

# MERRITT COMMUNITY CAPITAL CORPORATION



# 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 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. Not pictured: Birute Skurdenis, Asset Manager.

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# Leadership Message

*Bernard T. Deasy*

Bernard T. Deasy, President



After a record year of closing partnerships in 2002, Merritt Capital placed \$36,500,000 in equity in 13 projects in 2003. This resulted in the construction or rehabilitation of 466 units of affordable housing. During the year, \$29.7 million was raised for Merritt Capital's Fund VIII partnership, an increase of \$2.7 million from our previous fund. In addition, 157 units of housing entered into active asset management, bringing the total units under management to 2,811.

In 2003, Merritt committed to three new projects. Antonia Manor is an at-risk, project-based Section 8 property that has 133 units of housing in San Francisco. Benicia Point, the first affordable project ever built in Benicia, has 56 units of family housing. Housing Alliance is a 28-unit new construction family project that is located in Castro Valley. The Housing Alliance project established a first time partnership between Merritt and Resources for Community Development in Berkeley, and Allied Housing, Inc. of Hayward.

Merritt's expanding portfolio resulted in the hiring of Birute Skurdenis in September 2003 as Merritt's second Asset Manager. In addition to her asset management responsibilities, Birute's training and consulting expertise was utilized to expand Merritt's asset and property management training program. In 2003, 474 days of training were provided to 209 people.

In September 2003, Merritt was pleased to host the tenth Annual conference of the National Association of State and Local Equity Funds in San Francisco. This conference promotes the efficient management of state and local equity funds and a greater understanding of the Low Income Housing Tax Credit program. Collectively, NASLEF members have raised over \$3.9 billion in equity capital resulting in the creation of over 65,000 units of affordable housing. I was pleased to have been selected to serve as NASLEF board president from September 2003 through September 2004.



## Margaret Schrand, Board Chairperson

In 2003, Ophelia Basgal stepped down as Merritt Board Chairperson after six years of leadership. We want to thank her for her tireless enthusiasm, professionalism, and dedication to Merritt's mission, growth and governance. Margaret Schrand, Senior Vice President at Wells Fargo and Merritt board Vice Chairperson was selected to as Merritt's next Chairperson. Another long-time board member, Harold Davis, ended his 14-year tenure on Merritt's board. Harold was present at the formation of Merritt Capital and has played a critical role in the organization's growth and development. We are extremely lucky to have had his advice, leadership and participation on Merritt's board of directors.

Two new members were added to Merritt's board in 2003. Roy Schweyer, Director of Housing and Community Development for the city of Oakland's Community and Economic Development Agency, rejoined Merritt Capital in a leadership role. Roy was instrumental in the founding of Merritt Capital predecessor "CASH INC" and served as the agency's Acting Executive Director for its first four years. Margaret Yung also joined Merritt's board in 2003. She is Vice President and Manager of Tax Credit Investments at Washington Mutual. Margaret has been active in reviewing the operation of properties Washington Mutual has invested in through Merritt and we look forward to her participation and hands-on due diligence experience on the board.

Finally, Merritt became more active in public policy efforts in 2003. Merritt's revamped website contains a section on public policy efforts Merritt supports. These include the Campaign for Affordable Housing, the Corporation for Supportive Housing's Compact to End Homelessness as well as the legislative agendas of the National Council of State Housing Agencies, Non-Profit Housing Association of Northern California, the National Housing Conference and the California Housing Consortium. We invite to explore our new website at [www.merrittcap.org](http://www.merrittcap.org).

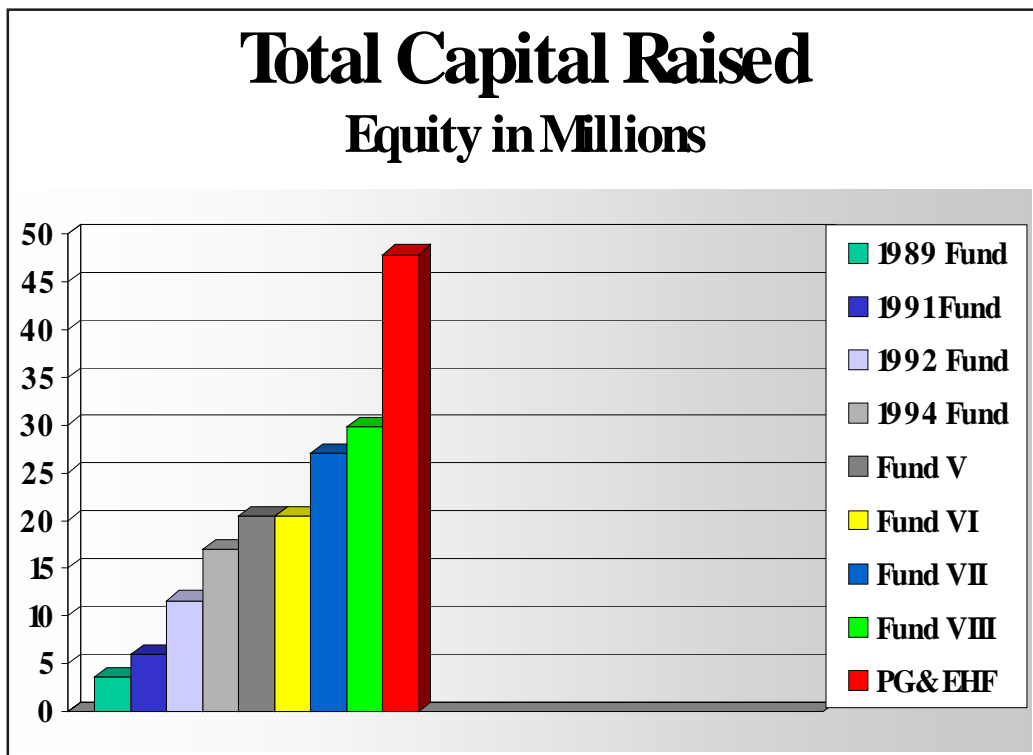
# Equity Investments

**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 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 2,800 units of affordable housing.



# 2003 Acquisition Highlights

**In** 2003 over \$36,500,000 in capital was placed into 13 projects resulting in the creation or rehabilitation of 466 units of affordable housing. This includes two very complex tax exempt bond transactions which successfully converted from construction to permanent bonds. In addition to the placement of this equity, Merritt committed to invest in three new projects in 2003. They are:

## **Antonia Manor:**

This project is an at-risk 100 percent project-based Section 8 development. Tenderloin Neighborhood Development Corporation's (TNDC) acquisition of this property assured its long-term affordability. Located at 180 Turk Street in San Francisco, Antonia Manor was constructed in 1926 as a residential hotel. It was later converted to studio apartments with HUD-insured mortgage financing in 1974. TNDC added kitchenettes, modernized all systems, provided seismic reinforcement and enhanced accessibility for people with disabilities. This allowed the existing population of disabled and elderly low-income residents to remain in the building.

## **Benicia Point:**

This is the first affordable housing project built in Benicia, Solano County's most affluent city, and reflects a community partnership of local public agencies, nonprofits and service providers. The site was acquired by Solano County Affordable Housing Foundation with a loan from the Housing Authority of the city of Benicia. The design incorporates a traditional architectural style, with hipped roofs and many elements similar to

single family homes. 20 three-bedroom townhouses, 12 one-bedroom flats, and 23 two-bedroom flats are currently under construction. The site plan was designed to provide usable open space for the residents while preserving the natural beauty of a site visible throughout the city.

## **Housing Alliance:**

This 28-unit new construction family project is being developed by the Alameda County Allied Housing Program (Allied Housing, Inc.) in a joint venture with Resources for Community Development (RCD). The project has tax-exempt bond financing provided by the California Housing Finance Authority. The financing structure includes residual receipts financing provided by Alameda County and the Alameda County Housing Trust Fund. The target population for this project are homeless and disabled households in the county.



# Asset Management

**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 2003, Merritt's Asset Management Department:**

- \* Placed in service 157 units of affordable housing;
- \* Conducted four asset management trainings serving 209 participants;
- \* Provided 15 people with Merritt-subsidized compliance training from other consultants;

Photo of Birute Training Session

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

\* Added a second full-time Asset Manager position to accommodate Merritt's growing investment portfolio;

\* Increased the total number of units under active asset management to 2,811.



# Communications & Policy



**From left to right: Fran Wagstaff, Mid-Peninsula Housing Coalition; Tyrone Moore, Chinatown CDC, Sheila Burks, Fannie Mae.**

**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 2003, Merritt honored Fannie Mae as its Investor of the Year. Having invested a total of \$19 million in Merritt's funds, Fannie Mae was recognized for its consistent and increasing support of Merritt Capital's part-

nership funds. Chinatown Community Development Center was named Sponsor of the Year for its achievement in preserving affordable housing for low income residents in San Francisco. Main Street Park, a project developed by Mid-Peninsula Housing Coalition and located in Half Moon Bay, was selected as Project of the Year for its outstanding service to residents and superior record in operations and tax credit compliance.

Merritt assists with media tours, Ground Breakings, 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 2003, Merritt expanded its focus to include public policy issues. This effort included support for the Campaign for Affordable Housing, the Corporation for Supportive Housing's Compact to End Homelessness as well as the legislative agendas of the National Council of State Housing Agencies, Non-Profit Housing Association of Northern California, the National Housing Conference and the California Housing Consortium.

# Development Profile

## West Rivertown Apartments



### WEST RIVERTOWN PROVIDES:

- \* 57 units of affordable housing
- \* Full day preschool for children ages three to five
- \* Community Center with computer lab
- \* Childrens' play areas
- \* Social Service Coordinator

**Before** its transformation into 57 units of affordable housing, the intersection of 4th and J Streets in Antioch consisted of boarded up houses used as met amphetamine labs. The area was a haven for prostitution and gang activity. When the city of Antioch decided to create a downtown revitalization plan it turned to Eden Housing for assistance. The city concentrated on buying a number of duplexes and single family homes and razing them, Eden Housing came up with an urban design plan and the site design for West Rivertown Apartments.

West Rivertown Apartments is located in a historic residential neighborhood which is close to schools, transportation, retail shopping, and recreational and community facilities. The complex consists of six one-bedroom, 27 two-bedroom, 21 three-bedroom, and two four bedroom apartments for very low income residents. It is now home to families that were marginally housed or suffered from overcrowding. It is home to people forced to relocate because their housing was dilapidated or condemned. It is home to individuals who suffered from drug abuse and homelessness and others who have disabilities. For all of the residents it is clean, safe, affordable housing.

Eden Housing provides its residents with an on-site Resident Service Coordinator who offers information and referral services needed to implement key programs such as child care, after school activities and support for senior or frail residents.

The West Rivertown Apartment complex was funded by an equity investment from Merritt's Fund VIII partnership. Fund VIII investors are Bank of America, Bank of the West, Fannie Mae, Freddie Mac, Union Bank of California, Washington Mutual and Wells Fargo Bank.

Merritt Capital has partnered with Eden Housing on five projects. The mission of Eden Housing is to build and maintain high quality, well managed, service-enhanced affordable housing communities that meet the needs of lower income families, seniors and persons with disabilities. It has developed 4,500 units of affordable housing for lower income people throughout Northern California.



**ABOVE:** One of the play areas in the Rivertown Kids' Club, a daycare center located in the West Rivertown complex.

**BELOW:** Resident Barbara Martinez is pictured with her daughter Jennifer Redman and her granddaughter Alyssia Avila.



# Development Profile

## Maria Manor



### MARIA MANOR PROVIDES:

- \* 119 units of affordable housing for seniors and disabled residents.
- \* Support services including social worker and recreation coordinator
- \* Weekly social activities and monthly celebrations

**When** it was first built in 1914, the Maria Manor functioned as a residential hotel where proper young ladies hung their hats in downtown San Francisco. Today, it is home to a diverse mix of men and women, of senior and disabled residents, who now call this property at 174 Ellis Street their home. What they all have in common is very low incomes and apartments that were recently rehabilitated by the Tenderloin Neighborhood Development Corporation.

The Maria Manor project was unique in a number of respects. The property was acquired from an owner who was selling because of an expiring Section 8 contract. The San Francisco Redevelopment Agency, in coordination with Maria Manor tenants, selected TNDC to do the rehabilitation, preserving the Section 8 subsidies in the project. In addition Maria Manor residents were active participants in the planning process and their input and suggestions were incorporated throughout the renovation.

A major challenge was rehabilitating the building while the majority of the residents remained in their units. The work was done in stages and 16 residents were relocated offsite to other TNDC properties.

The scope of the rehabilitation included improving accessibility, safety and security, seismic retrofitting, and upgrading or replacing building systems. These improvements included the installation of a sprinkler system, smoke detectors, bathroom upgrades, painting, and new carpeting. According to Valerie O'Donnell, Senior

Construction Project Manager, an accessible unit was installed on each of the four floors with bathrooms that accommodate wheelchairs. Six units of the hotel's 119 units were converted to meet Americans with Disabilities Act requirements and an additional six units were made to accommodate hearing impaired residents.

Maria Manor was financed with equity provided by Merritt Capital's Fund VII Partnership. Fund VII partners are Bank of America, Bank of the West, Comerica Bank, Downey Savings & Loan, Fannie Mae, Freddie Mac, Silicon Valley Bank, Union Bank of California, Washington Mutual, Wells Fargo Bank, and Westamerica Bank.



**ABOVE:** Connie Moy is a nine-year resident and a member of the Maria Manor Tenants' Association. She stands in front of her refurbished kitchenette which used energy saving appliances.

Merritt Capital has partnered with TNDC on three projects. TNDC's mission is to provide safe, affordable housing with support services for low income people in the Tenderloin community and serve as a leader in making the neighborhood a better place to live. TNDC has 21 buildings primarily in the Tenderloin that provide housing to 3,000 of San Francisco's poorest people.

**BELOW, LEFT:** Maria Manor residents gather in the dining room for a raffle distributing free bags of groceries.

**BELOW:** Harding Reede volunteers as a precinct inspector during local elections in San Francisco. He stands in front of photographs of his family and his tribe.



# 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
W. 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
<b>Total</b>			<b>942</b>	

**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
HomeSafe	Fund VI	Santa Clara	25	Co-Housing
Antonia Manor	Fund VII	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
Benicia Point	Fund VIII	Benicia	56	Family
Castro Valley Housing Alliance	Fund VIII	Castro Valley	28	Family
<b>Total</b>			<b>1869</b>	

# 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  
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  
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

## 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, 2003 and 2002, 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 U.S. generally accepted auditing standards. 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



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

February 14, 2004

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2003 AND 2002

A S S E T S

	<u>2003</u>	<u>2002</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents Unrestricted (Note 3)	\$ 1,402,371	\$ 1,386,081
Cash and Cash Equivalents Held on Behalf of Related Entities (Notes 3 and 4)	14,979	34,999
Accounts Receivable	6,963	1,155
Partnership Fees Receivable (Note 9)	1,878,163	548,991
Due from MCC Fund VIII (Note 15)	-	200,000
Prepaid Expenses	<u>16,179</u>	<u>14,198</u>
<u>TOTAL CURRENT ASSETS</u>	<u>\$ 3,318,655</u>	<u>\$ 2,185,424</u>
<u>FIXED ASSETS (Note 2)</u>		
Furniture, Equipment, and Software (Net of Accumulated Depreciation of \$82,153 and \$70,538 in 2003 and 2002)	<u>\$ 20,897</u>	<u>\$ 18,211</u>
<u>OTHER ASSETS</u>		
Partnership Fees Receivable (Note 9)	\$ 1,465,076	\$ 2,430,312
Note Receivable - City of Oakland (Note 8)	<u>992,500</u>	<u>992,500</u>
<u>TOTAL OTHER ASSETS</u>	<u>\$ 2,457,576</u>	<u>\$ 3,422,812</u>
<u>TOTAL ASSETS</u>	<u>\$ 5,797,128</u>	<u>\$ 5,626,447</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2003 AND 2002

LIABILITIES AND NET ASSETS

	<u>2003</u>	<u>2002</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 1,134	\$ 23,501
Deferred Revenue (Note 12)	114,092	84,320
Due to Partnerships (Note 10)	<u>34,453</u>	<u>54,490</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>\$ 149,679</u>	<u>\$ 162,311</u>
<u>OTHER LIABILITIES</u>		
Deferred Revenue (Note 12)	\$ 512,058	\$ 399,084
Loan Payable - City of Oakland (Note 7)	<u>685,800</u>	<u>685,800</u>
<u>TOTAL OTHER LIABILITIES</u>	<u>\$ 1,197,858</u>	<u>\$ 1,084,884</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 1,347,537</u>	<u>\$ 1,247,195</u>
<u>NET ASSETS</u>		
Capital Contribution - Demand Note (Note 8)	\$ 992,500	\$ 992,500
Net Assets - Unrestricted	<u>3,457,091</u>	<u>3,386,752</u>
<u>TOTAL NET ASSETS</u>	<u>\$ 4,449,591</u>	<u>\$ 4,379,252</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 5,797,128</u>	<u>\$ 5,626,447</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>UNRESTRICTED NET ASSETS</u>		
<u>REVENUES</u>		
Partnership Fees	\$ 1,173,216	\$ 1,495,501
Direct Investment Services Fee (Note 11)	162,433	316,374
Grant Income	10,000	10,000
Interest Income	6,553	9,270
Other Income	<u>43,543</u>	<u>93,425</u>
<u>TOTAL REVENUES</u>	<u>\$ 1,395,745</u>	<u>\$ 1,924,570</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	\$ 908,899	\$ 827,196
Legal and Accounting	187,169	415,065
Consultants	6,750	6,178
Office Rent and Parking	52,513	50,262
Office Expense	32,277	33,494
Dues and Subscriptions	6,704	7,391
Travel	20,737	19,458
Events	11,213	6,472
Marketing	40,459	34,955
Insurance	5,693	4,824
Contributions	14,585	5,520
Miscellaneous	26,792	30,265
Depreciation	<u>11,615</u>	<u>10,460</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 1,325,406</u>	<u>\$ 1,451,540</u>
<u>INCREASE IN NET ASSETS - UNRESTRICTED</u>	<u>\$ 70,339</u>	<u>\$ 473,030</u>
<u>NET ASSETS UNRESTRICTED</u>		
<u>- BEGINNING OF YEAR</u>	<u>3,386,752</u>	<u>2,913,722</u>
<u>NET ASSETS UNRESTRICTED - END OF YEAR</u>	<u>\$ 3,457,091</u>	<u>\$ 3,386,752</u>

MERRITT COMMUNITY CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase in Unrestricted Net Assets	\$ 70,339	\$ 473,030
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	\$ 11,615	\$ 10,460
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(5,808)	8,316
Partnership Fees Receivable	(363,936)	342,974
Due from MCC Fund VIII	200,000	(200,000)
Prepaid Expenses	(1,981)	(1,055)
(Decrease) Increase in Operating Liabilities:		
Accounts Payable	(22,367)	(287)
Due to Partnerships	(20,037)	-
Deferred Revenue	<u>142,746</u>	<u>(84,320)</u>
<u>TOTAL ADJUSTMENTS</u>	\$ <u>(59,768)</u>	\$ <u>76,088</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	\$ <u>10,571</u>	\$ <u>549,118</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	\$ (14,301)	\$ (4,167)
(Increase) in Cash - Held on Behalf of Related Entities	<u>20,020</u>	<u>(350)</u>
<u>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</u>	\$ <u>5,719</u>	\$ <u>(4,517)</u>
<u>NET INCREASE IN CASH</u>	\$ 16,290	\$ 544,601
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>1,386,081</u>	<u>841,480</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	\$ <u>1,402,371</u>	\$ <u>1,386,081</u>

MERRITT COMMUNITY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

**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 the State 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:**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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)  
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 U.S. generally accepted accounting principles 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.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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>Method—</u>	<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>2003</u>	<u>2002</u>
Total	\$ 14,979	\$ 34,999

**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);

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, 2003

	Fees Receivable Current	Fees Receivable Noncurrent	Total
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.	116,671	\$ -	\$ 116,671
1994 ORHPA	285,416	163,963	449,379
MCC Fund V	3,800	-	3,800
MCC Fund VI	901,670	426,695	1,328,365
MCC Fund VII	560,571	874,418	1,434,989
MCC Fund VIII	8,201	-	8,201
PG & EHF	1,834	-	1,834
MGCC LLC	1,878,163	1,465,076	3,343,239
<u>Total</u>	<u>\$ 1,878,163</u>	<u>\$ 1,465,076</u>	<u>\$ 3,343,239</u>

NOTE 7 - LOAN PAYABLE TO THE CITY OF OAKLAND

December 31, 2002

	Fees Receivable Current	Fees Receivable Noncurrent	Total
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 Partnership reserves as follows:	164,145	110,121	\$ 274,266
1994 ORHPA	339,850	358,111	697,961
MCC Fund V	43,162	-	43,162
MCC Fund VI	-	1,386,306	1,386,306
MCC Fund VII	-	575,774	575,774
MCC Fund VIII	-	-	-
PG & EHF	-	-	-
MGCC LLC	1,834	-	1,834
1989 OHPA	157,800	-	157,800
1991 OHPA	180,000	-	180,000
1992 ORHPA	\$ 548,981	\$ 2,430,312	\$2,979,303
<u>Total</u>	<u>\$ 685,800</u>	<u>\$ 2,430,312</u>	<u>\$2,979,303</u>

NOTE 10 - DUE TO PARTNERSHIPS

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. Amounts due to the Partnerships totaling \$34,453 and \$54,490 at December 31, 2003 and 2002, represent capital contributions received on behalf of those entities in December 2003 and 2002. During 2003 and 2002, \$20,037 and \$0- was paid to the Partnerships, respectively.

NOTE 8 - CAPITAL CONTRIBUTION DEMAND NOTE

NOTE 11 - ECONOMIC DEPENDENCY  
 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. During 2002, the Corporation earned direct investment service fees from one investor in the amount of \$316,374 or 16% of total revenue. During 2003, there was no economic dependency. 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 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 \$626,150 and \$483,404 as of December 31, 2003 and 2002.

NOTE 13 - LEASE COMMITMENTS

The Corporation is obligated under a lease and addendum for office space 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>
2004	\$ 48,019
2005	<u>16,214</u>
Total Minimum Lease Payments	\$ <u>64,233</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, 2003 and 2002 were \$48,221 and \$44,507, respectively.

NOTE 15 - 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 2003, the Corporation was reimbursed \$200,000. The amounts due to the Corporation were \$-0- and \$200,000 as of December 31, 2003 and 2002, respectively.

NOTE 16 - SUBSEQUENT EVENT

As of January 29, 2004, the Corporation entered into a Credit Agreement with Bank of the West. The Corporation's credit limit is not to exceed \$2,500,000 including all the Corporation's other outstanding loans. The interest rate is at the option of the Corporation as defined in the Agreement as follows: the adjusted LIBOR or Prime Rate. Interest is to be paid monthly. The repayment of principal is due the earliest of the date upon which the Project being funded by the underlying Partnership Loan and the applicable borrowing partnership shall have acquired the property associated with the Project or June 30, 2005, as such date may be extended from time to time. The credit line is collateralized by cash and cash equivalents, receivables and equipment. As of the date of fieldwork, nothing has been drawn on the line of credit.

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