

Homewise, Inc.

Financial Statements and  
Supplementary Information

March 31, 2015 and 2014



*Certified Public Accountants  
and Business Advisors LLC*

**HOMEWISE, INC.**

**OFFICIAL ROSTER  
MARCH 31, 2015**

**Board of Directors**

Teresa Leger de Fernandez	Chairwoman
Andrew Spingler	Vice Chairman
David Hofmann	Treasurer
Erika Campos	Secretary
Sam Baca	Member
Frank Mathew	Member
Dave Delgado	Member
Ann Lockhart	Member

**Administration Official**

Michael Loftin	Chief Executive Officer
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## **TABLE OF CONTENTS**

### **HOMEWISE, INC.**

<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3
Statements of Activities.....	5
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8
<b>SINGLE AUDIT INFORMATION</b>	
Schedule of Expenditures of Federal Awards .....	35
Notes to Schedule of Expenditures of Federal Awards.....	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	37
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	39
Status of Prior Year Findings .....	41
Schedule of Findings and Questioned Costs.....	42

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Homewise, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Homewise, Inc. (a nonprofit organization), which comprise the statements of financial position as of March 31, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homewise, Inc. as of March 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2015, on our consideration of Homewise, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homewise Inc.'s internal control over financial reporting and compliance.



Albuquerque, New Mexico  
June 16, 2015

**HOMEWISE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**March 31, 2015 and 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Current assets		
Cash and cash equivalents	\$ 6,719,128	5,461,927
Broker receivables	1,783,662	1,827,959
Grants receivable	144,876	75,802
Amortizing mortgage loans receivable, current portion	1,250,451	1,078,250
Inventory	7,120	18,343
Development costs	5,796,000	4,471,390
<b>Total current assets</b>	<b>15,701,237</b>	<b>12,933,671</b>
Property and equipment, net	2,589,739	2,669,360
Mortgage loans receivable		
Amortizing	45,428,606	35,683,102
Allowance on amortizing loans	(1,084,173)	(877,241)
<b>Total amortizing</b>	<b>44,344,433</b>	<b>34,805,861</b>
Deferred	17,365,622	17,510,225
Allowance on deferred loans	(3,973,848)	(4,929,800)
<b>Total deferred</b>	<b>13,391,774</b>	<b>12,580,425</b>
<b>Total mortgage loans receivable</b>	<b>57,736,207</b>	<b>47,386,286</b>
Other real estate owned	549,105	253,518
Mortgage servicing rights	1,185,675	961,181
Development costs, net of current	9,926,808	9,161,795
Infrastructure deposits	107,232	140,130
Other assets	585,221	660,585
<b>Total assets</b>	<b>\$ 88,381,224</b>	<b>74,166,526</b>

*See Notes to Financial Statements.*

**HOMEWISE, INC.**  
**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**March 31, 2015 and 2014**

<b>LIABILITIES AND NET ASSETS</b>	<b>2015</b>	<b>2014</b>
Current liabilities		
Accounts payable and accrued expenses	\$ 1,239,908	489,648
Notes payable, community investment, current portion	1,061,393	5,000
Escrows and deposits	1,102,928	898,810
Lines of credit	4,016,185	2,593,912
Notes payable, current portion	4,988,517	2,614,088
<b>Total current liabilities</b>	<b>12,408,931</b>	<b>6,601,458</b>
Long-term liabilities		
Notes payable, long-term, net of current portion and unamortized discount	34,761,256	27,947,496
Notes payable, equity equivalent investment, net of unamortized discount	899,918	887,408
Notes payable, community investment, net of current portion and unamortized discount	991,306	1,203,376
Deferred grants revenue	81,747	46,591
Due to grantor agency	1,203,305	1,315,805
<b>Total long-term liabilities</b>	<b>37,937,532</b>	<b>31,400,676</b>
<b>Total liabilities</b>	<b>50,346,463</b>	<b>38,002,134</b>
Net assets		
Unrestricted	27,074,576	22,980,279
Temporarily restricted	7,871,556	9,545,484
Permanently restricted	3,088,629	3,638,629
Total net assets	38,034,761	36,164,392
<b>Total liabilities and net assets</b>	<b>\$ 88,381,224</b>	<b>74,166,526</b>

*See Notes to Financial Statements.*

**HOMEWISE, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Home development sales	\$ 7,887,721	-	-	<b>7,887,721</b>
Government grants	2,319,507	68,567	450,000	<b>2,838,074</b>
Loan portfolio interest	2,619,733	38,166	-	<b>2,657,899</b>
Real estate sales commissions	1,086,729	-	-	<b>1,086,729</b>
Loan origination fees	1,030,481	-	-	<b>1,030,481</b>
Contributions and grants	351,633	-	-	<b>351,633</b>
Bank interest	2,211	-	-	<b>2,211</b>
Amortization and valuation of mortgage servicing rights	354,658	-	-	<b>354,658</b>
Other revenue	402,729	312	-	<b>403,041</b>
Net asset transfers	2,780,973	(1,780,973)	(1,000,000)	<b>-</b>
<b>Total support and revenues</b>	<b>18,836,375</b>	<b>(1,673,928)</b>	<b>(550,000)</b>	<b>16,612,447</b>
<b>Expenses</b>				
Program	5,774,248	-	-	<b>5,774,248</b>
Cost of home development sales	7,422,864	-	-	<b>7,422,864</b>
Administrative	1,287,471	-	-	<b>1,287,471</b>
Fundraising	257,495	-	-	<b>257,495</b>
<b>Total expenses</b>	<b>14,742,078</b>	<b>-</b>	<b>-</b>	<b>14,742,078</b>
<b>Change in net assets</b>	<b>4,094,297</b>	<b>(1,673,928)</b>	<b>(550,000)</b>	<b>1,870,369</b>
Net assets at beginning of year	22,980,279	9,545,484	3,638,629	<b>36,164,392</b>
<b>Net assets at end of year</b>	<b>\$ 27,074,576</b>	<b>7,871,556</b>	<b>3,088,629</b>	<b>38,034,761</b>

*See Notes to Financial Statements.*



**HOMEWISE, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Home development sales	\$ 12,154,458	-	-	<b>12,154,458</b>
Government grants	1,143,093	142,651	1,100,000	<b>2,385,744</b>
Loan portfolio interest	2,048,509	22,563	-	<b>2,071,072</b>
Real estate sales commissions	880,957	-	-	<b>880,957</b>
Loan origination fees	1,103,599	-	-	<b>1,103,599</b>
Contributions and grants	80,508	-	-	<b>80,508</b>
Bank interest	3,017	-	-	<b>3,017</b>
Amortization and valuation of mortgage servicing rights	376,190	-	-	<b>376,190</b>
Other revenue	431,505	3,998	-	<b>435,503</b>
Net asset transfers	1,000,000	200,000	(1,200,000)	<b>-</b>
<b>Total support and revenues</b>	<b>19,221,836</b>	<b>369,212</b>	<b>(100,000)</b>	<b>19,491,048</b>
<b>Expenses</b>				
Program	4,926,016	-	-	<b>4,926,016</b>
Cost of home development sales	10,221,384	-	-	<b>10,221,384</b>
Administrative	1,438,861	-	-	<b>1,438,861</b>
Fundraising	285,613	-	-	<b>285,613</b>
<b>Total expenses</b>	<b>16,871,874</b>	<b>-</b>	<b>-</b>	<b>16,871,874</b>
<b>Change in net assets</b>	<b>2,349,962</b>	<b>369,212</b>	<b>(100,000)</b>	<b>2,619,174</b>
<b>Net assets at beginning of year</b>	<b>20,630,317</b>	<b>9,176,272</b>	<b>3,738,629</b>	<b>33,545,218</b>
<b>Net assets at end of year</b>	<b>\$ 22,980,279</b>	<b>9,545,484</b>	<b>3,638,629</b>	<b>36,164,392</b>

*See Notes to Financial Statements.*

**HOMEWISE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended March 31, 2015 and 2014**

	2015	2014
Cash Flows From Operating Activities		
Cash received from customers	\$ 15,027,510	17,954,476
Cash received from grants and contributions	3,120,633	2,505,917
Cash paid to suppliers	(12,215,054)	(13,809,939)
Cash paid to employees	(4,154,804)	(3,675,059)
Cash paid for interest	(1,212,103)	(834,644)
<b>Net cash provided by operating activities</b>	<b>566,182</b>	<b>2,140,751</b>
Cash Flows From Investing Activities		
Property and equipment acquisitions	(221,273)	(1,090,835)
Net increase in loans	(10,522,122)	(7,812,190)
<b>Net cash flows used by investing activities</b>	<b>(10,743,395)</b>	<b>(8,903,025)</b>
Cash Flows From Financing Activities		
Long-term borrowings	16,489,770	13,372,242
Capitalization of below market long-term borrowings	(66,053)	(187,940)
Payments on long-term borrowings	(5,208,000)	(5,129,816)
Net draws (payments) on bank lines of credit	218,697	(399,043)
<b>Net cash flows provided by financing activities</b>	<b>11,434,414</b>	<b>7,655,443</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,257,201</b>	<b>893,169</b>
Cash and cash equivalents, beginning of year	5,461,927	4,568,758
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,719,128</b>	<b>5,461,927</b>
<b>Reconciliation of change in net assets to net cash and cash equivalents provided by operations</b>		
Change in net assets	\$ 1,870,369	2,619,174
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	300,894	249,436
Amortization of discount on below market notes payable	32,881	38,351
Mortgage servicing rights	(224,494)	(269,257)
Change in assets and liabilities		
Broker receivables	44,297	(393,499)
Infrastructure deposits	32,898	-
Grants receivable	(69,074)	39,665
Prepaid expenses and other assets	75,364	(68,217)
Inventory	11,223	25,988
Development costs	(2,089,623)	704,050
Accounts payable and accrued liabilities	750,260	(904,050)
Escrows and deposits	204,118	186,313
Due to grantor agency	(112,500)	(114,500)
Deferred grant revenue	35,156	46,591
Other real estate owned	(295,587)	(19,294)
<b>Net cash flows provided by operating activities</b>	<b>\$ 566,182</b>	<b>2,140,751</b>

*See Notes to Financial Statements.*

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization.* Homewise, Inc. is a 501(c)(3) not-for-profit corporation created to secure affordable housing in the Santa Fe, Albuquerque and Northern New Mexico area. The mission of Homewise is to help create successful homeowners so that they improve their financial wellbeing and contribute to the vitality of our communities. Homewise provides financial counseling, property development, government program administration, low-interest fixed rate mortgages, home improvement loans, refinance loans and real estate sales.

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

*Accounting Standards Codification.* the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the single authoritative source for nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC supersedes all previous authoritative GAAP applicable to the Organization and was followed by the Organization for the years ended March 31, 2015 and 2014.

*Home Development Revenue and Cost Recognition.* Homebuilding revenue and related profit are generally recognized at the time of the closing of the sale, when title to and possession of the property are transferred to the buyer. In situations where the buyer's financing is originated by Homewise and the buyer has not made an adequate initial or continuing investment as required by ASC 360-20, the profit on such sales is deferred. 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 cost of home sales upon completion. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred.

*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. Grant funds received in excess of earned amounts are classified as deferred revenue on the statements of financial position. Earned amounts in excess of collections are classified as grant receivables.

*Basis of Presentation.* The Organization is designated as a Community Development Financial Institution (CDFI). As such, the Organization is required to present its financial statements in a classified format. The Organization 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.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization 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 are 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.

*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.

*Cash, Cash Equivalents and Concentrations.* For purposes of the statements of cash flows, cash and cash equivalents consist of deposits held in financial institutions. The Organization maintains deposits in financial institutions that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). Management believes that there is not a significant risk with respect to these deposits.

*Property, Equipment and Depreciation.* Property and equipment are stated at cost. Donated assets are recorded at estimated fair market value at date of receipt. Expenditures for maintenance and repairs are charged to expense as incurred while major betterments are capitalized. Depreciation is calculated using the straight-line method over the useful life of an asset. The Organization capitalizes assets that cost more than \$1,000 and have a service life of more than one year. Estimated useful lives of the assets are as follows:

Building and improvements	27.5 years
Software	3 years
Furniture and equipment	3-7 years

*Paid Time Off Accruals.* Employees accrue paid time off at their applicable pay rate. The liability, calculated by applying the employee's current pay rate to paid time off hours accrued, is recognized in the financial statements.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Inventories.* Inventories are stated at cost on the first-in, first-out (FIFO) method and consist primarily of building fixtures held for use in real estate development and home improvement operations.

*Mortgage Loans Receivable.* Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated as unpaid principal balances less allowance for loan losses. Interest earned on loans is recognized only when collected, as uncollected accrued interest is not considered to be material to the financial statements at March 31, 2015 and 2014.

*Provision for Loan Losses.* Management considers a loan to be impaired when, based on current information and events, it is determined that they will not be able to collect all amounts due according to the original terms of the note. The Organization accounts for impaired loans in accordance with FASB ASC No. 310-10-35, *Subsequent Measurement of Receivables*. The standard indicates that a creditor should evaluate the collectability of both contractual interest and principal when assessing the need for a loss accrual. Loans are determined to be delinquent if they are not timely paid based on the contractual terms of the respective loan agreement.

The allowance for loan losses is established through a provision charged to 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 collectability of loans and prior loss experience. This evaluation also takes into consideration such factors as overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' 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, or not recoverable through sale of collateral, such amount is charged to the allowance for loan losses.

*Deferred Mortgage Loans Receivable.* Deferred mortgage loans receivable are loans that are due at an unknown future date. They include: (1) loans which are due upon sale, transfer, vacating of or refinance of the related home and (2) forgivable loans that do not bear interest and are forgiven if the owner lives in the home for a specified period of time.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

If the funds are to be returned to a grantor upon collection, the full amount is included in the due to grantor agency liability on the statements of financial position. If the Organization is to retain the collections, the loan is booked net of applicable loan loss allowance.

*Broker Receivables.* Broker receivables represent amounts due from mortgage brokers for mortgage loans sold by the Organization, and are carried at their estimated collectible amounts. The Organization periodically evaluates the collectability of broker receivables and believes that they are fully collectible as of March 31, 2015 and 2014.

*Notes Payable at Below Market Interest Rates.* Financial institutions have made loans to the Organization at below market interest rates, resulting in debt discounts that are being amortized over the remaining lives of the loans. The initial discount is accounted for as a contribution. The amortization expense recognized for the year ended March 31, 2015 and 2014 was \$32,881 and \$38,351, respectively.

*Income Taxes.* The Organization is a tax-exempt organization and is not subject to federal or state income taxes, except unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Organization adopted the provisions of ASC No. 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Organization. The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. See Note 14 for additional details.

*Allocation of Functional Expenses.* The Organization 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 or on administrative or fundraising activities.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Fair Value of Financial Instruments and Derivative Financial Instruments.* The Organization has adopted ASC 825-10-50, *Disclosure of Financial Instruments*, which allows the disclosure requirements for fair value of financial and derivative financial instruments to be optional for nonpublic entities with total assets less than \$100 million who have not held or issued any derivative financial instruments other than loan commitments. The Organization's policy is to not engage in derivative financial instruments. The Organization did not disclose fair value information for the years ended March 31, 2015 and 2014.

*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.

*Advertising Costs.* The Organization expenses the cost of advertising as the expense is incurred. Advertising costs were \$235,214 and \$355,093 at March 31, 2015 and 2014, respectively.

*Other Real Estate Owned.* Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to acquisition or through direct purchase, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or net realizable value less cost to sell. Revenue and expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

*Mortgage Servicing Rights.* Rights to service mortgage loans for others are recognized as an asset after origination and sale of each loan. These servicing rights are initially measured at fair value.

The carrying amount of mortgage servicing rights, and the amortization thereon, is periodically evaluated in relation to estimated fair value. The mortgage loan portfolio is stratified by certain risk characteristics, such as loan type, interest rate and maturity, for purposes of measuring impairment. Estimation of the fair value of each stratum is accomplished by calculating the discounted present value of future net servicing income based on management's best estimate of remaining loan lives. The carrying value of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Community Investment Notes Payable.* Community investment notes represent obligations of the Organization related to individuals and trusts investing in notes issued by the Organization. The total aggregate offering price amounts to \$5,000,000 and is offered with a minimum investment of \$1,000 plus additional increments of \$100 bearing interest at a rate of 1% to 4%. Cash generated from issuance of these deposits is utilized to fund operations. At March 31, 2015 and 2014 the balance recorded as community investment notes amounted to \$2,052,699 and \$1,208,376, respectively.

*Reclassifications.* Certain accounts relating to the prior year have been restated to conform to current year's presentation. The reclassifications have no effect on change in net assets.

*Subsequent Events.* Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that exist at the date of the statements of financial position but arose after the statements of financial position date and before financial statements are available to be issued.

The Organization has evaluated subsequent events through June 16, 2015, which is the date the financial statements were available to be issued and, as a result of evaluation, there were no subsequent events that required disclosure.

**NOTE 2. GRANTS RECEIVABLE**

Grants receivable consist of the following at March 31:

	2015	2014
Non-Federal		
New Mexico Mortgage Finance Administration	\$ 74,995	-
City of Santa Fe	<u>69,881</u>	<u>75,802</u>
Total grants receivable	<u>\$ 144,876</u>	<u>75,802</u>



**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 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, 2015 and 2014 are as follows:

<b>Project</b>	<b>2015</b>	<b>2014</b>
Tessera	\$ 6,278,172	4,368,249
Las Palomas	2,699,142	2,752,301
Aldea	1,635,342	1,486,525
Desert Sage	1,284,352	1,284,345
Oshara	1,226,477	1,147,607
Agua Fria	798,571	-
Vista Serena	721,278	719,309
Rincon del Sol	637,963	1,078,600
Fairly	419,582	419,582
Palomita	21,929	21,929
Piñon Ridge	-	323,219
Old Las Vegas	-	31,519
	<u>\$ 15,722,808</u>	<u>13,633,185</u>

**Tessera** subdivision in the County of Santa Fe is a residential development comprised of three phases. Phase 1 is outside the city limits and consists of 77 residential lots with an average lot size of approximately one half acre. Of the 77 lots, 20 have sold leaving 57 lots available for purchase and there are currently 17 under construction. Phase 2 is comprised of 78 entitled, but undeveloped, lots also averaging about one half acre. Phase 3 is 92.3 acres located south of the bypass in what is called the “presumptive city limits” which means it is scheduled to be annexed into the city limits.

**Las Palomas** (formerly El Nido) consists of 46 lots located in Tract 48, Phase 2A, Unit 2 of Tierra Contenta, Santa Fe New Mexico. One home is under construction, 14 have closed, and 3 are models with 2 inventory homes leaving 26 remaining to be built.

**Aldea** consists of 19 developed lots in the County of Santa Fe in the Aldea development. Currently 4 have sold and 3 are inventory leaving 12 to be built.

**Desert Sage** in Santa Fe (formerly the Greer Project or Tract 4), consists of 26.8 acres of undeveloped land. Plans for the 80 unit subdivision have been approved by the City; however, the Organization is currently working with the city on possible relocation of the entrance to the development. The project is currently on hold.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 3. DEVELOPMENT COSTS (CONTINUED)**

***Oshara*** consists of 40 developed lots in the County of Santa Fe. Oshara is a mixed use development with several different product types and price points of homes. The 40 lots were zoned for work/live and we changed and had the master plan approved to convert 32 of the lots to townhomes. Construction on the model is expected to commence the Summer of 2015.

***Agua Fria*** is a mixed use development with several different product types and price points of homes. The majority of the lots (40) are townhouse lots and are planned to be live/work units.

***Vista Serena*** consists of approximately 12.7 acres of undeveloped land that the Organization purchased with the intent of building a 60 unit subdivision consisting of a combination of single family detached units as well as town home units. The project continued in its design phase as of March 31, 2015.

***Rincon Del Sol*** consists of 38 developed lots in the Rincon Del Sol Subdivision located in Tierra Contenta. The subdivision consists of a total of 62 lots, 24 of which were built by the original developer/builder. As of March 31, 2015, 33 have closed, 4 are in progress, and there is one inventory home available for sale.

***Fairly*** is two parcels of land consisting of Lot 1, 6.26 acres and Lot 2, 3.787 acres off of Fairly Road in the County of Santa Fe also known as the T.J. Henry Tract for a total of 60 lots. These parcels are located between two existing residential developments in the Master Plan Community of Tierra Contenta for future development.

***Palomita*** consists of one single family lot in Taos.

***Piñon Ridge*** subdivision consists of 39 custom lots. As of March 31, 2014 all the lots have been sold.

***Old Las Vegas Place*** (formerly Old Las Vegas Highway) in Santa Fe County consists of tracts of land that were donated to the Organization for affordable housing. The balance includes the costs of land and some remaining improvements. Vertical construction began in 2010 in this 50-unit development and as of March 31, 2014 all have been sold.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 4. MORTGAGE LOANS RECEIVABLE**

To assist low-income households with home purchases or repairs, the Organization has originated amortizing mortgage loans bearing interest rates from 1.0% to 7.75%, for periods of up to 30 years.

The Organization has also originated deferred mortgage loans. These are loans that have no required periodic payments and bear no interest, but are due in full upon sale, transfer, vacating of, or refinance of the related home. A portion of these deferred loans are forgivable if the owner lives in the home for a specified period of time. All amounts collected on the forgivable deferred loans are to be returned to a grantor and all amounts forgiven reduce the amount due to the grantor. The full amount of forgivable deferred loans and other deferred loans for which the funds are to be returned to a grantor upon collection are included in the "Due to grantor agency" liability on the balance sheet. Deferred mortgage loans are made to improve the affordability of homes to the Organization's customers. The Customer buys the house at a fair market price, but the deferred loan results in a reduction in the down payment required and the monthly mortgage payments. As a result, the customer obtains a more affordable house, but doesn't get a windfall by buying the house at a below-market price. As of March 31, 2015, 87% of deferred loans were funded through grants (57%) and contributions (30%) made to the Organization for this specific purpose. Of the remaining 13% of deferred loans that were funded by the Organization, the vast majority was provided on homes built by the Organization and was funded from the proceeds of the home sale.

Both amortizing and deferred mortgage loans are secured by a recorded perfected interest in the subject property.

At March 31, 2015 and 2014, the total gross amount of amortizing and deferred mortgage loans receivable are summarized as follows:

		<b>2015</b>	<b>2014</b>
Amortizing	\$	46,679,057	36,761,352
Deferred		<u>17,365,622</u>	<u>17,510,225</u>
Total loan receivable	\$	<u>64,044,679</u>	<u>54,271,577</u>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 4. MORTGAGE LOANS RECEIVABLE (CONTINUED)**

The Organization provides for potentially uncollectible loans as described in Note 1. As of March 31, 2015, the Organization had the following delinquent amortizing loans:

	Number	Payment Due	Loan Amount
31-60 days	12	\$ 12,616	584,209
61-90 days	3	4,298	123,977
> 90 days	<u>9</u>	<u>14,951</u>	<u>332,197</u>
	<u>24</u>	<u>\$ 31,865</u>	<u>1,040,383</u>

The total amount 31 or more days past due was equivalent to 2.2% of the gross outstanding amortizing mortgage loans receivable balance at March 31, 2015.

As of March 31, 2014, the Organization had the following delinquent amortizing loans:

	Number	Payment Due	Loan Amount
31-60 days	10	\$ 7,713	390,685
61-90 days	6	8,901	309,168
> 90 days	<u>6</u>	<u>4,904</u>	<u>104,246</u>
	<u>22</u>	<u>\$ 21,518</u>	<u>804,099</u>

The total amount 31 or more days past due was equivalent to 2.2% of the gross outstanding amortizing mortgage loans receivable balance at March 31, 2014.

Amortizing mortgage loans receivable are reserved for at 2%, 10%, and 20% of the loan balance for current and delinquent loans less than 30 days past due, delinquencies of 31 to 60 days, and delinquencies of 61 to 90 days, respectively. For loans greater than 90 days delinquent, management reserves 100% of the outstanding principal balance less specifically identified amounts they would expect to recover based on supported information obtained during the collection process. Deferred mortgage loans are allowed for based on the calculated amount that would be expected to be paid based primarily on trends in home values between the date of the loan and the date of valuation.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 4. MORTGAGE LOANS RECEIVABLE (CONTINUED)**

At March 31, 2015 and 2014, amortizing and deferred mortgage loans receivable had the following general and specific allowances applied against principal due:

	2015		2014	
	Amortizing	Deferred	Amortizing	Deferred
General allowance	\$ 1,084,173	3,973,848	877,241	3,597,339
Specific allowance	-	-	-	1,332,461
Total allowance	<u>\$ 1,084,173</u>	<u>3,973,848</u>	<u>877,241</u>	<u>4,929,800</u>

Changes in the allowance for loan losses at March 31, 2015 and 2014 are summarized as follows:

	Amortizing	Deferred	Total
Balance, March 31, 2013	\$ 842,690	5,436,800	6,279,490
Provision (recovery) for loan losses	115,354	(466,000)	(350,646)
Loans charged off, net of recoveries	<u>(80,803)</u>	<u>(41,000)</u>	<u>(121,803)</u>
Balance, March 31, 2014	877,241	4,929,800	5,807,041
Provision (recovery) for loan losses	401,774	(809,468)	(407,694)
Loans charged off, net of recoveries	<u>(194,842)</u>	<u>(146,484)</u>	<u>(341,326)</u>
<b>Balance, March 31, 2015</b>	<u>\$ 1,084,173</u>	<u>3,973,848</u>	<u>5,058,021</u>

Deferred loans that are expected to be forgiven at the end of a fixed term totaled \$506,956 and \$591,956 at March 31, 2015 and 2014, respectively.

Loans to related parties amounted to \$823,201 and \$299,163 at March 31, 2015 and 2014, respectively. These loans were issued to employees of the Organization who qualified to participate in the Homewise lending program. Each loan was issued in accordance with the Organization's policy.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at March 31:

	2015	2014
Land	\$ 935,100	894,460
Buildings and improvements	1,989,228	1,989,228
Software	1,130,903	1,003,361
Furniture and equipment	494,287	441,194
Leasehold Improvements	9,123	9,123
	<u>4,558,641</u>	<u>4,337,366</u>
Less: Accumulated depreciation	<u>(1,968,902)</u>	<u>(1,668,006)</u>
Net value of depreciable property and equipment	<u>\$ 2,589,739</u>	<u>2,669,360</u>

Depreciation expense for the years ended March 31, 2015 and 2014 was \$300,894 and \$249,436, respectively.

**NOTE 6. MORTGAGE SERVICING RIGHTS**

Mortgage loans serviced for others are not included in the accompanying statement of financial position. The unpaid balance of these loans as of March 31, 2015 and 2014 is summarized as follows:

	2015	2014
Mortgage loan portfolios serviced for:		
Federal National Mortgage Association (FNMA)	\$ 167,645,853	138,416,969
Other investors	<u>1,372,037</u>	<u>1,258,889</u>
	<u>\$ 169,017,890</u>	<u>139,675,858</u>

During 2015 and 2014, substantially all of the loans serviced for others had a contractual servicing fee of 0.25% per annum of the unpaid principal balance. These servicing fees totaled \$731,865 and \$672,858 during 2015 and 2014, respectively. These fees are included as other revenue on the statement of activities.

An analysis of changes in mortgage servicing rights is as follows:

	2015	2014
Balance at beginning of period	\$ 961,181	691,924
Servicing rights originated and capitalized	354,658	376,190
Amortization	<u>(130,164)</u>	<u>(106,933)</u>
Balance at end of period	<u>\$ 1,185,675</u>	<u>961,181</u>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 6. MORTGAGE SERVICING RIGHTS (CONTINUED)**

The primary risk characteristics of the underlying loans used to stratify the servicing assets for the purposes of measuring impairment are interest rate and original term. The valuation allowance is used to recognize impairments of the mortgage servicing rights. A mortgage servicing right is impaired when the fair value of the mortgage servicing right is below the amortized book value of the mortgage servicing right. The mortgage servicing rights are accounted by risk tranche, with the interest rate and term of the underlying loan being the primary strata used in distinguishing the tranches. Each tranche is evaluated separately for impairment. At March 31, 2015 and 2014 there was no impairment.

The following assumptions were used to calculate the market value of the mortgage servicing rights as of March 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Public Securities Association (PSA) speed	<b>152%</b>	119%
Discount rate	<b>9.5%</b>	10.0%
Earnings rate	<b>0.86%</b>	0.98%

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES**

At March 31, Homewise had lines of credit, notes payable, equity equivalent investment and community investment notes outstanding of:

	<b>2015</b>	<b>2014</b>
Current		
Lines of credit	\$ <b>4,016,185</b>	2,593,912
Notes payable	<b>4,988,517</b>	2,614,088
Notes payable, community investment	<b>1,061,393</b>	5,000
Total current	<b>10,066,095</b>	5,213,000
Long-term		
Notes payable	<b>34,843,421</b>	28,044,897
Notes payable, equity equivalent investments	<b>1,000,000</b>	1,000,000
Notes payable, community investments	<b>1,052,224</b>	1,252,775
Less unamortized discount	<b>(243,165)</b>	(259,392)
Total long-term, net	<b>36,652,480</b>	30,038,280
Total	\$ <b>46,718,575</b>	35,251,280

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

Lines of credit at March 31 consist of the following:

	2015	2014
<b>Lines of credit</b>		
Bank, line of credit of \$2,000,000 at 4.25% variable interest collateralized by land, matures January 2016	\$ 357,843	282,413
Assignment of Construction Contracts of \$2,150,000 For various loans at 4.25% interest, collateralized By lot mortgages, maturing May 2015	607,984	855,116
Bank, line of credit of \$2,000,000 at 5.25% variable interest collateralized by second mortgages, matures October 2015	-	1,200,000
Bank, line of credit of \$2,000,000 at 4.25%, collateralized by portfolio loans, matures January 2016	538,450	256,383
Bank, line of credit of \$3,000,000 at 5.00% interest, collateralized by mortgages, matures July 2015	921,509	-
Bank, line of credit of \$3,000,000 at 4.25% variable interest collateralized by land, matures January 2016	<u>1,590,399</u>	-
<b>Total lines of credit</b>	<u><b>\$ 4,016,185</b></u>	<u><b>2,593,912</b></u>



**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

Notes payable at March 31 consist of the following:

	2015	2014
<b>Notes payable</b>		
Opportunity Finance Network, unsecured at 3.00% interest, the principal balance is due at and matures February 2019	\$ 2,500,000	2,500,000
Opportunity Finance Network, unsecured at 3.00% interest, the principal balance is due at and matures March 2022	1,000,000	1,000,000
Bank, at 5.06% interest collateralized by security agreements, due in principal and interest payments on the 19 <sup>th</sup> day of each month beginning March 2008 and maturing February 2028	1,506,745	1,587,415
Bank, at 5.25% interest collateralized by the Homewise headquarters building, due in principal and interest payments on the 13 <sup>th</sup> day of each month beginning July 2007 and maturing June 2037	1,332,751	1,363,579
New Mexico Mortgage Finance Authority, at 3.00% interest, collateralized by Desert Sage property, the principal balance is due at and matures September 2015	523,025	648,025
Social Investment Foundation, unsecured at 4.50% interest, the principal balance and final interest payment is due at and matures September 2016	1,500,000	1,500,000
Revolving credit with \$5,000,000 available for drawdown until August 2015 at the ten (10) year LIBOR rate plus 1.25% at time of drawdown, collateralized by mortgages, payments are amortized over 30 years and due in full 10 years from initial drawdown	5,000,000	5,000,000

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

	<b>2015</b>	<b>2014</b>
<b>Notes Payable (Continued)</b>		
Bank, at 3.00% interest collateralized by \$500,000 of second mortgages, the principal balance is due at and matures December 2017	<b>\$ 500,000</b>	500,000
Bank, at 3.44% interest collateralized by second mortgages, the principal balance is due at and matures January 2019	<b>215,204</b>	250,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3.00% interest, the principal balance is due at and matures July 2014	-	250,000
Bank, at 3.00% interest collateralized by \$625,000 of second mortgages, the principal balance is due at and matures September 2022	<b>500,000</b>	500,000
Bank, loan for home improvement projects at 3.50% interest collateralized by \$622,000 of second mortgages, the principal balance is due at and matures March 2017	<b>478,131</b>	485,498
Religious Communities Investment, unsecured at 2.00% interest, the principal balance is due at and matures November 2019	<b>350,000</b>	150,000
Seton Enablement Fund, unsecured at 3.00% interest, the principal balance is due at and matures October 2017	<b>65,871</b>	97,007
Bank, at 4.25% interest collateralized by Las Palomas development, the principal balance is due at and matures September 2015	<b>234,479</b>	640,268
Mercy Investment Services, Inc, unsecured at 3.00% interest, the principal balance is due at and matures June 2015	<b>300,000</b>	300,000

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

	<b>2015</b>	<b>2014</b>
<b>Notes Payable (Continued)</b>		
Seton Enablement Fund, unsecured at 3.00% interest, the principal balance is due at and matures July 2015	<b>\$ 10,726</b>	63,168
Bank, at 3.00% interest collateralized by \$500,000 of second mortgages, the principal balance is due at and matures February 2021	<b>500,000</b>	500,000
Christus Health, \$1,000,000 note with interest at 3.00% payable quarterly with any unpaid principal balance due at maturity date of March 2017. Collateralized by assignment of mortgages	<b>1,000,000</b>	1,000,000
Bank, at 3.00% interest collateralized by assignment of mortgage notes receivable, the principal balance is due at and matures February 2022	<b>500,000</b>	500,000
New Mexico Mortgage Finance Authority, at 1.00% interest, collateralized by Rincon del Sol property, the principal balance is due at and matures November 2014	-	75,000
Bank, at 3.00% interest collateralized by second mortgages, the principal balance is due at and matures October 2022	<b>500,000</b>	500,000
Mercy Investment Services, Inc, unsecured at 3.00% interest, the principal balance is due at and matures December 2017	<b>700,000</b>	700,000
Bank, at 3.00% interest collateralized by assignment of mortgage notes receivable, the principal balance is due at and matures January 2018	<b>404,005</b>	449,085
Sachs Foundation, unsecured at 3.00% interest, the principal balance is due at and matures September 2017	<b>250,000</b>	250,000

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

	2015	2014
<b>Notes Payable (Continued)</b>		
Social Investment Foundation, unsecured at 4.00% interest, the principal balance and final interest payment is due at and matures July 2022	<b>\$ 350,000</b>	350,000
Adrian Dominican Sisters, unsecured at 3.00% interest, the principal balance and final interest payment is due at and matures October 2018	<b>250,000</b>	250,000
Santa Fe Community Foundation, unsecured at 2.50% interest, the principal balance and final interest payment is due at and matures April 2021.	<b>250,000</b>	250,000
Bank, collateralized by pledged amortizing portfolio loans at 3.50% interest due quarterly with 3 principal payments of \$1,000,000 due in 2022, 2023, and maturing and due February 2024	<b>3,000,000</b>	3,000,000
Bank, collateralized by portfolio loans at 4.50% interest, with amortizing monthly payments maturing in September 2018	<b>1,690,199</b>	1,812,925
Bank, collateralized by portfolio loans at 3.50% interest, with 119 regular principal and interest payments and 1 irregular payment on maturity date of September 2023	<b>946,923</b>	982,523
Bank, at 4.00% interest collateralized by Tessera development, the principal balance is due at and matures September 2027	<b>2,144,488</b>	3,204,491
Bank, collateralized by loan portfolio at 4.50% interest, due September 2024	<b>4,884,764</b>	-

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

	2015	2014
<b>Notes Payable (Continued)</b>		
Bank, at 5.00% interest, collateralized by land, due September 2019	\$ 389,447	-
Bank, at 4.25% interest, collateralized by land due March 2032	305,180	-
Bank, collateralized by security agreement of mortgage notes receivable at 3.75% interest with principal and interest payments due quarterly and the final payment due March 2030	4,500,000	-
Opportunity Finance Network, collateralized by pledged notes at 3.00% interest with 4 principal payments of 250,000 due on March 2019, March 2020, March 2021 and the final principal payment due on maturity of March 2022	<u>1,250,000</u>	-
<b>Total notes payable</b>	<b>39,831,938</b>	<b>30,658,985</b>
Less current maturities	<b>(4,988,517)</b>	<b>(2,614,088)</b>
Less unamortized discount	<u><b>(82,165)</b></u>	<u><b>(97,401)</b></u>
Total notes payable, less current portion and unamortized discount	<u><b>\$ 34,761,256</b></u>	<u><b>27,947,496</b></u>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

Notes payable, equity equivalent investment, at March 31 consist of the following:

	2015	2014
<b>Notes Payable - Equity Equivalent Investment</b>		
During fiscal year 2015 and 2014, the Organization Entered into an equity equivalent ("EQ2") investment agreement with Wells Fargo Community Investment Holdings. The agreement bears interest at a fixed rate of 2.00%. The agreement is unsecured and the principal balance is due at and matures March 2024	<u>\$ 1,000,000</u>	<u>1,000,000</u>
Less unamortized discount	<u>(100,082)</u>	<u>(112,592)</u>
Total notes payable - equity equivalent investment less unamortized discount	<u>\$ 899,918</u>	<u>887,408</u>

There is no current portion due for equity equivalent investments at March 31, 2015 or 2014.

Notes payable, community investment at March 31 were unsecured investments made by individuals and trusts to the Organization and consist of the following:

	2015	2014
<b>Notes Payable - Community Investment</b>		
Individual, note at 1.50% interest maturing April 2014 to March 2015	\$ -	5,206
Individuals and trusts, notes at 1.25% to 2.00% interest, maturing April 2015 to March 2016	1,055,456	928,652
Individuals and trusts, notes at 1.50% to 2.00% Interest, maturing April 2016 to March 2017	69,092	69,032
Individuals and trusts, notes at 1.00% to 2.50% interest, maturing April 2017 to March 2018	142,688	127,082
Individuals and trusts, notes at 1.00% to 2.50% interest, maturing April 2018 to March 2019	228,817	127,803

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 7. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)**

	2015	2014
Individuals and trusts, notes at 1.00% to 2.50% interest, maturing April 2019 to March 2020	280,033	-
Individuals and trusts, notes at 2.00% to 3.50% interest, maturing after April 2021	<u>337,531</u>	-
<b>Total notes payable, community investment</b>	<b>2,113,617</b>	1,257,775
Less current maturities	<b>(1,061,393)</b>	(5,000)
Less unamortized discount	<u><b>(60,918)</b></u>	<u>(49,399)</u>
Total notes payable, community investment less current portion and unamortized discount	<u><b>\$ 991,306</b></u>	<u>1,203,376</u>

At March 31, 2015, scheduled future principal payments, gross of unamortized discount, due on the notes payable and lines of credit are as follows:

Year ending March 31,	
2016	\$ 7,509,869
2017	4,145,203
2018	3,069,852
2019	5,476,503
2020	2,061,259
Thereafter	<u>24,699,054</u>
	<u><b>\$46,961,740</b></u>

Homewise is in compliance with all financial debt covenants as of March 31, 2015 and 2014.

**NOTE 8. PERMANENTLY RESTRICTED NET ASSETS**

Unrestricted net assets include \$4,143,026 designated for loans in the Homewise Loan Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets of \$7,871,556 are available for affordable housing programs.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 8. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

Permanently restricted net assets are restricted to NeighborWorks America (NWA) and Santa Fe Land Trust (SFLT). Summarized activity in the two funds at March 31, 2015 follows:

	<b>NWA</b>	<b>SFLT</b>	<b>Total</b>
Cash	\$ (8,815)	118,235	<b>109,420</b>
Mortgage notes receivable	2,869,932	121,903	<b>2,991,835</b>
Accounts and escrows payable	<u>(10,600)</u>	<u>(2,026)</u>	<u><b>(12,626)</b></u>
Net assets	<u>\$ 2,850,517</u>	<u>238,112</u>	<u><b>3,088,629</b></u>
Permanently restricted net assets beginning of year	\$ 3,400,517	238,112	<b>3,638,629</b>
Grants of loan funds	450,000	-	<b>450,000</b>
Released from Restriction	<u>(1,000,000)</u>	<u>-</u>	<u><b>(1,000,000)</b></u>
Permanently restricted net assets end of year	<u>\$ 2,850,517</u>	<u>238,112</u>	<u><b>3,088,629</b></u>

Summarized activity in the funds at March 31, 2014 follows:

	<b>NWA</b>	<b>SFLT</b>	<b>Total</b>
Cash	\$ (175,784)	81,880	<b>(93,904)</b>
Mortgage notes receivable	3,585,393	158,207	<b>3,743,600</b>
Accounts and escrows payable	<u>(9,092)</u>	<u>(1,975)</u>	<u><b>(11,067)</b></u>
Net assets	<u>\$ 3,400,517</u>	<u>238,112</u>	<u><b>3,638,629</b></u>
Permanently restricted net assets beginning of year	\$ 3,500,517	238,112	<b>3,738,629</b>
Grants of loan funds	1,100,000	-	<b>1,100,000</b>
Released from Restriction	<u>(1,200,000)</u>	<u>-</u>	<u><b>(1,200,000)</b></u>
Permanently restricted net assets end of year	<u>\$ 3,400,517</u>	<u>238,112</u>	<u><b>3,638,629</b></u>



**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 9. GOVERNMENT GRANTS**

Government grants for the year ended March 31, 2015 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>Total</b>
State and local awards				
City of Santa Fe – Administration of housing programs	\$ 200,813	-	-	<b>200,813</b>
Total non-federal awards	<u>200,813</u>	<u>-</u>	<u>-</u>	<b><u>200,813</u></b>
Federal awards				
Community Development Block Grant	-	20,767	-	<b>20,767</b>
Community Development Financial Institution Program	2,000,000	-	-	<b>2,000,000</b>
Other federal appropriations Through NWA	<u>616,494</u>	<u>-</u>	<u>-</u>	<b><u>616,494</u></b>
Total federal Awards	<u>2,616,494</u>	<u>20,767</u>	<u>-</u>	<b><u>2,637,261</u></b>
	<u>\$ 2,817,307</u>	<u>20,767</u>	<u>-</u>	<b><u>2,838,074</u></b>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 9. GOVERNMENT GRANTS (CONTINUED)**

Government grants for the year ended March 31, 2014 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>Total</b>
State and local awards				
City of Santa Fe – Administration of housing programs	\$ 208,038	-	-	<b>208,038</b>
Total non-federal awards	<u>208,038</u>	<u>-</u>	<u>-</u>	<b><u>208,038</u></b>
<sup>08</sup> Federal awards				
New Mexico Mortgage Finance Authority (NMMFA) – HOME	42,255	-	-	<b>42,255</b>
Community Development Block Grant	-	142,651	-	<b>142,651</b>
Community Development Financial Institution Program	597,000	-	-	<b>597,000</b>
Other federal appropriations Through NWA	<u>295,800</u>	<u>-</u>	<u>1,100,000</u>	<b><u>1,395,800</u></b>
Total federal Awards	<u>935,055</u>	<u>142,651</u>	<u>1,100,000</u>	<b><u>2,177,706</u></b>
	<u>\$ 1,143,093</u>	<u>142,651</u>	<u>1,100,000</u>	<b><u>2,385,744</u></b>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 10. FUNCTIONAL EXPENSES**

For the year ended March 31, 2015, program, administrative and fundraising expenses were composed of the following:

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$ 3,225,557	830,961	166,192	<b>4,222,710</b>
Client support	143,901	37,869	7,574	<b>189,344</b>
Interest	1,221,651	-	-	<b>1,221,651</b>
Occupancy	263,383	69,311	13,862	<b>346,556</b>
Professional services	228,591	60,155	12,031	<b>300,777</b>
Administrative	360,275	94,809	18,962	<b>474,046</b>
Marketing	178,762	47,043	9,409	<b>235,214</b>
Professional development	130,304	34,291	6,858	<b>171,453</b>
Depreciation	228,679	60,179	12,036	<b>300,894</b>
Insurance	101,915	26,820	5,364	<b>134,099</b>
Amortization	98,924	26,033	5,207	<b>130,164</b>
Bad debt, net of recoveries	(407,694)	-	-	<b>(407,694)</b>
	<b>\$ 5,774,248</b>	<b>1,287,471</b>	<b>257,495</b>	<b>7,319,214</b>

For the year ended March 31, 2014, program, administrative and fundraising expenses were composed of the following:

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$2,646,042	845,264	183,753	<b>3,675,059</b>
Client support	134,709	43,032	9,355	<b>187,096</b>
Interest	842,305	-	-	<b>842,305</b>
Occupancy	293,540	93,770	20,385	<b>407,695</b>
Professional services	270,747	86,489	18,802	<b>376,038</b>
Administrative	332,515	106,220	23,091	<b>461,826</b>
Marketing	255,667	81,671	17,755	<b>355,093</b>
Professional development	137,992	53,664	-	<b>191,656</b>
Depreciation	179,594	57,370	12,472	<b>249,436</b>
Insurance	106,559	41,439	-	<b>147,998</b>
Amortization	76,992	29,942	-	<b>106,934</b>
Bad debt, net of recoveries	(350,646)	-	-	<b>(350,646)</b>
	<b>\$4,926,016</b>	<b>1,438,861</b>	<b>285,613</b>	<b>6,650,490</b>

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 11. RETIREMENT PLAN**

The Organization has a 403(b) retirement plan for its employees. Following one year of service, Homewise makes a basic contribution of 5% of an employee's compensation plus a contribution matching up to 3% contributed by the employee through salary reduction. The Organization's contribution was \$184,356 and \$157,801 for the years ended March 31, 2015 and 2014, respectively.

**NOTE 12. CONCENTRATIONS OF REVENUE SOURCES AND CREDIT RISKS**

The Organization receives significant operating revenues from the City of Santa Fe, several private foundations and NeighborWorks America.

The Organization targets loans to low and moderate income individuals for home repair and home buyer assistance. The Organization has a recorded perfected interest on amortizing mortgage and deferred notes receivable.

The Organization extends loans to low and moderate income residents of a limited geographic area. Although loans are collateralized by the borrowers' property, a risk exists that property values may fall below the loan values creating a concentration of credit risk.

At March 31, 2015, the Organization held deposits with multiple banks that individually exceeded the Federal Deposit Insurance Coverage (FDIC) limit of \$250,000. Certain banks pledged collateral covering the remainder of the uninsured balance. Management has taken action to mitigate the credit risk of the remaining uninsured and uncollateralized balance of \$3,607,190 by depositing with well-known and highly reputable institutions.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

**Grants and Contracts**

Grants and contracts require the fulfillment of certain conditions as set forth in the terms of the agreements, and are subject to audit by the grantor. Failure to comply with the conditions of the agreements could result in the return of funds to the grantor. Although possible, management believes that it has complied with the conditions of its grants and contracts and no significant liability, if any, will result from an audit.

**Letters of Credit**

At March 31, 2015, the Organization had two available letters of credit issued by financial institutions in the aggregate amount of \$1,900,213 related to the Desert Sage and Piñon Ridge developments.

**HOMEWISE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**NOTE 14. INCOME TAXES**

The Organization had no unrecognized tax benefits which would require an adjustment to the April 1, 2009 beginning balance of net assets and had no unrecognized tax benefits at March 31, 2015 and 2014. The Organization files an exempt organization return in the U.S. federal jurisdiction and with the New Mexico Taxation and Revenue Department.

**HOMEWISE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**March 31, 2015**

	Pass-through Grantor Number or Other Identifying Number	CFDA	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grants (pass through from City of Santa Fe) Down payment assistance	07-0635	14.218	\$ 20,767
<b>Total U.S. Department of Housing and Urban Development</b>			<u>20,767</u>
<b>U.S. Department of Treasury</b>			
Community Development Financial Institution from Treasury Department Program Loan Capital	141FA012500	21.020	<u>2,000,000</u> 2,000,000
NeighborWorks America Revolving loan fund	None	21.000	450,000
Operating – general support	None	21.000	<u>166,494</u> 616,494
<b>Total U.S. Department of Treasury</b>			<u>2,616,494</u>
<b>Total all funding agencies</b>			<u>\$ 2,637,261</u>

*See notes to schedule of expenditures of federal awards.*

**HOMEWISE, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**March 31, 2015**

**NOTE 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.

**NOTE 2. RECONCILIATION TO THE FINANCIAL STATEMENTS**

Expenditures of federal awards	\$ 2,637,261
Non-federal expenses	<u>12,104,817</u>
Total expenses	<u>\$ 14,742,078</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Board of Directors of  
Homewise, Inc.

We have audited, in accordance with the 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, the financial statements of Homewise, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Homewise, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Homewise, Inc.'s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did



Identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Homewise, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Homewise, Inc.'s Response to Findings**

Homewise, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Homewise Inc.'s response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico  
June 16, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB  
CIRCULAR A-133**

To the Board of Directors of  
Homewise, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Homewise, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Homewise, Inc.'s major federal programs for the year ended March 31, 2015. Homewise, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Homewise, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Homewise, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Homewise, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2015.

## Report on Internal Control Over Compliance

Management of Homewise, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Homewise, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Albuquerque, New Mexico  
June 16, 2015

**HOMEWISE, INC.**  
**STATUS OF PRIOR YEAR FINDINGS**  
**For the Year Ended March 31, 2015**

There were no prior year audit findings.

**HOMEWISE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended March 31, 2015**

**A. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   x   No
- Significant deficiency identified that are not considered to be material weakness(es)?   x   Yes \_\_\_\_\_

Non-compliance material to financial statements noted? \_\_\_\_\_ Yes   x   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   x   No
- Significant deficiency identified that are not considered to be material weakness(es) \_\_\_\_\_ Yes   x   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes   x   No

**Identification of Major Program**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.020	Community Development Financial Institutions

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, 2015**

**B. FINANCIAL STATEMENT FINDINGS**

**2015-001 Significant Deficiency in Internal Control over Financial Reporting  
(Significant Deficiency)**

*CONDITION:* Through the course of our current year audit and through performance of our substantive procedures we noted the following internal control deficiencies:

- During our review of the March 31, 2015 bank reconciliation performed by Homewise, we noted an adjustment in the amount of \$110,757 in order to agree the bank balance to the general ledger.
- During our substantive procedures over the accounts receivable balance, we noted an overstatement in Miscellaneous Accounts Receivable and Home Sales in the amount of \$217,600 as a result of double posting a general journal entry.

*CRITERIA:* The Committee of Sponsoring Organizations (COSO) internal control integrated framework consists of five critical elements that must be present in carrying out the achievements and objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication, and monitoring. Specifically, control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risk to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

*EFFECT:* There is an increased possibility of loss or theft of the Organization's assets and an increased risk of material misstatement due to fraud or error.

*CAUSE:* The Organization has a practice of posting the unreconciled balance on the bank statement to a suspense account to account for the difference between the bank statement and the general ledger cash balance. In addition, the Organization double posted an entry that increased Miscellaneous Accounts Receivable and Home Sales which overstated revenue and overstated assets.

*RECOMMENDATION:* The Organization should ensure that a comprehensive internal control structure over financial information is designed, documented, and implemented. Management should follow and ensure that all staff follows the Organization's documented internal control procedures. In addition, the Board of Directors should provide effective oversight of the internal control and financial reporting process.

**HOMEWISE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**For the Year Ended March 31, 2015**

**B. FINANCIAL STATEMENT FINDINGS (CONTINUED)**

*MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:*

The Organization reconciles its bank accounts on a monthly basis and historically any variance was immaterial. However, in the latter part of the fiscal year, the variance increased significantly, reaching the level noted above. In recognition of this, the Organization has taken several steps. First, a third party CPA has been retained for an agreed-upon procedures engagement to identify what comprises the variance. Second, results of this engagement will be used to revise procedures so that similar issues do not occur in the future. Third, given the large number of transactions that the Organization conducts each month, we are revising our procedures to simplify the reconciliation process by capturing the category of each transaction so that the sources of any variances can be identified and resolved more rapidly. Finally, a policy establishing time constraints and dollar thresholds for clearing variances is being adopted.

Regarding the double posting of the general journal entry, the Organization has a policy of reconciling all open receivables and payables at the end of each month. Entries carried over from the previous month and not closed during the current month are specifically reviewed in detail. In this case, the double posting occurred in March, the last month of the fiscal year, and would have been found as part of the April closing. In order to prevent this from occurring again, management will implement an additional policy of reviewing receivables and payables in greater detail at the end of each fiscal year.

**C. FEDERAL AWARD FINDINGS**

None.