

MERRITT COMMUNITY CAPITAL CORPORATION



2002
ANNUAL REPORT

Mission Statement



Merritt Community Capital Corporation was formed in 1989 to provide equity capital to housing developments serving low income residents in Oakland, California. This geographic region was later expanded to include Northern and Central California. Through its investments, Merritt works to increase the organizational capacity of nonprofit housing developers and to spur the revitalization of low income and minority communities. Merritt invests in a range of developments from multifamily housing developments to single-room-occupancy hotels. Merritt offers competitive returns through Low Income Housing Tax Credits while addressing Northern and Central California's affordable housing needs.



Merritt Capital's Staff

Top row, left to right: Barney Deasy, President; Julie Sonntag Newquist, Administration and Human Resources Manager; Karen Smyda, Director of Acquisitions; Dan Kiernan, Corporate Finance Officer; Mark Baldwin, Director of Communications. Bottom row, left to right: Maria Duarte, Director of Asset Management; Kristy Ball, Asset Manager; Denise Smith, Administrative Assistant.

Table of Contents

Mission Statement & Merritt Staff	Page 1
Table of Contents	Page 2
Leadership Message	Page 3
Equity Investments	Page 5
2002 Acquisition Highlights	Page 6
Asset Management Highlights	Page 7
Communications & Events	Page 8
Development Profile: Rich Sorro Commons	Page 9
Development Profile: Canon Barcus Community House	Page 11
Direct Investments	Page 13
Property Investment List	Page 14
Fund Investors	Page 15
Financial Statements	Page 16
Board of Directors List	Back Cover

Leadership Message

Bernard T. Deasy

Bernard T. Deasy, President



This past year was one of contrasts for Merritt Capital. In one sense it was a record breaker as we raised more equity and entered into more partnerships than in any previous year. However, due to the continued consolidation in the financial services industry, the total number of investors in Merritt's Fund VIII decreased from a high of 12 in Fund VII to seven in Fund VIII. Part of this decrease was also due to timing and a relatively short investment horizon in Fund VIII. Even with fewer investors, the total amount of capital raised was \$29.7 million, \$2.7 million more than Merritt's Fund VII. A total of 755 units of housing entered into active asset management in 2002, raising the total portfolio of units under management to 2,679.

With an uncertain economy, shifting markets, and the cyclical nature of investments, Merritt weathered this climate remarkably well. There was less of an appetite for direct investments due to the Pacific Gas & Electric Company's continuing bankruptcy proceedings. However there was an increasing focus on asset management training which proved not only popular with area asset management and compliance professionals, but also an increasing source of revenue for the department.

Validation of the effectiveness of the Low Income Housing Tax Credit program came in the form of a report produced by the accounting arm of Ernst & Young. This report surveyed 7,824 tax credit properties and concluded that they had an

exceptionally low foreclosure rate. It also analyzed debt service ratios, average cash flow per unit and occupancy levels. In California, survey properties reported occupancy levels of 96.5 percent, debt service coverage ratios of 1.42 and cash flow of \$55,262 per project.

A review of Merritt's portfolio in 2002 reveals an occupancy level of 96.75 percent, debt service coverage ratio of 1.61 and an average cash flow of \$21,382 per project. While our cash flow is lower than the California average, it reflects the high level of tenant services provided at many of Merritt's investment properties.

Throughout the past year Merritt continued to diversify its portfolio. Merritt has provided capital to projects which range from co-housing for survivors of domestic violence, to live/work lofts, family housing, single-room-occupancy hotels and projects geared to seniors and disabled residents. Merritt has now invested in properties in 13 counties throughout Northern and Central California. We continue to build upon our collaborations with established nonprofit housing developers as well as form first-time partnerships with others who have demonstrated their ability to effectively manage tax credit properties. We are proud of this growth as it is a manifestation of our mission to increase the organizational capacity of nonprofit housing developers.



Ophelia B. Basgal

Ophelia B. Basgal, Board Chairperson

Through the participation of Merritt's Board Chairperson and its communications staff, Merritt contributed to two major initiatives-- the Millennial Housing Commission and the Campaign for Affordable Housing.

The results of the Millennial Housing Commission were released in May 2002. Ophelia Basgal was a member of the Commission and participated in numerous hearings including public testimony from elected officials, nonprofit and private housing developers, educators and financial experts. The Commission was charged with analyzing the importance of affordable housing to the infrastructure of the United States. It explored methods to increase the role of the private sector in providing affordable housing and the effectiveness of current housing programs in providing better housing opportunities for families, neighborhoods and communities.

What emerged from the hearings and the Commission's final report was a consensus that a lack of affordable housing is an increasing problem among low income families. The Commission also found that housing issues are predominantly local issues, that programs must reflect the variations from state to state and community to community and that housing developed must be financially and physically sustainable. The Commission made 13 specific recommendations calling for reforms and new legislation.

Merritt staff and board members also participated in the Campaign for Affordable Housing: A Partnership for Public Education,

during its formational phase in 2002. The mission of the Campaign is to finance, create and disseminate public information and advertising messages to reduce opposition to and mobilize support for affordable housing.

Merritt also maintained a presence on the national housing scene in its role as Administrator of the National Association of State and Local Equity Funds. Member funds of this association have raised over \$3.3 billion in equity capital and created over 52,000 units of affordable housing nationwide. Merritt coordinates NASLEF's three annual conferences, produces its marketing and advertising materials, handles all association finances, and helps set the agenda for its training, networking, and public policy initiatives.

Merritt would like to welcome John Chan to our board of directors. Chan is a Vice President at Bank of America's Community Development Bank. He helped monitor Bank of America's investments in Merritt's partnership funds and now coordinates the Bank's relationships with South County Housing, BRIDGE Housing, Eden Housing and A.F. Evans Company. We look forward to John's assistance as Merritt continues to grow and provide ever greater housing opportunities for low and moderate income Californians.

We also want to thank our investors, our housing development partners, and affordable housing colleagues, all of whom had a role in Merritt Capital's success in 2002.

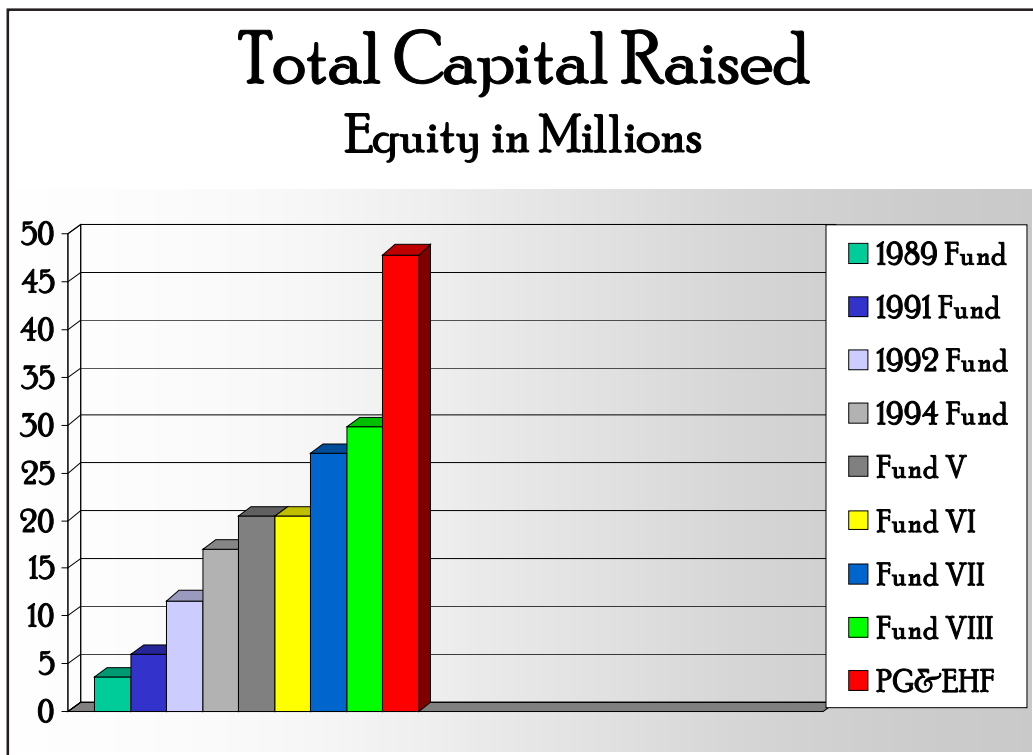
Equity Investments

Merritt Capital raises capital from financial institutions and corporations interested in the benefits provided by the Low Income Housing Tax Credit Program. Through this program Merritt provides a competitive rate of return on an investor's capital while promoting community reinvestment through the production of affordable housing.

By investing in one of Merritt's partnership funds, a corporation becomes a limited partner in that fund. Merritt serves as the fund's general partner. It uses the pooled capital in these funds to make investments in affordable housing throughout Northern and Central California.

Tax credits flow to investors, but as limited partners in the fund, investors are protected from liability. Investors receive tax benefits, losses and depreciation over a ten year period.

To date Merritt Capital has raised over \$136 million through its pooled partnership funds and an additional \$48 million from the Pacific Gas and Electric Housing Fund. This capital will finance the creation and rehabilitation of over 2,900 units of affordable housing.



2002 Acquisition Highlights

2002 was a record year for Merritt Capital's Acquisition Department. Merritt entered into ten limited partnerships which will result in the creation or rehabilitation of 740 units of affordable housing. Seven of those projects were four percent Low Income Housing Tax Credit/Bond deals which represents an expansion and growing expertise in financing projects through this program. It also reflects a growing emphasis on financing preservation projects and Merritt's flexibility in accommodating the needs of our housing development partners.

A majority of the projects acquired in 2002 were family projects, however a significant portion were also dedicated to serving the needs of seniors and the disabled. Three of those projects are briefly described below.

+ Maria Manor: In collaboration with long-time partner, Tenderloin Neighborhood Development Corporation, Merritt provided financing for the rehabilitation of this 119-unit Hotel serving seniors and disabled residents in San Francisco. The Section 8 subsidies in this development are being guaranteed by the San Francisco Redevelopment Agency, providing added financial stability to the project.



Anchored at the intersection of Market and Sacramento Streets in downtown Redding, the Hotel Redding is providing 49 units of senior housing.

+ Notre Dame Apartments: Providing 204 units of affordable housing, this acquisition and rehabilitation project sponsored by Chinatown Community Development Center, is preserving a development that was at risk of converting to market rate housing. This project also benefits from Section 8 guarantees from the San Francisco Redevelopment Agency.

+ Hotel Redding: A first-time collaboration with Christian Church Homes, this rehabilitation project is providing 49 studio, one-bedroom and two-bedroom units for seniors in Redding, California. This project renovated a downtown eyesore which had become a haven for drugs, prostitution and other illegal activity.

Asset Management Highlights

Merritt's Asset Management staff reviews the financial and physical operations of each investment property to ensure tax credit compliance. Using a web-based asset management system, Merritt monitors the operational integrity of each property, providing streamlined reporting systems to its investment and housing development partners.

Merritt also conducts regular asset management training for its partners' site supervisors, property managers and other interested compliance professionals. These workshops provide training in Tenant Certification for Tax Credit Properties, Finance and Budget Planning, and Advanced Tax Credit Compliance. In addition, Merritt subsidizes the cost of other professional training for compliance staff at its investment properties.

In 2002, Merritt's Asset Management Department:

- + Placed in service 755 units of affordable housing;
- + Conducted three asset management trainings serving 170 participants;
- + Provided 36 people with Merritt-subsidized compliance training;



Asset Management training has become an increasingly important part of the Merritt's Asset Management department.

- + Added a full-time Asset Manager position to accommodate Merritt's growing investment portfolio;
- + Received training to operate and began testing "Tax Credit Manager," an Internet accessible asset management database to conduct department reporting and data collection functions;
- + Increased the total number of units under active asset management to 2,679.

Communications & Events



A record number of people attended Merritt's Partnership Luncheon on November 12, 2002.

Merritt Capital assists in media outreach and event planning and promoting its investors and housing development partners. Staff are dedicated to recognizing the critical role our partners play in the creation of affordable housing and we highlight their efforts on our website, in our publications, and through our awards and outreach activities.

Every year an investor, a nonprofit housing developer, and an affordable housing project are recognized at Merritt's Partnership Luncheon. Each are honored for their special contributions to the affordable housing industry in California.

In 2002, Merritt honored Freddie Mac as its Investor of the Year. Having invested a total of \$33 million in Merritt's funds, Freddie Mac was recognized as one of Merritt's largest and most consistent investors. Citizens Housing Corporation was named

Sponsor of the Year for its achievement in transforming a distressed property into an operational success. Pensione Esperanza, a project of Charities Housing Development Corporation providing 110 units of housing in San Jose, was selected as Project of the Year for its superior service to low income residents.

Merritt assists with Groundbreakings, media tours, Grand Openings, and other events at our investment properties. Our profiles, feature stories, and articles have appeared in national publications and are used by investors during their Community Reinvestment Act reviews. In 2002, Merritt expanded its focus to include policy issues supporting California's housing bond initiative (Proposition 46) and participating in the Campaign for Affordable Housing, a national public education effort to promote acceptance of affordable housing.

Under a contract with the National Association of State and Local Equity Funds, Merritt Capital edits and produces the association's publications, marketing materials and advertising. Merritt also coordinates NASLEF's three annual conferences. This work enhances Merritt's stature and ensures that we have an imprint on both state and national affordable housing issues.

Development Profile

Rich Sorro Commons



Rich Sorro Commons Provides:

- + 100 units of affordable housing for families
- + 3,200 square foot childcare center
- + After-school mentoring and enrichment program
- + 7,000 square feet of commercial and retail space

As the first housing complex in San Francisco's Mission Bay District to combine market rate amenities, unbeatable access to transportation and rents which are affordable to low income families, Rich Sorro Commons serves as a model for service-rich, smart, housing development.

Located a half-block from San Francisco's Pacific Bell Park, across the street from a Safeway grocery and a few blocks from five acres of parkland, Rich Sorro Commons provides 100 units of affordable housing in one of San Francisco's newest and fastest growing neighborhoods.

This development, the first of 1,700 units of affordable housing to be built in Mission Bay, will be integrated with approximately 6,000 condominiums, townhouses, and other market rate housing planned for the neighborhood. The University of San Francisco has opened a nearby research campus and the area will soon be home to six million square feet of commercial/industrial space and 850,000 square feet of retail. In addition to affordability, Rich Sorro Commons has the proverbial real estate maxim--location, location, location.

What's even more impressive is that this complex features hard-to-find three- and four-bedroom units, ideally suited for larger families. Rents range from \$783 for a one-bedroom apartment, to \$1,207 for a four-bedroom townhouse. Ten units are reserved for people living with AIDS and three units are designed for residents operating small childcare operations.



Musicians, drummers and a Lion Dance were part of the Grand Opening celebration at Rich Sorro Commons on September 12, 2002. Children's art activities and tours of the development were also part of the celebration.

Rich Sorro Commons was developed by Mission Housing Development Corporation. Its mission is to preserve high-quality affordable housing for low and moderate income people and to improve the economic, social and physical environment of the Mission District in San Francisco.

Rich Sorro Commons contains 13,750 square feet of open space, part of which includes a multipurpose community center. This center contains a computer lab and hosts a Home Link Mentor Program, an after-school enrichment program for children ages eight to 18. This program is a collaboration between Mission Housing Development Corporation's Resident Programs Department and the University of San Francisco's School of Education. A family friendly development, Rich Sorro Commons also houses an on-site daycare center which can accommodate 40 children and teenagers.

The community center at Rich Sorro Commons is named after Lee Yick Wo. He was a Chinese immigrant laundry owner who filed a suit

against the Sheriff of San Francisco in 1885 because of the discriminatory regulations imposed on Chinese-owned laundries in the City. The resulting Supreme Court case expanded the interpretation of the Fourteenth Amendment's equal protection clause. During the construction of Rich Sorro Commons, a phenomenal Chinese archaeological site was discovered. A woodframe building that was the home and workplace for a small group of Asian immigrants was unearthed which suggests the site was an informal community center to Chinese workers. Today, as it did years ago, this site is providing housing, assistance and a sense of community to its residents.

Rich Sorro was a man who advocated for jobs, decent wages, safe working conditions and affordable housing. He was a union organizer, founder and Executive Director of the Mission Hiring Hall until his death in 1996. Sorro served on the Mission Bay Citizen's Advisory Committee long before this housing complex honoring him was envisioned.



Development Profile

Canon Barcus Community House



Canon Barcus Provides:

- + 48 units of affordable housing for families with a history of homelessness
- + On-Site Case Management and support
- + Infant/Toddler Childcare Center
- + After-School Youth Programming
- + Adult Skills Center & Family Literacy

A first-time collaboration between Merritt Capital and Episcopal Community Services (ECS) resulted in the creation of a multipurpose affordable housing complex serving families with a history of homelessness or at risk of becoming homeless. ECS' Canon Barcus Community House not only provides 48 units of supportive housing, it also serves as a home for the organization's administrative offices and numerous support programs for residents.

The complex includes an Infant/Toddler Childcare Center which accommodates 32 children and is operated by ECS and Holy Family Day Care Home. Ongoing onsite case management and supportive services are provided by ESC and Baker Places. An onsite health clinic is slated to be operated by St. Luke's Health Care Center. In collaboration with the Embarcadero YMCA, ECS is developing after school programs to serve the children of residents. Another major program operated at Canon Barcus is an expanded Skills Center which annually provides 1,200 adults with basic adult education, job counseling, GED and institutional food service programs to help them move toward stable employment and living wage jobs.

Canon Barcus Community House provides 27 three-bedroom units, five four-bedroom units, 12 two-bedroom units, and four one-bedroom apartments. The development is targeted to serve larger families or very low income people with a mental health, substance abuse, or HIV diagnosis. Families and individuals earning from 35 to 50 percent of the area's median income are eligible for housing at Canon Barcus.

In addition to the \$7 million in equity capital provided through Merritt's Fund VI and Fund VII partnerships, Canon Barcus received permanent financing from the San Francisco Mayor's Office of Housing, the San Francisco Redevelopment Agency and the Affordable Housing Program of the Federal Home Loan Bank. The project was also supported by a \$3.4 million capital campaign. Merritt's investors in Canon Barcus are Bank of America, Bank of the West, Comerica Bank, Downey Savings & Loan, Fannie Mae, Freddie Mac, Sanwa Bank of California, Silicon Valley Bank, Union Bank of California, United Commercial Bank, Washington Mutual, Wells Fargo Bank and Westamerica Bank.

Canon Barcus Community House recently received a Charles L. Edson Tax Credit Excellence Award from the Affordable Housing Tax Credit Coalition. It was a co-winner in the Metropolitan/Urban category of the competition.

Canon Barcus Community House is named for Rev. William Barcus III, a Canon at Grace Cathedral and the first Executive Director of the Episcopal Sanctuary. He helped begin the programs that became Episcopal Community Services of San Francisco and served on the San Francisco Mayor's Taskforce on Homelessness.



Approximately 300 quilts and pillows were donated to Canon Barcus residents by the San Francisco Quilters Guild.

A designer showcase was held at Canon Barcus in January 2002. Several apartments were decorated by student and volunteer interior designers with the furnishings donated to residents.



Direct Investments

Property	Investor	Location	Units	Type
Plaza & Ramona	PG&EHF	San Francisco	61	Disabled
Madison Place	PG&EHF/Fund V	Bakersfield	56	Family
Marina Vista/Hgts.	PG&EHF	Vallejo	388	Family/Individual
Papago Court	PG&EHF	Santa Rosa	48	Family
West Capital Crtyrd. II	PG&EHF	West Sacramento	75	Family
Greenridge Apts.	PG&EHF	South San Francisco	34	Family
Light Tree Apts.	PG&EHF	East Palo Alto	94	Family
Paulin Creek	PG&EHF	Santa Rosa	48	Family
Adeline Lofts	Silicon Valley Bank	Oakland	38	Live/Work Lofts
Rich Sorro Commons	PG&EHF	San Francisco	100	Family
Total			942	

Adeline Lofts is a unique live/work project funded by a direct investment acquired by Silicon Valley Bank. The 38-unit property is located in West Oakland and was developed by Affordable Housing Associates.



Property Investment List

Property	Fund	Location	Units	Type
California Hotel	1989/Fund V	Oakland	149	SRO
Marcus Garvey Commons	1991	Oakland	22	Family
Riverhouse Hotel	1991/1992	Martinez	75	Seniors/Disabled
San Pablo Hotel	1991/1992	Oakland	144	Senior SRO
Madison Park Apartments	1992	Oakland	98	Family
Hismen Hin-Nu Terrace	1992	Oakland	92	Family
Lyric Hotel	1994	San Francisco	58	Disabled
Main Street Park	1994	Half Moon Bay	36	Family
School House Station	1994/Fund V	Daly City	46	Family
Jardines Del Valle	1994	Watsonville	18	Family
Madison Place Apartments	Fund V/PGEHF	Bakersfield	56	Family
Shattuck Senior Homes	Fund V	Berkeley	27	Seniors
Pensione Esperanza	Fund V	San Jose	110	SRO
Grant Village Townhomes	Fund V	Stockton	40	Family
Harris Court	Fund VI	Hayward	20	Family
Canon Barcus Community House	Fund VI/VII	San Francisco	48	Family/Disabled
Notre Dame Apartments	Fund VI/VII	San Francisco	204	Seniors/Disabled
Belvedere Place	Fund VI	San Rafael	26	Family
Namiki Apartments	Fund VI	San Francisco	34	Seniors
Redwood Oaks	Fund VI	Redwood City	36	Family/Individual
HomeSafe	Fund VI	Santa Clara	25	Co-Housing
Antonia Manor	Fund VIII	San Francisco	133	Family
Maria Manor	Fund VII	San Francisco	119	Disabled/Seniors
Union Court Apartments	Fund VII	Manteca	68	Disabled/Seniors
Hotel Redding	Fund VII/VIII	Redding	49	Seniors
West Rivertown Apartments	Fund VIII	Antioch	57	Family
HomeSafe San Jose	Fund VII	San Jose	25	Co-Housing
Benecia Point	Fund VIII	Benecia	56	Family
Total			1841	

Fund Investors

1989 Fund Investors

Bank of America
Bank of the West
Bramalea Pacific, Inc.
Dreyer's Grand Ice Cream, Inc.
First Nationwide Bank
PG&E Corporation
Quaker Oats

1991 Fund Investors

Bank of America
Bank of the West
Bay View Capital Corporation
Dreyer's Grand Ice Cream, Inc.
Fannie Mae
Freddie Mac
Union Bank

1992 Fund Investors

Bank of America
Bank of California
Bank of the West
Bay View Capital Corporation
Fannie Mae
First Interstate Bank
Freddie Mac
PG&E Corporation
Sanwa Bank
Union Bank

1994 Fund Investors

Bank of America
Bank of California
Bank of the West

1994 Fund Investors-continued

Fannie Mae
First Interstate Bank
Freddie Mac
Home Savings of America
PG&E Corporation
Sanwa Bank of California
Union Bank

Fund V Investors

Bank of America
Bank of the West
Fannie Mae
Freddie Mac
Home Savings of America
PG&E Corporation
Sanwa Bank of California
Union Bank of California
Wells Fargo Bank

Fund VI Investors

Bank of America
Bank of the West
Comerica Bank
Fannie Mae
Freddie Mac
Sanwa Bank of California
Union Bank of California
United Commercial Bank
Wells Fargo Bank

Fund VII Investors

Bank of America
Bank of the West
Comerica Bank

Fund VII Investors-continued

Downey Savings & Loan
Fannie Mae
Freddie Mac
Sanwa Bank of California
Silicon Valley Bank
Union Bank of California
Washington Mutual
Wells Fargo Bank
Westamerica Bank

Fund VIII Investors

Bank of America
Bank of the West
Fannie Mae
Freddie Mac
Union Bank of California
Washington Mutual
Wells Fargo Bank

Financial Statements

MERRITT COMMUNITY CAPITAL CORPORATION
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

INDEPENDENT AUDITOR'S REPORT

To The Board Of Directors
MERRITT COMMUNITY CAPITAL CORPORATION

We have audited the accompanying statements of financial position of MERRITT COMMUNITY CAPITAL CORPORATION (a California Non-Profit Public Benefit Corporation) as of December 31, 2002 and 2001, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 MERRITT COMMUNITY CAPITAL CORPORATION as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



FRIDUSS, LUKEE, SCHIFF & CO., P.C.
Certified Public Accountants

February 18, 2003

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2002 AND 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents Unrestricted (Note 3)	\$ 1,386,081	\$ 841,480
Cash and Cash Equivalents Held on Behalf of Related Entities (Notes 3 and 4)	34,999	34,649
Accounts Receivable	1,155	9,471
Partnership Fees Receivable (Note 9)	548,991	1,290,731
Due from MCC Fund VIII (Note 16)	200,000	-
Prepaid Expenses	<u>14,198</u>	<u>13,143</u>
<u>TOTAL CURRENT ASSETS</u>	<u>\$ 2,185,424</u>	<u>\$ 2,189,474</u>
<u>FIXED ASSETS (Note 2)</u>		
Furniture, Equipment, and Software (Net of Accumulated Depreciation of \$70,538 and \$60,078 in 2002 and 2001)	<u>\$ 18,211</u>	<u>\$ 24,504</u>
<u>OTHER ASSETS</u>		
Partnership Fees Receivable (Note 9)	\$ 2,430,312	\$ 2,031,546
Note Receivable - City of Oakland (Note 8)	<u>992,500</u>	<u>992,500</u>
<u>TOTAL OTHER ASSETS</u>	<u>\$ 3,422,812</u>	<u>\$ 3,024,046</u>
<u>TOTAL ASSETS</u>	<u>\$ 5,626,447</u>	<u>\$ 5,238,024</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2002 AND 2001

LIABILITIES AND NET ASSETS

	<u>2002</u>	<u>2001</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 23,501	\$ 23,788
Deferred Revenue (Note 12)	84,320	84,320
Due to Partnerships (Note 10)	<u>54,490</u>	<u>54,490</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>\$ 162,311</u>	<u>\$ 162,598</u>
<u>OTHER LIABILITIES</u>		
Deferred Revenue (Note 12)	\$ 399,084	\$ 483,404
Loan Payable - City of Oakland (Note 7)	<u>685,800</u>	<u>685,800</u>
<u>TOTAL OTHER LIABILITIES</u>	<u>\$ 1,084,884</u>	<u>\$ 1,169,204</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 1,247,195</u>	<u>\$ 1,331,802</u>
<u>NET ASSETS</u>		
Capital Contribution - Demand Note (Note 8)	\$ 992,500	\$ 992,500
Net Assets - Unrestricted	<u>3,386,752</u>	<u>2,913,722</u>
<u>TOTAL NET ASSETS</u>	<u>\$ 4,379,252</u>	<u>\$ 3,906,222</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 5,626,447</u>	<u>\$ 5,238,024</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>UNRESTRICTED NET ASSETS</u>		
<u>REVENUES</u>		
Partnership Fees (Note 15)	\$ 1,495,501	\$ 1,134,424
Direct Investment Services Fee (Notes 11 and 15)	316,374	128,595
Grant Income	10,000	-
Interest Income	9,270	37,809
Other Income	<u>93,425</u>	<u>67,521</u>
 <u>TOTAL REVENUES</u>	 <u>\$ 1,924,570</u>	 <u>\$ 1,368,349</u>
 <u>OPERATING EXPENSES</u>		
Salaries and Benefits	\$ 827,196	\$ 734,528
Legal and Accounting	415,065	138,248
Consultants	6,178	9,541
Office Rent and Parking	50,262	49,256
Office Expense	33,494	31,149
Dues and Subscriptions	7,391	6,868
Travel	19,458	21,760
Events	6,472	4,708
Marketing	34,955	25,816
Insurance	4,824	4,723
Contributions	5,520	5,465
Miscellaneous	30,265	32,756
Depreciation	<u>10,460</u>	<u>3,225</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>\$ 1,451,540</u>	 <u>\$ 1,068,043</u>
 <u>INCREASE IN NET ASSETS – UNRESTRICTED</u>	 <u>\$ 473,030</u>	 <u>\$ 300,306</u>
 <u>NET ASSETS UNRESTRICTED – BEGINNING OF YEAR</u>	 <u>2,913,722</u>	 <u>2,613,416</u>
 <u>NET ASSETS UNRESTRICTED – END OF YEAR</u>	 <u>\$ 3,386,752</u>	 <u>\$ 2,913,722</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase in Unrestricted Net Assets	\$ <u>473,030</u>	\$ <u>300,306</u>
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	\$ 10,460	\$ 3,225
Decrease (Increase) in Operating Assets:		
Accounts Receivable	8,316	(8,250)
Partnership Fees Receivable	342,974	(231,549)
Due from MCC Fund VIII	(200,000)	-
Prepaid Expenses	(1,055)	(6,378)
(Decrease) Increase in Operating Liabilities:		
Accounts Payable	(287)	1,957
Due to Partnerships	-	20,037
Deferred Revenue	(84,320)	(84,320)
Accrued Expenses	<u>-</u>	<u>(22,785)</u>
 <u>TOTAL ADJUSTMENTS</u>	 <u>\$ 76,088</u>	 <u>\$ (328,063)</u>
 <u>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>	 <u>\$ 549,118</u>	 <u>\$ (27,757)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	\$ (4,167)	\$ (20,000)
 (Increase) in Cash – Held on Behalf of Related Entities	 <u>(350)</u>	 <u>(713)</u>
 <u>NET CASH (USED IN) INVESTING ACTIVITIES</u>	 <u>\$ (4,517)</u>	 <u>\$ (20,713)</u>
 <u>NET INCREASE (DECREASE) IN CASH</u>	 <u>\$ 544,601</u>	 <u>\$ (48,470)</u>
 <u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	 <u>841,480</u>	 <u>889,950</u>
 <u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	 <u>\$ 1,386,081</u>	 <u>\$ 841,480</u>

MERRITT COMMUNITY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

NOTE 1 - ORGANIZATION

MERRITT COMMUNITY CAPITAL CORPORATION (the "Corporation") is a nonprofit public benefit corporation. It is organized under the California Nonprofit Public Benefit Corporation Law for charitable purposes and not for the private gain of any person. The Corporation is to have and exercise all rights and powers conferred on nonprofit corporations under the laws of California, provided that it shall not, except to an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the primary purposes of this Corporation. The directors of the Corporation shall be elected by the board and shall number no less than seven and no more than twenty-one.

The specific charitable and public purposes for which the corporation is organized are:

- (i) Support the development of low to moderate-income housing in the State of California primarily in the San Francisco Bay area;
- (ii) Raise capital for housing equity by marketing state and federal tax credits for low income housing;
- (iii) Enter into limited partnerships (the Partnerships) with individuals and/or legally constituted entities;
- (iv) Act as managing or general partner of any such Partnership, venture or association;
- (v) Engage in any other activity which may be necessary to carry out the purposes of supporting the development of low to moderate income housing in the State of California primarily in the San Francisco Bay area.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Corporation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

RELATED PARTIES

The Corporation serves as the General Partner of the following Partnerships:

1989 - Oakland Housing Partnership Associates (1989 OHPA)
1991 - Oakland Housing Partnership Associates (1991 OHPA)
1992 - Oakland Regional Housing Partnership Associates (1992 ORHPA)
1994 - Oakland Regional Housing Partnership Associates (1994 ORHPA)
Merritt Community Capital Fund V, L.P. (MCC Fund V)

NOTE 2 - RELATED PARTIES –continued

Merritt Community Capital Fund VI, L.P. (MCC Fund VI)
Merritt Community Capital Fund VII, L.P. (MCC Fund VII)
Merritt Community Capital Fund VIII, L.P. (MCC Fund VIII)
Pacific Gas and Electric Housing Fund, L.P. (PG & EHF)

REVENUE RECOGNITION

PARTNERSHIP FEES

As General Partner of the Partnerships, the Corporation is entitled to reasonable investment and management fees for its services to the Partnerships and reimbursement for all accounting, administrative, legal, technical and management services incurred on their behalf. The Corporation and the Partnerships have agreed that total fees and reimbursements will not exceed ten percent of Partnership capital.

DIRECT INVESTMENT FEES – PACIFIC GAS & ELECTRIC HOUSING FUND

The Corporation will receive a project investment service fee for Low Income Housing Tax Credit projects. The Corporation will receive a general partnership management service fee plus project investment fees annually. The fee will commence upon execution of the project limited partnership agreement by general and limited partners. The Corporation will also receive asset management service fees. The fee will be payable annually in arrears on the project anniversary date established by the Corporation.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

CAPITALIZATION AND DEPRECIATION

Furniture and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives as follows:

	<u>Estimated Life</u>	<u>Method</u>
Furniture, Equipment, and Software	5 and 7 years	Accelerated

INCOME TAXES

The Corporation is exempt from tax under the provisions of Internal Revenue Code Section 501 (c) (3).

NOTE 3 - CASH AND CASH EQUIVALENTS

The Corporation may maintain its cash in bank deposit and money market accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 4 - CASH HELD ON BEHALF OF RELATED ENTITIES

The Corporation holds cash on behalf of related entities for the following purpose:

As a holding account for capital calls received and disbursements made to project partnerships on behalf of the 1991 OHP and 1992 ORHP Partnerships.

	<u>2002</u>	<u>2001</u>
Total	\$ 34,999	\$ 34,649

NOTE 5 - DEDICATION AND DISPOSITION OF ASSETS

The property of the Corporation is irrevocably dedicated to charitable purposes, and no part of the excess of revenues over expenditures or assets of this corporation shall ever inure to the benefit of any director, officer, or member of this corporation or to the benefit of any private individual.

Upon the time of its dissolution, the Corporation has an obligation to distribute assets to the City of Oakland in an amount not to exceed \$500,000. The obligation is subordinate to any and all other loans, obligations, and liabilities of the Corporation and is not secured by any of the assets of the Corporation. After paying or adequately providing for the debts and obligations of the Corporation, the remaining assets shall be distributed to a nonprofit fund, foundation, or corporation that is organized and operated exclusively for charitable purposes, and which has established and maintained its tax-exempt status.

NOTE 6 - LIMITATION OF CORPORATE ACTIVITIES

This Corporation is organized exclusively for charitable purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code. As such, the Corporation shall not carry on any activities not permitted to be carried on by: (i) a corporation exempt from federal income tax under Section 501 (c) (3); or (ii) by a corporation, contributions to which are deductible under Section 170 of the Internal Revenue Code or the corresponding provisions of any other United States Internal Revenue Law.

NOTE 6 - LIMITATION OF CORPORATE ACTIVITIES—continued

No substantial part of the activities of this corporation shall consist of lobbying or propaganda, or otherwise attempting to influence legislation, except as provided in Section 501 (h) of the Internal Revenue Code. This corporation shall not participate in or interfere in (including publishing or distributing statements) any political campaign on behalf of any candidate for public office except as provided in Section 501 (h) of the Internal Revenue Code.

NOTE 7 - LOAN PAYABLE TO THE CITY OF OAKLAND

The Corporation has entered into a loan agreement with the City of Oakland dated November 1, 1995 in the amount of \$685,800. The loan bears no interest and is unsecured. The repayment obligation is subordinate to any and all other loans, obligations, and liabilities of the Corporation. At the sole discretion of the Corporation, loan repayments shall be directed to fund Partnership reserves as follows:

<u>Partnership</u>	<u>Amount</u>
1989 OHPA	\$ 157,000
1991 OHPA	180,000
1992 ORHPA	<u>348,800</u>
<u>Total</u>	<u>\$ 685,800</u>

Upon dissolution of each Partnership, and following satisfaction of all Partnership liabilities, the balance of each reserve shall be paid to the City of Oakland.

NOTE 8 - CAPITAL CONTRIBUTION DEMAND NOTE

The Corporation and the Redevelopment Agency of the City of Oakland (ORA) have entered into an agreement whereby ORA has provided additional capital to the Corporation by issuing to it two irrevocable unconditional letters of credit. The letters of credit, which authorize draws up to \$992,500, expire December 31, 2022. Drafts drawn under the letters of credit must be accompanied by a signed certification stating that the draw will be used for net worth obligations of the Corporation in its capacity as General Partner of 1989 OHPA and 1991 OHPA or for the capitalization of those Partnerships.

NOTE 9 - PARTNERSHIP FEES RECEIVABLE

Amounts receivable from Partnerships represent cumulative investment and management fee income earned but not received at year end as follows:

December 31, 2002

<u>Partnership</u>	<u>Fees Receivable</u>		<u>Total</u>
	<u>Current</u>	<u>Noncurrent</u>	
1994 ORHPA	\$ 164,145	\$ 110,121	\$ 274,266
MCC Fund V	339,850	358,111	697,961
MCC Fund VI	43,162	-	43,162
MCC Fund VII	-	1,386,306	1,386,306
MCC Fund VIII	-	575,774	575,774
PG & EHF	-	-	-
MCCC LLC	<u>1,834</u>	<u>-</u>	<u>1,834</u>
Total	\$ 548,991	\$ 2,430,312	\$ 2,979,303

December 31, 2001

<u>Partnership</u>	<u>Fees Receivable</u>		<u>Total</u>
	<u>Current</u>	<u>Concurrent</u>	
1994 ORHPA	\$ 219,834	\$ 270,966	\$ 490,800
MCC Fund V	336,550	614,493	951,043
MCC Fund VI	723,565	192,482	916,047
MCC Fund VII	-	953,605	953,605
MCC Fund VIII	-	-	-
PG & EHF	10,782	-	10,782
MCCC LLC	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ 1,290,731	\$ 2,031,546	\$ 3,322,277

NOTE 10 - DUE TO PARTNERSHIPS

Amounts due to Partnerships totaling \$54,490 at December 31, 2002 and 2001, represent capital contributions received on behalf of those entities in December 2002 and 2001.

NOTE 11 - ECONOMIC DEPENDENCY

During 2002, the Corporation earned direct investment service fees from one investor in the amount of \$316,374 or 16% of total revenue.

NOTE 12 - DEFERRED REVENUE

Under the arrangements for the provision of investment and management services, the Corporation collects Partnership Fees in the early years of the Partnerships. These fees are recognized as income when earned over a period of ten to fifteen years. Certain partnership fees have been collected in advance, thus creating deferred revenue totaling \$483,404 and \$567,724 as of December 31, 2002 and 2001.

NOTE 13 - LEASE COMMITMENTS

The Corporation is obligated under a lease and addendum dated February 22, 1995 with a base rent of \$32,400 increasing annually. Under the terms of the amended lease, which commenced May 1, 2000 and expires April 30, 2005, the future minimum lease payments are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2002	\$ 44,396
2003	46,172
2004	48,019
2005	<u>16,214</u>
Total Minimum Lease Payments	\$ <u>154,801</u>

NOTE 14 - BENEFIT PLANS

The Corporation has a simple employee pension plan that allows for employer contributions to be made. The Corporation contributions for the plan as of December 31, 2002 and 2001 were \$44,507 and \$37,809, respectively.

NOTE 15 - EFFECT OF CHANGE IN ACCOUNTING ESTIMATE

During 2001, management recorded a change in accounting estimate relating to its revenue earned on partnership fees. In prior years, the Corporation recognized partnership fees in the amount of 10% of partnership capital raised. The Corporation has reduced its anticipated fee to an estimate based on its projections in the bidding process. The result of the change in estimate has decreased revenue earned in 2001 by \$160,840.

NOTE 16 - DUE FROM MCC FUND VIII

The amount due from MCC Fund VIII represents the initial capital contribution paid to investment projects on behalf of MCC Fund VIII. During 2002, two projects were funded with an initial capital contribution of \$100,000 each. During 2001, nothing was advanced.

Board of Directors

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Executive Director
Housing Authority of the County of Alameda

Harold Davis

Former Executive Director
Oakland Housing Authority

Margaret Schrand, Vice Chairperson

Vice President
Wells Fargo Bank

Stephen Glenn

Senior Executive Vice President & Chief
Administrative Officer
Bank of the West

Jones Castro, Secretary

Senior Vice President
Union Bank of California, N.A.

William M. Lofton, Esq.

Lofton & Jennings, LLP

Jeanine Catalano, Treasurer

Director of Strategic Compliance
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John Sheldon

Executive Director
Morgan Stanley Co. Inc.

John Chan

Vice President
Bank of America
Community Development Bank

Ilene Weinreb

Former Mayor of Hayward

Richard E. Winnie, Esq.

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