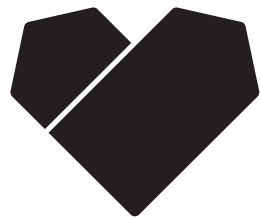


because we are here...



mercy
HOUSING

FINANCIAL REPORT 2010



because we are here ...

Building foundations

For nearly 30 years, Mercy Housing has demonstrated duration and impact through service-enriched, quality affordable housing. We are driven not only by our mission, but to close the gap between the supply of and demand for affordable housing and to build better futures for generations to come. In 2010, the organization has made substantial investments to enable our residents to develop their full potential.

In 2010, Mercy Housing developed a five-year strategic plan to chart a course of future growth and success. In the first year, we made significant progress toward the strategic goals outlined in the plan. In 2010, the organization focused on our infrastructure, operational systems and business fundamentals to ensure the long-term financial stability of Mercy Housing. While we strive to add even more affordable homes to our portfolio, we are also determined to preserve existing affordable housing and ensure Mercy Housing's current properties are sustainable. We continually work to maintain and enhance the quality of housing for which Mercy Housing is known. We are developing innovative solutions to help close the gap between the supply and demand for affordable housing. And, we are continually improving our resident services programs to better serve our residents.

The increasing number of foreclosures and an unstable unemployment rate has created a housing epidemic. Mercy Housing is calling on the affordable housing industry to drop the "business as usual" philosophy and come together to find new and creative ways to increase capacity and production to fill the critical need for affordable housing. As a result, Mercy Housing has partnered with other organizations to support local neighborhood stabilization efforts by keeping families in their homes, and thereby stemming the tide of vacant and foreclosed homes from flooding already impacted neighborhoods. This is just one more example of our 2010 efforts to address the growing need for affordable housing.

With the help of our donors, partners and investors, we are building more than a roof; we're enriching the lives of families and individuals. Our efforts can be measured socially, economically and environmentally. Our vision and mission must be in alignment with a sound business model and solid financial results. Mercy Housing engages in an ongoing comprehensive strategic planning process to facilitate our long-term objectives and benchmarks. We employ sound budgetary and review procedures to evaluate the financial impact of our activities, and we have developed sophisticated cash-management and forecasting tools, enabling us to closely monitor financial results. We continually seek opportunities for improved efficiency and enhanced core mission delivery through cost analyses and process improvements. As a result, the value of Mercy Housing's consolidated total assets increased to \$1.65 billion as of December 31, 2010.

Financial integrity and controls – In addition to our financial strength, an important element of our sound business is the integrity of the systems and financial information that we produce. 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. While much of the Sarbanes-Oxley Act of 2002 does not apply to nonprofits, Mercy Housing's Board of Trustees and management team comply 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 (GAAP).

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 of the subsidiary organizations including all the operating multifamily properties, commercial properties and homeownership construction projects in which Mercy Housing holds an interest.

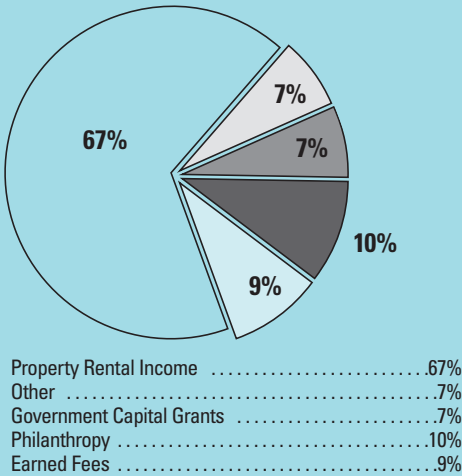
Mercy Housing appreciates the commitment of all of the subsidiary organizations including resources entrusted to us from our Sponsoring Communities, Strategic Health Care Partners, and our individual, corporate, foundation and government partners. We endeavor to be a sound business manager and steward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

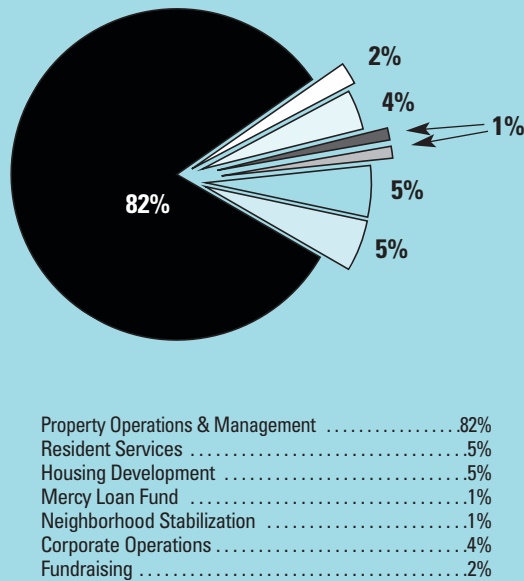
Our Program Efficiency Ratio — the percentage of system-wide expenditures that related directly to program activities – exceeds industry averages. Through our management of overhead and administrative costs, we ensured that more than **94 cents of every dollar** spent across the system was used for program costs as opposed to management, overhead or fundraising in 2010.

Our Fundraising Efficiency Ratio — the percentage of funds raised from gifts that remain after subtracting fundraising expenses exceeds industry averages and demonstrates our commitment to efficient and effective use of resources. During 2010, we ensured that **83 cents of every philanthropic dollar raised** was available for its intended charitable purpose.

Organizationwide Revenue by Source
2010



Organizationwide Expenses by Program
2010



Financial Statement Overview

Mercy Housing's audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Revenues over expenses attributed to Mercy Housing were \$2.4 million in 2010, improving from expenses in excess of revenues of \$18.8 million in 2009. Total assets increased by \$136.1 million to \$1.65 billion as of December 31, 2010.

Mercy Housing's business model has expanded over our long history to focus on 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, portfolio services, foreclosure prevention and consulting services. 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 5 includes the operating results of our consolidated properties. Mercy Housing's owned portfolio included 242 properties equaling 15,431 units as of December 31, 2010. This column also includes the operating results of Mercy Housing Management Group which increased their units under management to 16,332 units as of December 31, 2010. The managed portfolio includes 1,941 units managed for third-party clients. 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 support many of these activities. Additionally, we raise funds for these programs and use general funds to subsidize short falls.

Housing Development encompasses the activities of our regional development offices and our national preservation effort. Our affiliates identify opportunities, develop new properties, acquire existing properties for preservation and rehabilitation, and raise funds for local activities. Through their efforts, Mercy Housing has an ownership interest in 242 operating properties, as well as 47 projects in various stages of development as of December 31, 2010. During the organization's history, we have developed, financed or provided consulting services for more than \$2.2 billion in affordable housing and have provided housing for more than 135,000 residents.

As indicated in the Consolidated Statement of Revenues and Expenses, philanthropic giving and capital grants contributed \$16.7 million to the operating results for the housing development business line in 2010. This amount consists largely of capital received from government agencies and others to support the construction of new affordable units that will become available over the next few years. The generosity of agency and individual giving is an important element for sustaining 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, 2010, Mercy Loan Fund had provided more than \$195 million in loans to support the development or preservation of more than \$1.42 billion of affordable housing in 34 states. As of December 31, 2010, approximately 13 percent of Mercy Loan Fund's outstanding loans were to Mercy Housing affiliates.

A complete copy of Mercy Housing's 2010 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, 2010 and 2009

	2010	2009
Assets		
Cash and equivalents - Unrestricted	\$ 12,591,194	\$ 22,060,365
Cash and equivalents - Restricted	136,609,973	116,515,010
Investments	13,176,146	11,126,635
Cash and investments	162,377,313	149,702,010
Notes Receivable	33,278,048	26,622,783
Pledges receivable	3,520,688	3,351,056
Grants Receivable	12,175,942	12,863,463
Notes, pledges and grants receivable	48,974,678	42,837,302
Receivables (net of allowance)	10,417,260	5,088,614
Investments in limited partnerships	264,444	562,408
Receivables and investments	10,681,704	5,651,022
Project development costs	6,605,188	5,400,154
Gross property and equipment	1,785,529,904	1,631,596,930
Accumulated depreciation	(392,477,047)	(347,617,789)
Net property and equipment	1,399,658,045	1,289,379,295
Other assets	28,153,718	26,130,836
Total assets	\$ 1,649,845,458	\$ 1,513,700,465
Liabilities		
Accounts payable and accrued expenses	\$ 48,829,130	\$ 40,816,593
Accrued interest	62,899,806	55,451,965
Accounts Payable, accrued expenses and accrued interest	111,728,936	96,268,558
Current portion of notes payable	67,848,752	68,636,719
Long term portion of notes payable	849,456,514	754,323,854
Notes payable	917,305,266	822,960,573
Deferred revenue	25,642,358	15,920,229
Tenant security deposits	5,248,131	4,981,305
Total liabilities	1,059,924,691	940,130,665
Non Controlling Interest	372,697,366	354,284,639
Net assets		
Unrestricted net assets	25,928,512	25,760,213
Temporarily restricted net assets	187,329,183	189,559,242
Permanently restricted net assets	3,965,706	3,965,706
Total net assets	217,223,401	219,285,161
Total liabilities and net assets	\$ 1,649,845,458	\$ 1,513,700,465



Consolidated Statement of Revenues and Expenses

For the Year Ending December 31, 2010

	Property Operations & Management	Resident Services	Housing Development
Revenues			
Rent - net of vacancies	\$ 116,203,509	\$ 0	\$ 0
Developer Fees	0	0	7,204,439
Service Fees	1,901,051	182,328	1,931
Philanthropy	3,952,178	5,949,676	5,027,381
Capital Grants	1,498,000	0	11,673,337
Consulting	10,214	180,390	1,225,116
Interest	978,450	2,485	174,277
Other	7,898,896	36,147	202,981
Total revenues	\$132,442,298	\$ 6,351,026	\$ 25,509,462
Expenses and losses			
Compensation	36,758,028	8,340,735	8,003,706
Administrative	7,334,768	1,272,728	850,103
Professional services	4,172,752	696,896	476,205
Depreciation and amortization	58,630,640	6,450	109,909
Grants	1,101,986	250,113	36,628
Facility	40,815,378	46,334	689,217
Interest and fees	25,026,921	39	403,496
Bad debts	815,707	0	91,968
Provision for impaired assets	2,041,832	0	(22,125)
Project expenses	6,507	0	1,168,301
Allocation	2,739,043	891,346	3,080,676
(Gain) loss on sale of assets	633,104	0	334,362
(Gain) loss on investment in limited partnership	0	0	212,105
Minority Interest	(45,134,212)	0	0
Total expenses and losses	\$ 134,942,454	\$ 11,504,641	\$ 15,434,551
Excess (deficiency) of revenues over expenses	\$ (2,500,156)	\$ (5,153,615)	\$ 10,074,911

Mercy Loan Fund	Neighborhood Stabilization	Corporate Operations	Consolidated Total
\$ 0	\$ 0	\$ 0	\$ 116,203,509
0	0	0	7,204,439
1,101,613	0	58,897	3,245,820
59,021	100,000	1,685,350	16,773,606
0	0	20,000	13,191,337
0	3,091,019	10,087	4,516,826
1,544,126	4,895	59,326	2,763,559
234,168	419,324	60,708	8,852,224
\$ 2,938,928	\$ 3,615,238	\$ 1,894,368	\$ 172,751,320
609,652	1,852,029	5,964,105	61,528,255
120,704	430,599	2,258,011	12,266,913
114,555	319,127	632,700	6,412,235
0	53,570	443,799	59,244,368
0	0	50,661	1,439,388
658	104,828	776,454	42,432,869
734,030	12,619	93,806	26,270,911
0	0	0	907,675
493,514	0	150,000	2,663,221
0	0	0	1,174,808
214,668	493,604	(7,419,337)	0
0	0	0	967,466
60	0	0	212,165
0	0	0	(45,134,212)
\$ 2,287,841	\$ 3,266,376	\$ 2,950,199	\$ 170,386,062
\$ 651,087	\$ 348,862	\$ (1,055,831)	\$ 2,365,258



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Mercy Loan Fund**

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