

LIVE



ANNUAL REPORT FINANCIALS 2011



mercy
HOUSING

THE POWER OF HOPE

VISION

MERCY HOUSING INC. FINANCIAL REPORT 2011

During Mercy Housing Inc.'s more than 30-year history, our mission to create stable, vibrant and healthy communities has been the foundation of all strategic and financial decisions made by the organization. Since the organization was founded with an initial investment of \$500,000, we have grown to become one of the nation's largest developers of service-enriched, quality affordable housing for families and individuals. The organization is working to help close the gap between the supply of and demand for affordable housing, while striving to ensure a strong, sustainable organization characterized by fiscal responsibility and social accountability.

Mercy Housing Inc. would like to thank all of our donors, partners and investors for their support and the shared belief that service-enriched affordable housing is foundational to the creation of a more humane world where poverty is alleviated, communities are healthy and all people can develop their full potential.

Through your investment in our mission in 2011, Mercy Housing Inc. made significant progress toward the goals outlined in our 2010 - 2014 Strategic Plan through continued growth in all operational areas: housing development, property management, lending, asset management and Resident Services. We also took on new challenges, formed new partnerships and created innovative solutions to help narrow the gap between the supply of and demand for affordable housing.

During the organization's history, we have developed, financed or provided consulting services for more than \$2.5 billion in affordable housing and have provided housing for more than 140,000 residents. Mercy Housing Inc. continues to respond to the growing need for affordable housing through financial strength, flexibility and an unwavering focus on achieving our mission. Through this determination, the value of Mercy Housing Inc.'s consolidated total assets increased to \$1.8 billion as of December 31, 2011. On a combined basis, including restricted and unrestricted funds, our revenues over expenses attributed to Mercy Housing Inc. were \$25.3 million – a major improvement from \$2.4 million in 2010. This significant increase was a result of forgiveness of debt, the acquisition of a large property portfolio and some additional large grants. Some of the excess funds were applied to replenish reserves that were used during difficult financial years. Our unrestricted funds were \$4.8 million compared to a \$646,760 loss in 2010.

To measure our efforts socially, economically and environmentally, our vision and mission must be in alignment with a sound business model and solid financial results. Mercy Housing Inc. engages in an ongoing comprehensive strategic planning process to facilitate our long-term objectives.

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.

Financial integrity and controls – In addition to financial strength, an important element of our business is the integrity of the systems and financial information produced. As an organization, we work to ensure that controls and reporting will ensure accountability and responsible stewardship of the funds generously provided by our contributors, lenders and other funding sources. Mercy Housing Inc.'s financial team has put in place systems and tools that produce timely, quality financial information for 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 Inc.'s Board of Trustees and management team nevertheless 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. Mercy Housing Inc.'s consolidated audited financial statements comply with Generally Accepted Accounting Principles(GAAP) and are



examined annually by our outside independent auditor, the Reznick Group, in accordance with Generally Accepted Auditing Standards (GAAS).

The pie charts and tables on this page illustrate the relative sources of revenue and allocation of expenses across the full Mercy Housing Inc. organization – encompassing the activities of all of the subsidiary organizations including all the operating multifamily properties, commercial properties and construction projects in which Mercy Housing Inc. holds an interest.

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

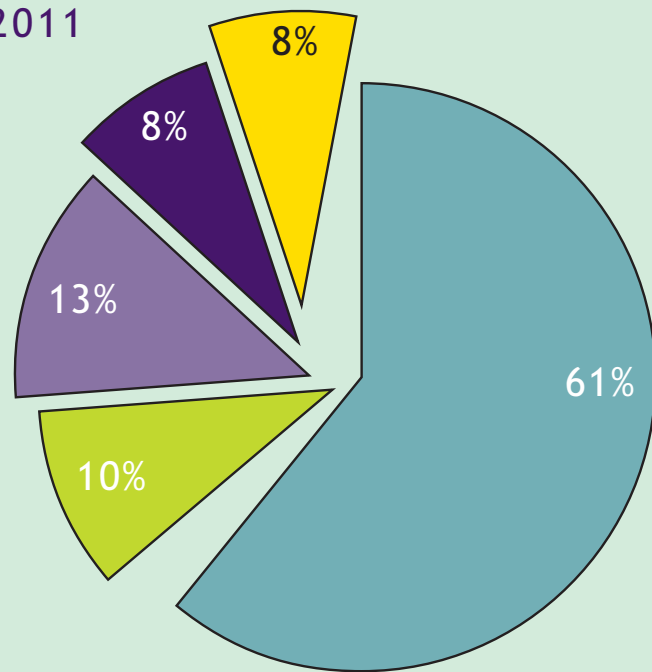
Our mission requires the involvement and success of many divisions throughout the organization, including our property managers, resident service coordinators, developers, loan officers, asset managers and others. Therefore, when Mercy Housing Inc. measures our program costs, we include all activities 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, more than 93 cents of every dollar spent across the system was used for program costs as opposed to management, overhead or fundraising in 2011.

Our Fundraising Efficiency Ratio – the percentage of funds raised from gifts that remain after subtracting administrative and fundraising expenses demonstrates our commitment to efficient and effective use of resources. In 2011, 79 cents of every philanthropic dollar raised was available for its intended charitable purpose.

ORGANIZATIONWIDE REVENUE BY SOURCE

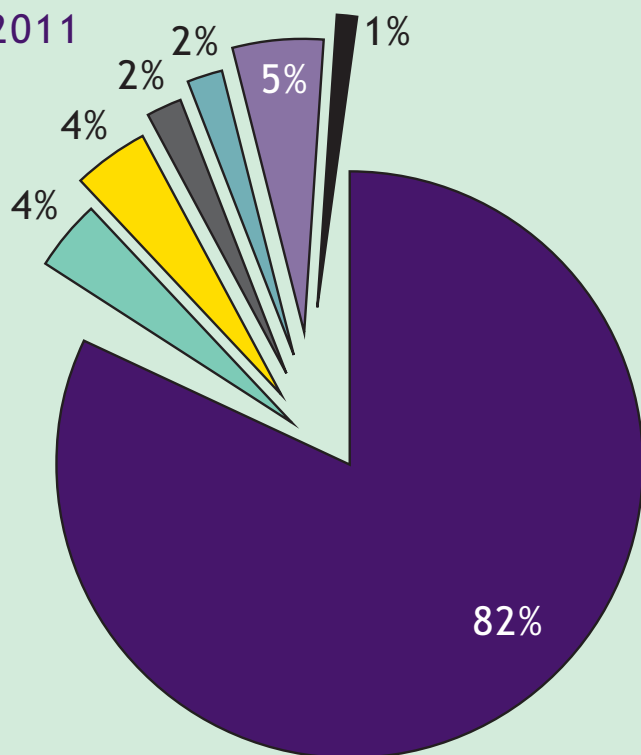
2011



Property Rental Income	61%
Other	10%
Government Capital Grants	13%
Philanthropy	8%
Earned Fees	8%

ORGANIZATIONWIDE EXPENSES BY PROGRAM

2011



Property Operations & Management	82%
Resident Services	4%
Housing Development	4%
Mercy Loan Fund	2%
Neighborhood Stabilization	2%
Corporate Operations	5%
Fundraising	1%

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 Activities79%

VISION

FINANCIAL STATEMENT OVERVIEW

Mercy Housing Inc.'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 functions, including accounting, legal, insurance, information technology, human resources, underwriting and fundraising support these business lines.

The Mercy Housing Inc. 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 Housing Inc.'s owned portfolio included 259 properties equaling 16,269 units as of December 31, 2011. This column also includes the operating results of Mercy Housing Management Group which increased their units under management to 16,486 units as of December 31, 2011. The managed portfolio includes 2,138 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 on page 6 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 many of these activities. Additionally,

we raise funds specifically for these programs and use general funds to subsidize any additional program costs.

The Housing Development business line on page 6 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 259 operating properties, as well as 101 projects in various stages of development or feasibility as of December 31, 2011. All funds in the Housing Development business line go directly into constructing and preserving affordable housing units.

As indicated in the Mercy Housing Inc. Consolidated Statement of Revenues and Expenses on page 7, philanthropic giving and capital grants contributed \$42.4 million to the operating results for the housing development business line in 2011. This amount consists largely of capital and grants received from government agencies and others to support the construction of new affordable units that will become available over the next few years.

To help meet the overwhelming need for affordable housing, Mercy Loan Fund provides loans to nonprofit affordable housing developers that produce or preserve housing for low-income households in their communities. Through December 31, 2011, Mercy Loan Fund had provided more than \$212 million in loans to support the development or preservation of more than \$1.5 billion of affordable housing in 37 states. As of December 31, 2011, approximately 13 percent of Mercy Loan Fund's outstanding loans were to Mercy Housing affiliates.

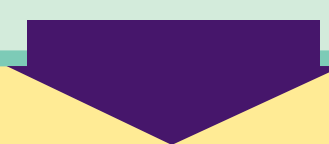
The work of Mercy Portfolio Services (MPS) continued to grow in 2011. Through its work with the Neighborhood Stabilization Program, MPS has acquired 807 units of foreclosed housing, begun to rehabilitate 487 units of foreclosed housing, completed the rehabilitation of 149 units of foreclosed housing and helped create 1,719 new jobs. In 2011, MPS launched a new software product for non-profit real estate developers called Developer Central – a comprehensive data and document management tool for tracking assets and reporting. We also partnered with three other housing organizations to create the Mortgage Resolution Fund to help families save their homes from foreclosure.

A complete copy of Mercy Housing's 2011 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 or by visiting www.mercyhousing.org.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011 and 2010



	2011	2010
Assets		
Cash and equivalents - Unrestricted	\$ 25,961,338	\$ 18,100,212
Cash and equivalents - Restricted	147,726,092	131,100,955
Investments	7,798,499	13,176,146
Cash and investments	181,485,929	162,377,313
Notes Receivable	44,652,011	33,278,048
Pledges receivable	1,794,060	3,520,688
Grants Receivable	11,175,936	12,175,942
Notes, pledges and grants receivable	57,622,007	48,974,678
Receivables (net of allowance)	7,340,764	10,417,260
Investments in limited partnerships	17,776	264,444
Receivables and investments	7,358,540	10,681,704
Project development costs	5,778,850	6,605,188
Gross property and equipment	1,970,665,802	1,772,471,282
Accumulated depreciation	(460,098,014)	(391,364,022)
Net property and equipment	1,516,346,638	1,387,712,448
Other assets	40,470,193	40,099,315
Total assets	\$ 1,803,283,307	\$ 1,649,845,458
Liabilities		
Accounts payable and accrued expenses	\$ 48,671,705	\$ 48,829,130
Accrued interest	69,998,177	62,899,806
Accounts Payable, accrued expenses and accrued interest	118,669,882	111,728,936
Current portion of notes payable	67,131,043	67,848,752
Long term portion of notes payable	892,728,966	849,456,514
Notes payable	959,860,009	917,305,266
Deferred revenue	60,698,478	25,642,358
Tenant security deposits	5,777,774	5,248,131
Total liabilities	1,145,006,143	1,059,924,691
Non Controlling Interest	390,003,366	372,697,366
Net assets		
Unrestricted net assets	35,576,477	25,928,512
Temporarily restricted net assets	228,731,615	187,329,183
Permanently restricted net assets	3,965,706	3,965,706
Total net assets	268,273,798	217,223,401
Total liabilities and net assets	\$ 1,803,283,307	\$ 1,649,845,458

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES

For the Year Ending December 31, 2011

	Property Operations & Management	Resident Services	Housing Development
Revenues			
Rent - net of vacancies	\$ 123,078,271	\$ -	\$ -
Developer Fees	-	-	9,937,333
Service Fees	1,224,269	261,631	(70,510)
Philanthropy	333,857	6,838,656	3,508,942
Capital Grants	8,142,287	-	18,962,615
Consulting	14,347	214,729	598,998
Interest	680,024	761	133,446
Other	4,467,244	40,710	677,221
Total revenues	137,940,299	7,356,487	33,748,045
Expenses and losses			
Compensation	39,506,655	7,337,594	6,728,085
Administrative	7,201,102	1,170,139	1,269,870
Professional services	4,241,084	587,668	611,878
Depreciation and amortization	65,752,620	3,966	53,707
Grants	(333)	162,658	975,966
Facility	40,716,534	6,977	580,609
Interest and fees	30,133,346	265	547,708
Bad debts	1,477,680	34,231	15,263
Provision for impaired assets	-	-	39,539
Project expenses	-	-	1,289,147
Allocation	4,904,961	1,755,250	2,667,464
(Gain) loss on sale of assets	(1,927,704)	-	358,901
(Gain) loss on investment in limited partnership	(328,921)	-	554,916
Total expenses and losses	191,677,024	11,058,748	15,693,053
Excess (deficiency) of revenues over expenses			
Consolidated	(53,736,725)	(3,702,261)	18,054,992
Attributable to non-controlling interests	(51,808,751)	-	-
Excess (deficiency) of revenues over expenses attributable to Mercy Housing, Inc.	\$ (1,927,974)	\$ (3,702,261)	\$ 18,054,992

Mercy Loan Fund	Neighborhood Stabilization	Corporate Operations	Consolidated Total
\$ -	\$ -	\$ -	\$ 123,078,271
-	-	-	9,937,333
-	-	403,148	1,818,538
1,563,459	158,720	2,868,773	15,272,407
-	-	-	27,104,902
-	3,521,938	(7,749)	4,342,263
1,792,785	5,862	95,592	2,708,470
437,579	531,426	11,918,209	18,072,389
3,793,823	4,217,946	15,277,973	202,334,573
812,240	2,734,074	7,724,370	64,843,018
185,767	409,922	2,248,360	12,485,160
213,798	245,152	801,796	6,701,376
-	61,229	253,783	66,125,305
-	4,729	303,525	1,446,545
1,073	158,070	719,718	42,182,981
738,360	473	269,146	31,689,298
-	-	-	1,527,174
1,746,696	-	61,346	1,847,581
-	1,462	-	1,290,609
288,336	871,948	(10,487,959)	-
-	-	-	(1,568,803)
(105)	-	-	225,890
3,986,165	4,487,059	1,894,085	228,796,134
(192,342)	(269,113)	13,383,888	(26,461,561)
-	-	-	(51,808,751)
\$ (192,342)	\$ (269,113)	\$ 13,383,888	\$ 25,347,190

National Office

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Mercy Loan Fund
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