners with "suspended" passive activity losses carried forward, the ability to use those losses now that the Partnership has been liquidated and their Limited Partnership Interest in Bayfield has been terminated will likely be worth more than a final distribution, had one been available from the Partnership on liquidation. For those Limited Partners who have been able to use their passive activity losses over the years, while they will have recapture resulting from the liquidation of the Partnership, they will have had the benefit of the saving from the use of those losses over the years and the benefit of the spread between their ordinary tax rates when they used the passive losses and the capital gains treatment on the gain they will experience for the tax year 2008 with the March 28, 2008 termination of the Partnership.

Objective b) - With respect to the Partnership's long-term objective to provide cash distributions to the Limited Partners from the proceeds of the sale or refinancing of the Projects, with the realization that substantially all of the Tax Credits had been received from the Operating Partnerships by the Limited Partners as of December 31, 1999, the General



Partner began exploring various exit strategies, including the sale of the Limited Partnership Interests in the Partnership, the sale of the Partnership's Interests in the Operating Partnerships which own the Projects and the sale and/or refinancing by the Operating Partnerships of their Projects. However, the various restrictions in connection with the RD mortgage loans, as well as the continuing occupancy requirements with respect to the Tax Credits received and market conditions, severely restricted the Partnership's flexibility in considering exit strategies and the value to be received from the exit strategies considered and implemented (See "Item 1. Business - Description of Business" above).

## **Employees**

The Partnership has no employees. The day-to-day operations of the Partnership are conducted by the Independent Manager, which employs two people on a full-time basis.

## **Item 2. Properties.**

Each Operating Partnership owned and operated a Project, which generated Tax Credits under Section 42 of the Tax Code over its initial 10-years of existence or slightly longer. A description of the Projects in which the Partnership still owned interests as of March 31, 2006 is contained in the following tables. Immediately following these tables, is a glossary which provides an explanation of certain terms used in the table headings, as well as a discussion of certain Projects.



Bayfield Low Income Housing Limited Partnership  
Ownership Interest in Operating Partnerships

Operating Partnership	City	State	Number of Apt. Units	Project' s Mortgage Balance	Developer' s Original Equity	Original Tax Items
Cedar Crest Apartments, L.P.	Bourbon	MO	16	380,342	12,200	99
Gilman Seniors Apartments, L.P.	GilmanCity	MO	6	156,698	5,000	99
HoustonAssociates	Lycoming Country	PA	24	927,179	29,850	99
LaGrange Apartments-Phase II L.P.	Lagrange	MO	8	188,450	6,000	99
Lewistown Apartments L.P.	Lewistown	MO	12	279,147	15,053	95
Lillie Mae's RetirementVillageApts., L.P.	Chickasha	OK	48	1,077,652	144,500	99
Park Place EastAssociates	Muncy	PA	24	887,717	30,250	99
Park Place NorthAssociates	Muncy	PA	16	589,885	32,300	99
Perry Apartments L.P.	Perry	MO	8	180,986	9,895	95
Sleepy Oaks Limited Partnership	West Branch	MI	12	269,570	25,265	95
Spring Meadow Apartments Ltd.	RussellSprings	KY	24	708,440	55,537	99
Summer Place, Ltd.	St. Helen	MI	12	329,129	18,050	95
Valley Place Associates	Elysburg	PA	32	1,258,295	67,200	99
Wayland Apartments, L.P.	Wayland	MO	8	186,832	10,211	95
Housing Partners IX & XVII	N/A	N/A	N/A	N/A	N/A	57
			<b>140</b>	<b>\$ 7,420,322</b>	<b>\$ 461,311</b>	

Glossary

Developers Original Equity- The amount of original capital contributed or to have been contributed by the developer/general partner of the Operating Partnership.

Original Tax Items- The Partnership's original allocation percentage of tax items from the Operating Partnerships, including income, gain, loss, deduction and tax credits.

Original Capital Events- The Partnership's original allocation percentage of proceeds to be realized by the Operating Partnership upon the sale, refinancing, transfer or other disposal of all or a substantial portion of the assets of the Operating Partnership.

Bayfield's Committed Capital Contribution- The amount of original capital contribution paid or to be paid by the Partnership for its limited partnership ownership interest in the Operating Partnership.

Accumulated LIHC (from Inception of Bayfield)- The amount of LIHC generated by the Operating Partnerships and allocated to the Partnership from the 7/1/90inception of Bayfield



Bayfield Low Income Housing Limited Partnership  
Ownership Interest in Operating Partnerships

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Operating Partnership City State Number of Apt. Units Project' s Mortgage Balance Developer' s Original Equity Original Tax Items Original Capital Items Bayfield

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through the tax year ending 12/31/04.

% of Interests Sold- The percentage of the Partnerships Interest in the Operating Partnerships sold pursuant to the Liquidity Program or further sales toward implementing an exit strategy as of the date of this report.





The following is additional information on certain Operating Partnerships which had operational, or other financial problems and the Partnership's attempts to sell and sales of the Partnership's interests in the Operating Partnerships:

### **PROJECTS LOST THROUGH OR SUBJECT TO FORECLOSURE**

**Anderson Country Estates, L.P., Cedar Crest Apartments, L.P., Gilman Senior Apartments, L.P., Lagrange Apartments-Phase II, L.P., Lewistown Apartments, L.P., Oakwood Apartments, Ltd., Perry Apartments, L.P. and Wayland Apartments, L.P.**

In December, 2004 the Partnership learned that the following Operating Partnerships were being foreclosed upon by RDdue to substantial deferred maintenance and extremely high vacancies:

- Anderson Country Estates, L.P. a Missouri limited partnership, owner of a twenty-four (24) unit apartment project located in Palmyra, Missouri;
- Cedar Crest Apartments, L.P., a Missouri limited partnership, owner of a sixteen (16) unit apartment project located in Bourbon, Missouri;
- Gilman Senior Apartments, L.P., a Missouri limited partnership, owner of a six (6) unit apartment project located in Gilman City, Missouri;
- Lagrange Apartments-Phase II, L.P., a Missouri limited partnership, owner of an eight (8) unit apartment project located in Lagrange, Missouri;
- Lewistown Apartments, L.P., a Missouri limited partnership, owner of a twelve (12) unit apartment project located in Lewistown, Missouri;
- Oakwood Apartments, Ltd., a Missouri limited partnership, owner of a twenty-four (24) unit apartment project located in Hannibal, Missouri;
- Perry Apartments, L.P., a Missouri limited partnership, owner of an eight (8) unit apartment project located in Perry, Missouri; and
- Wayland Apartments, L.P., a Missouri limited partnership, owner of an eight (8) unit apartment project located in Wayland, Missouri (the "Missouri Operating Partnerships").

As each of the Missouri Operating Partnerships were the subject of contracts to purchase and option agreements, the Partnership had to repurchase the interests in Anderson Country Estates, L.P., Oakwood Apartments, Ltd. and Perry Apartments, L.P. from Dominion (as hereinafter defined) for \$52,168; Gilman Senior Apartments, L.P. from AHP2 (as hereinafter defined) for \$6,830; and Cedar Crest Apartments, L.P., Lagrange Apartments-Phase II, L.P., Lewistown Apartments, L.P. and Wayland Apartments, L.P. from MPF BA (as hereinafter defined) for \$32,573.

Upon the payment of \$10,000, the Partnership entered in to an Option with the Operating General Partners of the Missouri Operating Partnerships for their repurchase of Anderson Country Estates, L.P., Cedar Crest Apartments, L.P., Lagrange Apartments-Phase II, L.P., Lewistown Apartments, L.P., Oakwood Apartments, Ltd., and Perry Apartments, L.P. from the Partnership for \$124,815, which did not included damages to the Partnership with respect to the Partnership's interest in Gilman Senior Apartments, L.P. and Wayland Apartments, L.P. which have been

foreclosed upon.

The Missouri Operating Partners exercised their option to purchase and did purchase Oakwood Apartments, Ltd. by an agreement dated the 27th day of September, 2005 and Anderson Country Estates, L.P. by an agreement dated the

6th day of October, 2005. The obligation by the Missouri General Partners to pay the purchase price, in the amount of \$28,589 and \$27,161 due and payable on or before December 31, 2005, was secured by a Security Agreement of even date. Subsequently, the sums due were paid in full.

While all of the Missouri Operating Partnerships generated the last of their Tax Credits to which they were entitled, \$1,330,028, in years 1998 to 2002, and each, except for Gilman Senior Apartments, L.P., have achieved the end of its 15-Year Tax Credit Compliance Period, RD's foreclosure will not cause the Partnership to lose any future Tax Credits and to recapture any of the Tax Credits the Partnership received from these Projects over the years. With respect to Gilman Senior Apartments, L.P., as this Project was foreclosed upon on August 25, 2005, the Partnership will not lose any future Tax Credits, however in that the foreclosure took place in the 14<sup>th</sup> year of its 15-Year Tax Credit Compliance Period, the Partnership was required to recapture two-fifths of one-third of the Tax Credits the Partnership received from this Project over the years or \$8,753, or approximately \$4 per 0.05% of Limited Partnership Interest on its 2005 tax return, which recapture was passed on to the Limited Partners on their 2005 K-1's. In addition, the value of Gilman Senior Apartments of (i) \$1,500 which was the price the Partnership had to pay to repurchase 49.5% of that Project from AHP #2 and (ii) the value of the balance of the sale price of \$2,500 will likely be lost to the Partnership as a result of this foreclosure.

Wayland Apartments, L.P. was also foreclosed upon as scheduled in August, 2005. As it had already achieved the end of its 15-Year Tax Credit Compliance Period, RD's foreclosure will not cause the Partnership to lose any future or have to recapture any prior Tax Credits. The value of Wayland Apartments of (i) \$7,287 which was the price the Partnership had to pay to repurchase 49.5% of that Project from MPF BA and (ii) the value of the balance of the sale price of \$8,317 was lost to the Partnership as a result of this foreclosure.

## **SALE OF THE PARTNERSHIP'S INTERESTS IN THE OPERATING PARTNERSHIPS**

### **Sale of Partnership's Interest in the Operating Partnerships**

The Partnership continued the sale of its Partnership Interests back to the developer/General Partners of the Operating Partnerships who were interested in repurchasing the Partnership's Interests in their Operating Partnerships and to others pursuant to its Liquidity Program and began further sales toward implementing an exit strategy and seeking the consents of a majority in interest of the Limited Partners (the "Required Consents").

### **Sale of Fifteen Operating Partnerships Interests to Affordable Housing Limited Partnership No. 2**

As of the 15<sup>th</sup> day of April, 2004, Affordable Housing Limited Partnership No. 2 ("AHP2") entered into a contract to purchase limited partnership interests with the Partnership (the "AHP2 Contract to Purchase") for the purchase of up to fifty percent (50%) of the Partnership's Interests in the following fifteen Operating Partnerships (the "Fifteen Operating Partnerships"):

Gilman Seniors

Canal Town Associates

Cle Elum

Cleveland Courts, Ltd.

East Magnolia Village

Elliott Manor, Ltd

Franklin Vista II

Hitchcock Housing

Hurricane

Kent Summit, Ltd.

Kingswood Ii, Ltd.

Lakecrest Apartments

Laurel Wood Apts., Ltd.

Lead Bayou, Ltd.

Riverbend Apartments

The AHP2 Contract to Purchase provided that AHP2 would close upon the purchase of up to fifty percent of the Partnership's Interests in the Fifteen Operating Partnerships for \$160,000, plus the assumption of a proportionate amount of: (i) the Partnership's obligations as the Limited or Investor Partner under each Operating Partnership Agreement and (ii) the 8% Interest Obligation to the extent that it relates to the Operating Partnership Interests being transferred in the approximate amount of \$79,550.

The AFHP2 Contract to Purchase further provided that in consideration of the payment of \$15,000 the Partnership granted AHP2 an option to purchase the balance of the Partnership's Interests in the Fifteen Operating Partnerships on or after July 15, 2005. The option to purchase was exercised with respect to all but one of the Fifteen Operating Partnerships (Gilman Senior Apartments as it was the subject of a foreclosure sale by RD, as discussed above, and only up to sixteen and one-half percent of the Partnership interests in Elliott Manor, Ltd., Kent Summit, Ltd., Lakecrest Apartments and Lead Bayou, Ltd. which would not have achieved the end of their 15-year Tax Credit Compliance Period and could not be sold until late in 2006 to avoid a technical termination of those Operating Partnerships which would cause adverse tax consequences to AHP2, but which continue subject to an option to purchase by AHP2 and were purchased in May 2006). The option purchase price of \$162,126 was paid in July 2005 by AHP2 and an affiliated of AHP2, Affordable Housing Limited Partnership No. 9 ("AHP9"), and the interests under option were split between AHP2 and AHP9.

### **Sale of Eighty-one Operating Partnership Interests to MPF Bayfield Acquisition, LLC**

On December 23, 2004, the Partnership entered into a Purchase Agreement (the "MPF Purchase Agreement") with MPF Bayfield Acquisition, LLC, a California limited liability company and an affiliate of Mackenzie Patterson Fuller, Inc. ("MPF BA") and Mackenzie Patterson Fuller, Inc. (the "Guarantor") for the purchase up to forty-nine and one-half percent of the Partnership's Interests in eighty-one Operating Partnerships (the "81 Operating Partnerships"). The MPF Purchase Agreement also provides MPF BA with options to purchase the remaining Partnership Interests in the 81 Operating Partnerships between December 1 and December 30, 2005, when such purchase and sale will not cause a technical termination of the Partnerships and adverse tax consequences to MPF BA, subject to the Required Consents. Under the terms of the MPF Purchase Agreement, Guarantor unconditionally guaranteed the MPF BA's obligations under the MPF Purchase Agreement.

Pursuant to the terms of the MPF Purchase Agreement, MPF BA agreed to:

- (i) Pay \$1,524,912 to the Partnership, payable as follows:
  - a. \$331,000 at the time of signing the agreement (which was paid on December 23, 2004);

- b. \$210,000 on April 15, 2005 (\$172,821 was paid on April 15, 2005 in full satisfaction of this note after giving MPF BA credit for troubled Partnership Interests which the Partnership repurchased as discussed above);
  - c. \$238,000 on June 15, 2005 (which was paid in full on June 15, 2005);
  - d. \$425,000 on December 15, 2005;
  - e. \$320,912 on June 15, 2006 (collectively, "Cash Consideration"); and
- (ii) Assume up to 49.5% of the Partnership's 8% Interest Obligation with respect to the Partnership Interests being purchased in the approximate amount of \$595,250; and
  - (iii) Assume up to 49.5% of the Partnership's obligations as a limited partner under each of the Operating Partnerships that arise on and after the date of the Agreement.

All Cash Consideration to be paid after the signing of the MPF Purchase Agreement was evidenced by secured promissory notes of MPF BA and guaranteed by the Guarantor.

Pursuant to the MPF Purchase Agreement, upon the payment of \$81,000, the Partnership granted MPF BA (i) an option to purchase an additional 16.5% of the Partnership's Interests in certain of the Operating Partnerships exercisable on or between January 1, 2005 and January 15, 2005, for \$34,494 (the "Short Option" which was exercised and closed in accordance with its terms) and (ii) an option to purchase the balance of the Partnership's Interests in the Operating Partnerships on or between December 1, 2005 and December 30, 2005, subject to the Required Consents, for \$1,740,594 (the "First Option" which option was extended to and exercised by MPF BA pursuant to a modification agreement dated January 30, 2006 for \$1,747,964.

The MPF Purchase Agreement provides for a repurchase of any Partnership Interests by the Partnership in the event that an Operating Partnership experiences an event that would cause a

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minimum gain chargeback with respect to that Operating Partnership such that MPF BA will not be able to match such income allocations with applicable losses from the sale of such Partnership Interests.

Pursuant to the MPF Purchase Agreement, Megan, the Partnership's General Partner and Independent Manager, and MPF BA entered into a management agreement whereby Megan is performing certain management and financial services for MPF BA with respect to the Partnership's Interests purchased by MPF BA for so long as MPF BA owns its interests therein. Compensation paid to Megan pursuant to this management agreement, 1) commencing January 1, 2005, was \$26,000 annually, plus a fee equal to ten (10%) percent of the gross proceeds received by MPF BA from the sale of any of the Partnership Interests and as of January 1, 2006 with purchase by MPF BA of the remaining interests in 76 of the Partnership's Operating Partnerships, Megan's annual management fee increased to \$52,000, and 2) Megan was allowed to and purchased an ownership interest in MPF BA such that it will be entitled to a one-time special allocation of Tax Items (including losses) for the year 2006 of \$700,000 and for the year 2007 and thereafter a proportionate allocation of income and non-recourse debt, for which Megan's principals paid \$20,000.

The MPF Purchase Agreement, even if the remaining promissory notes due December 2, 2008 and December 1, 2009, are paid by MPF BA, together with the exercise of the few other options to purchase outstanding, would not have result in any final distribution to the Partnership's limited partners, as the entire proceeds of the sale of the balance of all of the Partnership's Assets were insufficient to pay the expenses of implementing the sales, payment of all of the Partnership's obligations and the liquidation of the Partnership.

However, despite the 1990 bankruptcy of the original Debtor Investor Partnerships - the assets and liabilities of which were acquired by the Partnership, and in spite of the adverse real estate market conditions, most Limited Partners have received in the form of low income housing tax credits, 98% of the approximately \$25,000 per unit, original investment made in the Debtor Investor Partnerships. In addition to the tax credits, it is estimated that each Limited Partner, on average, would have received approximately \$30,000 in passive loss deductions over the years. Due to the

limitations on passive loss deductions, most Limited Partners would not have been able to use the loss deductions, and continue to carry them over as suspended passive losses. While there are certain restrictions on their use, in general, for those Limited Partners in a 33% tax bracket with \$30,000 of passive losses carried forward, the ability to use those losses when their interest in the Partnership has been terminated (with the dissolution of Bayfield on March 28, 2008), should be worth approximately \$10,000 in further tax savings. For those Limited Partners who have been able to use their passive losses, they will have had the use of their tax saving over the years and the benefit of the spread between their ordinary tax rates when they used the passive losses and the capital gains treatment on the gain they will experience for the tax year 2008 with the March 28, 2008 termination of the Partnership.

### **Item 3. Legal Proceedings**

See discussion of applicable legal proceedings above in "Item 2. Properties" above.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

## **PART II**

### **Item 5. Market for Registrant's Limited Partnership Interests and Related Security Holder Matters**

#### **Market Information**

The Partnership is a limited partnership and thus has no common stock. There is no established public trading market for limited partnership interests in the Partnership ("Limited Partnership Interests") and it is not anticipated that any such public market will develop.

Article XI of the Partnership Agreement effectively prevents the transfer of Limited Partnership Interests except under very limited circumstances. In order to transfer a Limited Partnership Interest, a Limited Partner must obtain the consent of the General Partner of the Partnership, which has the absolute right to refuse any request for a transfer. In addition, the Partnership Agreement requires the transferring Limited Partner to obtain a legal opinion from counsel, at its expense, as to certain tax and securities law matters with regard to the proposed transfer. In addition, the proposed transferee must meet all applicable suitability standards and agree to be bound by the Partnership Agreement.

- Accordingly, no sales of Units have been allowed except in such unforeseen circumstances, to Family Trusts and heirs upon the death of a Unit Holder, and pursuant to the Tender Offer with respect to which Megan Asset purchased the Limited Partnership Interests of 864 Limited Partners with an ownership percent totaling 46.90%, the sale of the Defaulted Limited Partners' Units to Megan Asset pursuant to which it purchased the Limited Partnership Interests of a further 43 Defaulted Limited Partners with an ownership percent of 2.89% at private sale pursuant to the Plan and Defaulted Limited Partners' Limited Partner Security Agreement, and the purchase by Megan Asset of 1.14% interest from a few other limited partnership interests directly from those Limited Partners for the same price as contained in the Tender Offer. As of March 28, 2008 Megan Asset owned 50.93% Limited Partnership Interest or 51.44% of the 99% Limited Partnership Interests, a majority in interest of the Limited Partnership Interests.

#### **Approximate Number of Security Holders**

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As of March 31, 2006, there were approximately 926 holders of Limited Partnership Interests.

**Distributions**

No distributions were made to Limited Partners for fiscal years ending March 31, 2006, March 31, 2005, and March 31, 2004.





## **Item 6. Selected Financial Data**

The information set forth below presents selected historical financial data of the Partnership for the years ended March 31, 2006, 2005, 2004, 2003, and 2002. This information has been derived from and is qualified by reference to the additional detailed information set forth in the audited financial statements listed in Item 14 hereof and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included as Item 7 in this Report.

**OPERATIONS**

	For the Year Ended March 31, 2006	For the Year Ended March 31, 2005	For the Year Ended March 31, 2004	For the Year Ended March 31, 2003	For the Year Ended March 31, 2002
Interest income	\$ 2,462	\$ 588	\$ 303	\$ 655	\$ 3,964
Other Income	0	0	2,022	1,170	950
	2,462	588	2,325	1,825	4,914

Equity in income (losses) of Operating Partnerships including Sale of Interest	1,913,425	2,297,099	521,582	(232,737)	419,279
Expenses	(1,498,794)	(688,187)	(537,339)	(325,473)	(348,307)
Net Income (Loss)	\$ 417,088	\$ 1,609,500	\$ (13,432)	\$ (556,385)	\$ (762,672)
Net income (loss) per 0.05% Partnership Interest	\$ 206	\$ 796	\$ (6)	\$ (278)	\$ (381)
Cash Distributions Per 0.05% Partnership Interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Balance Sheet	As of March 31, 2006	As of March 31, 2005	As of March 31, 2004	As of March 31, 2003	As of March 31, 2002
Total Assets	\$ 2,218,014	\$ 1,810,074	\$ 420,985	\$ 265,144	\$ 827,038
Total Liabilities	\$ 166,557	\$ 176,374	\$ 396,116	\$ 226,843	\$ 232,352
Partners' Capital	\$ 2,051,457	\$ 1,634,369	\$ 24,869	\$ 38,301	\$ 594,686





## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The Partnership was formed as of July 1, 1990, pursuant to the Plan. In 1992 its fiscal year-end for accounting purposes was changed to March 31, from December 31. The Partnership's fiscal year-end for tax purposes remains December 31.

### **Overview**

The Partnership was formed pursuant to the terms of the Plan, which mandated the Partnership's material commitments for expenditures and the anticipated sources of funds needed to fulfill such commitments. A Final Decree was signed by the United States Bankruptcy Court, Eastern District of New York in the Jointly Administered Chapter 11 cases on May 20, 1993.

Prior to calendar 1995, the Partnership's primary source of funds was the payment by Limited Partners of the amounts owed to the Partnership for their capital contributions pursuant to their note given in payment of the purchase price at the time they purchased their interest in the Debtor Investor Partnership (the "Investor Notes"). Each of the Investor Notes was payable in semi-annual installments through December 31, 1994. As of March 31, 2006, an aggregate of \$1,047,733 was owed pursuant to the Investor Notes. These notes are past due and are considered uncollectible. These amounts were not written off on the Partnership's financial statements as the amount is reflected as a negative in the Partners' Capital section of the balance sheet and since the defaulted investor units had not been cancelled. Pursuant to a notice by certified mail dated April 21, 2006 (the "Notice") the Partnership made a final attempt at the collection on the past due notes from Defaulted Limited Partners. As none of the Defaulted Limited Partners paid their past due notes, pursuant to the Notice, the Plan and the Defaulted Limited Partners' Limited Partner Security Agreement, the Partnership sold the Defaulted Limited Partners limited partnership interests in the Partnership at a private sale on May 25, 2006 to Megan, the General Partner and Independent Manager of the Partnership, for the same price, \$10 per Unit, as Megan paid to tendering Limited Partners pursuant to its Tender Offeror or a total of \$560.

Commencing in calendar 1995, although funds from certain other sources were received during the 1995 and 1996 fiscal years (see "Liquidity" below), the Partnership's primary source of funds became the annual distributions from the Operating Partnerships in which the Partnership has an interest, which has been negotiated at \$750 per year, per Operating Partnership (the maximum allowed by the Plan), provided that such payment is not prohibited by any applicable agreement with a governmental agency or any applicable governmental agency rules or regulations.

The total amount due annually to the Partnership from the \$750 distributions from the Operating Partnerships is approximately \$104,000. The Partnership has been receiving only approximately 50% of the distributions due from the Operating Partnerships. To the extent that such distributions or portion thereof are not paid in any year, the remainders accumulate and are to be paid at the earliest time permitted. As indicated above, many of the distributions are not being made do to limitations by governmental regulations.



Beginning in 2002 the Partnership's primary source of funds became loans or the sale of its Partnership Interests in the Operating Partnerships (see "Liquidity" below and "Item 2. Properties" above).

The Partnership also receives interest income on account balances.

The ability of the Partnership to make all cash distributions to its Limited Partners contemplated by the Plan had been dependent upon the receipt by the Partnership of sufficient proceeds from the sale of its interests in the Operating Partnerships (the General Partner, after exploring various exit strategies, began the sale of the Partnership's Interests in the Operating Partnerships - See "Item 1. - Description of Business" above). However, even with the sale of all of the Partnership's Assets to MPF BA and pursuant to various other option agreements to the Operating General Partners, the proceeds from the sale of the Operating Partnerships were not sufficient to enable the Partnership to make any further portion of such distributions not made in prior years. It would appear that the application of funds available for distribution to Limited Partners which, from time to time, were deferred by the Independent Manager with the consent of the Investor Committee to pay certain costs and expenses of the Partnership or to purchase interests in partnerships which own, or are intended to own, projects which are intended to qualify for Tax Credits (see "Liquidity" section below), will have yielded an economic benefit to the Limited Partners by enabling the Partnership to continue its operations over the years and produce the majority of the Tax Credits and other economic benefits in the form of loss deductions generated from the Operating Partnerships.

It is anticipated that the liquidation and termination of a Limited Partner's interest in the Partnership or the winding up and termination of the Partnership enabled a majority of the Partnership's Limited Partners to begin utilizing the tax losses they have received but could not use and have carried forward over the life of the Partnership, estimated by the Partnership to be approximately \$30,000 in "suspended" loss deductions for most Limited Partners, which could produce additional tax savings for those Limited Partners.

Other than the annual payment referred to above, the Partnership did not receive material cash distributions from the operations of the Operating Partnerships, or derive net cash from its ordinary operations generally. Aside from such payments, the Partnership did not have significant external sources of Capital Resources other than through the sale of its Operating Partnership Interests under its Liquidity Program (discussed in "Item 1. Business - Description of Business" above and "Liquidity" below). All of the above-named sources of Capital Resources were used to meet the operating expenses of the Partnership, to pay its debts and to sell its interests in the Operating Partnerships in anticipation of liquidating the Partnership.

While the Partnership had been in the process of selling the Partnership's Assets, its limited partnership interests in the Operating Limited Partnerships, in order to carry on its operations and to pay its debts, the cash proceeds from those sales proved insufficient to pay all sums required by the Plan, all debts and liabilities of the Partnership, including expenses arising from the Liquidation,





Accordingly, the Partnership did not have sufficient funds after (i) payment of all sums required by the Plan and (ii) payment of all of the debts and liabilities under Article 10.2(a), expenses under Article 10.2(a)(i) and to establish any reserves under Article 10.2(b) or to make any liquidating distributions to the Limited Partners under Article 10.2(c) of the Partnership Agreement upon or following the dissolution of the Partnership.

The lack of sufficient funds with which to pay all sums required by the Plan, all of the debts and liabilities of the Partnership and to make liquidating distributions to the Limited Partners was a result of (1) the low income and rent restrictions that apply to the Partnership's portfolio pursuant to the Projects' mortgages funded, in almost all cases, by Rural Development, an agency of the U.S. Department of Agriculture; (2) the location of the vast majority of the Projects in small, rural communities where the market rents are not significantly higher than the government restricted rents eligible tenants can be charged; (3) while the government mortgages, 50-year terms and 1% interest rates, provided great economic value to the Projects' ability to successfully operate over the years, the trade-off has apparently been the lack of appreciation in value and the additional operating expenses incurred to comply with the government regulations; (4) the inability to obtain new tax credits with which to financially support the sale of the Projects for rehabilitation by a developer, as most State Housing Finance agencies are allocating substantially all of the tax credits to newly constructed housing projects instead of supporting the rehabilitation of the existing projects, which continues to be a nationwide problem for low income housing and which has been exacerbated by the U.S. economy and housing market generally; and (5) the fact that of the Partnership Agreement's share of operating cash flow from each Project, even in the most favorable economic conditions, was limited to \$750 per year by the 1990 bankruptcy Plan of Reorganization.

As it is anticipated that all debts and liabilities of the Partnership will be paid, except sums due Megan Asset with respect to the 50% of any distributions originally payable to Continental Construction Management Corporation, to which it is entitled, in the amount of approximately \$2,021,085 as of March 31, 2006 and \$882,200 as of the dissolution of the Partnership on March 28, 2008, which sum also accrues interest at the rate of eight percent (8%) until paid, and any debts and liabilities of the Partnership unable to be paid will become the liability of Megan as the General Partner of the Partnership, upon liquidation the Partnership assigned to Megan all its rights, title and interests in 1) the sums due and evidenced by three secured promissory notes from MPF BA, in aggregate amount of \$610,000 payable in three installments through December 1, 2009; 2) the seriously past due cash flow distributions or tax review and/or preparation fees from all Operating Partnerships of an estimated value of \$60,000; 3) Housing Partners IX and XVII which own varying limited partnership interests in two Projects having only an estimated minimal value, and 4) all other property, claims, rights of action, judgments, benefits, receivables or interests of the Partnership, having no known value.

## **Liquidity**

The Partnership's principal uses of funds were its operating and expenses in connection with the sale of its Operating Partnerships and the payment of its debts and, prior to December 31, 1994, were for (i) capital contributions to the Operating Partnerships and (ii) payments to the Secured Lenders of the Debtor Investor Partnerships. The remaining unpaid balances of such



contractual obligations at each of March 31, 2006, March 31, 2005, and March 31, 2004 were \$-0-, \$16,122 and \$24,938 with respect to the Operating Partnerships that were in default on their obligations to the Partnership. The Partnership also assumed certain accrued expenses pursuant to the Plan that were paid in full as of March 31, 1996, except for the Continental pre-petition expenses and 8% Interest Obligation. The Partnership also made distributions to certain Limited Partners that were in the original debtor Brighton Estates Limited Partnership as provided in the Plan.

For the 2006 Fiscal Year, the 2005 Fiscal Year, and the 2004 Fiscal Year gross cash amounts received by the Partnership were as follows:

- (i) None from payments of capital contributions by Limited Partners pursuant to their Investor Notes; and
- (ii) None from interest income on the Investor Notes during any of these years; however \$2,462, \$588, \$303 and \$655, respectively, of interest income was received on deposits maintained in escrow accounts pursuant to the Plan were received; and
- (iii) \$1,737,331, \$982,101 and \$486,761, respectively, were received from proceeds of sales of Partnership Interests.

For the 2006 Fiscal Year, the 2005 Fiscal Year, and the 2004 Fiscal Year, the uses of funds by the Partnership were as follows:

- (i) \$-0-, \$26,050 and \$14,287, respectively, for capital contributions to the Operating Partnerships;
- (ii) \$729,094, \$487,048 and \$386,599, respectively, for professional fees. For the 2006 Fiscal Year professional fees were attributed to professional costs relating to the negotiations and preparation of contracts to purchase and/or sales agreements, options, and related closing documents for the sale of the Partnership's Interests in its Operating Partnerships to MPF Bayfield Acquisition, LLC and, among other things, other sales pursuant to the Partnership's Liquidity Program and the preparation of amended partnership agreements for numerous Operating Partnerships with interests being transferred and a proposed Consent Solicitation or Tender Offer and related issues.
- (iii) \$129,795, \$128,445 and \$123,780 respectively, for operating expenses; and
- (iv) \$639,919, \$72,694 and \$26,960 respectively, for payments of Continental pre-petition expenses in accordance with the Plan.
- (v) None for payments as a return of capital to the Limited Partners during any of these periods.

The previous distributions to Limited Partners included a full distribution of the \$1,014,628



contemplated by the Plan for the 1995 Fiscal Year, and a partial distribution for the 1994 Fiscal Year. In Fiscal 1994, \$516,901 of the \$1,014,628, contemplated by the Plan to be distributed, was distributed to the Limited Partners in such year. As permitted under the Plan and approved by the Investors Committee, undistributed amounts of \$507,314 for the 1994 Fiscal Year, together with the entire \$1,014,628 to have been distributed in the 1993 Fiscal Year, were deferred and were applied to meet the increased obligations of the Partnership.

No such distributions are payable after December 31, 1994, except to the extent that the Independent Manager, in consultation with the Investors Committee, determines that the financial resources of the Partnership will permit payment of previously deferred distributions. In view of the receipt of insufficient proceeds from the sale of the Partnership's Assets, with which to pay all of its debts and liabilities, no such payments were able to be made on the liquidation of the Partnership. (See "Item 10. Directors and Executive Officers of the Registrant - Investor Committee".)

The net increase in cash held by the Partnership amounted to \$268,972 for the 2006 Fiscal Year, \$92,993 for the 2005 Fiscal Year, 202,653 for the 2004 Fiscal Year. As discussed above in "Item 1. - Description of Business", the annual payments to be received from the Operating Partnerships, in combination with the Partnership's reserves, were insufficient to permit the Partnership to meet its operating expenses and pay its debts and liabilities without the sale of the Partnership's Assets to MPF BA and pursuant to various other options, to the Operating General Partners.

Accordingly, in view of the fact that the Partnership had achieved its primary objectives and didn't appear to be able to raise more capital to continue to maintain its operations and pay its debts, the General Partner determined that it was in the best interests of the Partnership to and it liquidated all of the Partnership's Assets and thereafter dissolved the Partnership on March 28, 2008 as set forth herein.

## **Results of Operations**

Income, comprised principally of proceeds from the sale of the Partnership's Interests in the Projects pursuant to the Liquidity Program, exceeded expenses, which are comprised principally of management fees and professional services costs, and Continental pre-petition expenses, by \$417,088 for the 2006 Fiscal Year and \$1,609,500 for the 2005 Fiscal Year, and expenses, comprised principally of depreciation expenses, management fees and professional services costs, exceeded income, which is comprised principally of proceeds from the sale of the Partnership's Interests in the Projects pursuant to the Liquidity Program, by \$13,432 for the 2004 fiscal Year.

As noted above under "Item 1. Business - Description of Business", the Partnership's principal business was the maintenance of its interests in the Operating Partnerships, and because the Partnership reached the end of its economic life, it did not have the funds available to make new investments or otherwise engage in additional activities. The Partnership's results of operations and its obligations are primarily determined by the results of operations of the Operating Partnerships, its obligations to the Independent Manager, and by expenses arising out of legal and professional fees related to its Operating Partnerships' sales or business transactions. Accordingly, period-to-period comparisons of the results of operations of the Partnership may not be meaningful. The general partner of the Partnership has evaluated the capital needs, competitive position and market



conditions for each of the Projects, and used these factors to determine whether it was in the Partnership's best interests to continue to own them. The General Partner decided that the best course of action was to sell all of the assets in the Partnership and to liquidate and dissolve the Partnership which it did on March 28, 2008. The following discussion attempts to highlight certain elements of the results of operations of the Partnership for the periods discussed.

The General Partner estimated that, without additional acquisitions of interests in limited partnerships owning properties with or eligible for Tax Credits to replace interests lost through insolvency, bankruptcy or the settlement of litigation, for which the Partnership did not have funds available, the amount of Tax Credits generated by the Partnership aggregated approximately \$0.97 for every \$1.00 invested by the Limited Partners, rather than the \$1.10 for every \$1.00 estimated in the Plan. This includes Tax Credits passed through to the Limited Partners by the Debtor Investor Partnerships previous to the inception of the Partnership.

The following Tax Credits were generated by the Projects or passed through by the Partnership to the Limited Partners for the tax years ended:

- December 31, 2005, \$ -0-;
- December 31, 2004, \$ -0-;
- December 31, 2003, \$21,637, or approximately \$11 per 0.05% of Partnership Interest;
- December 31, 2002, \$96,208, or approximately \$48 per 0.05% of Partnership Interest;
- December 31, 2001, \$102,890, or approximately \$51 per 0.05% of Partnership Interest;
- December 31, 2000, \$201,794, or approximately \$101 per 0.05% of Partnership Interest; and
- December 31, 1999, \$1,232,441, or approximately \$616 per 0.05% of Partnership Interest.

Interest income increased by approximately \$1,874 and \$285 for the 2006 Fiscal Year for the 2005 Fiscal Year due to increased balances in the escrow accounts resulting the sales of Operating Partnerships pursuant to the Liquidity Program, and decreased by approximately \$352 for the 2004 Fiscal Year from the 2003 Fiscal Year due primarily to the decrease in the Partnership's cash balances resulting from the end of the investor pay-in-period as of December 31, 1994 and the Partnership's collection of substantially all collectable payments due it from the Investor Notes and the depletion of the Partnership's reserves to maintain its operations while seeking an exit strategy.

Net income was \$417,088 for the 2006 Fiscal Year, \$1,609,500 for the 2005 Fiscal Year, and there was a net loss of \$13,432 for the 2004 Fiscal Year. The equity in income or losses from Operating Partnerships fluctuates from year to year based on the results of operations from the Projects. Net income from the sale of interest in Operating Partnerships including equity in income of the Operating Partnerships of \$1,913,425 for the 2006 Fiscal Year, \$2,297,099 for the 2005 Fiscal Year, and \$521,582 for the 2004 Fiscal Year, which amounts consist primarily of income from the sale of the Partnership's Interests in the Projects pursuant to the Liquidity Program. The Partnership uses the equity method of accounting for its investment in its Operating Partnerships and under the equity method losses in excess of aggregate investment in each Operating Partnership are





not recognized. Therefore in recent years the reported losses from the Operating Partnerships have been declining due to basis limitation and the sale of Operating Partnership Interests. For income tax reporting purposes 100% of the income or losses are passed through to the Limited Partners on their K-1's.

Management fees paid were \$106,759 for the 2006 Fiscal Year, \$118,000 for the 2005 Fiscal Year, and \$117,625 for the 2004 Fiscal Year. The reduction in management fees resulted from a partial refund in the 2004 Fiscal Year and the decrease by \$750 for each Operating Partnership in which the Partnership's Interests was completely sold prior to the beginning of a fiscal year.

Professional fees of approximately \$729,094 for the 2006 Fiscal Year included fees attributable to professional costs relating to the negotiations and preparation of contracts to purchase and/or sales agreements, options, and related closing documents, and the sale of the Partnership's Interests in 81 Operating Partnerships to MPF Bayfield Acquisition, LLC and, among other things, other sales pursuant to the Partnership's Liquidity Program and the preparation of amended partnership agreements for Operating Partnerships with interests being transferred. Professional fees of approximately \$487,048 for the 2005 Fiscal Year included fees attributable to professional costs relating to the negotiations and preparation of contracts to purchase and/or sales agreements, options, due diligence items and related closing documents for Affordable Housing Limited Partnership No. 2's acquisition of interests in 15 Operating Partnerships, the failed purchase of 77 Operating Partnership interests by Housing and Tax Consultants, LLC, and the successful sale of up to 50% of the Partnership's Interests in 81 Operating Partnerships to MPF Bayfield Acquisition, LLC and, among other things, other sales pursuant to the Partnership's Liquidity Program and the preparation of amended partnership agreements for Operating Partnerships with interests being transferred.

No interest expense was incurred in the 2006, 2005, and 2004 Fiscal Years as all indebtedness to the Secured Lenders was paid in full prior to the 1996 Fiscal Year and interest on the Dominion Loan and Subsequent Loans was included as part of the purchase price when Dominion accepted the Dominion Collateral Partnerships in full satisfaction of all principal and interest due on the Loan and Subsequent Loans.

No amortization of organization costs were incurred in the 2006, 2005, and 2004 Fiscal Years due to the fact that amortization of all organization costs was completed in 1996.

Other income of \$ -0- in the 2006 Fiscal Year, \$ -0- in the 2005 Fiscal Year, and approximately \$2,022 in the 2004 Fiscal Year was recorded as a result of miscellaneous items.

Pursuant to the Plan, amounts due and unpaid to Operating Partnerships by the Debtor Investor Partnerships prior to the implementation of the Plan in July 1990 accrued interest at the rate of eight percent (8%) until paid. Pursuant to the Settlement Agreement (described in "Item 1. Business - Organization" above) and the Management Agreement (described in "Item 11. Executive Compensation - Compensation of the Independent Manager" below) the Independent Manager is entitled to receive an amount equal to 50% of any distributions originally payable to Continental Construction Management Corporation, a subsidiary of First American, which sums also



accrue interest at the rate of eight percent (8%) until paid. As the non-payment of these amounts are not a default under the Plan and any such unpaid amount becomes payable only as a first and second priority out of Capital Events respectively, contingent liabilities, or as liabilities or debts of the Partnership prior to any distribution under the Partnership Agreement, as the Partnership has not had sufficient funds to pay these amounts, the Partnership did not pay them currently and has not accrued the amount or any interest on its financial statements. In the 2006 Fiscal Year, the 2005 Fiscal Year and the 2004 Fiscal Year the Partnership paid the Independent Manager \$639,919, \$72,694 and \$26,960, respectively, toward what it is entitled to receive of the amount originally payable to Continental Construction Management Corporation under the Plan.

The amount of the interest which could be payable under the Plan to the Operating Partnerships as a first priority from Capital Events or as a liability or debt of the Partnership prior to any distribution under the Partnership Agreement with respect to the Projects in which the Partnership still owned interests as of March 31, 2006 is estimated at \$10,366 and is subject to offsets of the amount of fees for professional services paid on behalf of certain Operating Partnerships (see "Item 2. Properties" above), any unpaid or accrued annual distributions due the Partnership (see "Overview" above) and a reduction by said sums payable to Operating Partnerships which have lost their Projects through foreclosure, bankruptcy or insolvency. The amount and interest which could be payable under the Plan as a second priority from Capital Events or as a liability or debt of the Partnership prior to any distribution under the Partnership Agreement to the Independent Manager is estimated at \$2,021,085 as of March 31, 2006 after the payments made as above.

The Partnership is organized as a limited partnership and is a "pass through" entity, which does not, itself, pay federal income tax. However, the partners of the Partnership receive their proportionate share of Tax Credits and other tax benefits accruing to the Partnership. For the tax years ended December 31, 2005, 2004, and 2003, respectively, Limited Partners were allocated \$-0-, \$-0- and \$21,637 in Tax Credits, or approximately \$-0-, \$-0- and \$11 per 0.05% of Partnership Interest, respectively.

## **Forward Looking Statements**

Certain items discussed in this Report constitute forward-looking statements within the meaning of the Private Securities Litigation reform Act of 1995 and, as such, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Partnership to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You can identify such statements by the fact that they do not relate strictly to historical or current facts. Statements which make reference to the expectations or beliefs of the Partnership or any of its management are such forward-looking statements. These statements use words such as "believe", "expect", "should", "may", "might", "estimate" and "anticipate".

All such forward-looking statements speak only as of the date of this report. The



Partnership expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Partnership's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**Item 7A. Quantitative and Qualitative Disclosure about Market Risk.**

Not Applicable

**Item 8. Financial Statements and Supplementary Data.**

See Item 15 and Exhibit 13 for a list of the Partnership's Financial Statements filed as part of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

**Item 9A. Controls & Procedures**

Evaluation of Disclosure Controls and Procedures:

As of the end of the period covered by this report, the Partnership's General Partner, under the supervision and with the participation of the Principle Executive Officer and Principle Financial Officer of Megan Asset Management, Inc. carried out an evaluation of the effectiveness of the Fund's "disclosure controls and procedures" as defined in the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15. Based on that evaluation, the Principle Executive Officer and Principal Financial Officer have concluded that as of the end of the period covered by this report, the Partnership's disclosure controls and procedures were adequate and effective in timely alerting them to material information relating to the Partnership required to be included in the Partnership's periodic SEC filings.

Changes in Internal Controls:

There were no changes in the Partnership's internal control over financial reporting that occurred during the quarter ended March 31, 2006 that materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

The Partnership has no directors or executive officers and has no employees of its own.



## **General Partner**

The sole General Partner of the Partnership is Megan Asset Management, Inc., whose mailing address is 1424 West Century Ave., Suite 102, Bismarck, ND 58503. Megan Asset Management, which is also the Independent Manager of the Partnership, is a Delaware corporation whose executive officers are Gary L. Maddock, Chairman and Secretary, and Paul J. Maddock, President and Treasurer. The shareholders of Megan Asset Management are Gary L. Maddock (25%), Michele Maddock (25%) and Paul J. Maddock (50%).

Except as limited by the Partnership Agreement, by the Plan or by the Management Agreement, the General Partner has full, exclusive and complete discretion in the management and control of the Partnership.

## **The Independent Manager**

In view of the need to have an independent manager that was not affiliated with First American take over the responsibility for the administration of the Partnership, a Management Agreement between the Partnership and the Independent Manager was entered into and provides for the Independent Manager to conduct and manage, on the Partnership's behalf, the Partnership's operations in connection with, among other things, collection, investment and disbursement of funds, maintenance of books and records, preparation of tax returns and review and coordination of related-party tax filings. Pursuant to the Management Agreement, the Independent Manager was appointed the exclusive agent of the Partnership to supervise and manage, on behalf of the Partnership, all of the operations of the Partnership under the Plan. (See "Item 1. Business - Organization" above) Even after the merger of both the General Partner's and Independent Manager's rights and obligations into Megan Management, and subsequently Megan Asset Management, the Management Agreement was kept in place because it outlined the compensation and duties to be performed more specifically than did the Partnership Agreement. The compensation of the Independent Manager is set forth under "Item 11. Executive Compensation."

Gary L. Maddock, 68, Chairman of Megan Asset Management, was a real estate attorney, CPA and has been a licensed real estate broker. He also has extensive experience in other phases of real estate. Prior to July 1989, Gary Maddock was Executive Vice President of First American for two years, resigning in a management dispute. As a former partner of Burns, Summit, Rovins and Feldesman, and in his own subsequent New York law practice, he has represented owner/developers of projects ranging from condominium and single-family developments to a 250-room urban hotel and conference center. As an officer of various companies affiliated with Megan Asset Management, he has consulted and assisted developers in (i) obtaining in excess of \$20 million in debt financing, (ii) placing in excess of \$60 million in Tax Credits and (iii) building hundreds of units of low to moderate income housing. He also has overseen the management of numerous projects with housing units for low-income families and the elderly and the development of real estate subdivisions and the building of single-family homes. He continued to perform professional services for the Partnership until its liquidation and dissolution on March 28, 2008. See "Item 13. Certain Relationships and Related Transactions".





Paul J. Maddock, 56, President of Megan Asset Management, has been with the Independent Manager for eighteen years. Until its liquidation and dissolution on March 28, 2008, Paul Maddock spent about 75% of his time working on and overseeing the management of the Partnership and 25% of his time in his own public accounting practice, Paul J. Maddock, PC., which was formed in 1992 and through which he provides tax return preparation services on a fee basis for many of the Operating Partnerships. He is a CPA and was formerly a tax manager for a regional CPA firm.

### **The Investor Committee**

- Pursuant to the Plan, the Investor Committee performed an oversight role in connection with the approval of the deferral of distributions to be made to the Limited Partners and the use thereof to pay costs and expenses for the administration and operation of the Partnership or to purchase interests in partnerships which own, or are intended to own, projects which are intended to qualify for Tax Credit and to maintain its investment in the Projects. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and "Liquidity" above). The Investor Committee did not perform any management functions with respect to the Partnership. All of the members of the Investors Committee were direct or indirect holders of an Interest in the Partnership.

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- The members of the Investor Committee were as follows:

Fran Hoaglund, Chair, 65. President of Tax Equity Associates for over 25 years. Financial planner and tax specialist for more than 27 years. Holder of an Interest.

David Apple, 53. President of David Apple, Ltd. (certified public accountants) for over 25 years. CPA for more than 27 years. Holder of an Interest.

James Linna, 68. Chairman of The Investor Company, Inc. and President of various affiliates for over 16 years. National Association of Securities Dealers ("NASD") principal; licensed real estate broker; security representative for more than 35 years. Holder of an Interest.

William Walczak, 67. CPA for the past 26 years and currently a member of the accounting firm of MacDonald & Walczak, CPAs, LLC. Holder of an Interest.

### **The Developer Class Representative**

The Developer Class Representative was ERC Properties, Inc. located in Fort Smith, Arkansas which was the chairman of the Unofficial Committee of Developers during the Debtor Investor Limited Partnerships' bankruptcy proceedings (see "Item 1. Business - Organization" above) and continued to represent the Operating Partnerships in which the Partnership owned an interest until their sale by the Partnership. Pursuant to the Plan, the Developer Class Representative had many responsibilities including but not limited to negotiating with the Independent Manager as to the amount



each Operating Partnership shall distribute to the Master Limited Partnership on or before April 1 of each year commencing in the year 2000 which shall not exceed \$750; and had many responsibilities including but not limited to filing any financing statement (without a Debtor Investor Limited Partnership's or the Master Limited Partnership's signature) which was reasonable or necessary to perfect any security interests granted to, or retained by, an Operating Partnership under the Plan; executing and recording any and all documents which are required to be executed and recorded under applicable nonbankruptcy law to effect the admission of the Master Limited Partnership as a limited partner of the Operating Partnerships; and under the Management Agreement to preapprove all withdrawals by the Independent Manager from the Escrow Account, including all checks drawn on and wire transfers made from the Escrow Account.

The Developer Class Representative was exculpated from any and all liability that may arise out of any action or inaction by the Developer Class Representative under the Plan and Management Agreement unless caused by his gross negligence or willful misconduct.

For its services, the Developer Class Representative was paid \$15,000 per year by the Partnership.

### **Item 11. Executive Compensation.**

The following table shows compensation for management services rendered in all capacities to the Partnership by Megan Asset Management, Inc. as Independent Manager during the periods indicated.

#### **SUMMARY COMPENSATION TABLE** **Annual Compensation**

<u>Name and Principal Position</u>	<u>Fiscal Year Ended</u>	<u>Fee</u>	<u>Other Compensation (1)</u>
Megan Asset Management, Inc. -	3/31/06	\$106,759	\$639,919
Independent Manager	3/31/05	\$118,000	\$ 72,694
	3/31/04	\$117,625	\$ 26,960

(1) Consists of payment for Continental pre-petition expenses pursuant to the Settlement Agreement and Management Agreement.

### **Compensation of the Independent Manager**

Prior to calendar 1995, the Independent Manager was entitled to receive \$396,000, plus \$40,000 per year to cover the cost of preparation of tax returns and financial statements and \$75,000 in relation to investor billings due to the Secured Lender refinancing. Commencing in calendar year 1995, the Independent Manager, under the Management Agreement, was entitled to receive \$119,500 annually, plus \$30,000 per year to cover the cost of preparation of tax returns and financial statements, for each of the years 1995 through 1998. Commencing with calendar year 1999, the Independent Manager became entitled to an annual base fee of \$119,500, together with an additional



\$30,000 to cover the cost of preparation of tax returns and financial statements, less \$750 for each Operating Limited Partnership in which the Partnership ceases to own the limited partnership interest during 1999 and thereafter. The foregoing was in lieu of payment to the Independent Manager of amounts pursuant to the Plan sections 6(6)(c) (providing for annual payment from each Operating Partnership to the Partnership of \$750 for each of the years 1995 through 1999) and 6(6)(d) (providing for annual payments from each Operating Partnership to the Partnership of an amount to be negotiated but not to exceed \$750 for each year commencing with the year 2000) of the Plan.

The Independent Manager was also entitled to receive an amount equal to 50% of any distributions originally payable to Continental Construction Management Corporation, a subsidiary of First American, under the Plan ("Continental Construction") and the Independent Manager was to pay to the Partnership an amount equal to 25% of gross fees, if any, earned by it or its affiliates directly from any of the Operating Partnerships (not including amounts owed to the Independent Manager pursuant to the Management Agreement).

The total amount originally due to Continental Construction was \$2,379,645, plus 8% interest as provided in the Plan from September 30, 1989. As of March 31, 2006 the total amount remaining due, plus accrued interest was \$4,781,473, of which, pursuant to the Settlement Agreement, 50% is due to the Independent Manager however, the 50% due to the Partnership was off-set by the Partnership from payments due the respective Operating Partnerships under the Plan. As of March 31, 2006 the total amount unpaid and remaining due, plus accrued interest, to the Independent Manager was \$2,021,085. With respect to the above 25% of gross fees earned from any of the Operating Partnership, \$ -0-, \$ -0- and \$ -0- were due and paid to the Partnership respectively for the 2006, 2005 and 2004 Fiscal Years.

The Management Agreement also provides for the Partnership to indemnify the Independent Manager and its officers, directors and employees against claims arising in connection with the formation of the Partnership and the performance of their duties, except to the extent arising from gross negligence or willful misconduct.

#### **Compensation of the General Partner**

Prior to December 31, 1994, pursuant to the Settlement Agreement, the General Partner was entitled to \$10,000 per month (\$120,000 per year) for performing the day-to-day obligations and duties as the general partner of the Partnership through December 31, 1994. Thereafter, the General Partner was to receive no additional amounts payable by the Partnership for the performance of such functions during the remaining term of the Partnership, except as otherwise provided in the Plan. If any such additional compensation was requested by the General Partner it was to be subject to competitive bidding. No such additional sums have been paid or requested by the General Partner.

#### **Compensation of the Investors Committee**

The Investors Committee received an annual operating budget from the Partnership of up to \$50,000, through December 31, 1994, but which was continued during subsequent periods including the periods in which the Partnership was considering exit or liquidation strategies pursuant to a



budget approved by the General Partner, to cover the costs, fees and expenses of performing its services. Members of the Investors Committee receive \$125.00 per hour, plus direct expenses, for time spent in the performance of their duties on behalf of the Investors Committee, including \$1,000 for meetings of the Investors Committee. An aggregate of \$3,175, \$0- and \$8,620 was paid to Investors Committee by the Partnership for fiscal periods ending March 31, 2006, March 31, 2005, and March 31, 2004. The members of the Investors Committee were also indemnified by the Partnership against claims arising in connection with the formation of the Partnership and the performance of their duties, except to the extent arising from gross negligence or willful misconduct the same as the Independent Manager and the Developers Class Representative.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Prior to December 27, 2005, no partner was the holder of 5% or more in Limited Partnership Interests of the Partnership and neither the General Partner, Independent Manager nor any of its officers or directors held any Limited Partnership Interests. As a result of its Tender Offer dated November 17, 2005, Megan Asset, the General Partner and Independent Manager of the Partnership, on December 28, 2005 accepted the tenders and purchased the Limited Partnership Interests of 864 Limited Partners with an ownership percent totaling 46.90%. Subsequently, on May 25, 2006 Megan Asset purchased the Limited Partnership Interests of a further 43 Defaulted Limited Partners with an ownership percent of 2.89% at private sale pursuant to the Plan and Defaulted Limited Partners' Limited Partner Security Agreement, and had purchased 1.14% interest from a few other Limited Partners. Accordingly, Megan Asset is the owner of more than five percent of the Limited Partnership Interests owning a 50.93% Limited Partnership Interest or 51.44% of the 99% Limited Partnership Interests, a majority in interest of the Limited Partnership Interests, in addition to its 1% interest as the General Partner of the Partnership. No other partner is the holder of 5% or more in Limited Partnership Interests of the Partnership.

## **Item 13. Certain Relationships and Related Transactions.**

### **Gary L. Maddock P.C.**

Gary L. Maddock P.C. is a New York corporation of which Megan Asset Management's Chairman, Secretary and shareholder, Gary L. Maddock, is also the president, sole shareholder and employee and through which he was engaged in the public practice of law. The Partnership paid Gary L. Maddock P.C. \$292,008 in fees and expenses related to services rendered to the Partnership, during the 2006 Fiscal Year.

### **Paul J. Maddock P.C.**

Paul J. Maddock P.C. is a North Dakota corporation of which Megan Asset Management's President, Treasurer and shareholder, Paul J. Maddock, is also the president and sole shareholder and through which he practices public accounting. The Partnership paid Paul J. Maddock P.C. approximately \$59,500 in accounting fees during the 2006 Fiscal Year related to services rendered to the Partnership and Operating Partnerships and the review of the tax returns of all other Operating





Partnerships. Each Operating Partnership is responsible for and is billed for these accounting and review services, which were, when and if collected, reimbursed to the Partnership.

**Item 14. Principle Accountant Fees and Services.**

Fees paid to the Partnership' s independent auditors for Fiscal Years 2006 and 2005 were comprised of the following:

<u>Fee Type</u>	<u>2006</u>	<u>2005</u>
Audit Fees	\$ 30,000	\$15,000
Audit Related Fees	-0-	-0-
Tax Fees	15,000	-0-
All Other Fees	<u>-0-</u>	<u>9,835</u>
<b><u>Total</u></b>	<b><u>\$45,000</u></b>	<b><u>\$24,835</u></b>

Audit Committee

The Partnership has no Audit Committee. All audit services and any permitted non- audit services performed by the Partnership' s independent auditors are pre-approved by Megan Asset Management, Inc.

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## PART IV

## Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

### (a) Financial Statements and Financial Statement Schedules

Reports of Independent Accountants

Balance Sheets as of March 31, 2006, March 31, 2005

Statements of Operations for the fiscal year ended March 31, 2006, March 31, 2005, and March 31, 2004

Statements of Changes in Partners' Capital for the fiscal year ended March 31, 2006, March 31, 2005, and March 31, 2004

Statements of Cash Flows for the fiscal year ended March 31, 2006, March 31, 2005, and March 31, 2004

Notes to Financial Statements as of March 31, 2006

### (b) Exhibits (listed according to the number assigned in the table to Item 601 of Regulation S-K)

<u>Exhibit No.</u>	<u>Name of Exhibit</u>
<u>*2(a)</u>	<u>Joint Plan of Reorganization of 52 Debtors dated May 9, 1990</u>
<u>*2(a)(i)</u>	<u>Order Confirming Plan of Reorganization of the Bankruptcy Court, dated July 10, 1990.</u>
<u>*2(a)(ii)</u>	<u>Order Amending Confirmation Order, dated October 3, 1990.</u>
<u>*2(b)</u>	<u>Order Clarifying Joint Plan dated December 11, 1990.</u>
<u>*2(c)</u>	<u>Order Modifying Joint Plan entered March 6, 1991.</u>
<u>*2(c)(i)</u>	<u>Order Amending Confirmation Order, dated April 8, 1991.</u>
<u>*2(d)</u>	<u>Second Order Modifying Joint Plan entered June 22, 1992.</u>
<u>*2(e)</u>	<u>Final Decree, dated May 20, 1993.</u>
<u>*3(a)</u>	<u>Certificate of Limited Partnership of Bayfield Low Income Housing Limited Partnership.</u>
<u>*4(a)</u>	<u>Amended and Restated Agreement of Limited Partnership of Bayfield Low Income Housing Limited Partnership</u>
<u>*10(a)</u>	<u>Amended and Restated Management Agreement dated as of December 23, 1991.</u>
<u>*10(b)</u>	<u>Form of Partnership Interest Security Agreement with Developer.</u>
<u>*10(c)</u>	<u>Form of Unfinanced Note Security Agreement with Developers.</u>
<u>*10(d)</u>	<u>Form of Loan and Security Agreement.</u>
<u>*10(e)</u>	<u>Settlement Agreement dated December 4, 1991 between First American Holdings, Inc., Megan Management Company, Inc., Parkgate International Ltd., The Fidelity Management Company, Inc. and Continental Construction Management Corporation</u>
<u>*10(f)</u>	<u>Amendment dated December 23, 1991 to Settlement Agreement dated December 4, 1991 between First American Holdings, Inc., Megan Management Company, Inc., Parkgate International Ltd., The Fidelity Management Company, Inc. and Continental Construction Management Corporation</u>



Exhibit No.  
\*\*10(g)

Name of Exhibit  
Dominium Loan and Collateral Security Agreements

Loan Agreement dated April 16, 2003  
Supplemental Loan Agreement dated April 16, 2003  
Corporate Guaranty dated April 16, 2003  
Security Agreement dated April 16, 2003  
Promissory Note dated April 16, 2003  
Promissory Note dated July 18, 2003  
Subsequent Loan Agreement dated August 29, 2003  
Subsequent Loan Security Agreement dated August 29, 2003  
Subsequent Loan Security Agreement dated September 18, 2003  
Subsequent Loan Corporate Guaranty dated September 18, 2003  
First Subsequent Loan Promissory Note - September \_\_, 2003  
First Amendment to Subsequent Loan Agreement dated September 19, 2003  
Second Amendment to Subsequent Loan Agreement dated September 19, 2003  
Second Subsequent Loan Security Agreement dated October 17, 2003  
Second Subsequent Loan Promissory Note - October \_\_, 2003 (14)  
Third Subsequent Loan Security Agreement dated November \_\_, 2003 ( )  
Third Subsequent Loan Promissory Note - November 10, 2003 (16)  
Collateral Assignment and Assumption Agreement - January 1, 2004  
Subsequent Loan Promissory Note dated January 1, 2004  
Assignment and Assumption Agreement Partial Satisfaction of First Subsequent Loan Promissory Note dated  
Assignment and Assumption Agreement Full Satisfaction of First Subsequent Loan Promissory Note dated  
Assignment and Assumption Agreement Full Satisfaction of First Subsequent Loan Promissory Note dated  
Assignment and Assumption Agreement Full Satisfaction of First Subsequent Loan Promissory Note dated

\*\*10(h)

Contract to Purchase Limited Partnership Interests in Five Operating Partnership Interests to Affordable Housing  
Limited Partnership No. 1 dated September 30, 2003  
Option to Purchase Limited Partnership Interest in Alachua Villas, Ltd.  
Option to Purchase Limited Partnership Interest in Citrus Terrace, Ltd  
Option to Purchase Limited Partnership Interest in Lake City Village, Ltd.  
Option to Purchase Limited Partnership Interest in Longview Terrace, Ltd.  
Option to Purchase Limited Partnership Interest in Pontotoc Ridge, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Alachua Villas, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Citrus Terrace, Ltd  
Assignment and Assumption of Limited Partnership Interest in Lake City Village, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Longview Terrace, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Pontotoc Ridge, Ltd.

\*\*\*10(i)

Contract to Purchase Limited Partnership Interests in Fifteen Operating Partnership Interests



Exhibit No.

Name of Exhibit

to Affordable Housing Limited Partnership No. 2 dated April 15, 2004

Option to Purchase Limited Partnership Interest in Canal Town Associates  
Option to Purchase Limited Partnership Interest in Cle Elum Apartment Associates  
Option to Purchase Limited Partnership Interest in Cleveland Courts, Ltd.  
Option to Purchase Limited Partnership Interest in East Magnolia Village, L.P.  
Option to Purchase Limited Partnership Interest in Elliott Manor, Ltd.  
Option to Purchase Limited Partnership Interest in Franklin Vista II, Ltd.  
Option to Purchase Limited Partnership Interest in Gilman Senior Apartments L.P.  
Option to Purchase Limited Partnership Interest in Hitchcock Housing, Ltd.  
Option to Purchase Limited Partnership Interest in Hurricane, Ltd.  
Option to Purchase Limited Partnership Interest in Kent Summit, Ltd.  
Option to Purchase Limited Partnership Interest in Kingswood II, Ltd.  
Option to Purchase Limited Partnership Interest in Lakecrest, Ltd.  
Option to Purchase Limited Partnership Interest in Laurel Wood Apartments, L.P.  
Option to Purchase Limited Partnership Interest in Lead Bayou, Ltd.  
Option to Purchase Limited Partnership Interest in Riverbend Apartments, Ltd

Assignment and Assumption of Limited Partnership Interest in Canal Town Associates  
Assignment and Assumption of Limited Partnership Interest in Cle Elum Apartment Associates

Assignment and Assumption of Limited Partnership Interest in Cleveland Courts, Ltd.  
Assignment and Assumption of Limited Partnership Interest in East Magnolia Village, L.P.

Assignment and Assumption of Limited Partnership Interest in Elliott Manor, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Franklin Vista II, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Gilman Senior Apartments L.P.

Assignment and Assumption of Limited Partnership Interest in Hitchcock Housing, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Hurricane, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Kent Summit, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Kingswood II, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Lakecrest, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Laurel Wood Apartments, L.P.

Assignment and Assumption of Limited Partnership Interest in Lead Bayou, Ltd.  
Assignment and Assumption of Limited Partnership Interest in Riverbend Apartments, Ltd

\*\*\*10(j)

Purchase Agreement with MPF BA dated October 1, 2004, including exhibits

Exhibit A - 81 Limited Partnerships

Exhibit A-1 - 2005 Partnerships

Exhibit B - Form of Secured Promissory Note

Exhibit C - Guaranty







<u>Exhibit No.</u>	<u>Name of Exhibit</u>
	<u>Exhibit D</u> - Security Agreement
	<u>Exhibit D-1</u> - Amendment to Buyer' s Operating Agreement
	<u>Exhibit E</u> - Third Party Non-Compliance with Partnership Contracts and Real Estate Tax Deficiencies
	<u>Exhibit F</u> - Litigation - Seller
	<u>Exhibit G</u> - Litigation - Buyer
	<u>Exhibit H</u> - Balance Sheet of Guarantor as at September 30, 2004
	<u>Exhibit I</u> - Income Statement of Guarantor for the period ending September 30, 2004
	<u>Exhibit J</u> - Litigation - Guarantor
	<u>Exhibit K</u> - Operating General Partners that filed a 2000 partnership tax return (Form 1065) which included a form entitled ELECTION TO ADJUST BASIS OF PROPERTY ("Election")
	<u>Exhibit L</u> - Those Partnerships that have previously filed an Election in a year in which a Partnership Interest was transferred, and the year of such Election
	<u>Exhibit M</u> - Assignment and Assumption Agreement
	<u>Exhibit N</u> - Power of Attorney
	<u>Exhibit O</u> - Amended Partnership Agreement
	<u>Exhibit P</u> - Commissions
	<u>Exhibit Q</u> - Management Agreement
	<u>Secured Promissory Note - October 1, 2004 - \$210,000 due on April 15, 2005</u>
	<u>Secured Promissory Note - October 1, 2004 - \$238,000 due on June 15, 2005</u>
	<u>Secured Promissory Note - October 1, 2004 - \$425,000 due on December 15, 2005</u>
	<u>Secured Promissory Note - October 1, 2004 - \$320,912 due on June 15, 2006</u>
<u>13</u>	<u>Report of Independent Accountants, Financial Statements and Notes thereto</u>
<u>*28a</u>	<u>Net Worth Formula and Allocation to Investors of Interests in Master Limited Partnership.</u>
<u>*28b</u>	<u>Investor Notes.</u>
<u>*28c</u>	<u>Agreements and Certificate of Limited Partnership of the Operating Partnerships.</u>
<u>31(a)</u>	<u>Certification pursuant to 18 U.S.C. Section 1350, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herein</u>



<u>Exhibit No.</u>	<u>Name of Exhibit</u>
31(b)	Certification pursuant to 18 U.S.C. Section 1350, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herein
32(a)	Certification pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herein
32(b)	Certification pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herein

(c) Reports on Form 8-K

None

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\* Incorporated by reference to Exhibit of the same number to Form 10-K for the Fiscal Year Ended March 31, 1993

\*\* Incorporated by reference to Exhibit of the same number to Form 10-K for the Fiscal Year Ended March 31, 2004.

\*\*\* Incorporated by reference to Exhibit of the same number to Form 10-K for the Fiscal Year Ended March 31, 2005.







## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 29, 2008,

BAYFIELD LOW INCOME HOUSING  
LIMITED PARTNERSHIP  
By: MEGAN ASSET MANAGEMENT, INC.  
Independent Manager/General Partner

By: /s/ Gary L Maddock  
Gary L. Maddock, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dated indicated.

Dated: August 29, 2008

By: /s/ Gary L Maddock  
Chairman and Director, (Principal Executive Officer)  
Megan Asset Management, Inc.

Dated: August 29, 2008

By: /s/ Paul J. Maddock  
President and Director, (Principal Accounting Officer)  
Megan Asset Management, Inc.

Dated: August 29, 2008

By: /s/ Michele Maddock  
Director,  
Megan Asset Management, Inc.





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BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP

FINANCIAL STATEMENTS

March 31, 2006

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BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP

Financial Statements

March 31, 2006

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# CARTER & COMPANY

Certified Public Accountants, LLC

543 Highway 98 East

Suite 201

Destin, Florida 32541

Phone: 850-650-0125

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## INDEPENDENT AUDITORS' REPORT

To The Partners  
Bayfield Low Income Housing Limited Partnership

We have audited the accompanying balance sheet of Bayfield Low Income Housing Limited Partnership ("the Master Limited Partnership") as of March 31, 2006 and 2005, and the related statements of operations, changes in partners' capital and cash flows for the years ended March 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Master Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Bayfield Low Income Housing Limited Partnership, as of March 31, 2006, and 2005; and the results of its operations and its cash flows for the years ended March 31, 2006, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Carter & Company, Certified Public Accountants, LLC

Destin, Florida  
August 29, 2008



## Balance Sheets

ASSETS

	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash	\$ 620,060	\$ 351,088
Advances to operating partnerships	0	140,725
Notes receivable	1,597,964	1,266,912
Investments in operating limited partnerships	<u>0</u>	<u>52,018</u>
	<b><u>\$ 2,218,014</u></b>	<b><u>\$1,810,743</u></b>

LIABILITIES AND PARTNERS' CAPITAL

	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Accounts payable and accrued expenses	\$ 166,557	\$ 160,252
Contributions payable to operating partnerships	<u>0</u>	<u>16,122</u>
	166,557	176,374
Partners' capital		
Limited partners	3,078,921	2,666,004
General partner	2 0,269	16,098
Subscriptions receivable	<u>(1,047,733)</u>	<u>(1,047,733)</u>
	<u>2,051,457</u>	<u>1,634,369</u>
	<b><u>\$ 2,218,014</u></b>	<b><u>\$1,810,743</u></b>

The Notes to Financial Statements are an integral part of these Statements.

BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP

Statements of Operations

	<u>For the Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Income</b>			
Sale of interest in operating partnerships	\$ 1,891,752	\$ 2,249,013	\$ 483,090
Equity in income of operating partnerships	21,673	48,086	38,492
Other income	0	0	2,022
Interest income	<u>2,462</u>	<u>588</u>	<u>303</u>
	1,915,887	2,297,687	523,907
<b>Expenses</b>			
Management fees	106,759	118,000	117,625
Professional services	729,094	487,048	386,599
Other expense	23,036	10,445	6,155
Continental pre-petition expense	<u>639,919</u>	<u>72,694</u>	<u>26,960</u>
	<u>1,498,794</u>	<u>688,187</u>	<u>537,339</u>
Net income (loss)	<b><u>\$ 417,0888</u></b>	<b><u>\$ 1,609,500</u></b>	<b><u>\$ (13,432)</u></b>
Net income (loss) allocated to General Partner	<b><u>\$ 4,171</u></b>	<b><u>\$ 16,095</u></b>	<b><u>\$ 0</u></b>
Net income (loss) allocated to limited partners	<b><u>\$ 412,917</u></b>	<b><u>\$ 1,593,405</u></b>	<b><u>\$ (13,432)</u></b>
Net income (loss) per .05% limited partnership interest	<b><u>\$ 206</u></b>	<b><u>\$ 796</u></b>	<b><u>\$ (6)</u></b>

The Notes to Financial Statements are an integral part of these Statements.





BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP

Statements of Changes in Partners' Capital

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Subscriptions Receivable</u>	<u>Total</u>
Partners' capital March 31, 2003	\$ 1,086,031	\$ 3	\$ (1,047,733)	\$ 38,301
Net loss for the year ended March 31, 2004	<u>(13,432)</u>	<u>0</u>	<u>0</u>	<u>(13,432)</u>
Partners' capital March 31, 2004	1,072,599	3	(1,047,733)	24,869
Net income for the year ended March 31, 2005	<u>1,593,405</u>	<u>16,095</u>	<u>0</u>	<u>1,609,500</u>
Partners' capital March 31, 2005	2,666,004	16,098	(1,047,733)	1,634,369
Net income for the year ended March 31, 2006	<u>412,917</u>	<u>4,171</u>	<u>0</u>	<u>417,088</u>
Partners' capital March 31, 2006	<b><u>\$ 3,078,921</u></b>	<b><u>\$ 20,269</u></b>	<b><u>\$ (1,047,733)</u></b>	<b><u>\$ 2,051,457</u></b>

The Notes to Financial Statements are an integral part of these Statements.



BAYFIELD LOW INCOME HOUSING LIMITED PARTNERS

Statements of Cash Flows

	<u>For the Year Ended March 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 417,088	\$ 1,609,500	\$ (13,432)
Adjustments to reconcile net loss to net cash used by operating activities:			
Gain on sale of partnership interest	(1,891,752)	(2,249,013)	(483,090)
Equity in income of operating partnerships	(21,673)	(48,086)	(38,492)
Increase (decrease) in accounts payable and accrued expenses	<u>6,305</u>	<u>(11,529)</u>	<u>28,526</u>
Total adjustments	<u>(1,907,120)</u>	<u>(2,308,628)</u>	<u>(493,056)</u>
Net cash used by operating activities	(1,490,032)	(699,128)	(506,488)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Distributions from operating partnerships	21,673	35,467	37,270
Sales proceeds – partnership interest	1,737,331	982,101	486,761
Loan proceeds – Dominion	<u>0</u>	<u>(199,397)</u>	<u>199,397</u>
Net cash provided by investing activities	1,759,004	818,171	723,428
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Advances to operating partnerships	<u>0</u>	<u>(26,050)</u>	<u>(14,287)</u>
Net cash (used) provided by financing activities	<u>0</u>	<u>(26,050)</u>	<u>(14,287)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	268,972	92,993	202,653
<b>CASH BALANCE, BEGINNING OF YEAR</b>	<u>351,088</u>	<u>258,095</u>	<u>55,442</u>
<b>CASH BALANCE, END OF YEAR</b>	<b><u>\$ 620,060</u></b>	<b><u>\$ 351,088</u></b>	<b><u>\$ 258,095</u></b>

The Notes to Financial Statements are an integral part of these Statements.



BAYFIELD LOW INCOME HOUSING LIMITED PARTNERSHIP

Notes to Financial Statements

March 31, 2006



## **Note A - Organization**

Bayfield Low Income Housing Limited Partnership (the “Master Limited Partnership”) was organized as of July 1, 1990 pursuant to the provisions of a Joint Plan of Reorganization of 52 debtor investor limited partnerships (“the Debtor Investor Partnerships”), dated May 9, 1990, pursuant to the provisions of Chapter 11 of Title 11, United States Code, as amended by an Order Clarifying the Joint Plan dated December 11, 1990 and an Order Modifying the Joint Plan entered March 6, 1991 or as may have been otherwise amended or modified by orders settling litigation with non-electing Developers with respect to those Developers or their Operating Partnerships (“the Plan”).

The Master Limited Partnership was created under the Plan as the entity into which all of the assets and liabilities of the fifty-two Debtor Investor Partnerships were “rolled-up” as of July 1, 1990 and after which their assets and businesses would be managed.

The fifty-two Debtor Investor Partnerships were the following Delaware limited partnerships:









Arlington Estates Limited Partnership	Greenwood Estates Limited Partnership
Barrington Estates Limited Partnership	Harborfield Estates Limited Partnership
Bayfield Estates Limited Partnership	Holly Estates Limited Partnership
Beechfield Estates Limited Partnership	Hunter Estates Limited Partnership
Birchfield Estates Limited Partnership	Kehrs Mill Estates Limited Partnership
Blakefield Estates Limited Partnership	Littlefield Estates Limited Partnership
Brighton Estates Limited Partnership	Livingston Realty Investors Limited
Brookline Estates Limited Partnership	Meadowfield Estates Limited Partnership
Candle Ridge Estates Limited Partnership	Mitchellfield Estates Limited Partnership
Canterbury Estates Limited Partnership	Northfield Estates Limited Partnership
Carlisle Estates Limited Partnership	Norwich Estates Limited Partnership
Cherrywood Estates Limited Partnership	Oleander Estates Limited Partnership
Chesterfield Estates Limited Partnership	Pine Hollow Estates, A Delaware Ltd. Partnership
Clarkson Estates Limited Partnership	Plainfield Estates Limited Partnership
Clayton Estates Limited Partnership	Plantingfield Estates Limited Partnership
Cloverfield Estates Limited Partnership	Redwood Estates Limited Partnership
Copperfield Estates Limited Partnership	Rosewood Estates Limited Partnership
Crescent Estates Limited Partnership	Sagewood Estates Limited Partnership
Deerfield Estates Limited Partnership	Southfield Estates Limited Partnership
Delafield Estates Limited Partnership	Springfield Estates Limited Partnership
Edenfield Estates Limited Partnership	Summerfield Estates Limited Partnership
Emerald Estates Limited Partnership	Sycamore Realty Investors Limited Partnership
Everest Estates Limited Partnership	Walnut Estates Limited Partnership
Evergreen Estates Limited Partnership	Wynnfield Estates Limited Partnership
First Estates Limited Partnership	Wilshire Estates Limited Partnership
Glenwood Estates Limited Partnership	
Greenfield Estates Limited Partnership	



March 31, 2006

**Note A - Organization – continued**

Each of the Debtor Investor Partnerships was organized as a Delaware limited partnership by First American Holdings, Inc. First American Holdings, Inc. a Delaware corporation, (sometimes referred to herein as “First American”) was the sole general partner of each of the Debtor Investor Partnerships and general partner of the Master Limited Partnership. Each Debtor Investor Partnership was formed to acquire equity interests in limited partnerships (the “Operating Partnerships”), each of which was expected to develop, own and operate a multi-family apartment complex for low to moderate income tenants (“the Projects”).

The Projects were expected to receive financing from the Rural Development, formerly known as the Farmers Home Administration, of the U.S. Department of Agriculture, and to receive interest credits and, in some cases, rental assistance payments under Section 515 of the Housing Act of 1949. Each Project was expected to qualify for the low income housing credit (“LIHC”) under Section 42 of the Internal Revenue Code of 1986. Section 42 of the Tax Code was enacted by the United States Congress to promote the development of low and moderate income rental housing. In order to generate LIHC, properties must be rented to tenants whose incomes are below certain levels established by the federal government, and the rents which are permitted to be charged are strictly limited by government regulations.

As a result of adverse economic conditions and increased competition, the Debtor Investor Partnerships were placed under the protection of Chapter 11 of the Bankruptcy Code. Principal provisions of the plan of reorganization, as approved July 1990 and amended (“the Plan”), follow:

In consideration of their contribution of assets to the Master Limited Partnership, each of the Debtor Investor Partnerships received an allocable portion of the limited partnership interests in the Master Limited Partnership. The limited partnership interests in the Master Limited Partnership were then distributed by each of the Debtor Investor Partnerships to the Investors in such Debtor Investor Partnership and so registered in the books of the Master Limited Partnership. The distribution of the interests in the Master Limited Partnership to the Investors was to be complete on the registration of such interests in the books of the Master Limited Partnership, and no certificates of limited partnership interests were distributed to any party. The limited partnership interests in the Master Limited Partnership are subject to the security interests granted under the Plan to Secured Lenders and Developers, and the Master Limited Partnership shall make no transfer of any such limited partnership interest without the consent of the appropriate Secured Party.

All claims against and interests in the Debtor Investor Partnerships were divided into the following classes:

- (1) **Administration Class** consists of all allowed or bankruptcy court approved administration claims of a Debtor Investor Partnership, including, without limitation, the costs and expenses (including attorneys’ and accountants’ fees as approved by the bankruptcy court) of each official committee of the Debtor Investor Partnerships and the unofficial committee of developers. Each member of such class received on confirmation cash equal to the allowed amount of its administration claim, except to the extent it has agreed to different treatment.



**Note A - Organization – continued**

- (2) **Secured Lender Class** consists of all allowed claims based on loan and security agreements giving rise to valid, duly perfected and non-avoidable pre-petition security interests in investor notes, to the extent of the value of a Debtor Investor Partnership's interest at confirmation of the plan in the collateral securing such claims, less payments made or applied on account of such claims during the course of the Chapter 11 case. Except to the extent a member of such class has agreed to different treatment, it:
- (a) Retained any existing duly perfected security interest until all payments due to it under the plan shall have been paid in full;
  - (b) Received a note from the Master Limited Partnership, pursuant to the loan repayment and security agreement;
  - (c) Received a security interest from the Master Limited Partnership pursuant to the loan repayment and security agreement, with respect to: 1) any property of the Debtors that was transferred to the Master Limited Partnership and in which such secured lender held a duly perfected security interest as of the filing of the petition; and 2) those interests in the Master Limited Partnership which were distributed to the Investors whose investor notes are held by such Secured Lender. Such security agreements provide that all property in which a holder receives a security interest shall serve as collateral for all obligations to such holder under the Plan; and
  - (d) Received cash payments of principal and interest as set forth in the Secured Lender Payment Schedule (after credit for any payments made or applied during the course of the Chapter 11 case).
- (3) **Developer Class** consists of all allowed claims held by Operating Partnerships (or the general partners thereof) against a Debtor Investor Partnership exclusive of those specifically included in subsection (b) of the "Other Creditor Class." Except for Developers holding the auction interests, each of the Developers received:
- (a) Payments at the times specified in the Plan in amounts determined by a developer payment formula, provided, however, any amount which would otherwise be payable to a non-electing Developer were reserved and will not be made until the entry of a final order determining all litigation between the debtor and such non-electing Developer and any funds so reserved may be used by the Master Limited Partnership in connection with such litigation;
  - (b) Payments such that the total of all payments to a Developer shall be equal to the full amount of such Developer's allowed claim plus interest at a rate equal to eight percent (8%) per annum; and





March 31, 2006

**Note A - Organization – continued**

- (c) To the extent a party held a duly perfected non-avoidable security interest in assets of a Debtor Investor Partnership, such party retained its perfected security interest in such of those assets of that Debtor Investor Partnership which were transferred to the Master Limited Partnership and received the costs and expenses, if any, fixed by a Final Order of the bankruptcy court.

The limited partnership agreements between the Debtor Investor Partnerships and each of the Operating Partnerships were to be amended as follows:

- (a) The Master Limited Partnership shall become the limited partner of such Operating Partnership in place of the Debtor Investor Partnership;
  - (b) Commencing January 1, 1995, except as noted below, any cash flow to which a Debtor Investor Partnership is entitled shall be retained by the Developers;
  - (c) On or before April 1 of each of the five (5) years commencing 1995, each Operating Partnership shall distribute to the Master Limited Partnership \$750 per year, provided that such payment is not prohibited by any applicable agreement with a governmental agency or any applicable governmental agency rules or regulations. To the extent the payment or any portion is not paid in any year, the remainder shall accumulate and be paid at the earliest time the payment is not prohibited; and
  - (d) On or before April 1 of each year commencing 2000, each Operating Partnership shall distribute to the Master Limited Partnership an amount to be negotiated by the Independent Manager and the Developer Class Representative which shall not exceed \$750, provided that such payment is not prohibited by any applicable agreement with a governmental agency or any applicable governmental agency rules or regulations. To the extent the payment or any portion is not paid in any year, the remainder shall accumulate and be paid at the earliest time the payment is not prohibited.
- (4) **Other Creditor Class** consists of all:
- (a) Allowed claims held by creditors of a Debtor Investor Partnership that are not otherwise classified under the Plan;
  - (b) Allowed claims (or those portions of allowed claims) which represent the amounts to be reimbursed to the Operating Partnerships (or the general partners thereof) in connection with the filing of an amended partnership agreement for such Operating Partnership prior to the filing of the Petitions; and



March 31, 2006

**Note A - Organization – continued**

- (c) Allowed claims (or those portions of allowed claims) which represent the amounts to be paid to Investors in connection with checks which were issued to Investors prior to the filing of the petitions.

Each holder of an allowed claim in such class received payment in full at confirmation of the Plan; provided, however, that if the aggregate total of allowed claims of this class exceeded \$55,000, each member of the Class received a prorata share of \$55,000 based on the amount of its allowed claim.

- (5) **Pre-Petition Legal Class** consists of all allowed claims held by Stairs, Dillenbeck, Kelly & Merle, attorneys, against a Debtor Investor Partnership for services rendered prior to the filing of the Petition of such Debtor Investor Partnership and not in connection with the Chapter 11 cases of the Debtor Investor Partnerships. Each holder of an allowed claim in such class received payments in full of its allowed claim in ten equal semiannual installments commencing July 1990.
- (6) **Fidelity Class** consists of all allowed claims held by Fidelity Management Corporation, an affiliate of First American, or any broker or dealer whose claim arises out of the sale of a limited partnership interest in a Debtor Investor Partnership. Holders of the Fidelity Class Allowed Claims shall receive in full of its allowed claim in ten semiannual payments of \$69,237 each commencing in July, 1990.
- (7) **First American Class** consists of all allowed claims (but not interests) held by First American against a Debtor Investor Partnership. Each holder of a First American Class allowed claim shall receive:
  - (a) Three semiannual payments of \$66,667 commencing upon confirmation of First American's plan of reorganization.
  - (b) Additional amounts, if any, pursuant to Article 15 of the Plan. ("Payments from Capital Events") (Note F). Such amounts will only be paid after payment in full of amounts due from such monies to the Secured Lender Class and Developer Class, and payments have been made to the Investor Class equal to: twenty percent (20%) of its net capital invested; plus interest at a rate of ten percent (10%) per annum from December 31, 1994; plus an additional one hundred percent (100%) of its net capital invested.
- (8) **Investor Class** consists of all interests and allowed claims of parties which arise out of the purchase or holding of limited partnership interests in a Debtor Investor Partnership, exclusive of those specifically included in subsection (c) of the "Other Creditor Class." Except as noted below, each of the Investors shall receive:



March 31, 2006

**Note A - Organization - continued**

- (a) Limited partnership interests in the Master Limited Partnership (including all rights to allocations and distributions to which a partner is entitled thereunder) equal to the result of the following formula:
  - (i) the limited partnership units in a Debtor Investor Partnership owned by such investor divided by the total of the limited partnership units in such Debtor Investor Partnership; multiplied by
  - (ii) the allocation of units in the Master Limited Partnership to a Debtor Investor Partnership as determined by an allocation formula;
- (b) Within thirty (30) days after June 30 and December 31 of each year (commencing December 31, 1990 and terminating on December 31, 1994) payments of a return of capital equal to a prorata portion (based on Net Capital Invested) of \$507,801 for each period.

Upon written consent of the Investor Committee, payments to be made to Investors pursuant to the above may be deferred and instead paid to Developers or for other costs and expenses for the administration of the Master Limited Partnership.

Pursuant to Articles 14 and 15 of the Plan, Investors are entitled to receive additional payments based on proceeds from capital events and other specified conditions. (Note F.)

- (9) **General Partner Class** consists of all interests held by First American in a Debtor Investor Partnership. The holder became the general partner of the Master Limited Partnership and was entitled to certain payments from the proceeds of capital events pursuant to Article 15 of the Plan. (Note F.)

An order modifying the Plan was entered on March 6, 1991. Under such modification, the Master Limited Partnership, on the written consent of the Investor Committee, may defer payments otherwise to be made to the Investors semi-annually as a return of capital, and use such monies to make payment to the developers or for other costs and expenses for the administration or operation of the Master Limited Partnership or to purchase interests in additional limited partnerships which own, or are intended to own, projects which are intended to qualify for LIHC (including the payment of any costs or expenses incurred in connection with such purchases).

Pursuant to an agreement entered into in December 1991, as amended, First American withdrew as the General Partner of the Master Limited Partnership, subject to the consent of the Limited Partners of the Master Limited Partnership. In connection therewith, First American received a total of \$434,968 for the transfer or release of all rights or economic benefits owed by the Master Limited Partnership to First American or its subsidiaries and in full settlement of any outstanding claims. Megan Management Company ("Megan"), the Independent Manager, agreed to become or have an entity under common control with it become General Partner of the Master Limited Partnership in



March 31, 2006

**Note A - Organization - continued**

place of First American subject to the approval of the Limited Partners; pending receipt of such approval, First American immediately relinquished to the Independent Manager any remaining management powers and responsibilities as well as all of its rights to income tax items related to its one percent ownership interest in the Master Limited Partnership from January 1, 1991 to December 22, 1991. These tax items were allocated on a prorata basis to the remaining partners. Megan Asset Management, Inc. ("Megan Asset") assumed the one percent ownership interest of First American as of December 31, 1991, subject to the approval of the Limited Partners. The agreement also provided for an increase in the Independent Manager's fees in compensation for the additional duties that it had been performing and would perform pursuant to the agreement of \$35,000 at closing (December 31, 1991) to cover its takeover costs and \$10,000 per month on the first day of every month subsequent to closing through December 31, 1994, the right to receive an amount equal to one-half of the distributions with respect to capital events previously payable to Continental Construction Management (Note F) and would pay to the Master Limited Partnership an amount equal to twenty-five percent of gross fees, if any, earned by it or its affiliates directly from any of the Operating Partnerships and for an extension of the term of the management agreement.

As of December 31, 1991, the agreement had been approved by the Investor Committee and the Developer Representative and those provisions of the agreement which did not require consent of the Limited Partners of the Master Limited Partnership were implemented promptly. Thereafter, Megan designated Megan Asset Management, Inc., a newly formed affiliate, to be the new General Partner of the Master Limited Partnership, made the required filings under the Securities and Exchange Act of 1934's proxy rules and solicited the consent of the Limited Partners. In September 1992, the Master Limited Partnership received approval of a majority in interest of its Limited Partners.

With the agreed withdrawal of First American and the transfer of all of its rights and responsibilities to the Master Limited Partnership and Megan, maintaining the Independent Manager and General Partner as separate entities was no longer necessary. Accordingly, as of December 31, 1992, Megan assigned to Megan Asset and Megan Asset assumed all of the rights, powers and obligations of the Independent Manager of the Master Limited Partnership. Gary L. Maddock, then President and sole shareholder of both corporations, reaffirmed his personal guarantee of the performance of the Management Agreement by Megan Asset.

**Note B - Significant Accounting Policies****Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments to be cash equivalents.





**Note B - Significant Accounting Policies – continued**

**Investments in Operating Limited Partnerships**

The Master Limited Partnership accounts for its investments in Operating Partnerships (including acquisition costs) using the equity method, under which the Master Limited Partnership's capital investment in each Operating Partnership is adjusted for its share of the Operating Partnership's income or losses and for any distributions received or accrued. Such income and losses are recognized on a calendar year basis. Losses in excess of the Master Limited Partnership's aggregate investment in each Operating Partnership are not recognized.

Costs previously recorded by the Debtor Investor Partnerships for services provided or to be provided by the General Partner and its affiliates relating to acquisitions of Operating Partnerships, including syndication fees, agency fees, investor services fees, partnership operations fees and audit indemnification fees, have been included in the Master Limited Partnership's aggregate investment in each Operating Partnership.

For annual reporting purposes, the recorded equity in income or losses is based on the calendar year basis financial information submitted by the Operating Partnerships.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**Income Taxes**

No provision has been made for income taxes in the financial statements, as the partners' shares of the results of the Master Limited Partnership's operations are included in their respective income tax returns. Losses, which were previously allocated one percent to the General Partner and ninety-nine percent to the Limited Partners, will now, pursuant to the agreement of December 1991, as amended, be allocated to all of the Partners in proportion to the outstanding positive balances of their respective capital accounts until their respective capital accounts are reduced to zero. After capital accounts have been reduced to zero, further losses and LIHC's would be allocated one percent to the General Partner and the remaining ninety-nine percent to all Limited Partners.

**Contributions Payable to Operating Partnerships**

Contributions payable to Operating Partnerships are recorded at the gross amount due pursuant to the Plan. When the Master Limited Partnership sells or assigns an interest in an Operating Partnership, any remaining balance of contributions payable is included in computing the gain or loss on sale or assignment.



Notes to Financial Statements - continued

March 31, 2006

**Note B - Significant Accounting Policies – continued****Contributions Payable to Operating Partnerships – continued**

Pursuant to the Plan, amounts due and unpaid to Operating Partnerships by the Debtor Investor Partnerships after the implementation of the Plan in July, 1990, accrue interest at the rate of eight percent. Failure to pay this interest is not a default under the Plan and any such unpaid interest is contingently payable as a first priority out of Capital Events (Note F). The Master Limited Partnership has not made any payments of this interest and has not recorded such interest on the accompanying financial statements.

**Note C - Investment in Operating Limited Partnerships**

A summary of the Master Limited Partnership's investments in Operating Partnerships accounted for on the equity method is as follows:

	March 31, <u>2006</u>	March 31, <u>2005</u>	March 31, <u>2004</u>
Investment Balance	<b><u>\$ 0</u></b>	<b><u>\$ 52,018</u></b>	<b><u>\$ 48,215</u></b>
Number of operating partnerships at year end	<b><u>15</u></b>	<b><u>110</u></b>	<b><u>129</u></b>
Number of operating partnerships with positive investment balance	<b><u>0</u></b>	<b><u>3</u></b>	<b><u>4</u></b>

The Partnerships' equity in income of the Operating Partnerships is summarized as follows:

	March 31, <u>2006</u>	March 31, <u>2005</u>	March 31, <u>2004</u>
Distributions received from partnerships with zero investments:	\$ 21,673	\$ 35,467	\$ 37,270
Income from investments with non-zero investment:	<u>0</u>	<u>12,619</u>	<u>1,222</u>
Total	<b><u>\$ 21,673</u></b>	<b><u>\$ 48,086</u></b>	<b><u>\$ 38,492</u></b>

During the year-ended March 31, 2006, the Master Limited Partnership sold various interest in operating partnerships that resulted in the complete divestiture of 95 operating partnerships. The gain from the sale was \$1,891,752 and is included in the Statement of Operations. At March 31, 2006, the Master Limited Partnership had investments in 15 partnerships.

During the year ended March 31, 2005, the Master Limited Partnership sold various percentages of its partnership interest in one hundred twenty one operating partnerships. The gain from the sale was \$2,249,013 and is included in the Statement of Operations. The sales resulted in the complete divestiture of nineteen operating partnerships. At March 31, 2005, the Master Limited Partnership had investments in one hundred ten operating partnerships.

During the year ended March 31, 2004, the Master Limited Partnership sold various percentages of its partnership interest in thirty operating partnerships. The gain from the sale was \$483,090 and is included in the Statement of Operations. The sales resulted in the complete divestiture of ten operating partnerships. At March 31, 2004, the Master Limited Partnership had investments in one hundred twenty nine operating partnerships.





Notes to Financial Statements - continued

March 31, 2006

**Note C - Investment in Operating Limited Partnerships – continued**

All remaining contributions payable as of March 31, 2006 represent payments which have been deferred for an indeterminate time until certain conditions are met by the Operating Partnerships involved. The deferred payments were associated with completely divested operating partnership in the year-ended March 31, 2006 and were written off and included in the gain on sale.

In addition to the above capital contributions, the Master Limited Partnerships made advances for the preparation of income tax returns to certain Operating Limited Partnerships totaling \$0 and \$140,725 at March 31, 2006 and 2005, respectively. With the divestiture of the majority of partnership interest, during the year-ended March 31, 2006 these advances were written-off and included in professional services in the statement of operations.

**Note D - Subscriptions Receivable**

When the investors were admitted as limited partners in one of the Debtor Investor Partnerships, each investor made a cash down payment for his or her limited partnership interest and executed a recourse promissory note for the balance. Contributions receivable represent the remaining balance of the recourse promissory notes executed by investors for their capital contributions which are payable to the Master Limited Partnership. While the majority of the notes were non-interest bearing, the notes for certain Debtor Investor Partnerships included interest at rates ranging from four and one-half percent to nine percent.

Contributions receivable at March 31, 2006 consists of the following:

Past due installments from defaulting investors	\$ 1,065,782
Amount representing unearned interest	<u>(18,049)</u>

**\$ 1,047,733**

The Master Limited Partnership has recourse against the defaulting investors and has pursued collection of these amounts. However, all significant amounts deemed collectible have been collected. Subscriptions receivable are decreased with a corresponding decrease to the limited partners' capital accounts as amounts are collected or the investor's partnership unit is terminated.

**Note E - Independent Manager**

The Plan provides for the employment of an independent manager for the Master Limited Partnership. The Amended and Restated Management Agreement provides for the automatic annual renewal of the management agreement subject to certain events, as defined. Effective July 10, 1990, Megan Management Company, Inc. ("Megan") was engaged to be the Independent Manager. As such, Megan became the Master Limited Partnership's exclusive





Notes to Financial Statements - continued

March 31, 2006

**Note E - Independent Manager – continued**

agent for all operations under the Plan, including those in connection with or relating to (a) collection, investment and disbursement of all funds of the Master Limited Partnership as provided in the Plan and the Escrow Agreement through the Escrow Account maintained at J.P. Morgan Chase Bank (formerly Manufacturers Hanover Trust), (b) maintenance of the books and records of the Partnership, (c) preparation of the Master Limited Partnership's tax returns and review of all tax returns relating to the Master Limited Partnership's interests in the Operating Partnerships and (d) furnishing assistance to the Investors with respect to tax information relating to the Investors' interests in the Master Limited Partnership. As of December 31, 1992, all rights, powers and obligations of the Independent Manager were assigned to Megan Asset Management, Inc. (Note A).

As compensation for its services, the Independent Manager received \$106,759, \$118,000, and \$117,625 for the years ended March 31, 2006, 2005 and 2004, respectively. The Independent Manager is also provided with amounts required to cover the costs of tax return preparation and audited financial statements.

The Amended and Restated Management provides for additional compensation to the Independent Manager for providing certain accounting and tax services to the Operating Partnerships. Paul J. Maddock PC, a company related to the Independent Manager, has been engaged to perform these services. In addition, Paul J. Maddock, PC prepares income tax returns for several Operating Partnerships and has been paid by the Master Limited Partnership on behalf of the Operating Partnership. The Master Limited Partnership has paid Paul J. Maddock, PC \$37,500, \$41,250 and \$41,825 during the years ended March 31, 2006, 2005 and 2004, respectively, for these services.

Megan Asset is compensated for additional services rendered. The Independent Manager's compensation was \$9,670, \$9,640, and \$4,000 during the years ended March 31, 2006, 2005 and 2004.

**Note F - Contingencies**

Article 15 of the Plan ("Payments from Capital Events") provides for certain further disbursements to the pre-petition creditors of available funds resulting from the sale of interests in Operating Partnerships subsequent to December 31, 1994. Such payments, in order of priority, include the following:

- a) Prorata payments to the Operating Partnerships of the full amount due from the Debtor Investor Partnerships and assumed by the Master Limited Partnership. At March 31, 2006, the amount due which has not been assumed is approximately \$10,366. In conjunction with the sale of the interest in the operating partnerships, the purchaser of the interest has assumed this contingent liability for the specific operating partnership. It is anticipated that the Master Limited Partnership will not be required to make any payments on this contingency.



March 31, 2006

**Note F - Contingencies – continued**

- b) Payment of amounts due to Continental Construction totaling \$2,379,645 plus interest at eight percent from September 30, 1989. Accrued interest at March 31, 2006 was \$2,401,828.

On October 12, 1990, the Master Limited Partnership entered into a settlement agreement with Continental Construction which canceled the above pre-petition obligation. Concurrently, the Master Limited Partnership agreed to pay Megan Asset Management, Inc., the substitute General Partner of the Master Limited Partnership, fifty percent of the calculated obligation to Continental Construction. The payments will be made from available cash from capital events. During the years ended March 31, 2006 and March 31, 2005, payments of \$639,919, and \$72,694, respectively, was paid from cash available from capital events to Megan Asset Management, Inc. This amount was recorded as an expense in the Statement of Operations. The remaining amount due at March 31, 2006 was \$2,021,085.

- c) Prorata payments to investors until each has received an amount equal to twenty percent of its net capital investment plus interest at ten percent calculated from December 31, 1994.
- d) A return of capital to the investors until each has received one hundred percent of its capital invested, over and above the payments in c) above.
- e) Payment of the allowed claims of investors subordinated pursuant to the bankruptcy code.
- f) Any remaining amounts in the percentage of ninety percent to the investors and ten percent to the general partner of the Master Limited Partnership.

The accompanying financial statements do not include adjustments for any amounts that might become payable pursuant to the resolution of the above contingencies.

**Note G – Related Party Activity**

The Master Limited Partnership paid expenses for legal assistance relating to the proceedings with the Operating Partnerships to Gary L. Maddock, PC, a company wholly-owned by the sole stockholder of the Independent Manager and General Partner, totaling \$321,835, \$294,568, and \$262,090 for the years ended March 31, 2006, 2005 and 2004, respectively.

**Note H – Dominion**

The Partnership received loans of \$402,465, of which \$199,397 was outstanding as of March 31, 2004, as an advanced payment towards its sale of fourteen of Bayfield's operating partnerships. The loans were secured by Bayfield's partnership interest in the fourteen operating partnerships. The purchaser did subsequently purchase all fourteen operating partnerships in full satisfaction of the advances including all interest.



March 31, 2006

**Note I – Receivable from Sale of Interest in Operating Partnerships**

At March 31, 2006, the Master Limited Partnership had a receivable of \$1,597,964 from the sale of the partnership interest. The receivable is secured by the partnership interest of the operating partnerships sold.

**CERTIFICATION OF THE CEO PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13A-14 AND  
15D-14  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Gary L. Maddock, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ending March 31, 2006, of Bayfield Low Income Housing Limited Partnership;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and

the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer' s ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer' s internal control over financial reporting.

Date: August 29, 2008

/s/ Gary L.  
Maddock  

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By: Gary L.  
Maddock  
Principal Executive  
Officer

**CERTIFICATION OF THE CEO PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13A-14 AND 15D-14  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul J. Maddock, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ending March 31, 2006, of Bayfield Low Income Housing Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and

the audit committee of the registrant's board of directors (or persons performing the equivalent functions):



- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer' s ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer' s internal control over financial reporting.

Date: August 29, 2008

/s/ Paul J. Maddock

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By: Paul J. Maddock  
Principal Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bayfield Low Income Housing Limited Partnership (the "Partnership") on Form 10-K for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary L. Maddock, a Principal Executive Officer of the General Partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Gary L. Maddock

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By: Gary L. Maddock  
Principal Executive  
Officer  
August 29,  
2008

A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Company's Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Partnership specifically incorporates it by reference.

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bayfield Low Income Housing Limited Partnership (the "Partnership") on Form 10-K for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul J. Maddock, a Principal Financial Officer of the General Partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Paul J.  
Maddock  

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By: Paul J.  
Maddock  
Principal  
Financial  
Officer  
August 29, 2008

A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Company's Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Partnership specifically incorporates it by reference.