



mercy HOUSING

Creating a Better World

A n n u a l F i n a n c i a l R e p o r t 2 0 0 9

Fiscal 2009 Annual Report

Investing in the Solution

The work that Mercy Housing does is designed to make a difference not just in the short term, but for generations to come. Mercy Housing's accomplishments in 2009 furthered our vision of creating a better, more humane world for our residents and the communities we serve. We approach every project, every property, with an unwavering commitment to quality and value.

2009 brought many new challenges for Mercy Housing including an unstable national economy, the foreclosure crisis and dramatic reductions in available equity for the affordable housing industry. Despite these challenges, Mercy Housing was able to expand our reach to even more low-income families, seniors and people with special needs in communities across the nation. Mercy Housing implemented new initiatives that went beyond our development of affordable housing. We sharpened our focus on measurement of our social impact, market penetration and involvement in national foreclosure issues. We continued to make a lasting impact in neighborhoods across the nation through community development and programs.

We made great strides in 2009 in positioning Mercy Housing for the next five years and beyond. 2010 celebrates the launch of Mercy Housing's new strategic plan that will guide the organization for the next five years. The need for affordable housing continues to grow and poverty is on the rise. In response, Mercy Housing set a goal to create an additional 60,000 affordable homes by the end of 2014. We will meet this goal through a deliberate, disciplined and environmentally sustainable approach to housing development, preservation, acquisition, lending and consulting.

Our vision and our mission have never been more important or relevant and must be accompanied by a sound business orientation and sustainable financial results. We recognize that the sustainability of our important work is dependent upon building a strong business model and maintaining a financially stable, strong organization. Mercy Housing engages in continuous, intensive strategic planning to lay out our long-term objectives and benchmarks, and we employ sound budgetary and review procedures to evaluate the financial impact of our activities. We have developed sophisticated cash-management and forecasting tools, enabling us to closely monitor financial results and review and analyze market trends. Further, we continually seek opportunities for improved efficiency and enhanced core mission delivery through ongoing cost analyses and process improvements. As a result, the value of Mercy Housing's consolidated total assets increased to \$1.514 billion as of December 31, 2009.

Financial integrity and controls – In addition to financial strength, an important element of a sound business is the integrity of the systems and financial information that an organization produces. Mercy Housing's financial team strives to produce timely, quality financial information to our organizational leadership, governing bodies, investors and regulatory agencies. We recognize the need for strong financial controls and infrastructure. Public

Organization Performance

Program Efficiency Ratio -

Percentage of Total Expenses Used Directly in Program Activities 93%

Fundraising Efficiency Ratio -

Percentage of Philanthropic Funds Available for Program Activities 80%

companies are now being subjected to the increased audit, control and reporting rules of the Sarbanes-Oxley Act of 2002. While much of this Act does not apply to nonprofits, Mercy Housing's Board of Trustees and management team are voluntarily complying with the spirit of the legislation and have implemented a number of activities, including the creation of a separate independent Audit Committee of the Board of Trustees. As an organization, we work to ensure that controls and reporting are adequate to ensure responsible stewardship of the funds generously provided by our contributors, lenders and other funding sources.

Mercy Housing's consolidated audited financial statements comply with Generally Accepted Accounting Principles, which in the past have not permitted the inclusion of the revenue and expense information for properties owned by partnerships in which Mercy Housing is the minority general partner. Effective December 31, 2006, Mercy Housing adopted EITF 04-5, requiring Mercy Housing to consolidate those partnerships in which Mercy Housing is the minority general partner.

For the year 2009, the consolidated audited financial statements include 110 partnership entities in which Mercy Housing has a partnership interest. The pie charts and tables on this page illustrate the relative sources of revenue and allocation of expenses across the full Mercy Housing organization — encompassing the activities of all the operating multifamily properties, commercial properties and homeownership construction projects in which Mercy Housing holds an interest.

Mercy Housing appreciates the commitment of resources entrusted to us from our Sponsoring Communities, Strategic Health Care Partners, and our individual, corporate, foundation and government partners. We endeavor to be a sound business manager and steward of these funds. Toward that end, we regularly evaluate the efficiency and effectiveness of our fundraising activities and the use of these generously provided funds.

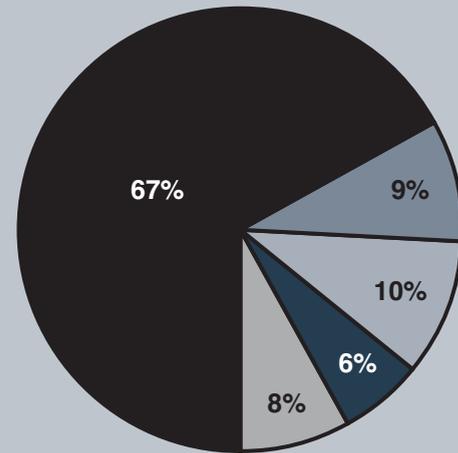
Mercy Housing's mission requires the involvement and success of many departments throughout the organization, including our property managers, case managers, developers, loan officers, asset managers and others. Therefore, when Mercy Housing measures our Program Costs, we include all activities, such as those above, that support our mission.

Our Program Efficiency Ratio — the percentage of system-wide expenditures that relate directly to program activities — exceeds industry averages. Through our management of overhead and administrative costs, we ensured that more than 93 cents of every dollar spent across the system was used for program costs as opposed to management, overhead or fundraising in 2009.

Our Fundraising Efficiency Ratio — the percentage of funds raised from gifts that remain after subtracting fundraising expenses — was also very high and demonstrates our commitment to directing these resources to their stated charitable purposes. During 2009, we ensured that 80 cents of every philanthropic dollar raised within the system was available for its intended use.

Organizationwide Revenue by Revenue Source Fiscal

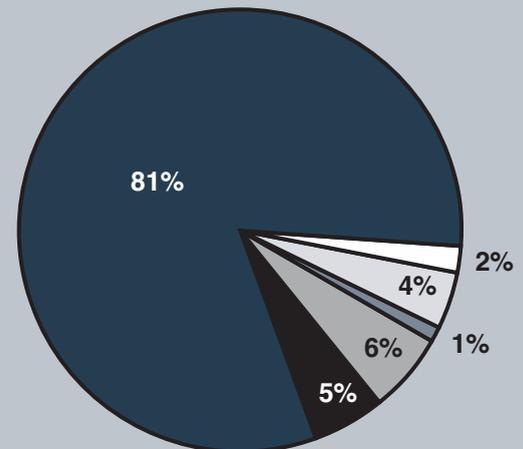
2009



Property Rental Income	67%
Other	9%
Philanthropy	10%
Government Capital Grants	6%
Earned Fees	8%

Organizationwide Expenses by Program

2009



Property Operations & Management	81%
Resident Services	5%
Housing Development	6%
Mercy Loan Fund	1%
Neighborhood Stabilization	1%
Corporate Operations	4%
Fundraising	2%

Financial Statement Overview

Mercy's audited financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Mercy's GAAP consolidated net loss was \$18.8 million in 2009, reflecting the difficult year experienced by many organizations during the recent recession. Please note that not unlike other owners of affordable multifamily real estate properties, Mercy's expenses include significant non-cash items such as depreciation and interest on soft debt as follows:

- Depreciation on majority owned properties contributed \$14.4 MM expense to GAAP operating results in 2009.
- The debt structure of most of the properties in Mercy's portfolio includes a component of soft debt. Interest accrues on the debt, however payments need only be made from property cash flow. Accrued and unpaid interest expense on majority-owned property debt totaled \$1.4 MM in 2009.

Thus, although Mercy faced a challenging year in 2009, our liquidity remained solid as net cash provided by operations increased by \$460,000 and unrestricted cash & cash equivalents decreased by only \$2 million during the year. Additionally, total assets increased by \$14.8 million to \$1.514 billion as of December 31, 2009.

Mercy Housing's business model has expanded over our history to focus on a continuum of activities that support our ability to provide program-enriched affordable housing to help our residents meet their basic human needs. Our lines of business include real estate development, property management, resident services, lending, asset management and consulting services. In 2009, Mercy Housing also launched Mercy Portfolio Services, a new subsidiary to help communities manage the funds they are receiving from the Neighborhood Stabilization Program. Our corporate support functions, including accounting, information technology, human resources, underwriting and fundraising, support these business lines.

The Consolidated Statement of Revenues and Expenses provides a breakdown of our income statement activity by line of business.

The Property Operations & Management column on Page 6 includes the operating results of our consolidated properties. Mercy's owned portfolio increased from 237 properties (14,545 units) to 249 properties (14,790 units) during the year ended December 31, 2009. This column also includes the operating results of Mercy Services Corporation, which increased their units under management from 244 properties (14,851 units) to 262 properties (16,175 units) during the year ended December 31, 2009. The managed portfolio includes 2,678 units managed for third-party clients.

As discussed above, we have also developed and own general partner interests (typically 1 percent or less) in 110 properties. Our corporate operations divisions and property management subsidiary provide services to substantially all of these properties, and the cost of these support functions is included in the consolidated financial statements.

The Resident Services column reflects the fundraising revenue and the cost of providing resident-focused programming at our properties. Our programs include health and wellness, education, community, and economic development activities. We recognize that while housing serves an essential human need, our residents can further improve their lives and the communities in which they live when offered other developmental and community-building opportunities. Operating income from certain properties supports these activities. Additionally, we fundraise separately for these programs and use general funds to subsidize short falls.

Housing Development represents the activities of our regional development offices and our national preservation effort. These affiliates identify opportunities, develop new properties, acquire properties for preservation and rehabilitation, and fundraise for local activities. Through their efforts, Mercy Housing has an ownership interest in 240 operating properties, as well as 49 projects in different stages of development as of December 31, 2009. During Mercy Housing's history we have developed, financed or provided consulting services for approximately \$2.1 billion in affordable housing and have provided housing for more than 128,000 residents. As indicated in the Consolidated Statement of Revenues and Expenses, philanthropic giving and capital grants contributed \$18.9 million to the operating results for this line of business in 2009. This amount consists largely of capital Mercy Housing has received from government agencies and others to support the construction of new properties with affordable units that will become available during the next few years. The generosity of agency and individual giving is an important element to the growth of our affordable housing portfolio.

Mercy Loan Fund provides loans to nonprofit housing developers that produce or preserve housing for low-income households. Through December 31, 2009, the Loan Fund had provided more than \$178 million in loans to support the development or preservation of more than \$1.37 billion of affordable housing in 33 states. As of December 31, 2009, approximately 16 percent of Mercy Loan Fund's outstanding loans were to Mercy Housing affiliates.

A complete copy of Mercy Housing's 2009 Audited Financial Statements is available upon request to the office of Chief Financial Officer, 1999 Broadway, Suite 1000, Denver, Colorado 80202, or by calling (303) 830-3300.

Consolidated Statement of Financial Position

For Years Ending December 31, 2009 and 2008

	2009	2008
Assets		
Cash and equivalents - Unrestricted	\$ 22,060,365	\$ 24,040,360
Cash and equivalents - Restricted	116,515,010	109,937,238
Investments	11,126,635	7,716,729
Cash and investments	149,702,010	141,694,327
Notes Receivable	26,622,783	27,773,179
Pledges receivable	3,351,056	3,853,057
Grants Receivable	12,863,463	25,925,230
Notes, pledges and grants receivable	42,837,302	57,551,466
Receivables (net of allowance)	5,088,614	4,386,320
Investments in limited partnerships	562,408	190,792
Receivables and investments	5,651,022	4,577,112
Project development costs	5,400,154	3,095,071
Gross property and equipment	1,631,596,930	1,565,531,628
Accumulated depreciation	(347,617,789)	(296,691,034)
Net property and equipment	\$ 1,289,379,295	\$ 1,271,935,665
Other assets	\$ 26,130,836	\$ 23,092,078
Total assets	\$ 1,513,700,465	\$ 1,498,850,648
Liabilities		
Accounts payable and accrued expenses	\$ 40,816,593	\$ 46,353,574
Accrued interest	\$ 55,451,965	\$ 50,121,318
Accounts Payable, accrued expenses and accrued interest	96,268,558	96,474,892
Current portion of notes payable	68,636,719	43,850,870
Long term portion of notes payable	754,323,854	764,390,895
Notes payable	822,960,573	808,241,765
Deferred revenue	15,920,229	17,769,088
Tenant security deposits	4,981,305	4,693,413
Total liabilities	940,130,665	927,179,158
Non Controlling Interest	354,284,639	330,038,962
Net assets		
Unrestricted net assets	\$ 25,760,213	\$ 60,828,414
Temporarily restricted net assets	\$ 189,559,242	\$ 177,513,408
Permanently restricted net assets	\$ 3,965,706	\$ 3,290,706
Total net assets	\$ 219,285,161	\$ 241,632,528
Total liabilities and net assets	\$ 1,513,700,465	\$ 1,498,850,648

Consolidated Statement of Revenues and Expenses

For the Year Ending December 31, 2009

	Property Operations & Management	Resident Services	Housing Development
Revenues			
Rent - net of vacancies	\$ 109,210,354	0	\$ 0
Developer Fees	0	0	7,437,888
Service Fees	1,893,290	124,061	63,226
Philanthropy	713,977	5,343,791	9,097,788
Fund Raising; Property Capital Grants	0	0	9,767,677
Consulting	14,738	330,060	1,828,869
Interest	3,249,524	2,464	203,931
Other	6,731,089	41,317	1,709,355
Total revenues	\$121,812,972	\$ 5,841,693	\$ 30,108,734
Expenses and losses			
Compensation	\$ 33,775,816	8,315,637	\$ 9,013,958
Administrative	8,852,454	1,261,278	1,564,888
Professional services	4,051,019	454,680	952,367
Depreciation and amortization	54,346,852	9,884	118,086
Grants	487,395	18,400	204,448
Facility	41,266,941	73,342	728,754
Interest and fees	24,217,817	262	260,876
Bad debts	1,335,979	0	97,174
Provision for impaired assets	8,338,436	0	72,275
Project expenses	2	0	668,444
Allocation	3,268,877	867,179	3,740,540
(Gain) loss on sale of assets	(1,393,706)	0	54,011
(Gain) loss on investment in limited partnership	0	0	603,819
Minority Interest	(32,159,689)	0	0
Total expenses and losses	\$ 146,388,193	\$ 11,100,662	\$ 18,079,640
Excess (deficiency) of revenues over expenses	\$ (24,575,221)	\$ (5,258,969)	\$ 12,029,094

Mercy Loan Fund	Neighborhood Stabilization	Corporate Operations	Consolidated Total
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\$ 0	\$ 0	\$ 0	\$ 109,210,354
00		0 7,437,888	
00		33,925 2,1	14,502
53,310 49,500		1,354,023 16,612,389	
00		0 9,767,677	
0 1,540,547		146,055 3,860,269	
1,622,191 341		106,897 5,185,348	
228,673 15,000		12,477 8,737,91	1
\$ 1,904,174	\$ 1,605,388	\$ 1,653,377	\$ 162,926,338

\$ 622,670	\$ 963,571	\$ 6,481,690	\$ 59,173,342
113,735 157,370		1,824,846 13,774,571	
54,645 583,587		884,262 6,980,560	
466 42,231		433,011 54,950,530	
121,128 0		4,126 935,497	
18,458 60,687		653,119 42,801,301	
711,554 15,262		168,447 25,374,218	
00		0 1,433,153	
231,000 0		261,791 8,903,502	
00		0 668,446	
162,792 240,608		(8,279,996)	0
(390,212)	0	(13,303)	(1,743,210)
00		0 603,819	
00		0 (32,159,689)	
\$ 1,646,236	\$ 2,063,316	\$ 2,417,993	\$ 181,696,040

\$ 257,938	\$ (457,928)	\$ (764,616)	\$ (18,769,702)
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