



**HOMEWISE, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2022 and 2021**



**HOMEWISE, INC.**

**OFFICIAL ROSTER  
(unaudited)  
March 31, 2022 and 2021**

**Board of Directors**

David Delgado	Chair
Andrew Spingler	Vice-Chair
Anne Messbarger-Eguia	Secretary
Katherine Ulibarri	Treasurer
Erika Campos	Member
Agnes Noonan	Member
Shelle VanEtten de Sanchez	Member
Paul Vogel	Member
Marissa Ruyle	Member
Josue Olivares	Member
Amanda Kocon	Member
Joseph Kunkel	Member

**Administration Official**

Michael Loftin	Chief Executive Officer
Clay Simmons	Chief Financial Officer

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## Report of Independent Auditors

The Board of Directors  
Homewise, Inc.

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Homewise, Inc. (Homewise), which comprise the statements of financial position as of March 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Homewise, Inc. as of March 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Homewise and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Homewise's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Homewise's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Homewise's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 27, 2022 on our consideration of Homewise'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 solely 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 effectiveness of Homewise's 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 internal control over financial reporting and compliance.

*Mess Adams LLP*

Albuquerque, New Mexico  
June 27, 2022

**Homewise, Inc.**  
**Consolidated Statements of Financial Position**

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**ASSETS**

	Years Ended March 31,	
	2022	2021
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 26,943,905	\$ 15,852,234
Other restricted cash and interest-bearing deposits in banks	10,030,802	6,810,731
Broker receivables and other accounts receivable	3,750,284	9,372,836
Grants receivable	799,780	1,079,084
Amortizing mortgage loans receivable, current portion	1,994,690	1,864,292
Inventory	13,672	21,263
Real estate held for sale	314,051	-
Other real estate owned	-	355,911
Development costs, current portion	20,441,709	8,641,555
Total current assets	<u>64,288,893</u>	<u>43,997,906</u>
 Property and equipment, net	 <u>10,535,870</u>	 <u>10,948,580</u>
<b>MORTGAGE LOANS RECEIVABLE</b>		
Amortizing, net of current portion	80,407,746	75,752,263
Allowance on amortizing loans	(1,648,049)	(1,552,331)
Total amortizing mortgage loans receivable, net of allowance	<u>78,759,697</u>	<u>74,199,932</u>
 Deferred mortgage loans receivable	 29,622,581	 29,035,296
Allowance on deferred loans	(3,240,710)	(3,217,709)
Total deferred mortgage loans receivable, net of allowance	<u>26,381,871</u>	<u>25,817,587</u>
Total long-term mortgage loans receivable, net of allowance	<u>105,141,568</u>	<u>100,017,519</u>
 Mortgage servicing rights	 4,084,178	 3,626,309
Development costs, net of current portion	8,753,055	8,728,064
Qualified low income community investment	14,882,832	9,533,718
Other assets	493,554	482,419
Total assets	<u>\$ 208,179,950</u>	<u>\$ 177,334,515</u>

**Homewise, Inc.**  
**Consolidated Statements of Financial Position (continued)**

**LIABILITIES AND NET ASSETS**

	Years Ended March 31,	
	2022	2021
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,422,369	\$ 4,065,916
Accrued expenses	1,187,123	1,451,346
Escrows and deposits	4,133,392	3,773,761
Lines of credit	-	4,091,074
Lending notes payable, current portion	5,252,795	8,421,832
Community development notes payable, current portion	250,000	-
Other notes payable, current portion	117,438	110,867
Notes payable community investment, current portion	1,773,285	2,208,153
Total current liabilities	15,136,402	24,122,949
<b>LONG-TERM LIABILITIES</b>		
Line of credit, net of current portion	-	812,661
Lending notes payable, net of current portion	78,802,147	53,614,390
Real estate development notes payable, net of current portion	19,500,000	12,675,000
Community development notes payable, net of current portion	500,000	750,000
Other notes payable, net of current portion	3,586,492	3,206,409
Notes payable, equity equivalent investment	3,300,000	3,300,000
Notes payable, community investment, net of current portion	5,247,702	4,550,259
Deferred grant revenue	3,790,495	2,675,519
Due to grantor agency	604,518	882,592
Total long-term liabilities	115,331,354	82,466,830
Total liabilities	130,467,756	106,589,779
<b>NET ASSETS</b>		
Without donor restriction	75,452,677	68,160,562
With donor restriction	2,259,517	2,584,174
Total net assets	77,712,194	70,744,736
Total liabilities and net assets	\$ 208,179,950	\$ 177,334,515



**Homewise, Inc.**  
**Consolidated Statements of Activities**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND SUPPORT</b>						
Home development sales	\$ 23,613,332	\$ -	\$ 23,613,332	\$ 24,289,902	\$ -	\$ 24,289,902
Loan origination fees	4,667,756	-	4,667,756	6,386,900	-	6,386,900
Real estate sales commissions	2,690,373	-	2,690,373	2,388,377	-	2,388,377
Loan portfolio interest	4,412,860	-	4,412,860	4,393,105	-	4,393,105
Loan servicing fees	1,226,715	-	1,226,715	1,084,868	-	1,084,868
Gain on sale of loans, mortgage servicing rights	1,236,831	-	1,236,831	1,489,244	-	1,489,244
Loan capital grants and contributions	4,292,465	901,600	5,194,065	2,218,138	-	2,218,138
Operating grants and contributions	1,885,672	212,501	2,098,173	7,882,827	-	7,882,827
Gain on sale of asset	79,821	-	79,821	71,014	-	71,014
Rental Income	251,733	-	251,733	191,689	-	191,689
Other earned income	635,659	-	635,659	479,261	-	479,261
Released from restrictions	1,438,758	(1,438,758)	-	782,589	(782,589)	-
Total revenues, gains, and support	<u>46,431,975</u>	<u>(324,657)</u>	<u>46,107,318</u>	<u>51,657,914</u>	<u>(782,589)</u>	<u>50,875,325</u>
Cost of home development sales	<u>18,376,389</u>	<u>-</u>	<u>18,376,389</u>	<u>19,124,742</u>	<u>-</u>	<u>19,124,742</u>
<b>EXPENSES</b>						
Program	16,516,573	-	16,516,573	14,931,688	-	14,931,688
Administrative	3,567,757	-	3,567,757	2,920,262	-	2,920,262
Fundraising	679,141	-	679,141	600,631	-	600,631
Total expenses	<u>20,763,471</u>	<u>-</u>	<u>20,763,471</u>	<u>18,452,581</u>	<u>-</u>	<u>18,452,581</u>
CHANGE IN NET ASSETS	<u>7,292,115</u>	<u>(324,657)</u>	<u>6,967,458</u>	<u>14,080,591</u>	<u>(782,589)</u>	<u>13,298,002</u>
Net assets at beginning of year	68,160,562	2,584,174	70,744,736	40,134,587	17,312,147	57,446,734
Restatement (Note 2)	-	-	-	13,945,384	(13,945,384)	-
NET ASSETS AT END OF YEAR	<u>\$ 75,452,677</u>	<u>\$ 2,259,517</u>	<u>\$ 77,712,194</u>	<u>\$ 68,160,562</u>	<u>\$ 2,584,174</u>	<u>\$ 70,744,736</u>

**Homewise, Inc.**  
**Consolidated Statements of Cash Flows**

	Years Ended March 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 43,900,096	\$ 32,630,430
Cash received from grants and contributions	6,645,606	7,828,853
Cash paid to suppliers	(36,068,144)	(19,362,001)
Cash paid to employees	(11,779,965)	(10,006,395)
Cash paid for interest	(2,096,704)	(2,469,908)
Net cash flows provided by operating activities	600,889	8,620,979
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipment acquisitions	(150,178)	(1,609,179)
Qualified low income community investment	(5,403,890)	(69,373)
Net increase in mortgage loans	(5,324,294)	(5,392,831)
Net cash flows used in investing activities	(10,878,362)	(7,071,383)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term borrowings	36,366,857	12,037,825
Payments on long-term borrowings	(6,873,908)	(7,369,123)
(Payments) borrowings on bank lines of credit	(4,903,735)	1,132,804
Net cash flows provided by financing activities	24,589,214	5,801,506
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	14,311,741	7,351,102
Cash and cash equivalents, beginning of year	15,852,234	11,894,187
Other restricted cash and interest-bearing deposits in banks, beginning of year	6,810,731	3,417,674
<b>CASH, AND CASH EQUIVALENTS, beginning of year</b>	22,662,965	15,311,861
Cash and cash equivalents, end of year	26,943,905	15,852,234
Other restricted cash and interest-bearing deposits in banks, end of year	10,030,802	6,810,731
<b>CASH, AND CASH EQUIVALENTS, end of year</b>	\$ 36,974,707	\$ 22,662,965
Reconciliation of decrease in net assets to net cash and cash equivalents provided by operations		
Change in net assets	\$ 6,967,458	\$ 13,298,002
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	562,888	503,883
Amortization of mortgage servicing rights	778,962	939,722
Amortization of discount on low income housing investment	54,776	33,429
Bad debt recovery	(26,164)	(64,536)
Loan loss provision (recovery)	141,428	(2,538,884)
Gain on sale of an asset	(79,821)	(71,014)
Change in assets and liabilities		
Broker and other accounts receivable	5,622,552	(7,046,053)
Grants receivable	279,304	(981,611)
Inventory	7,590	(339)
Development costs	(11,825,145)	1,685,256
Real estate held for sale	(314,051)	-
Other real estate owned	419,485	(355,911)
Mortgage servicing rights	(1,236,831)	(1,489,244)
Other assets	5,112	(537,887)
Accounts payable and accrued expenses	(1,953,187)	2,366,840
Escrows and deposits	359,631	462,381
Deferred grant revenue	1,114,976	2,445,331
Due to grantor agency	(278,074)	(28,386)
Net cash provided by operating activities	\$ 600,889	\$ 8,620,979

See accompanying notes.

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Summary of Significant Accounting Policies**

##### **Organization**

Homewise, Inc. (Homewise) is a 501(c) (3) not-for-profit corporation (the Organization) created to secure affordable housing in New Mexico. The mission of Homewise is to help create successful homeowners and strengthen neighborhoods so that individuals and families can improve their long-term financial wellbeing and quality of life. Homewise provides financial counseling, property development, government program administration, low-interest fixed rate mortgages, home improvement loans, refinance loans, mortgage loan servicing, and real estate sales.

##### **Principles of Consolidation**

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of Homewise, Inc. and its wholly owned subsidiaries:

- Homewise Orpheum, LLC
- Homewise Ruppe, LLC
- Homewise Mortgage, LLC
- HW Coronado Complex, LLC
- Big Sky Santa Fe, LLC
- Buckman Development, LLC

All intercompany transactions and balances have been eliminated in consolidation.

##### **Basis of Accounting**

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

##### **Basis of Presentation**

The Organization is designated as a Community Development Financial Institution (CDFI). As such, the Organization is required to present its consolidated financial statements in a classified format. The Organization reports information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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:

- Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Net assets with donor restrictions – 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, or that are subject to donor imposed stipulations that they be maintained in perpetuity, with only the income used for operating activities, due to donor imposed restrictions. When a donor restriction expires, net assets with donor-imposed restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash, and cash equivalents consist of deposits held in financial institutions.

**Other Restricted Cash and Interest Bearing Deposits**

Certain grant and loan agreements require cash to be held in separate interest bearing-accounts. Management believes that there is not a significant risk with respect to these deposits in excess of federally insured limits.

**Broker Receivables and Other Accounts Receivable**

Broker receivables and other accounts receivable represent amounts due from mortgage brokers for mortgage loans sold by the Organization and various other parties such as customers, title companies, etc. and are carried at their estimated collectible amounts. The Organization periodically evaluates the collectability of broker receivables and believes that they are fully collectible at March 31, 2022 and 2021.

**Grant Revenue, Grants Receivable, and Deferred Grant Revenue**

Grant revenue is recognized in accordance with Financial Accounting Standards Board Accounting Standards Update, FASB ASU, 2018-08, *Non-Profit Entities (Topic 928): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contribution Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The unspent portion of conditional grant funds are reported as deferred grant revenue in the consolidated statement of financial position.

**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 material to the consolidated financial statements at March 31, 2022 and 2021.

**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.

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

Loans are reported as troubled debt restructurings when the Organization, for economic or legal reasons related to the borrower's financial difficulties, grants concessions to a borrower that it would not otherwise consider. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. As a result of these concessions, restructured loans are impaired as the Organization will not collect all amounts due, both principal and interest, in accordance with the terms of original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans, discounted at the interest rate of the original loan agreement, to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for credit losses. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. 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.

**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 due to grantor agency liability on the consolidated statement of financial position. If the Organization is to retain the collections, the loan is booked net of applicable loan loss allowance.

**Inventory**

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

**Home Development Sales and Development Costs**

Homebuilding revenue and related profit are generally recognized at a point in time of the closing-of-the sale when title to and possession of the property are transferred to the buyer. Acquisition rehab properties are properties which require repair and maintenance before sale. 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 the 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.

**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:

Land improvements	15 years
Building and improvements	27.5 years
Rental properties	27.5 years
Software	3–5 years
Furniture and equipment	3–7 years
Leasehold improvements	15 years

**Long-Lived Assets and Impairment**

Long-lived assets to be held and used are recorded at cost. Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Recoverability of these assets is determined by comparing the cost to the forecasted, undiscounted net cash flows of operation. No impairment losses on real estate or other long-lived assets were recognized during the years ended March 31, 2022 and 2021.

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Organization – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

##### **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.

##### **Qualified Low Income Community Investment**

The New Market Tax Credit Program (NMTC) provides investors with credits against federal income tax in exchange for capital investments in businesses and commercial projects in low-income communities. The U.S. Treasury CDFI fund Awards NMTCs to certified Community Development Entities (CDE) to make qualified low-income investments (QLICI) into qualified low-income businesses (QLICB). In 2017, the Organization recorded its 33.33%, non-controlling investment in HPN Leverage I, LLC. In 2018, the Organization has recorded its 53.93%, non-controlling investment in HPN Leverage III, LLC. In 2021, the Organization has recorded its 25% investment in HPN Leverage VII, LLC. The initial investment is accounted for using the equity method and will decrease by loan servicing of the associated QLICI loan and increase by the Leverage Lender's K-1 income allocation annually. Other fees, closing costs, and compliance period costs are capitalized and amortized accordingly, as they relate to the compliance period, or the expected life of the associated QLICI loan. See Note 10.

##### **Paid Time Off Accruals**

Employees accrue paid time off based on their tenure. The liability, calculated by applying the employees' current pay rates to paid time off hours accrued, is recognized as accrued expenses in the consolidated statement of financial position.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Escrows and Deposits**

The Organization requires that tax and insurance escrows be collected on first amortizing loans. If the Organization is in first position on a deferred loan, escrows may not be required upon the approval of Chief Lending Officer. If an amortizing loan is in a subordinate position and the first mortgage lender does not escrow, the Organization requires the escrow of taxes and insurance. Where an insurance escrow account is maintained, insurance is paid annually from the escrow account. Payment records and escrow account balances are maintained in the loan servicing system. Where a real estate tax escrow account is maintained, taxes are paid twice yearly from the escrow accounts at the appropriate times. Payment records and escrow account balances are maintained in the loan servicing system.

**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 0.5% to 4%. Cash generated from issuance of these deposits is utilized to fund operations. At March 31, 2022 and 2021, the balance recorded as community investment notes amounted to \$7,020,987 and \$6,758,412, 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 consolidated financial statements. 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.

The Organization files an exempt organization return in the U.S. federal jurisdiction.

**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.

**Fair Value of Financial Instruments and Derivative Financial Instruments**

The Organization has applied certain amendments to ASC 825-10-50, *Disclosure of Financial Instruments*, per ASU 2016-01, which allows the disclosure requirements for the fair value of financial and derivative financial instruments to be optional for nonpublic business entities, including nonprofits. The Organization's policy is to not engage in derivative financial instruments. Accordingly, the Organization did not disclose fair value information for the years ended March 31, 2022 and 2021.



## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### **Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Loan Origination Fees**

Origination fees (points), service release premiums, underwriting fees, yield spread premiums, and other miscellaneous loan fees are determined as a percentage of the loan amount and are recognized at a point in time at closing and reported on the consolidated statement of activities. This non-GAAP policy results in merely a difference in the timing and allocation of costs actually incurred and fees actually received, with no issue of collectability or ultimate realization, and has no material financial reporting impact.

##### **Real Estate Sales Commissions**

Real estate sales commissions for homes sales other than newly constructed Homewise homes are determined as a percentage of the sales price and are recognized at a point in time at closing and reported on the consolidated statement of activities. Real estate sales commissions for newly constructed Homewise homes are earned at a flat rate of \$8,000 based on an estimate of the effort put forth by our realtors in selling these homes and is recognized in the form of an internal sale commission at a point in time at closing and reported on the consolidated statement of activities.

##### **Advertising and Marketing Costs**

The Organization expenses the cost of advertising and marketing as the expense is incurred. Advertising and marketing costs were \$407,514 and \$358,274 for the years ended March 31, 2022 and 2021, respectively.

##### **Subsequent Events**

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

Management has evaluated subsequent events for potential recognition and disclosure through June 27, 2022, which is the date the consolidated financial statements were available to be issued.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**New Pronouncements**

FASB has issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available for sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables, and held-to maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the life of the asset, rather than incurred losses.

FASB has issued ASU 2016-02, *Leases (Topic 842)*: The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. Management has evaluated and adopted this standard for the year ended March 31, 2022 and determined it has no financial statement impact.

Subsequently, FASB has issued Codification Improvements to Topic 326, *Financial Instruments-Credit Losses*, making the ASU effective for fiscal years beginning after December 15, 2022. The Organization does not intend to early adopt. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Organization’s net assets or changes in net assets.

**Note 2 – Restatement of Beginning Net Assets**

The Organization made an adjustment to reclassify amortizing and deferred loans receivable classified as with donor restrictions to without donor restrictions at March 31, 2022. The rationale being that once funds with donor restrictions have been deployed for their intended use in the form of loans, they are no longer restricted, as they have met the purpose of their restriction. This restatement resulted a \$13,945,384 increase to beginning net assets without donor restrictions and a corresponding decrease to beginning net assets with donor restrictions. See Note 12.

<b>Restatement of beginning net assets</b>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets at beginning of year	\$ 40,134,587	\$ 17,312,147	\$ 57,446,734
Restatement of the restricted status of net assets	<u>13,945,384</u>	<u>(13,945,384)</u>	<u>-</u>
Net assets at beginning of year, restated	<u>\$ 54,079,971</u>	<u>\$ 3,366,763</u>	<u>\$ 57,446,734</u>

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 3 – Liquidity and Availability of Financial Assets**

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date of March 31, 2022 and 2021, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Assets at year end	\$ 208,179,950	\$ 177,334,515
Less amounts not available to be used within one year:		
Property and equipment, net	(10,535,870)	(10,948,580)
Amortizing mortgage loans receivable, net of current portion	(78,759,697)	(74,199,932)
Deferred mortgage loans receivable	(26,381,871)	(25,817,587)
Mortgage servicing rights	(4,084,178)	(3,626,309)
Development costs, net of current portion	(8,753,055)	(8,728,064)
Qualified low income community investment	(14,882,832)	(9,533,718)
Inventory	(13,672)	(21,263)
Other real estate owned	-	(355,911)
Other assets	(493,554)	(482,419)
	<u>(133,368,859)</u>	<u>(122,765,203)</u>
Total financial assets	<u>74,811,091</u>	<u>54,569,312</u>
Less amounts not available to be used within one year due to:		
Restricted cash	(10,030,802)	(6,810,731)
Add available funds per notes and lines of credit	<u>24,843,491</u>	<u>23,322,132</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 89,623,780</u>	<u>\$ 71,080,713</u>

Amounts with purpose based restrictions that are available to be used within one year are considered available to fund the Organization’s general operating activities. As part of its Capital Strategy and Operating Budget, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

**Note 4 – Broker and Other Accounts Receivable**

Broker and other accounts receivable consist of the following:

	2022	2021
Due from employee/customer	\$ 16,027	\$ 23,666
Due from Fannie Mae	3,658,423	2,029,609
Due from Self Help Credit Union	20,273	6,338,898
Due from Title Company	454	948,046
Real Estate Commissions Receivable	7,500	-
Other miscellaneous accounts receivable	47,607	32,617
Total broker and other accounts receivable	\$ 3,750,284	\$ 9,372,836

**Note 5 – Grants Receivable**

Grants receivable consist of the following:

	2022	2021
Non-Federal, City of Santa Fe	\$ 176,927	\$ 65,975
Community Development Block Grant Neighborhood Stabilization Program (pass through from New Mexico Mortgage Finance Authority for Rehab home sales - restricted)	-	739,327
Community Development Block Grant (pass through from the City of Albuquerque for home improvement and home purchase principal reduction loans)	589,411	265,000
Other miscellaneous accounts receivable	33,442	8,782
Total grants receivable	\$ 799,780	\$ 1,079,084

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 6 – Development Costs**

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

Project:	2022	2021
Tessera	\$ 4,200,340	\$ 4,961,972
Oshara	841,160	459,537
Aldea	214,357	209,370
Desert Sage	6,577,870	2,763,262
El Camino Crossing	5,698,315	2,395,696
Vista Serena	505,055	2,342,879
Fairly	1,456,210	570,292
1705 Paseo de Peralta	1,331,176	1,192,075
Palladium Townhomes	2,324,157	157,769
Senderos Area 599	550,960	-
Acquisition Rehab	3,537,404	876,455
Other developments	1,957,760	1,440,312
Total development costs	29,194,764	17,369,619
Less: current development costs	(20,441,709)	(8,641,555)
Development costs, net of current portion	\$ 8,753,055	\$ 8,728,064

**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. Currently, all lots have been sold. Phase 2 is comprised of 78 entitled lots averaging about one half acre. Currently, 65 have sold and 13 are under construction.

**Oshara** consists of 47 developed lots in the County of Santa Fe. Oshara is a mixed-use development with several product types and price points of homes. The lots are zoned for 32 Townhomes and 11 Patio Homes. Currently, 40 have sold and 3 under construction, with 4 lots available to build.

**Aldea** consists of 20 developed lots in the County of Santa Fe in the Aldea development. Currently, 16 have sold, with 4 lots available to build.

**Desert Sage** in Santa Fe consists of 26.8 acres of undeveloped land. Plans for the 82-unit subdivision have been approved by the City. Site work is complete and we currently have 0 sold homes and 44 homes under construction.

**Note 6 – Development Costs (continued)**

*El Camino Crossing (formerly known as Corazon Santo)* is a mixed-use development with several product types and price points of homes. Phase 1 consists of a 40 lot single family home subdivision. All 40 lots have sold and Phase 1 is complete. Phase 2 is a mixed-use tract that will have 13 condo units, 20 live/work units, and 2 commercial-only buildings. Currently, 13 condo units have been sold and the 20 live/work units are projected to be completed this June 2022.

*Vista Serena* consists of approximately 12.7 acres of undeveloped land that the Organization purchased with the intent of building a 50-unit subdivision consisting of single family detached homes within the Master Plan Community of Tierra Contenta. Currently, 48 homes have been sold and the remaining 2 lots are under construction.

*Fairly (Miraflores)* consists of two parcels of land, Lot 1 is 6.26 acres and Lot 2 is 3.787 acres off of Fairly Road in the City of Santa Fe and is also known as Miraflores. The 2021 recorded plat has the property subdivided into 57 lots. Site work started in November 2021 and is set to be complete September 2022.

*1705 Paseo de Peralta* consists of 5 attached condo units located near Railyard District in Santa Fe, New Mexico. We plan to design and rehab the units to be ready to sell by the end of fiscal year 2023.

*Palladium Townhomes* consists of 16 townhomes currently under construction with an expected completion date of September 2022.

*Senderos Area 599* – Previously named Tessera Phase 3, this tract of land consist of 90 acres of land within the presumptive City limits. Initial design work has started.

*Acquisition Rehab* consists of distressed homes primarily in Albuquerque that are purchased, renovated, and resold to support and restore neighborhoods.

*Other developments* consist of land Santa Fe purchased for future residential and community development. South Meadows consists of 22 acres within the City of Santa Fe, purchased 4/30/2022.

## Homewise, Inc.

### Notes to Consolidated Financial Statements

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#### Note 7 – Mortgage Loans Receivable

##### Amortizing Mortgage Loans

To assist low-income households with home purchases or repairs, the Organization has originated amortizing mortgage loans bearing interest rates from 0% to 8.5%, for periods of up to 30 years. Amortizing mortgage loans are secured by a recorded perfected interest in the subject property.

The Organization provides for potentially uncollectible loans as described in Note 1. The Organization had the following delinquent amortizing loans:

	2022			2021		
	Loan Number	Payment Due	Loan Amount	Loan Number	Payment Due	Loan Amount
31 - 60 Days	16	\$ 9,886	\$ 451,612	13	\$ 13,066	\$ 681,221
61 - 90 Days	3	2,280	54,376	5	4,206	127,106
>90 Days	8	45,150	486,670	12	36,502	567,962
		<u>\$ 57,316</u>	<u>\$ 992,658</u>		<u>\$ 53,774</u>	<u>\$ 1,376,289</u>

The total amount 31 or more days past due was equivalent to 1.20% and 1.77% of the gross outstanding amortizing mortgage loans receivable balance at March 31, 2022 and 2021, respectively.

At March 31, 2022 and 2021, amortizing mortgage loans receivable are reserved for at 0.68%, 3.44%, 11.52%, and 53.90%; and 0.71%, 2.80%, 11.84%, and 56.67% of the loan balance for current and delinquent loans less than 31 days past due, delinquencies of 31 to 60 days, delinquencies of 61 to 90 days, and delinquencies greater than 90 days, respectively, and are subject to a loan covenant that requires the allowance to be no less than 2% of the outstanding balance. No commercial loans were over 90 days past due.

During the fourth quarter of fiscal year 2021, the Organization performed an analysis on the collectability of its amortizing portfolio loans receivable in an effort to estimate the allowance for loan losses at a level that is in accordance with GAAP and covers estimated credit losses on individually evaluated seriously delinquent loans that are determined to be impaired and estimated credit losses inherent in the portfolio generally. Allowance estimates were based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio, and took into consideration all available information existing as of the financial statement date, including environmental factors such as geographical, economic, and political factors. As a result, it was determined that two parameters determine a mortgage's credit risk: the probability of default and the loss severity given default. Accordingly, the estimate calculates the appropriate reserve for each loan product type based on its delinquency status (current, 30+, 60+, and 90+) by multiplying the estimated severity for each product by the estimated constant default rate (CDR) for the respective product and delinquency status combinations.

**Note 7 – Mortgage Loans Receivable (continued)**

For the year ended March 31, 2022, based on the new estimate, the allowance for loan losses for amortizing loans is initially \$825,838, or 1.00% of the loan balance, versus \$2,118,086, or 2.65% of the loan balance, by the previous methodology; however, because amortizing loans receivable are subject to a loan covenant that requires the allowance to be no less than 2% of the outstanding balance, the new estimate has been adjusted to \$1,645,436, or 2% of the loan balance. This change resulted in a \$118,427 loan loss reserve expense.

For the year ended March 31, 2021, based on the new estimate, the allowance for loan losses for deferred loans was initially \$891,995, or 1.51% of the loan balance, versus \$2,170,179, or 2.08% of the loan balance, by the previous methodology; however, because amortizing loans receivable are subject to a loan covenant that requires the allowance to be no less than 2% of the outstanding balance, the new estimate has been adjusted to \$1,552,331, or 2% of the loan balance. This change resulted in a \$0 loan loss reserve expense for the year ended March 31, 2021 and an adjustment of \$45,662.

At March 31, 2022 and 2021, amortizing mortgage loans receivable had the following general and specific allowances applied against principal due:

	2022	2021
	Loan Number	Loan Number
Amortizing gross mortgage loans, current portion	\$ 1,994,690	\$ 1,864,292
Amortizing gross mortgage loans, net of current portion	80,407,746	75,752,263
Allowance for loan losses	2,012 (1,638,036)	2,123 (1,552,331)
Allowance for loan losses, commercial loans	6 (7,400)	1 -
Allowance for loan losses, troubled debt restructurings	1 (2,613)	- -
	<u>\$ 80,754,387</u>	<u>\$ 76,064,224</u>

Changes in the allowance for loan losses are summarized as follows:

Balance, March 31, 2020	\$ 1,597,993
Provision for loan recoveries	<u>(45,662)</u>
Balance, March 31, 2021	1,552,331
Provision for loan loss	<u>95,718</u>
Balance, March 31, 2022	<u>\$ 1,648,049</u>



## Homewise, Inc.

### Notes to Consolidated Financial Statements

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#### Note 7 – Mortgage Loans Receivable (continued)

##### Repurchase Reserves

Loans sold to Fannie Mae are subject to repurchase if manufacturing defects are detected during the first three years after purchase. The provision for repurchases estimates losses to be incurred on the repurchase of loans.

Changes in the Repurchase Reserve are summarized as follows:

Balance, March 31, 2020	\$	-
Provision for loan loss		-
		<hr/>
Balance, March 31, 2021		-
Provision for loan loss		22,709
		<hr/>
Balance, March 31, 2022	\$	<u>22,709</u>

Loans to related parties amounted to \$1,087,705 and \$1,180,660 at March 31, 2022 and 2021. 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.

##### Deferred Mortgage Loans

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 consolidated statement of financial position. 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 does not get a windfall by buying the house at a below-market price. At March 31, 2022 and 2021, 70% of deferred loans were funded through grants and contributions made to the Organization for this specific purpose. Of the remaining 30% 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. Deferred mortgage loans are secured by a recorded perfected interest in the subject property

Deferred mortgage loans are allowed for based on the deferred loan balances of customers who have amortizing loans that are over 90 days delinquent. The allowance also includes a discount to bring the deferred mortgage loan balance to net present value.

**Note 7 – Mortgage Loans Receivable (continued)**

During fiscal year 2021, the Organization also performed an analysis of on the collectability of its deferred loans receivable portfolio and identified two sources of loss that significantly influence the estimate: default risk and opportunity cost risk of loaning money to a borrower on a deferred basis requiring no periodic payments of principal or interest. The revised estimate addresses both of the identified risks as follows: any deferred loan that is behind a delinquent amortizing loan either in the first or a subordinate position is reserved at 100% despite being fully secured by a lien against the property; and the prepayment adjusted cash flows of the deferred loans behind amortizing mortgages that are all current are discounted at the weighted average interest spread of amortizing loans to estimate the lost economic opportunity of deferred loans. The identified opportunity cost in is added to the reserves calculated to comprise the allowance for loan and lease losses (ALLL) for deferred loans.

For the year ended March 31, 2022, based on the new estimate, the allowance for loan losses for deferred loans is \$3,230,686, or 10.93% of the loan balance, versus \$5,910,516, or 20% of the loan balance, by the previous methodology. This change resulted in a \$23,001 loan loss reserve expense.

For the year ended March 31, 2021, based on the new estimate, the allowance for loan losses for deferred loans is \$3,217,709, or 13% of the loan balance, versus \$5,807,059, or 20% of the loan balance, by the previous methodology. This change resulted in a \$0 loan loss reserve expense and an adjustment of \$2,493,222.

At March 31, 2022 and 2021, deferred mortgage loans receivable had the following general and specific allowances applied against principal due:

	2022		2021
	Loan Number		Loan Number
Deferred mortgage loans	\$ 29,622,581		\$ 29,035,296
Allowance for loan losses	1,661 (3,230,686)		1,679 (3,217,709)
Allowance for loan losses, troubled debt restructuring	1 (10,024)		- -
	\$ 26,381,871		\$ 25,817,587

Changes in the allowance for loan losses are summarized as follows:

Balance, March 31, 2020	\$ 5,710,931
Provision for loan recoveries	(2,493,222)
Balance, March 31, 2021	3,217,709
Provision for loan loss	23,001
Balance, March 31, 2022	\$ 3,240,710

Deferred loans that are expected to be forgiven at the end of a fixed term totaled \$2,084,290 and \$2,808,770 at March 31, 2022 and 2021, respectively.

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 8 – Property and Equipment**

Property and equipment consist of the following:	2022	2021
Land	\$ 1,233,768	\$ 1,233,768
Land improvements	52,467	52,467
Buildings and improvements	6,518,758	6,513,531
Rental properties	4,293,588	4,268,021
Software	1,486,513	1,486,513
Furniture and equipment	1,103,006	983,622
Trademark	8,000	8,000
Leasehold improvements	9,123	9,123
Total property and equipment	14,705,223	14,555,045
Less: accumulated depreciation	(4,169,353)	(3,606,465)
Net value of property and equipment	\$ 10,535,870	\$ 10,948,580

Depreciation expense for the years ended March 31, 2022 and 2021 was \$562,888 and \$503,883, respectively.

**Note 9 – Mortgage Servicing Rights**

Mortgage loans serviced for others are not included in the accompanying consolidated statement of financial position. Not all loans serviced for others include non-cancellable servicing rights. The unpaid balance of loans with non-cancellable servicing rights at March 31, 2022 and 2021 is summarized as follows:

Mortgage loan portfolios serviced for:	2022	2021
Federal National Mortgage Association (FNMA)	\$ 461,541,855	\$ 424,777,328
Other investors	52,905,913	45,057,774
Total	\$ 514,447,768	\$ 469,835,102

During 2022, 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 \$1,226,715 during 2022. During 2021, 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 \$1,084,868 during 2021.

**Note 9 – Mortgage Servicing Rights (continued)**

	<u>2022</u>	<u>2021</u>
An analysis of changes in mortgage servicing rights is as follows:		
Balance at beginning of period	\$ 3,626,309	\$ 3,076,787
Servicing rights originated and capitalized	1,236,831	1,489,244
Amortization	<u>(778,962)</u>	<u>(939,722)</u>
Balance at end of period	<u>\$ 4,084,178</u>	<u>\$ 3,626,309</u>

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, 2022 and 2021, there was no impairment.

The following assumptions were used to calculate the market value of the mortgage servicing rights:

	<u>2022</u>	<u>2021</u>
Discount rate	9.10%	9.10%
Earnings rates:		
Principal and Interest Payoffs	1.76%	0.59%
Escrows	1.76%	0.59%
Advances	4.26%	2.09%

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 10 – Investment in Leverage Lender**

##### **Investment in HPN Leverage I, LLC**

In 2017, the Organization participated in a NMTC program. The program provides funds to eligible organizations for investment in “qualified low-income community investment.” Program compliance requirements included creation of a promissory note and investment in a qualified CDE. Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2017, the Organization recorded its 33.33%, non-controlling investment in HPN Leverage I, LLC at the cost of \$3,354,012. Atlanta Neighborhood Development Partnership, Inc. (ANDP) and Homewise, Inc. participated in this transaction. In May 2024, Twain Investment Fund 231, LLC (the Fund 231), and the upstream effective owner of HPN NMTC I, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement, HPN Leverage I, LLC is expected to purchase the ownership interest of the Fund 231. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund 231. The Organization’s investment balance was \$3,354,012 at March 31, 2022 and 2021.

##### **Long-Term Debt**

Long-term debt consists of the following: HPN NMTC I, LLC \$4,875,000. Debt requires interest-only payments until May 2024 at 0.69%. The loan matures in May 2037. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable May 2024.

##### **Investment in HPN Leverage III, LLC**

In 2018, the Organization participated in a NMTC program. The program provides funds to eligible organizations for investment in “qualified low-income community investment.” Program compliance requirements included creation of a promissory note and investment in a qualified CDE. Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2018, the Organization has recorded its 53.93%, noncontrolling investment in HPN Leverage III, LLC at the cost of \$5,367,300. Develop Detroit, Inc. (Develop Detroit), and Homewise, Inc. participated in this transaction. In April, 2025, USBCDC Investment Fund 214, LLC (the Fund 214), and the upstream effective owner of HPN NMTC III, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement HPN Leverage III, LLC is expected to purchase the ownership interest of the Fund 214. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund 214. The Organization’s investment balance was \$5,367,300 at March 31, 2022 and 2021.

**Note 10 – Investment in Leverage Lender (continued)**

**Long-Term Debt**

Long-term debt consists of the following: HPN NMTC III, LLC \$7,800,000. Debt requires interest-only payments until April 2025 at 0.70%. The loan matures in April 2038. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable April 2025.

**Investment in HPN Leverage VII, LLC**

In 2021, the Organization participated in a NMTC program. The program provides funds to eligible organizations for investment in “qualified low-income community investment”. Program compliance requirements included creation of a promissory note and investment in a qualified CDE. Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2021, the Organization has recorded its 25% investment in HPN Leverage VII, LLC at the cost of \$5,075,653. In June 2028, Twain Investment Fund 554, LLC (the Fund 554), and the upstream effective owner of HPN NMTC VII, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement HPN Leverage VII, LLC is expected to purchase the ownership interest of the Fund 554. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund 554. The Organization’s investment balance was \$5,075,653 at March 31, 2022.

**Long Term Debt**

Long-term debt consists of the following: HPN NMTC VII, LLC loan \$6,825,000. Debt requires interest only payments until June 2028 at 0.743760%. The loan matures in June 2041. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable June 2028.

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes**

Homewise is subject to several loan covenants, which among other items, require minimum net asset, liquidity, allowance for loan losses, and leverage levels. Homewise is in compliance with these covenants at March 31, 2022 and 2021. At March 31, 2022 and 2021, Homewise had lines of credit, notes payable, equity equivalent investment, and community investment notes outstanding of:

	<u>2022</u>	<u>2021</u>
<b>Current</b>		
Lines of credit	\$ -	\$ 4,091,074
Lending notes payable	5,252,795	8,421,832
Community development notes payable	250,000	-
Other notes payable	117,438	110,867
Notes payable, community investment	<u>1,773,285</u>	<u>2,208,153</u>
<b>Total</b>	<u>\$ 7,393,518</u>	<u>\$ 14,831,926</u>
<b>Long-Term</b>		
Lines of credit	\$ -	\$ 812,661
Lending notes payable	78,802,147	53,614,390
Real estate development notes payable	19,500,000	12,675,000
Community development notes payable	500,000	750,000
Other notes payable	3,586,492	3,206,409
Notes payable, equity equivalent investment	3,300,000	3,300,000
Notes payable, community investments	<u>5,247,702</u>	<u>4,550,259</u>
<b>Total long-term, net</b>	<u>110,936,341</u>	<u>78,908,719</u>
<b>Total</b>	<u>\$ 118,329,859</u>	<u>\$ 93,740,645</u>

**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

**Lines of credit at March 31, 2022 and 2021:**

	2022	2021
Bank, line of credit of \$10,000,000 at 3.50% variable interest, collateralized by mortgages, matures September 2021	\$ -	\$ 2,806,485
Bank, line of credit of \$3,500,000 for various loans at 4.67% interest, collateralized by lot mortgages, matures May 2023	-	812,661
Bank, line of credit of \$5,438,000 for various loans at 3.75% interest, collateralized by lot mortgages, matures February 2022	-	556,768
Bank, line of credit of \$660,500 for various loans at 3.75% interest, collateralized by lot mortgages, matured May 2021	-	253,021
Bank, line of credit of \$1,118,500 for various loans at 4.25% interest, collateralized by lot mortgages. This line of credit was paid off in April 2021.	-	474,800
Total lines of credit	-	4,903,735
Less: current maturities	-	(4,091,074)
Total notes payable, net of current portion	\$ -	\$ 812,661

**Notes payable at March 31, 2022 and 2021:**

	2022	2021
Opportunity Finance Network, at 3.50% interest, unsecured, the principal balance is due at and matures June 2027	\$ 4,875,000	\$ 4,875,000
Opportunity Finance Network, at 3.56% interest, collateralized by mortgages, principal, and interest due in quarterly payments and matures March 2047	2,493,712	2,554,662
Opportunity Finance Network, at 3.26% interest, collateralized by mortgages, principal, and interest due in quarterly payments and matures March 2047	6,731,319	6,903,199
Opportunity Finance Network, at 2.39% interest, collateralized by mortgages, principal, and interest due in quarterly payments and matures March 2047	3,935,969	4,049,905



**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

	2022	2021
Opportunity Finance Network, at 1.42% interest, collateralized by mortgages, principal and interest due in quarterly payments and matures March 2047	\$ 820,972	\$ 848,143
Opportunity Finance Network, at 3.00% interest, unsecured, interest due in quarterly payments, with 2 principal payments of \$1,666,667 each due in June 2029 and June 2030 and the remaining balance due on maturity in June 2031	5,000,000	-
Bank, at 3.75% interest collateralized by mortgages, due in monthly payments and maturing February 2028	781,855	897,562
Bank, at 4.25% interest, collateralized by the Homewise headquarters building, due in monthly payments and maturing June 2037	1,035,293	1,082,560
Bank, at 2.98% interest, collateralized by the Orpheum Community Hub, due in monthly payments and maturing October 2029	2,168,637	2,234,716
Albuquerque Community Foundation, at 3.00% interest, Interest only due in quarterly payments, principal and all outstanding interest due and matures October 2022	250,000	250,000
Albuquerque Community Foundation, at 2.50% interest, Interest only due in quarterly payments, principal and all outstanding interest due and matures July 2026	250,000	250,000
Albuquerque Community Foundation, at 2.50% interest, Interest only due in quarterly payments, principal and all outstanding interest due and matures October 2025	250,000	250,000
Bank, revolving loan with \$10,000,000, at the ten (10) year Libor rate plus 1.25% at the time of drawdown, collateralized by mortgages, quarterly payments are amortized over 20 years and due in full 10 years from initial drawdown, six draws maturing January 2025, September 2026, October 2026, November 2026, and March 2030	9,610,587	9,782,239
Bank, at 3.00% interest, collateralized by mortgages, the principal was paid in full in February 2022	-	500,000

**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

	2022	2021
Bank, unsecured at 2.75% interest, the principal balance is due at and matures December 2023	\$ 2,770,664	\$ 3,146,581
Bank, unsecured at 3.25% interest, quarterly payments are amortized over 30 years and was paid in full in March 2022	-	92,007
Religious Communities Impact Fund, unsecured at 2.00% interest, the principal balance is due at and matures November 2024	250,000	250,000
Mercy Investment Services, Inc., unsecured at 3.00% interest, the principal balance is due at and matures June 2025	1,000,000	1,000,000
Sachs Foundation, unsecured at 2.50% interest, the principal balance is due at and matures September 2026	750,000	750,000
Bank, at 3.00% interest, collateralized by mortgages, monthly principal and interest payments are amortized over the life of the loan with any remaining principal due in full in December 2029	1,237,148	1,320,178
Bank, at 3.00% interest, collateralized by mortgages, the principal balance is due and matures December 2024	1,000,000	1,000,000
Bank, at 3.25% interest, collateralized by mortgages, monthly principal and interest payments are amortized over the life of the loan with any remaining principal due in full in December 2027	658,898	704,850
Bank, at 3.25% interest, collateralized by mortgages, monthly principal and interest payments are amortized over the life of the loan with any remaining principal due in full in June 2029	2,918,098	3,246,823
Bank, at 2.50% interest, collateralized by mortgages, the principal balance is due and matures August 2031	5,000,000	-
Bank, at 2.50% interest, collateralized by mortgages, the principal balance is due and matures October 2030	5,000,000	2,000,000
Neighborworks Capital Corporation, unsecured at 3.00% interest, the principal balance is due and matures July 2023	1,500,000	1,500,000

## Homewise, Inc.

### Notes to Consolidated Financial Statements

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#### Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)

	2022	2021
Monarch Community Fund, unsecured at 4.00% interest, the principal balance is due at and matures July 2022	\$ 350,000	\$ 350,000
Santa Fe Community Foundation, unsecured at 2.50% interest, the principal balance is due at and matures April 2028.	250,000	250,000
Santa Fe Community Foundation, unsecured at 2.50% interest, the principal balance is due at and matures January 2023	165,000	165,000
Santa Fe Community Foundation, unsecured at 2.00% interest, the principal balance is due at and matures February 2026	250,000	250,000
Bank, at 3.50% interest, collateralized by mortgages, with 2 principal payments of \$1,000,000 each due in February 2022 and February 2023 and the remaining balance due on maturity in February 2024	2,000,000	3,000,000
Bank, at 3.00% interest, collateralized by mortgages, annual principal payments began September 2018 and the remaining balance due on maturity in September 2027	2,330,000	2,505,000
Anchorum St. Vincent, at 3.00 % interest, collateralized by mortgages, quarterly payments are amortized over 20 years and due in full in March 2023	1,519,797	1,605,928
Anchorum St. Vincent, at 2.50% interest, secured by mortgages, a principal payment of \$2,000,000 is due and payable November 2035 and the remaining balance due in full March 2037	5,000,000	2,000,000
Anchorum St. Vincent, at 2.50% interest, unsecured, the principal balance is due and payable August 2036	1,230,000	-
Anchorum St. Vincent, at 2.50% interest, unsecured, the principal balance is due and payable November 2036	750,000	-
Bank, at 3.75% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in March 2030	242,006	862,760
Bank, 3.50% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in October 2030	1,396,996	2,826,385

**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

	2022	2021
Bank, 3.61% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in March 2032	\$ 7,714,313	\$ -
Bank, at 2.00% interest, unsecured, the principal balance is due in eight quarterly installments beginning March 2024, the maturity date, until the entire amount is repaid on March 2026, the extended maturity date.	1,000,000	1,000,000
Bank, at 2.00% interest, unsecured, the principal balance is due at and matures June 2030	1,000,000	1,000,000
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, at 3.00% interest, unsecured, the principal balance is due and matures September 2023	300,000	300,000
New Mexico Small Business Investment Corporation, at 2.00% interest, collateralized by assets in the NMSBIC loan portfolio, the principal balance is due and matures March 2025	1,772,608	400,000
Illinois No. 3 Foundation, at 2.00% interest, unsecured, the principal balance is due and matures February 2026	100,000	100,000
Housing Partnership Network NMTC I at 0.69% interest, secured by substantially all assets acquired by the Organization from the loan proceeds, interest only monthly payments and due in full May 2037	4,875,000	4,875,000
Housing Partnership Network NMTC III at 0.70% interest, secured by substantially all assets acquired by the Organization from the loan proceeds, interest only monthly payments and due in full April 2038	7,800,000	7,800,000
Housing Partnership Network NMTC VII at 0.74% interest, secured by substantially all assets acquired by the Organization from the loan proceeds, interest only monthly payments and due in full June 2041	6,825,000	-
Seton Enablement Fund, unsecured at 3.00% interest, the interest payments began July 2021, principal and interest payments begin July 2022, with a final payment of \$75,000 due April 2026	150,000	-

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

	<u>2022</u>	<u>2021</u>
U.S. Small Business Administration, unsecured at 2.75% interest, monthly principal and interest payments begin December 2022, with any remaining principal and interest due in full June 2050	\$ 500,000	\$ -
Sisters of Charity of the Incarnate Word, unsecured at 2.00% interest, the principal balance is due at and matures March 2024	<u>200,000</u>	<u>-</u>
Total notes payable	108,008,872	78,778,498
Less: current maturities	<u>(5,620,233)</u>	<u>(8,532,699)</u>
Total notes payable, net of current portion	<u>\$ 102,388,639</u>	<u>\$ 70,245,799</u>

**Notes payable – Equity equivalent investment (EQ2) at March 31, 2022:**

	<u>2022</u>	<u>2021</u>
Bank of the West, unsecured at 2.50% interest, the principal balance is due at and matures September 2028	\$ 1,000,000	\$ 1,000,000
Compass Bank, unsecured at 2.25% interest, the principal balance is due at and matures November 2027	<u>2,300,000</u>	<u>2,300,000</u>
Total notes payable – equity equivalent, long-term	<u>\$ 3,300,000</u>	<u>\$ 3,300,000</u>

**Notes payable, community investment consists of unsecured investments made by individuals and trusts to the Organization.**

	<u>2022</u>	<u>2021</u>
Individuals and trusts, twenty-nine notes at 0.50% to 2.00% Interest, maturing April 2021 to March 2022	\$ -	\$ 2,258,153
Individuals and trusts, twenty-nine notes at 0.50% to 2.00% Interest, maturing April 2022 to March 2023	1,773,285	133,547
Individuals and trusts, fourteen notes at 1.25% to 2.50% Interest, maturing April 2023 to March 2024	1,098,114	1,098,031
Individuals and trusts, nineteen notes at 1.00% to 3.50% Maturing April 2024 to March 2025	1,022,882	999,677

**Note 11 – Lines of Credit, Notes Payable, Equity Equivalent Investment, and Community Investment Notes (continued)**

	2022	2021
Individuals and trusts, nineteen notes at 1.75% to 2.50% interest, Maturing April 2025 to March 2026	\$ 2,118,058	\$ 1,868,000
Individuals and trusts, eight notes at 1.50% to 3.50% interest, Maturing April 2026 to March 2027	537,295	15,000
Individuals and trusts, eight notes at 2.50% to 4.00% interest, Maturing after April 2027	471,353	386,004
Total notes payable, community investment	7,020,987	6,758,412
Less: current maturities	(1,773,285)	(2,208,153)
Total notes payable, community investment, long-term	\$ 5,247,702	\$ 4,550,259

Scheduled future principal payments due on the notes payable and lines of credit are as follows:

<u>Years Ending March 31,</u>	
2023	\$ 7,393,518
2024	8,615,772
2025	12,471,240
2026	15,119,909
2027	6,960,575
Thereafter	67,768,845
Total future principal payments	\$ 118,329,859

**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 12 – Net Assets with Donor Restrictions**

Net assets restricted by purpose or time consist of the following:

	2022			2021		
	Beginning Net Assets	Release from Restrictions	Ending Net Assets	Restated Beginning Net Assets	Release from Restrictions	Ending Net Assets
Purpose Restricted						
NeighborWorks America	\$ -	\$ -	\$ -	\$ 782,589	\$ (782,589)	\$ -
Santa Fe Land Trust	238,776	(238,776)	-	238,776	-	238,776
Santa Fe Community Housing Trust	171,120	(171,120)	-	171,120	-	171,120
Santa Fe Affordable Housing Trust Fund	238,953	53,147	292,100	238,953	-	238,953
Land Title Trust Fund	16,159	(16,159)	-	16,159	-	16,159
Watersmart	223,219	(223,219)	-	223,219	-	223,219
Anchorum St. Vincent	32,467	15,411	47,878	32,467	-	32,467
Project Reinvest	1,339,180	189,064	1,528,244	1,339,180	-	1,339,180
Community Development Block						
Grant, City of Santa Fe pass through funds	324,300	66,995	391,295	324,300	-	324,300
Net assets with donor restrictions	<u>\$ 2,584,174</u>	<u>\$ (324,657)</u>	<u>\$ 2,259,517</u>	<u>\$ 3,366,763</u>	<u>\$ (782,589)</u>	<u>\$ 2,584,174</u>

**Note 13 – Grants and Contributions**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Loan Capital Grants and Contributions						
Federal loan capital grants						
Capital Magnet Fund	\$ -	\$ 790,600	\$ 790,600	\$ 500,500	\$ -	\$ 500,500
HUD, Community Development Block Grant, pass through from City of Santa Fe	-	-	-	92,798	-	92,798
HUD, Community Development Block Grant, pass through from City of Albuquerque	1,205,200	-	1,205,200	626,840	-	626,840
CDFI Rapid Response Program	1,826,265	-	1,826,265	-	-	-
CDFI Financial Assistance	690,000	-	690,000	620,000	-	620,000
Other Federal Appropriations through NWA	-	-	-	375,000	-	375,000
Total federal loan capital grants	<u>3,721,465</u>	<u>790,600</u>	<u>4,512,065</u>	<u>2,215,138</u>	<u>-</u>	<u>2,215,138</u>
Nonfederal loan capital grants and contributions						
City of Santa Fe - home purchase and home improvement assistance	46,000	111,000	157,000	-	-	-
Other nonfederal loan capital grants and contributions	525,000	-	525,000	-	-	-
Project LIFT	-	-	-	3,000	-	3,000
Total nonfederal loan capital grants and contributions	<u>571,000</u>	<u>111,000</u>	<u>682,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total loan capital grants and contributions	<u>\$ 4,292,465</u>	<u>\$ 901,600</u>	<u>\$ 5,194,065</u>	<u>\$ 2,218,138</u>	<u>\$ -</u>	<u>\$ 2,218,138</u>



**Homewise, Inc.**  
**Notes to Consolidated Financial Statements**

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**Note 13 – Grants and Contributions (continued)**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Grants						
Federal operating capital grants						
HUD, Community Development Block Grant, pass through from City of Albuquerque	\$ 71,814	\$ -	\$ 71,814	\$ 37,248	\$ -	\$ 37,248
HUD, Community Development Block Grant, State Neighborhood Stabilization Program (NSP), pass through from New Mexico Mortgage Finance Authority	507,415	-	507,415	1,971,141	-	1,971,141
Capital Magnet Fund	-	-	-	150,000	-	150,000
Dept of Commerce, EDA Buildwise Technical Assistance Program	84,186	-	84,186	52,426	-	52,426
PPP - Loan Forgiveness	-	-	-	1,486,700	-	1,486,700
Other Federal Appropriations through NWA	56,500	-	56,500	333,029	-	333,029
Total federal operating capital grants	719,915	-	719,915	4,030,544	-	4,030,544
Nonfederal Operating Grants and Contributions						
City of Santa Fe - Administration of housing programs	179,019	-	179,019	162,745	-	162,745
City of Santa Fe - Emergency Mortgage Assistance Fund	148,262	-	148,262	39,970	-	39,970
Other nonfederal operating contributions	838,476	212,501	1,050,977	3,649,568	-	3,649,568
Total nonfederal operating grants and contributions	1,165,757	212,501	1,378,258	3,852,283	-	3,852,283
Total operating grants and contributions	1,885,672	212,501	2,098,173	7,882,827	-	7,882,827
Total grants and contributions	\$ 6,178,137	\$ 1,114,101	\$ 7,292,238	\$ 10,100,965	\$ -	\$ 10,100,965

## Note 14 – Functional Expenses

A breakdown of expenses by natural classification and function follows:

	2022				2021			
	Program	Administrative	Fundraising	Total	Program	Administrative	Fundraising	Total
Personnel Services and Benefits	\$ 8,976,679	\$ 2,065,518	\$ 428,127	\$ 11,470,324	\$ 7,817,209	\$ 1,832,950	\$ 377,230	\$ 10,027,389
Client Support Services	912,720	-	344	913,064	667,888	-	-	667,888
Interest Expense	1,959,199	137,505	-	2,096,704	2,469,908	-	-	2,469,908
Occupancy	139,435	118,637	32,319	290,391	102,075	106,543	29,057	237,675
Carrying Costs and other repairs	225,349	-	-	225,349	265,574	-	-	265,574
Professional Services	210,999	222,058	44,071	477,128	214,787	141,966	34,185	390,938
Administrative Expenses	423,645	279,316	50,873	753,834	607,639	215,191	50,074	872,904
Advertising & Marketing Expenses	291,257	-	116,257	407,514	258,206	-	100,068	358,274
Professional Development	125,234	51,564	7,150	183,948	187,250	41,171	10,017	238,438
Depreciation & Amortization	1,095,880	300,746	-	1,396,626	1,208,740	268,294	-	1,477,034
Insurance	-	392,413	-	392,413	-	314,147	-	314,147
Loan Loss Provision (Recovery)	141,428	-	-	141,428	(2,538,884)	-	-	(2,538,884)
Bad Debt Recovery	(26,164)	-	-	(26,164)	(64,536)	-	-	(64,536)
Capital Grant Expense	2,040,912	-	-	2,040,912	3,735,832	-	-	3,735,832
Total functional expenses	<u>\$ 16,516,573</u>	<u>\$ 3,567,757</u>	<u>\$ 679,141</u>	<u>\$ 20,763,471</u>	<u>\$ 14,931,688</u>	<u>\$ 2,920,262</u>	<u>\$ 600,631</u>	<u>\$ 18,452,581</u>

## Note 15 – 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 \$536,981 and \$454,984 for the years ended March 31, 2022 and 2021, respectively.

The Organization has a 457(b) deferred compensation plan. The purpose of the plan is to reward designated executive employees for their service to the Organization. The plan achieves that purpose by having the Corporation set aside from year to year, and paying to the participants, after termination from employment, nonqualified deferred compensation consistent with the requirements of Internal Revenue Code 457(b). For the fiscal year ending March 31, 2022 and 2021, no contributions were made.

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 16 – Concentrations of Revenue Sources and Credit Risks**

The Organization receives significant operating revenues from the City of Santa Fe, the City of Albuquerque, federal agencies, private foundations, and other private sources.

The Organization targets loans to low and moderate-income individuals for home repair and homebuyer 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, 2022 and 2021, 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. Funds for one cash account are held in an overnight sweep account. Management has taken action to mitigate the credit risk of the remaining uninsured and uncollateralized balance of \$19,714,828 and \$3,486,093, at March 31, 2022 and 2021, respectively, by depositing with well-known and highly reputable institutions.

#### **Note 17 – 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 conditions of its grants and contracts and no significant liability, if any, will result from an audit.

##### **Letters of Credit**

At March 31, 2022, the Organization had four available letters of credit issued by financial institutions in the aggregate amount of \$5,797,446 related to the Vista Serena, El Camino Crossing, Miraflores, and Desert Sage developments maturing on February 2023, December 2022, November 2023, and May 2023, respectively.

The Organization is subject to litigation in the normal and ordinary course of business, which, in the opinion of management and based upon advice of counsel, would not have a material effect on its consolidated financial position or operations.

#### **Note 18 – Related Party Transactions**

The Organization has investments from both Homewise Employees and Homewise Board Members in Homewise Community Investment Notes. Related party investments totaled \$116,260 and \$104,118 for 2022 and 2021, respectively.

**Note 19 – COVID-19 Pandemic**

In March 2020, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. In addition, the Federal Open Market Committee of the United States Federal Reserve System lowered the federal funds target rate by 1.50%, reduced the rate for discount window loans, and took other actions to promote the stability of the financial system.

The duration and intensity of the impact of the coronavirus to the entity is unknown. A broad-based reduction in interest rates may negatively impact the value of mortgage servicing rights. The reduction in economic output and the recession in the U.S. economy may also result in a decreased valuation of many of the entity's assets and increase in loan defaults or missed payments, which could affect liquidity.

On April 13, 2020, the Organization was granted a loan from Enterprise Bank in the amount of \$1,486,700, pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020. The PPP, established as part of the CARES Act, provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight to twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The Organization used the proceeds for purposes consistent with the PPP and all conditions of the loan were substantially met for the loan to be forgiven. The Organization recognized the \$1,486,700 as contribution revenue at March 31, 2021.

The Organization currently believes that its use of the loan proceeds met the conditions for forgiveness of the loan under the Small Business Administration's (SBA) safe harbor provisions for borrowers of less than \$2 million. A safe harbor will apply to SBA's review of PPP loans for borrowers who, along with their affiliates, received PPP loans with an original principal amount of less than \$2 million. The SBA will presume the borrower's required certification concerning the necessity of the loan was made in good faith under the CARES Act, Section 1102 Lender agreement. Under the agreement, the SBA has five years to audit any applicant. The Organization, at the time of submitting its application, evaluated the economic uncertainty resulting from the COVID-19 pandemic and the potential impact of that uncertainty on the ongoing operations of the business. Based on the risk of the Organization having to limit or close its operations, it was determined that the loan request was necessary.

## **Homewise, Inc.**

### **Notes to Consolidated Financial Statements**

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#### **Note 19 – COVID-19 Pandemic (continued)**

On June 24, 2020, the Organization executed the standard loan documents required for securing a loan (the EIDL Loan) from the United States SBA under its Economic Injury Disaster Loan assistance program in light of the impact of the COVID-19 pandemic on the Organization's business. The principal amount of the EIDL Loan was originally \$150,000 but was increased to \$500,000, with proceeds to be used for working capital purposes. Interest on the EIDL Loan accrues at the rate of 2.75% per annum and installment payments, including principal and interest, are due monthly beginning twenty-four months from the date of the EIDL Loan in the amount of \$2,148. The balance of principal and interest is payable thirty years from the date of the promissory note. In connection with the EIDL Loan, the Organization executed the EIDL Loan documents, which include the SBA Secured Disaster Loan Note, dated June 24, 2020, the Loan Authorization and Agreement, dated June 24, 2020, and the Security Agreement, dated June 24, 2020, the SBA First Modification of Note, dated March 18, 2022, the Amended Loan Authorization and Agreement, dated March 18, 2022, and the Amended Security Agreement, dated March 18, 2022, each between the SBA and the Organization.

#### **Note 20 – Subsequent Events**

On March 18, 2022 the Organization was notified that the Ad-hoc Review Committee from the City of Albuquerque's Department of Family and Community Services recommended for funding the Organization's application to receive \$3,300,000 in response to the Neighborhood Opportunity Grants Home Rehabilitation Request for Proposals. The amount received is contingent upon approval of the award by the Mayor and City Council, acknowledgement of federal requirements, preparation of a rehab program budget and policies and procedures for the program in accordance with 2 CFR Part 200, and determination of validity and necessity of contractual services.

During the quarter ending June 30, 2022, the Organization was notified that the Office of Affordable Housing from the City of Santa Fe requested repayment of the balance of undeployed program income as of the end of the City's June 30, 2022 fiscal year end related to the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program from which the Organization receives pass-through funds. As of the financial statement reporting date, the Organization had a program income balance of \$160,022.

On April 25, 2022, the Organization formed Homewise Leverage I, LLC, a special purpose entity that is wholly owned by the Organization, for the purpose of taking advantage of the NMTC program. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. The NMTC investment is expected to close in the first half of the fiscal year ending March 31, 2023.

**Homewise, Inc.**  
**Schedule of Expenditures of Federal Awards**

Grantor /Pass-Through Grantor/Program Title	Pass-through Grantor Number or Other Identifying Number	ALN	Expenditures	Loans & Loan Guarantees	Total
<b>U.S. Department of Housing and Urban Development</b>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grant (pass through from the City of Albuquerque)	POFCS-FCS0016158, POFCS-FCS0017197	14.218	\$ 1,205,200	-	\$ 1,205,200
COVID-19 – CDBG-CARES Act (pass through from the City of Albuquerque)	POFCS-FCS0016254	14.218	71,814	-	71,814
Total CDBG - Entitlement Grants Cluster			<u>\$ 1,277,014</u>	<u>\$ -</u>	<u>\$ 1,277,014</u>
New Mexico Mortgage Finance Authority, State Neighborhood Stabilization Program (NSP) (Subrecipient Award)	JPA #19-NSP3-2-J-01 JPA #19-NSP1-2-J-01	14.228	507,415	-	507,415
<b>Total U.S. Department of Housing and Urban Development and Pass-through</b>			<u>\$ 1,784,429</u>	<u>\$ -</u>	<u>\$ 1,784,429</u>
<b>U.S. Department of Treasury</b>					
Community Development Financial Institution Program					
Capital Magnet Fund- loan capital	161CM020143	21.011	-	3,123,777	3,123,777
Capital Magnet Fund- loan capital	191CM053345	21.011	790,600	500,075	1,290,675
CDFI Bond Guarantee Program	171BG012323 / OPFNANCE 0015	21.014	-	14,355,910	14,355,910
COVID-19 CDFI Rapid Response Program	21RRP056387	21.024	1,826,265	-	1,826,265
CDFI Financial Assistance	211FA056264	21.020	690,000	-	690,000
Total Community Development Financial Institution Program			<u>3,306,865</u>	<u>17,979,762</u>	<u>21,286,627</u>
Other federal appropriations through NeighborWorks America	PL 116-260, 117-103	21.U01	56,500	-	56,500
<b>Total U.S. Department of Treasury</b>			<u>\$ 3,363,365</u>	<u>\$ 17,979,762</u>	<u>\$ 21,343,127</u>
<b>U.S. Department of Commerce</b>					
Buildwise Technical Assistance Program (Economic Development Cluster)	08-79-05386	11.307	84,186	-	84,186
<b>Total U.S. Department of Commerce</b>			<u>\$ 84,186</u>	<u>\$ -</u>	<u>\$ 84,186</u>
<b>U.S. Small Business Administration</b>					
COVID-19 Disaster Assistance Loans	3006408008	59.008	500,000	-	500,000
<b>Total U.S. Small Business Administration</b>			<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>
Total Federal Expenditures			<u>\$ 5,731,980</u>	<u>\$ 17,979,762</u>	<u>\$ 23,711,742</u>

See notes to the Schedule of Expenditures of Federal Awards.

**Homewise, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**March 31, 2022**

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the expenditures of Homewise, Inc. and affiliates under programs of the federal government for the year ended March 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the consolidated financial statements. Because the Schedule presents only a selected portion of the operations of Homewise, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Homewise, Inc.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed. Assistance Listing Numbers (ALN) are provided when available.

The Organization elected not to use the 10% de minimis indirect cost rate.

**Note 3 – Loans and Loan Guarantees**

In accordance with Title 2 U.S. *Code of Federal Regulations* Part 200,, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards*, Homewise discloses loans and loans guarantees. The reported amount includes new loans made during the year, plus prior year loans for which the federal government imposes continuing compliance requirements. Accordingly, the total expenditures per the Schedule of Expenditures of Federal Awards is adjusted as follows:

Total expenditures per the Schedule of Expenditures of Federal Awards	\$ 5,731,980
Loans and loan guarantees:	
Capital Magnet Fund (ALN #21.011)	3,334,159
CDFI Bond Guarantee Program (ALN #21.014)	<u>13,981,972</u>
Adjusted total expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 23,048,111</u>

**Note 4 – CDFI Capital Magnet Fund**

Loans outstanding at the beginning of the year and expenditures made during the year are included in the federal expenditures presented in the schedule. The balance of loans outstanding at March 31, 2022 consists of:

Beginning balance, March 31, 2021	\$ 3,623,852
Add loans deployed	790,600
Less principal payments	<u>(289,693)</u>
Ending balance, March 31, 2022	<u>\$ 4,124,759</u>

**Note 5 – CDFI Bond Guarantee Program**

Bonds outstanding at the beginning of the year and bond funding drawn during the year are included in the federal expenditures presented in the schedule. The balance of bonds outstanding at March 31, 2022 consists of:

Beginning balance, March 31, 2021	\$ 14,355,910
Less principal payments	<u>(373,937)</u>
Ending balance, March 31, 2022	<u>\$ 13,981,972</u>



## **Report of Independent Auditors 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***

The Board of Directors  
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 consolidated financial statements of Homewise, Inc. (Homewise), which comprise the statement of financial position as of March 31, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2022.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Homewise's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Homewise's internal control. Accordingly, we do not express an opinion on the effectiveness of Homewise'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 were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Homewise'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 financial statements. 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*.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico

June 27, 2022

# **Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

The Board of Directors  
Homewise, Inc.

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

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

We have audited Homewise, Inc.'s (Homewise) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Homewise's major federal programs for the year ended March 31, 2022. Homewise's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Homewise complied, in all material respects, with the 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, 2022.

### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Homewise and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Homewise's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Homewise's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Homewise's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Homewise's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Homewise's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Homewise's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Homewise's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico  
June 27, 2022

**Homewise, Inc.**  
**Schedule of Findings and Questioned Costs**  
**March 31, 2022**

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**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
21.014	CDFI Bond Guarantee Program	Unmodified
21.024	COVID-19 CDFI Rapid Response Program	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

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**Section II - Financial Statement Findings**

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No reportable matters

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**Section III - Federal Award Findings and Questioned Costs**

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No reportable matters