

National Office

Mercy Services Corporation

Mercy Loan Fund

Mercy Portfolio Services

1999 Broadway, Suite 1000
Denver, Colorado 80202
303.830.3300

Mercy Housing California

San Francisco

1360 Mission Street, Suite 300
San Francisco, California 94103
415.355.7100

Los Angeles

1500 S. Grand Ave., Ste. 100
Los Angeles, California 90015
213.743.5820

Sacramento

3120 Freeboard Drive, Ste. 202
West Sacramento, California
95691
916.414.4400

Mercy Housing Colorado

1999 Broadway, Suite 1000
Denver, Colorado 80202
303.830.3300

info@mercyhousing.org

Mercy Housing Idaho

540 North Eagle Road, Ste. 117
Eagle, Idaho 83616
208.939.6838

Intercommunity Mercy Housing

2505 Third Avenue, Suite 204
Seattle, Washington 98121
206.838.5700

Mercy Housing Lakefront

247 S. State Street, Suite 810
Chicago, Illinois 60604
312.447.4500

Mercy Housing Midwest

6816 S. 137th Plaza
Omaha, Nebraska 68137
402.393.2096

Mercy Housing Southeast

Atlanta

621 North Avenue, Suite A-150
Atlanta, Georgia 30308
404.873.3887

Savannah

1826 Florance Street
Savannah, Georgia 31415
912.401.0008

Mercy Housing Southwest

PMB 256
4802 E. Ray Road, Suite 23
Phoenix, Arizona 85044
602.952.9525

National Lending & Consulting Office

1101 30th Street NW, Suite 250
Washington, DC 20007
202.495.7402

Graphic Design:
Angie Lee, Grindstone Graphics, Inc.

Illustration:
Anna-Maria Crum

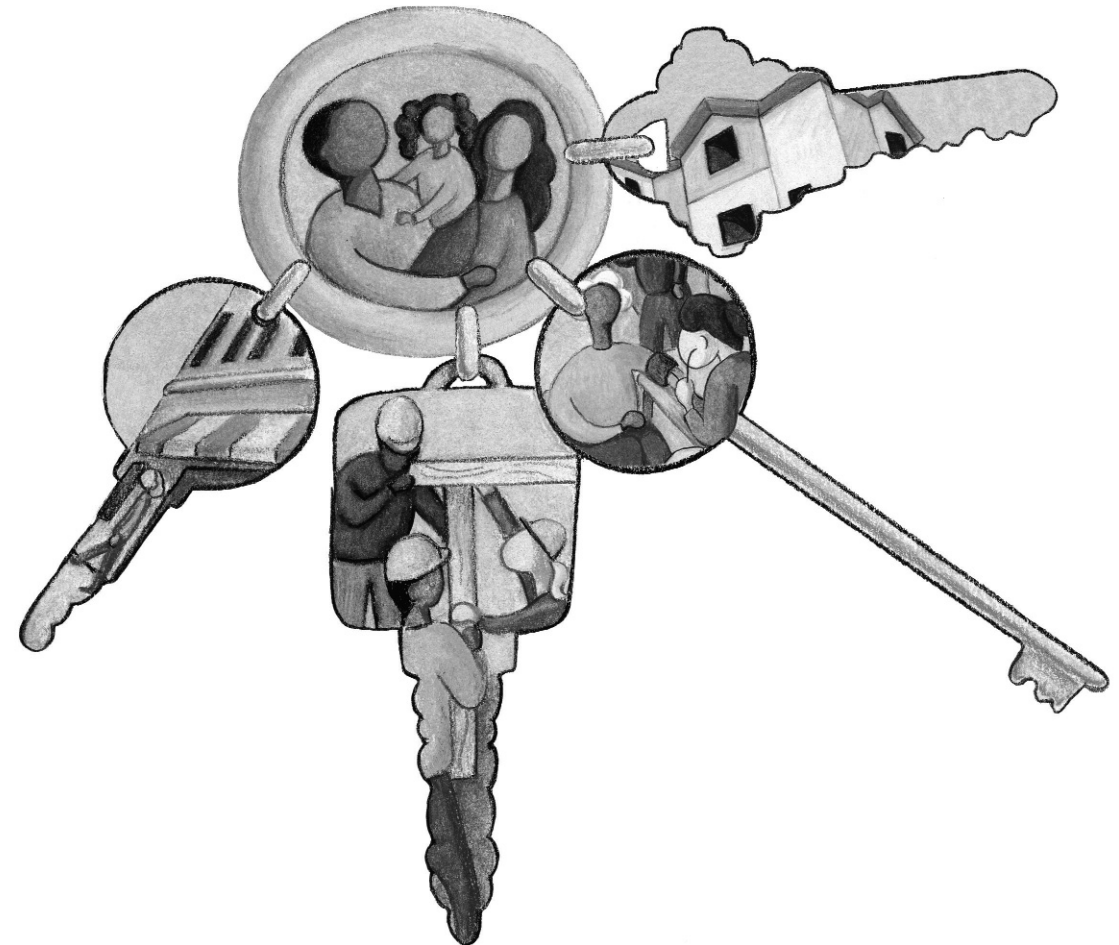


Mercy Housing

www.mercyhousing.org

Keys to Hope

Annual Financial Report 2008



Mercy Housing

Keys to Hope

2008 Annual Financial Report

Mercy Housing's mission is to create stable, vibrant and healthy communities by developing, financing and operating affordable, program-enriched housing for families, seniors and people with special needs who lack the economic resources to access quality, safe housing opportunities. During Mercy Housing's more than 25-year history the organization has intentionally set about to grow the number of affordable homes, while striving to ensure a strong, sustainable organization characterized by fiscal responsibility and social accountability.

Mercy Housing was created to address the need for quality, safe affordable housing in our society. As the organization grew, it became clear that vision and mission must be accompanied by a sound business orientation and sustainable financial results. As we grew from less than \$1 million in assets to our current size, we came to recognize that the sustainability of our important work is dependent upon building a strong business model and maintaining a financially stable, strong organization. We engage 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 continues to increase, rising from \$1.33 billion as of December 31, 2007, to \$1.5 billion as of December 31, 2008.

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 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 years of 2008 and 2007, the consolidated audited financial statements include 112 and 107 partnership entities, respectively. 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 Healthcare 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.

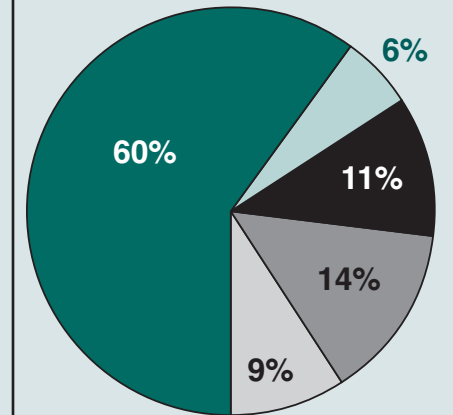
Several national charity-rating organizations evaluate the efficiency of fundraising efforts and program expenditures for a variety of nonprofit organizations. We applaud the desire of these organizations to help donors better understand how much of their contributions are going toward their intended use. Unfortunately, Mercy Housing's organizational structure does not easily accommodate these organizations' rating criteria. To accurately rate our program and fundraising efficiency, one must review all of the information contained within the consolidated financial statements of our many separate operating entities and hundreds of properties. As many of the rating organizations analyze only segments of the Mercy Housing organization, we do not believe that we are being properly measured and therefore have reflected the measurements below.

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 2008.

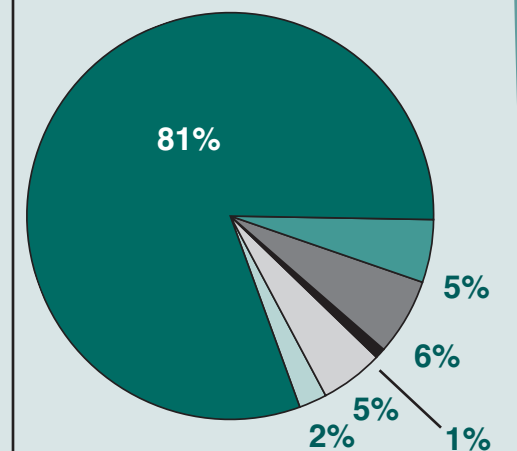
Our Fundraising Efficiency Ratio — the percentage of funds raised from gifts that remain after subtracting fundraising expenses — was also very high and demonstrates our commitment to directing these resources to their stated charitable purposes. During 2008, we ensured that 84 cents of every philanthropic dollar raised within the system was available for its intended use.

Organizationwide Revenue by Revenue Source 2008



Property Rental Income	60%
Other	6%
Government Capital Grants	11%
Philanthropy	14%
Earned Fees	9%

Organizationwide Expenses by Program 2008



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

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

84%

Financial Statement Overview

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. Our corporate support functions, including accounting, information technology, human resources, underwriting and fundraising, support these business lines.

Our audited financial statements reflect the cost of these support functions, as well as business-operating activities in accordance with generally accepted accounting principles. 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 4 includes the operating results of our consolidated properties (a total of 288 properties including 208 operating properties owned and managed by Mercy Housing, 29 operating properties owned by Mercy Housing but managed by third parties, and 51 properties currently under development). This column also includes the operating results of Mercy Services Corporation, which managed a total of 244 properties including 208 properties owned by Mercy Housing and 36 properties owned by other parties. As indicated in the Consolidated Statement of Revenues and Expenses, fundraising contributed more than \$16 million to the operating results for this line of business in 2008. This amount consists largely of capital grants that Mercy Housing has received from government agencies 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.

As discussed above, we have also developed and own general partner interests (typically 1 percent or less) in 112 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 237 operating properties, as well as 51 properties (4,176 units) under development as of December 31, 2008. Additionally, Mercy Housing also develops affordable single-family homes for sale to individuals. During Mercy Housing's history we have developed, financed or provided consulting services for approximately \$1.8 billion in affordable housing and have provided housing for more than 117,000 residents.

Mercy Loan Fund provides loans to nonprofit housing developers that produce or preserve housing for low-income households. Through December 31, 2008, the Loan Fund had provided more than \$161 million in loans to support the development or preservation of more than \$1.2 billion of affordable housing in 32 states. As of December 31, 2008, approximately 16 percent of Mercy Loan Fund's outstanding loans were to Mercy Housing affiliates.

A complete copy of Mercy Housing's 2008 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

December 31, 2008

	2008	2007
Assets		
Cash and equivalents - Unrestricted - Corporate	\$ 8,077,327	\$ 6,623,840
Cash and Equivalents - Unrestricted - Properties*	16,243,033	14,513,574
Cash and equivalents - Restricted	109,937,238	93,944,605
Investments	7,716,729	5,721,021
Cash and investments	141,694,327	120,803,040
Notes Receivable	27,773,179	24,478,184
Pledges receivable	3,853,057	3,068,999
Grants Receivable	25,925,230	24,997,647
Notes, pledges and grants receivable	57,551,466	52,544,830
Receivables (net of allowance)	4,386,320	5,557,731
Investments in limited partnerships	190,792	352,147
Receivables and investments	4,577,112	5,909,878
Project development costs	3,095,071	2,110,394
Gross property and equipment	1,565,531,628	1,383,888,119
Accumulated depreciation	(296,691,034)	(254,181,451)
Net property and equipment	1,271,935,665	1,131,817,062
Other assets	23,092,078	21,190,871
Total assets	\$ 1,498,850,648	\$ 1,332,265,681
Liabilities		
Accounts payable and accrued expenses	\$ 46,353,574	\$ 56,268,860
Accrued interest	50,121,318	43,691,170
Accounts Payable, accrued expenses and accrued interest	96,474,892	99,960,030
Current portion of notes payable	43,850,870	61,279,549
Long term portion of notes payable	764,390,895	670,197,378
Notes payable	808,241,765	731,476,927
Deferred revenue	17,769,088	13,927,903
Tenant security deposits	4,693,413	4,138,681
Total liabilities	927,179,158	849,503,541
Non Controlling Interest	330,038,962	241,728,040
Net assets		
Unrestricted net assets	60,828,414	60,872,550
Temporarily restricted net assets	177,513,408	176,535,844
Permanently restricted net assets	3,290,706	3,625,706
Total net assets	241,632,528	241,034,100
Total liabilities and net assets	\$1,498,850,648	\$ 1,332,265,681

*Unrestricted cash held by the properties is generally not available for corporate purposes but is instead limited for use within the individual properties.

Consolidating Statement of Revenues and Expenses

For the Year Ending December 31, 2008

	Property Operations & Management	Resident Services	Housing Development	Mercy Loan Fund	Corporate Operations	Consolidated Total
Revenues						
Rent — net of vacancies	\$ 100,517,082	\$ 0	\$ 0	\$ 0	\$ 0	\$ 100,517,082
Developer Fees	0	0	11,658,564	0	0	11,658,564
Service Fees	1,354,900	97,523	46,338	0	13,563	1,512,324
Fund Raising	1,926,581	4,479,387	3,894,660	151,435	12,020,918	22,472,981
Fund Raising; Property Capital Grants	14,320,475	1,095,375	2,460,179	0	0	17,876,029
Consulting	83,972	11,225	2,058,914	0	226,896	2,381,007
Interest	2,578,777	10,744	173,645	1,348,039	88,161	4,199,366
Other	3,547,407	16,136	826,300	246,778	777,439	5,414,060
Total revenues	124,329,194	5,710,390	21,118,600	1,746,252	13,126,977	166,031,413
Expenses and Losses						
Compensation	31,288,594	8,447,396	9,790,501	556,964	5,860,916	55,944,371
Administrative	8,585,015	1,575,207	1,617,441	61,773	2,565,361	14,404,797
Professional services	3,689,419	548,002	1,209,638	42,003	1,204,268	6,693,330
Depreciation and amortization	48,093,483	22,629	163,233	649	336,128	48,616,122
Grants	74,307	24,963	55,871	0	29,200	184,341
Facility	35,626,122	100,743	635,736	19,364	656,608	37,038,573
Interest and fees	25,964,806	223	33,141	640,719	545,239	27,184,128
Bad debts	545,301	3,083	0	0	0	548,384
Provision for impaired assets	5,928,828	0	0	45,000	254,033	6,227,861
Project expenses	180,850	0	450,897	0	0	631,747
Allocation	2,799,416	927,688	2,900,333	151,392	(6,778,829)	0
(Gain) loss on sale of assets	4,846,734	0	(307,656)	0	0	4,539,078
(Gain) loss on investment in limited partnership	0	0	162,007	0	0	162,007
Minority Interest	(34,615,667)	0	0	0	0	(34,615,667)
Total expenses and losses	133,007,208	11,649,934	16,711,142	1,517,864	4,672,924	167,559,072
Excess (deficiency) of revenues over expenses	\$ (8,678,014)	\$ (5,939,544)	\$ 4,407,458	\$ 228,388	\$ 8,454,053	\$ (1,527,659)