REDW

*The Rogoff Firm*

# Homewise, Inc.

Financial Statements, Supplementary Information
and
Independent Auditors' Reports

March 31, 2007

# Homewise, Inc.

## Official Roster
## March 31, 2007

### Board of Directors

| | |
|---|---|
| Viola Lujan | President |
| Ann Lockhart | Vice President |
| Steve Dichter | Treasurer |
| Teresa Leger de Fernandez | Secretary |
| Arturo Estrada | Member |
| Frank Mathew | Member |
| Andy Spingler | Member |
| Deborah Webster | Member |
| Tamarra Ortiz | Member |

### Administration Official

| | |
|---|---|
| Michael Loftin | Executive Director |

# Homewise, Inc.

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REDW
*The Rogoff Firm*

LIMITED LIABILITY COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

# Independent Auditors' Report

Board of Directors
Homewise, Inc.

We have audited the accompanying statement of financial position of the Homewise, Inc. (Homewise) as of March 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Homewise's management. Our responsibility is to express an opinion on these financial statements based on our audit. Except for the effect of the accounting changes discussed in Note 17, the prior-year summarized comparative information has been derived from Homewise's 2006 financial statements and, in our report dated June 1, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Homewise, Inc. as of March 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during 2007 Homewise changed certain accounting policies related to donated land with restrictions, home sales and presentation of its statement of cash flows.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007, on our consideration of the Homewise's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


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Our audit was performed for the purpose of forming an opinion on the basic financial statements of the organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

July 24, 2007

# Homewise, Inc.
## Statement of Financial Position
## March 31, 2007
## (Summarized Totals for the Year Ended March 31, 2006)

| | 2007 | | | | 2006 Total |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | (Restated, Note 17) |
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | **$ 1,273,039** | **$ 1,641,571** | **$ 104,323** | **$ 3,018,933** | $ 3,187,292 |
| Investments | **106,160** | **-** | **-** | **106,160** | 100,353 |
| Accounts receivable | **789,762** | **1,589** | **100** | **791,451** | 413,083 |
| Grants receivable | **123,554** | **144,309** | **-** | **267,863** | 297,457 |
| Amortizing notes receivable, current portion | **343,377** | **98,595** | **142,035** | **584,007** | 201,968 |
| Prepaid expenses and other assets | **297,013** | **665** | **-** | **297,678** | 8,365 |
| Development costs | **6,356,159** | **400,000** | **-** | **6,756,159** | 4,955,153 |
| Total current assets | **9,289,064** | **2,286,729** | **246,458** | **11,822,251** | 9,163,671 |
| Property and equipment, net | **72,093** | **-** | **-** | **72,093** | 415,896 |
| Mortgage notes receivable | | | | | |
| Amortizing net | **3,665,180** | **1,932,581** | **3,802,489** | **9,400,250** | 9,075,580 |
| Deferred net | **5,128,508** | **3,511,748** | **240,094** | **8,880,350** | 6,863,727 |
| Land held for future development | **-** | **-** | **-** | **-** | 475,000 |
| Investment in Taos Community Development Corporation | **36,000** | **-** | **-** | **36,000** | 36,000 |
| Total assets | **$ 18,190,845** | **$ 7,731,058** | **$ 4,289,041** | **$ 30,210,944** | $ 26,029,874 |
| **Liabilities and Net Assets** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | **$ 215,220** | **$ 34,014** | **$ 800** | **$ 250,034** | $ 172,684 |
| Escrows and deposits | **37,250** | **20,487** | **6,719** | **64,456** | 53,917 |
| Current portion of notes payable | **3,701,095** | **-** | **-** | **3,701,095** | 2,956,452 |
| Total current liabilities | **3,953,565** | **54,501** | **7,519** | **4,015,585** | 3,183,053 |
| Long-term liabilities | | | | | |
| Long-term portion of notes payable | **2,397,315** | **80,000** | **-** | **2,477,315** | 2,415,911 |
| Deferred revenue | **-** | **420,639** | **390,180** | **810,819** | 1,744,899 |
| Due to grantors | **1,524,510** | **675,250** | **-** | **2,199,760** | 2,292,954 |
| Total long-term liabilities | **3,921,825** | **1,175,889** | **390,180** | **5,487,894** | 6,453,764 |
| Total liabilities | **7,875,390** | **1,230,390** | **397,699** | **9,503,479** | 9,636,817 |
| Net assets | **10,315,455** | **6,500,668** | **3,891,342** | **20,707,465** | 16,393,057 |
| Total liabilities and net assets | **$ 18,190,845** | **$ 7,731,058** | **$ 4,289,041** | **$ 30,210,944** | $ 26,029,874 |

**The accompanying notes are an integral part of these financial statements.**

# Homewise, Inc.
## Statement of Activities
## For the Year Ended March 31, 2007
## (Summarized Totals for the Year Ended March 31, 2006)

| | 2007 | | | | 2006 Total |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | (Restated, Note 17) |
| **Support and Revenues** | | | | | |
| Government grants | $ 568,270 | $ 859,869 | $ 280,601 | $ 1,708,740 | $ 1,320,683 |
| Contributions and grants | 2,430,537 | 640,960 | - | 3,071,497 | 767,452 |
| Loan origination fees | 586,492 | - | - | 586,492 | 410,778 |
| Home sales | 9,737,166 | - | - | 9,737,166 | 3,947,709 |
| Bank interest | 87,597 | - | - | 87,597 | 48,987 |
| Loan interest | 557,427 | 71,989 | - | 629,416 | 507,478 |
| Commissions | 618,527 | - | - | 618,527 | 319,279 |
| Other revenue | 388,718 | 760 | - | 389,478 | 62,203 |
| Net assets released from restrictions | 270,653 | (267,553) | (3,100) | - | - |
| Total support and revenues | 15,245,387 | 1,306,025 | 277,501 | 16,828,913 | 7,384,569 |
| **Expenses** | | | | | |
| Cost of home sales | 8,521,189 | - | - | 8,521,189 | 2,765,710 |
| Program | 3,185,837 | - | - | 3,185,837 | 2,524,279 |
| Administrative | 654,279 | - | - | 654,279 | 595,204 |
| Fundraising | 153,200 | - | - | 153,200 | 160,067 |
| Total expenses | 12,514,505 | - | - | 12,514,505 | 6,045,260 |
| Increase in net assets | 2,730,882 | 1,306,025 | 277,501 | 4,314,408 | 1,339,309 |
| Net assets at beginning of year | 7,584,573 | 5,194,643 | 3,613,841 | 16,393,057 | 15,053,748 |
| Net assets at end of year | $ 10,315,455 | $ 6,500,668 | $ 3,891,342 | $ 20,707,465 | $ 16,393,057 |

**The accompanying notes are an integral part of these financial statements.**

# Homewise, Inc.
## Statement of Cash Flows
## For the Year Ended March 31, 2007
## (Summarized Totals for the Year Ended March 31, 2006)

| | 2007 | 2006 Total (Restated, Note 17) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from customers | **$ 10,523,021** | $ 7,143,538 |
| Cash received from grants and contributions | **4,780,237** | 2,088,135 |
| Cash paid to suppliers | **(11,919,930)** | (6,035,588) |
| Cash paid to employees | **(1,473,552)** | (1,396,720) |
| Cash paid for interest | **(657,286)** | (670,688) |
| Net cash provided by operating activities | **1,252,490** | 1,128,677 |
| **Cash flows from investing activities** | | |
| Equipment and land acquisitions | **(12,082)** | (114,966) |
| Proceeds from sale of land | **544,556** | - |
| Loans originated | **(8,023,062)** | (4,213,748) |
| Payments received on loans | **5,330,903** | 1,678,128 |
| Other | **(5,807)** | (100,353) |
| Net cash used for investing activities | **(2,165,492)** | (2,750,939) |
| **Cash flows from financing activities** | | |
| Net draws on bank lines of credit | **744,643** | 1,214,904 |
| Net cash provided by financing activities | **744,643** | 1,214,904 |
| Net decrease in cash | **(168,359)** | (407,358) |
| Cash at beginning of year | **3,187,292** | 3,594,650 |
| Cash at end of year | **$ 3,018,933** | $ 3,187,292 |
| Increase in net assets | **$ 4,314,408** | $ 1,339,309 |
| Adjustments to reconcile increase in net assets to cash provided by operations | | |
| Depreciation | **54,130** | 51,722 |
| Amortization of discount on below market loans | **61,404** | 61,405 |
| Provision (credit) for loan losses | **(31,173)** | (14,357) |
| Loss (gain) on sale of land | **(242,801)** | 108,648 |
| Change in assets and liabilities | | |
| Accounts receivable | **(378,368)** | 409,668 |
| Grants receivable | **29,594** | (18,577) |
| Prepaid expenses and other assets | **(289,313)** | - |
| Development costs | **(1,326,006)** | (2,086,339) |
| Accounts payable, escrows and deposits | **87,889** | (23,871) |
| Deferred revenue | **(934,080)** | 1,328,788 |
| Due to grantor agency | **(93,194)** | (27,719) |
| Net cash provided by operating activities | **$ 1,252,490** | $ 1,128,677 |

**The accompanying notes are an integral part of these financial statements.**

# Homewise, Inc.
## Notes to Financial Statements
## March 31, 2007

### 1) Summary of Significant Accounting Policies

Homewise, Inc. (Homewise) is a not-for-profit corporation created to secure more affordable housing in the Santa Fe and Northern New Mexico area. Homewise's activities include homebuyer education programs, homebuyer and home repair subsidies, property development and government program administration.

Basis of Accounting
The financial statements of Homewise have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Revenue and Cost Recognition
Homewise recognizes revenue from all homebuilding and home repair activities at the closing of the sale using the full accrual method. During construction, all direct material and labor costs and those indirect costs related to the acquisition and construction are capitalized as development costs, and all customer deposits are treated as liabilities until closing. Capitalized costs are charged to earnings upon completion. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred.

During 2007, Homewise changed its accounting for donations of land with donor imposed restrictions. See Note 17.

Basis of Presentation
Homewise reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Homewise and changes therein are classified and reported as follows:

*Unrestricted net assets*—net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

*Temporarily restricted net assets*—net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

1) Summary of Significant Accounting Policies — continued

Basis of Presentation — continued

*Permanently restricted net assets*—net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor imposed restrictions.

Homewise is designated as a Community Development Financial Institution (CDFI). As such, Homewise is required to present its financial statements in a classified format.

Cash Equivalents and Concentrations
For purposes of the statement of cash flows, cash and cash equivalents consist of deposits held in banks and repurchase agreements. Homewise had cash balances in certain banks that exceeded federally insured limits during fiscal year 2007. At March 31, 2007, the uninsured/uncollateralized amount was approximately two million. Homewise has not experienced any losses from exceeding insured limits. The repurchase agreements are collateralized by pledged securities.

Fixed Assets and Depreciation
Fixed assets are carried at cost. Donated fixed assets are recorded at estimated fair market value at date of receipt. Depreciation is calculated using the straight-line method over the useful life of an asset. Homewise capitalizes assets that cost greater than $500 and a service life of more than one year.

Grant Revenue, Grant Receivable, and Deferred Grant Revenue
Grant revenue is recognized when earned. The earnings process is considered complete when the authorized expenditure has been made. Grand funds received in excess of earned amounts are classified as deferred revenue on the statements of financial position. Earned amounts in excess of collections as grant receivables.

Vacation Accruals
Employees accrue vacation time at varying rates. The liability, calculated by applying current pay rate to vacation hours accrued, is recognized in the financial statements.

Deferred Loans
Deferred loans are loans not currently receivable. They include:

Forgivable—Homewise has made deferred loans which do not bear interest and are forgiven if the owner lives in the home for a specified period of time. Homewise recognizes these loans as grants and projects expense upon origination.

Other—Other deferred loans that are due upon sale, transfer or refinance of the related home fall into two categories: (1) if they are to be returned to a grantor upon collection, they are not discounted and the full amount is included in the due to grantor liability on

1) Summary of Significant Accounting Policies — continued

Deferred Loans — continued

the statement of financial position, and (2) if Homewise is to retain the collections, the loan is discounted by an estimate of the present value and required loan loss reserve (35% at March 31, 2007). The discount is recognized in full when the loan is collected.

Provision for Loan Losses

Homewise accounts for impaired loans in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures. SFAS No. 114 generally requires Homewise to account for impaired loans at the present value of the expected future cash flows discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price or the fair value of the collateral. SFAS No. 114 indicates that a creditor should evaluate the collectibility of both contractual interest and principal when assessing the need for a loss accrual. Loans are determined to be delinquent based on the contractual terms of the respective loan agreement.

The allowance for loan losses is established through a provision charged to reserve for loan losses expense. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on an evaluation of the collectibility of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. The allowance is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. When all or a portion of a loan balance is deemed uncollectible, such amount is charged to the allowance for loan losses.

Interest on Loans

Interest earned is only recorded when collected because uncollected interest is not material to the financial statements at March 31, 2007.

Loans at Below Market Interest Rates

Financial institutions have made loans to Homewise at below market interest rates, resulting in debt discounts that are being amortized over the remaining lives of the loans. The amortization expense recognized for the year ended March 31, 2007, was $61,404. No such new loans were originated in 2007.

1) Summary of Significant Accounting Policies — continued

Income Taxes
Homewise is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and was also determined not to be a private foundation within the meaning of Section 509(a) of the Code. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Allocation of Functional Expenses
Homewise allocates expenses not applicable to a single activity to the appropriate activities based on the estimated percentage of time employees spend on each of the programs.

Fair Value of Financial Instruments and Derivative Financial Instruments
Homewise has adopted the Financial Accounting Standards Board SFAS No. 126, Exemption from Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities (Amending SFAS No. 107) which allows the disclosure requirements under SFAS No. 107 to be optional for nonpublic entities with total assets less than $100 million who have not held or issued any derivative financial instruments as defined in SFAS No. 119 other than loan commitments. Homewise's policy is to not engage in derivative financial instruments and accordingly, it did not disclose fair value information for the year ended March 31, 2007.

Use of 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, the 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.

Prior-Year Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Homewise's financial statements for the year ended March 31, 2007, from which the summarized information was derived.

Advertising Costs
Homewise expenses the cost of advertising as the expense is incurred.

## 2) Grants Receivable

Grants receivable consist of the following at March 31, 2007:

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| City of Santa Fe | $ 45,150 | $ 44,234 | $ 89,384 |
| New Mexico Mortgage Finance Authority | 9,850 | - | 9,850 |
| State of New Mexico | 25,093 | 91,065 | 116,158 |
| Total nonfederal | 80,093 | 135,299 | 215,392 |
| Federal | | | |
| Department of Housing and Urban Development (HUD) | | | |
| Counseling | 15,400 | - | 15,400 |
| CHDO | 13,061 | - | 13,061 |
| CDBG | 15,000 | 9,010 | 24,010 |
| Total federal | 43,461 | 9,010 | 52,471 |
| Total grants receivable | $ 123,554 | $ 144,309 | $ 267,863 |

## 3) Development Costs

Project costs (such as land acquisition and construction) are separately tracked or allocated and recorded on the financial statements as development costs. Project costs at March 31, 2007, are as follows:

| Project | Amount |
|---|---|
| Rancho Viejo | $ 400,000 |
| Aldea de Santa Fe | 1,049,903 |
| Desert Sage | 848,223 |
| Old Las Vegas Property | 533,297 |
| Palomita | 21,150 |
| Evergreen | 3,829,772 |
| West Alameda | 5,000 |
| La Pradera | 67,814 |
| Vista Jemez | 1,000 |
| | $ 6,756,159 |

3) Development Costs and Land Held for Development — continued

Rancho Viejo in Santa Fe, consists of four lots for single-family homes contributed to Homewise during fiscal year 2007. Based on the terms of this restricted gift, Homewise will discount the prices of the houses built and sold on these lots to effectively not charge buyers for the value of the lots.

Aldea de Santa Fe is in its final phase of construction. During 2006, Homewise closed on two single-family homes and two townhomes. Four single-family homes remain to be completed and nine townhomes remain to be closed. All of the units in this final phase are under contract. Homewise is currently under contract for two additional single-family lots in the final phase of Aldea.

The Desert Sage project in Santa Fe, formerly known as the Greer Property, consists of 26.8 acres of undeveloped land. Plans for an eighty-unit subdivision have been approved by the City and Infrastructure Construction is set to begin in the next few months.

Old Las Vegas Highway Project in Santa Fe County consists of the estimated fair value of 15.3 acres of undeveloped land donated to Homewise for affordable housing. Plans for a fifty-unit subdivision have been approved by the City’s Planning Commission and will be presented to the City Council in July 2007.

Palomita consists of one single-family lot in Taos.

Evergreen in Santa Fe is an eighty-unit subdivision. Fifty homes will be sold to families below 80% of Area Median Income (AMI) and thirty will be sold to families above 80% AMI but below Homewise’s upper income limit. As of March 31, 2007, forty one homes were sold and thirty two are under contract.

West Alameda in Santa Fe represents the cost to hire a consultant to draft a master plan in a collaborative effort to purchase and develop 230 acres, integrating affordable homes with market-rate housing.

La Pradera in Santa Fe County is a six unit project of single-family attached and detached units. Construction is set to begin on the units by August of 2007. All 6 units will be sold to buyers in specified income categories and all will be under 100% of AMI.

Vista Jemez is a ten unit project in Santa Fe, all of which will be single-family detached units sold to buyers earning less than 80% of AMI. Construction is set to begin by the end of July 2007.

During 2007, Homewise capitalized $170,402 of interest in connection with financing the above projects.

## 4) Mortgage Notes Receivable

To assist low-income households with home purchases or repairs, Homewise originates amortizing mortgages bearing interest rates from 0% to 8.5%, for periods of up to 30 years. The notes are secured by a recorded perfected interest in the subject property. Homewise has not discounted the amortizing mortgage notes to present value at interest rates appropriate for such instruments because (1) Homewise is substantially a financial institution whose primary business is lending money, and (2) similar organizations making low or no interest loans to assist low income households with home purchases and repairs generally do not discount their mortgage notes receivable. Homewise provides for potentially uncollectible loans as described in Note 1. A tabulation of loans and funding sources at March 31, 2007, follows:

| | Amortizing | | | Due Upon Sale | | |
|---|---|---|---|---|---|---|
| | Total | Loss reserve | Net | Total | Discount | Net |
| Funding Source | | | | | | |
| Unrestricted | | | | | | |
| HOME | $ - | $ - | $ - | $ 1,095,489 | $ - | $ 1,095,489 |
| Other discretionary | 4,073,468 | (106,011) | 3,967,457 | 5,979,018 | (1,945,999) | 4,033,019 |
| Total unrestricted | 4,073,468 | (106,011) | 3,967,457 | 7,074,507 | (1,945,999) | 5,128,508 |
| Temporarily restricted | | | | | | |
| HUD-DBG—Revolving Loan Fund | 1,312,816 | (33,679) | 1,279,137 | 1,434,948 | (502,232) | 932,716 |
| HUD-CDBG program income | 361,099 | (9,382) | 351,717 | 1,975,634 | (691,472) | 1,284,162 |
| CDFI | 333,290 | (8,166) | 325,124 | - | - | - |
| Santa Fe Affordable Housing Roundtable | - | - | - | 553,354 | (190,174) | 363,180 |
| Teachers Home Fund | 9,772 | (195) | 9,577 | 1,075,158 | (143,468) | 931,690 |
| Watersmart - City | 2,703 | - | 2,703 | - | - | - |
| Watersmart - State | 62,918 | - | 62,918 | - | - | - |
| Total temporarily restricted | 2,082,598 | (51,422) | 2,031,176 | 5,039,094 | (1,527,346) | 3,511,748 |
| Permanently restricted NRC- | | | | | | |
| Revolving Loan Fund | 3,922,299 | (82,245) | 3,840,054 | 240,094 | - | 240,094 |
| Santa Fe Land Trust | 148,541 | (2,971) | 145,570 | - | - | - |
| Total permanently restricted | 4,070,840 | (85,216) | 3,985,624 | 240,094 | - | 240,094 |
| | $ 10,226,906 | $ (242,649) | $ 9,984,257 | $ 12,353,695 | $ (3,473,345) | $ 8,880,350 |

4) Mortgage Notes Receivable — continued

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Current portion of amortizing loans, net | $ 343,377 | $ 98,595 | $ 142,035 | $ 584,007 |
| Noncurrent portion of amortizing loans, ne | 3,665,180 | 1,932,581 | 3,802,489 | 9,400,250 |
| Total amortizing loans, net | $ 4,008,557 | $ 2,031,176 | $ 3,944,524 | $ 9,984,257 |

As of March 31, 2007, Homewise had the following delinquent loans:

| | Number | Payment due | Loan amount |
|---|---|---|---|
| 31-60 days | 9 | $ 1,999 | $ 94,999 |
| 61-90 days | 3 | 1,540 | 76,498 |
| > 90 days | 7 | 4,794 | 122,922 |

Loans delinquent more than 90 days are reserved for 15% of the loan balance. The allowance for loan losses for delinquent loans was $18,438 at March 31, 2007. As of March 31, 2007, there were no loans on nonaccrual status.

Homewise has sold loans with an outstanding principal amount of $3,563,523 at March 31, 2007, to Neighborhood Housing Services of America (NHSA). Homewise services the loans at market rates. NHSA has the option to replace delinquent loans with other Homewise loans. No loans were more than 30 days delinquent as of year-end.

Forgivable deferred loans that will be forgiven at the end of a fixed term are summarized as follows:

| | |
|---|---|
| HUD – HOME Program | $ 286,861 |
| Federal Home Loan Bank | 181,623 |
| Santa Fe affordable housing roundtable | 10,000 |
| Other discretionary programs | 902,648 |
| | $ 1,381,132 |

# Homewise, Inc.
## Notes to Financial Statements
## March 31, 2007

## 5) Investment in TCDC/Tierra Montosa

In 1998, Homewise formed Taos Community Development Corporation (TCDC), a wholly owned corporation, which then formed Tierra Montosa, Limited Partnership (Tierra Montosa) with another general partner, Tierra Realty Trust, LLC. Tierra Montosa has developed and operates Tierra Montosa apartments (the project), a 44 unit multi-family residential complex located in Taos, New Mexico. The project was approved by the New Mexico Mortgage Finance Authority as a "qualified low-income building" and received an allocation of low income housing tax credits under Internal Revenue Code Section 42. The partners in Tierra Montosa are as follows:

| | |
|---|---|
| General partners | |
| Taos Community Development Corporation | .5% |
| Tierra Realty Trust, LLC | .5 |
| Limited partner – Enterprise Housing Partners VII Limited Partnership | 99.0 |
| | 100.0% |

Income and costs are allocated to the partners in the above ratios, except that all losses and tax credits are distributed to the limited partner and all cash available for distribution is allocated to the general partners (33% to TCDC). Distributions upon sale of the project, after payment of Tierra Montosa debts, will be (i) capital contributions of limited partner, (ii) capital accounts of the general partners and (iii) remainder in ratio of profit-sharing among all partners. The activity and balances of TCDC/Tierra Montosa are not material to the overall financial statements, therefore it is not consolidated.

## 6) Property and Equipment

Property and equipment consist of the following at March 31, 2007:

| | |
|---|---|
| Furniture and equipment | $ 184,140 |
| Autos | 28,839 |
| Leasehold improvements | 8,411 |
| Less accumulated depreciation | (161,797) |
| Net value of depreciable property and equipment | 59,593 |
| Office construction | 12,500 |
| Total property and equipment | $ 72,093 |

6) Property and Equipment — continued

Homewise signed a contract with a designer/builder to build a 10,500 square foot office in an office complex. The estimated completion date for the new facility is June 2007. Homewise sold land previously acquired for an office and plans to finance the remaining 80% of the cost. A loan commitment of $1,500,000 has been obtained for permanent financing.

## 7) Notes Payable

Notes payable at March 31, 2007, consisted of loans as follows:

| | |
|---|---|
| Current notes payable | |
| Bank, warehouse and construction line of credit at 7.75% variable interest collateralized by $2,087,000 of mortgage loans, matures August 2007 | $ 881,119 |
| Bank, construction line of credit at 8.25% variable interest collateralized by $199,190 of mortgage notes receivable, matures October, 2007 | 12,910 |
| Bank, construction line of credit at 8% variable interest collateralized by Evergreen property, matures February 2008 | 2,211,477 |
| Bank, warehouse line of credit at 7.5% variable interest collateralized by mortgage loans, matures May 2008 | 595,589 |
| Total current notes payable | 3,701,095 |
| Long-term notes payable | |
| New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2009 | 80,000 |
| Bank, loan for home improvement projects at 3% interest collateralized by $122,000 of mortgage notes receivable, the principal balance is due at and matures October 2012 | 100,000 |
| Bank, at 3% interest collateralized by $312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012 | 250,000 |
| Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014 | 250,000 |
| Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013 | 250,000 |

7) Notes Payable — continued

| | |
|---|---|
| Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2011 | 580,000 |
| Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012 | 150,000 |
| Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014 | 250,000 |
| Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014 | 350,000 |
| Neighborhood Housing Services of America, unsecured 3% interest, the principal balance is due at and matures January 2011 | 500,000 |
| Total long-term notes payable | 2,760,000 |
| Total notes payable | 6,461,095 |
| Less unamortized discount | 282,685 |
| Total notes payable | $ 6,178,410 |

The following is a schedule of future principal payments due on the note payables:

| Year ending March 31, | |
|---|---|
| 2008 | $ 3,701,095 |
| 2009 | 80,000 |
| 2010 | - |
| 2011 | 500,000 |
| 2012 | 580,000 |
| Thereafter | 1,600,000 |
| | $ 6,461,095 |

Homewise is in compliance with all financial debt covenants as of March 31, 2007.

## 8) Contributions and Grants

Contributions and grants are comprised of the following:

| | |
|---|---|
| Nava Ade deferred mortgage revenue | $ 2,128,741 |
| Other | 942,756 |
| Total | $ 3,071,497 |

Homewise entered into a contract with the developers of Nava Ade to find buyers and provide financing for the subdivision's affordable units. As a result of providing this service, Homewise gains interest in the deferred mortgage issued on these homes which is recognized as contributions and grants.

## 9) Net Assets

Unrestricted net assets include $1,575,644 designated for loans in the Flex Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets are available for affordable housing programs.

Permanently restricted net assets are restricted to Neighborhood Reinvestment Council (NRC) and Santa Fe Land Trust (SFLT) revolving loans and property acquisitions. Summarized activity in the two funds follows:

| | NRC | SFLT | Total |
|---|---|---|---|
| Cash | $ - | $ 92,384 | $ 92,384 |
| Accounts receivable | 78 | 158 | 236 |
| Mortgage notes receivable | 4,080,147 | 145,570 | 4,225,717 |
| Accounts and escrows payable | (36,815) | - | (36,815) |
| Deferred revenue | (390,180) | - | (390,180) |
| Net assets | $ 3,653,230 | $ 238,112 | $ 3,891,342 |
| Permanently restricted net assets at beginning of year | $ 3,375,729 | $ 238,112 | $ 3,613,841 |
| Grants of loan funds | 277,501 | - | 277,501 |
| Permanently restricted net assets at end of year | $ 3,653,230 | $ 238,112 | $ 3,891,342 |

## 10) Government Grants

Government grants for the year ended March 31, 2007, consisted of:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| State and local awards | | | | |
| State of New Mexico | $ 59,579 | $ 195,108 | $ - | $ 254,687 |
| City of Santa Fe - Administration of housing programs | 193,375 | - | - | 193,375 |
| Total nonfederal awards | 252,954 | 195,108 | - | 448,062 |
| Federal awards | | | | |
| HUD passed through | | | | |
| City of Santa Fe - CDBG | 45,000 | 201,100 | - | 246,100 |
| New Mexico Mortgage Finance Authority (NMMFA) - HOME | 98,121 | - | - | 98,121 |
| Enterprise Foundation | - | 29,581 | - | 29,581 |
| CDFI loan capital | - | 434,080 | - | 434,080 |
| Other federal appropriations through NRC | 172,195 | - | 280,601 | 452,796 |
| Total federal awards | 315,316 | 664,761 | 280,601 | 1,260,678 |
| | $ 568,270 | $ 859,869 | $ 280,601 | $ 1,708,740 |

## 11) Home Sales Financed by Deferred Loans

Home sales of $559,349 in the year ended March 31, 2007, and $752,000 in the year ended March 31, 2006, were financed by non-interest bearing loans made by Homewise to the purchasers. These loans are reported as unrestricted, other discretionary, due upon sale loans in the summary of mortgage notes receivable in Note 4.

## 12) Functional Expenses

Program, administrative and fundraising expenses are composed of the following:

| | Program | Administrative | Fundraising | Total |
|---|---|---|---|---|
| Personnel services and benefits | $ 1,315,870 | $ 464,311 | $ 128,700 | $ 1,908,881 |
| Grants and projects | 1,129,871 | - | - | 1,129,871 |
| Client support | 56,721 | 20,004 | 5,598 | 82,323 |
| Interest expense | 83,605 | - | - | 83,605 |
| Occupancy expense | 87,221 | 44,851 | 8,430 | 140,502 |
| Professional | 88,461 | 20,579 | - | 109,040 |
| Administration | 178,843 | 21,158 | 6,792 | 206,793 |
| Marketing | 91,818 | 43,242 | - | 135,060 |
| Professional development | 15,085 | 20,579 | - | 35,664 |
| Depreciation | 37,296 | 13,154 | 3,680 | 54,130 |
| Insurance | 69,873 | 6,401 | - | 76,274 |
| Provision for loan losses | 31,173 | - | - | 31,173 |
| | $ 3,185,837 | $ 654,279 | $ 153,200 | $ 3,993,316 |

## 13) Retirement Plan

Homewise has a 403(b) retirement plan for its employees. Homewise makes a basic contribution of 5% of an employee’s compensation plus a matching contribution up to 3% contributed by the employee through salary reduction. Homewise’s contribution was $93,825 in fiscal year 2007.

## 14) Office Lease

Homewise leases its office space for $5,640 per month and cubicles for $600 per month under leases that expire in July 2007. Lease expense for fiscal year 2007 was $74,090.

## 15) Concentrations of Revenue Sources and Credit Risks

Homewise is dependent on operating revenues from the City of Santa Fe, several private foundations and the Neighborhood Reinvestment Corporation.

15) Concentrations of Revenue Sources and Credit Risks — continued

Homewise targets loans to low and moderate income individuals for home repair and home buyer assistance. Homewise has a recorded perfected interest in the subject property for all loans.

## 16) Related Parties

Homewise conducts business with various institutions that employ members of the Board of Directors of Homewise.

## 17) Accounting Changes

Donated Land with Restrictions
In fiscal years 2006 and 2007 land was donated to Homewise with restrictions imposed by the donors prohibiting sale at a profit, but allowing transfer of ownership to recipients of certain housing assistance provided by Homewise. In previous years, Homewise recognized a contribution equal to the fair value of the land in the year it was received. During 2007 Homewise changed its accounting policy for donations of lands with restrictions to recognize the contribution when the ownership of the land is transferred to the recipient as housing assistance. Amounts previously reported have been restated to conform with the change in accounting policy as follows:

| | As Previously Reported | Restate-ment | As Restated |
|---|---|---|---|
| Temporarily restricted | | | |
| Net assets March 31, 2005 | $ 4,772,938 | $ - | $ 4,772,938 |
| Contributions and grants year ended March 31, 2006 | 1,321,705 | (900,000) | 421,705 |
| Net assets March 31, 2006 | $ 6,094,643 | $ (900,000) | $ 5,194,643 |
| Deferred revenue March 31, 2006 | $ 454,719 | $ 900,000 | $ 1,354,719 |

17) Accounting Changes — continued

| | As Previously Reported | Restatement | As Restated |
|---|---|---|---|
| Total | | | |
| Net assets, March 31, 2005 | $15,053,748 | $ - | $15,053,748 |
| Change in net assets | 2,239,309 | 900,000 | 1,339,309 |
| Net assets, March 31, 2006 | $17,293,057 | $ 900,000 | $16,393,057 |
| Deferred revenue, March 31, 2006 | $ 844,899 | $ 900,000 | $ 1,744,899 |

Home Sales
Prior to fiscal year 2007, home sales were reported net of related costs on the statement of activities. In 2007, Homewise changed its accounting for home sales to report sales as revenues and related costs as expenses. Previously reported comparative amounts for 2006 have been restated to conform with this change.

Statement of Cash Flows
Prior to 2007, the statement of cash flows was presented using the indirect method. In 2007, Homewise elected to change to the direct method to provide more detailed information about operating cash flows. The 2006 statement of cash flows has been restated to conform with the 2007 presentation.

# Homewise, Inc.
**Schedule of Expenditures of Federal Awards**
**March 31, 2007**

| | CDFA | | Expenditures |
|---|---|---|---|
| **Department of Housing and Urban Development** | | | |
| HOME investment partnerships | | | |
| (pass through from NMMFA) | | | |
| Lead based paint | 14.239 | $ | 3,390 |
| Home DPA for teachers ($220k) | 14.239 | | 10,000 |
| CHDO - Operating $50k (05-06) | 14.239 | | 42,203 |
| | | | 55,593 |
| HUD capacity building grant | | | |
| (pass through from enterprise foundation) | 14.XXX | | 25,000 |
| CDBG | | | |
| Downpayment assistance (05-06) | | | |
| (pass through from City of Santa Fe) | 14.218 | | 265,720 |
| | | | 290,720 |
| Total Department of Housing and Urban Development | | | 346,313 |
| **Department of Treasury** | | | |
| Community development financial | | | |
| institution from treasury department | | | |
| Loan capital | 21.020 | | 263,500 |
| | | | 263,500 |
| Neighborhood reinvestment corporation | | | |
| Revolving loan fund | 21.000 | | 250,617 |
| Operating - financial fitness | 21.000 | | 2,250 |
| Operating - homeownership centers | 21.000 | | 39,641 |
| Operating - Dorothy Richardson Award | 21.000 | | 4,000 |
| Operating - Albuquerque due diligence | 21.000 | | 4,000 |
| Operating - watersmart | 21.000 | | 4,000 |
| Operating - Neighborworks Week | 21.000 | | 4,000 |
| Operating - VITA support | 21.000 | | 4,000 |
| Operating - underserved markets | 21.000 | | 10,000 |
| Revolving loan fund | 21.000 | | 30,000 |
| Operating - general support | 21.000 | | 75,304 |
| | | | 427,812 |
| Total Department of Treasury | | | 691,312 |
| Total all funding agencies | | $ | 1,037,625 |

# Homewise, Inc.
**Notes to Schedule of Expenditures of Federal Awards**
**March 31, 2007**

## 1) General

The accompanying schedule of expenditures of federal awards presents the federal financial assistance programs of Homewise, Inc. It is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements.

## 2) Reconciliation to the Financial Statements

| | |
|---|---|
| Expenditures of federal awards | $ 1,037,625 |
| Nonfederal expenses | 11,476,880 |
| Total 2007 expenses according to financial statements | $12,514,505 |

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*The Rogoff Firm*

LIMITED LIABILITY COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

# Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Homewise, Inc.

We have audited the financial statements of Homewise, Inc. (Homewise) as of and for the year ended March 31, 2007, and have issued our report thereon dated July 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Homewise's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Homewise's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Homewise's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Homewise's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Homewise's financial statements that is more than inconsequential will not be prevented or detected by Homewise's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Homewise's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.


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*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Homewise's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

REDW LLC

July 24, 2007

REDW
*The Rogoff Firm*

LIMITED LIABILITY COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

# Independent Auditors' Report on Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance

Board of Directors
Homewise, Inc.

## *Compliance*

We have audited the compliance of Homewise, Inc. (Homewise) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. Homewise's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Homewise's management. Our responsibility is to express an opinion on Homewise's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Homewise's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Homewise's compliance with those requirements.

In our opinion, Homewise complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended March 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items FA 07-1.


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*Internal Control Over Compliance*

The management of Homewise is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Homewise's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Homewise's internal control over compliance.

A control deficiency in Homewise's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Homewise's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Homewise's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Homewise's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

REDW LLC

July 24, 2007

# Homewise, Inc.
**Schedule of Findings and Questioned Costs**
**For the Year Ended March 31, 2006**

## Section I — Summary of Auditors' Results

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Reportable conditions identified not considered to be material weaknesses? | No |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Reportable conditions identified not considered to be material weaknesses? | No |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |

# Homewise, Inc.
**Schedule of Findings and Questioned Costs — continued**
**For the Year Ended March 31, 2007**

Section I — Summary of Auditors' Results — continued

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 21.020 | Agency: Department of the Treasury<br>Program Title: Community development financial institution |
| 14.218 | Agency: Department of Housing and Urban Development<br>Program Title: Community development block grants |

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? Yes

# Homewise, Inc.
**Schedule of Findings and Questioned Costs — continued**
**For the Year Ended March 31, 2007**

## Section II — Financial Statement Findings

None.

## Section III — Federal Award Findings

### FA 06-1 — Federal Audit Clearing House Report

*Federal Program Information:* All major programs

*Criteria or Specific Requirement:* Homewise is required to submit a signed and dated copy of the 2006 SF-SAC Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations to the Federal Audit Clearing House.

*Condition:* Homewise did not submit the 2006 SF-SAC Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations to the Federal Audit Clearing House.

*Questioned Cost:* None.

*Context:* 2006 Report.

*Cause and Effect:* Homewise is not in compliance with single audit requirements.

*Auditors' Recommendations:* We recommend that management implement procedures to ensure that the data collection form and audit report are submitted timely to the appropriate granting agency.

*Management's Response:* Due to staff turnover, Homewise neglected to submit the 2006 SF-SAC Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations to the Federal Audit Clearing House. This oversight has been corrected and the 2006 SF-SAC Data Collection Form has been sent. Homewise is in the process of developing and implementing a year-end checklist to ensure that the data collection form and audit report are submitted timely to the appropriate granting agency.

# Homewise, Inc.
## Summary Schedule of Prior-Audit Findings
## For the Year Ended March 31, 2007

**Prior Audit Findings**

**None.**