



The Rogoff Firm

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS

Homewise, Inc.

Financial Statements, Supplementary Information
and
Independent Auditors' Reports

March 31, 2009

Homewise, Inc.

**Official Roster
March 31, 2009**

Board of Directors

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

Administration Official

Michael Loftin	Executive Director
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Homewise, Inc.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-18
Supplementary Information	
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
Independent Auditors' Report on	
Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	23-24
Schedule of Findings and Questioned Costs	25-28
Summary Schedule of Prior-Audit Findings	29

Independent Auditors' Report

Board of Directors
Homewise, Inc.

We have audited the accompanying statement of financial position of Homewise, Inc. (Homewise) as of March 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Homewise's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Homewise's 2008 financial statements and, in our report dated July 3, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homewise, Inc. as of March 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009, on our consideration of the Homewise's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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June 22, 2009

Homewise, Inc.
Statements of Financial Position
March 31,

	2009	2008 (Restated, Note 13)
Assets		
Current assets		
Cash and cash equivalents	\$ 1,909,255	\$ 654,000
Broker receivables	3,297,619	1,321,670
Grants receivable	769,896	353,078
Amortizing notes receivable, current portion	587,366	1,382,424
Inventory	97,509	3,745
Prepaid expenses and other assets	468,705	326,839
Development costs	<u>4,053,927</u>	<u>2,673,193</u>
Total current assets	<u>11,184,277</u>	<u>6,714,949</u>
Property and equipment, net	2,376,971	2,556,760
Mortgage notes receivable		
Amortizing, net	15,531,236	13,417,717
Deferred, net	14,089,838	13,153,814
Other assets	<u>36,000</u>	<u>36,000</u>
Total assets	<u>\$ 43,218,322</u>	<u>\$ 35,879,240</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 445,572	\$ 451,029
Escrows and deposits	117,342	62,838
Lines of credit	2,606,005	568,001
Current portion of notes payable	<u>1,630,088</u>	<u>1,506,725</u>
Total current liabilities	<u>4,799,007</u>	<u>2,588,593</u>
Long-term liabilities		
Long-term portion of notes payable	9,128,772	5,533,474
Deferred revenue	6,577,242	6,141,501
Due to grantor agency	<u>2,004,565</u>	<u>2,131,407</u>
Total long-term liabilities	<u>17,710,579</u>	<u>13,806,382</u>
Total liabilities	22,509,586	16,394,975
Net assets		
Unrestricted	6,782,163	6,746,479
Temporarily restricted	9,417,783	8,106,264
Permanently restricted	<u>4,508,790</u>	<u>4,631,522</u>
Total net assets	<u>20,708,736</u>	<u>19,484,265</u>
Total liabilities and net assets	<u>\$ 43,218,322</u>	<u>\$ 35,879,240</u>

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

Homewise, Inc.
Statements of Activities
For the Year Ended March 31, 2009
(Summarized Totals for the Year Ended March 31, 2008)

	2009			Total 2008	
	Unrestricted	Temporarily restricted	Permanently restricted		Total
Support and Revenues					
Government grants	\$ 655,537	\$ 1,219,500	\$ 321,400	\$ 2,196,437	\$ 1,625,898
Contributions and grants	655,781	-	-	655,781	388,773
Loan origination fees	507,256	-	-	507,256	742,188
Home sales	3,693,359	-	-	3,693,359	11,494,590
Bank interest	11,574	-	-	11,574	69,207
Loan interest	889,965	93,583	-	983,548	751,793
Commissions	615,239	-	-	615,239	786,700
Other revenue	487,502	1,061	-	488,563	413,367
Net assets released from restrictions	446,757	(2,625)	(444,132)	-	-
Total support and revenues	<u>7,962,970</u>	<u>1,311,519</u>	<u>(122,732)</u>	<u>9,151,757</u>	<u>16,272,516</u>
Expenses					
Cost of home sales	3,741,598	-	-	3,741,598	11,299,778
Program	2,885,582	-	-	2,885,582	2,466,916
Administrative	1,137,594	-	-	1,137,594	1,126,522
Fundraising	162,512	-	-	162,512	160,928
Total expenses	<u>7,927,286</u>	<u>-</u>	<u>-</u>	<u>7,927,286</u>	<u>15,054,144</u>
Change in net assets	35,684	1,311,519	(122,732)	1,224,471	1,218,372
Net assets at beginning of year (as restated, Note 13)	<u>6,746,479</u>	<u>8,106,264</u>	<u>4,631,522</u>	<u>19,484,265</u>	<u>18,265,893</u>
Net assets at end of year	<u>\$ 6,782,163</u>	<u>\$ 9,417,783</u>	<u>\$ 4,508,790</u>	<u>\$ 20,708,736</u>	<u>\$ 19,484,265</u>

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

Homewise, Inc.
Statements of Cash Flows
For the Years Ended March 31,

	2009	2008
Cash flows from operating activities		
Cash received from customers	\$ 4,759,331	\$ 14,642,083
Cash received from grants and contributions	2,435,400	1,929,456
Cash paid to suppliers	(6,794,003)	(8,272,293)
Cash paid to employees	(2,369,560)	(2,333,727)
Cash paid for interest	(405,412)	(255,393)
Net cash (used for) provided by operating activities	(2,374,244)	5,710,126
Cash flows from investing activities		
Equipment and land acquisitions	(577,162)	(2,619,776)
Proceeds from sale of property and equipment	567,043	34,550
Loans originated	(9,039,044)	(8,956,261)
Payments received on loans	7,021,318	1,991,882
Other	-	106,160
Net cash used for investing activities	(2,027,845)	(9,443,445)
Cash flows from financing activities		
Long-term borrowings	3,698,025	4,501,480
Payments on long-term borrowings	(78,685)	-
Net draws (payments) on bank lines of credit	2,038,004	(3,133,094)
Net cash provided by financing activities	5,657,344	1,368,386
Net increase (decrease) in cash	1,255,255	(2,364,933)
Cash at beginning of year	654,000	3,018,933
Cash at end of year	\$ 1,909,255	\$ 654,000
Reconciliation of increase in net assets to net cash (used for) provided by operations		
Increase in net assets	\$ 1,224,471	\$ 1,218,372
Adjustments to reconcile increase in net assets to cash (used for) provided by operations		
Depreciation	189,908	126,458
Amortization of discount on below market notes payable	99,321	61,404
Provision for loan losses	(236,759)	(176,215)
Gain on sale of land	-	(25,899)
Change in assets and liabilities		
Broker receivables	(1,975,949)	(530,219)
Grants receivable	(416,818)	(85,215)
Prepaid expenses and other assets	(141,866)	(29,161)
Inventory	(93,764)	(3,745)
Development costs	(1,380,734)	4,082,966
Accounts payable, escrows and deposits	49,047	199,377
Deferred revenue	435,741	940,356
Due to grantor agency	(126,842)	(68,353)
Net cash (used for) provided by operating activities	\$ (2,374,244)	\$ 5,710,126

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

1) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Revenue and Cost Recognition

Homewise recognizes revenue from all homebuilding and home repair activities at the closing of the sale using the full accrual method. If a deferred mortgage is issued as a subsidy to the home, revenue is deferred until the time the deferred mortgage is paid. During construction, all direct material and labor costs and those indirect costs related to the acquisition and construction are capitalized as development costs, and all customer deposits are treated as liabilities until closing. Capitalized costs are charged to cost of home sales upon completion. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred.

Basis of Presentation

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

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

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

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

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

1) Summary of Significant Accounting Policies — continued

Basis of Presentation — continued

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

Cash Equivalents and Concentrations

For purposes of the statement of cash flows, cash and cash equivalents consist of deposits held in banks and repurchase agreements, which were fully insured at March 31, 2009. The repurchase agreements are collateralized by pledged securities.

Fixed Assets and Depreciation

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

Grant Revenue, Grant Receivable, and Deferred Grant Revenue

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

Vacation Accruals

Employees accrue vacation time at their applicable pay rate. The liability, calculated by applying the employee's current pay rate to vacation hours accrued, is recognized in the financial statements.

Inventories

Inventories are stated at cost on the first-in, first-out method and consist primarily of building fixtures.

Deferred Loans

Deferred loans are loans not currently receivable. They include:

Forgivable loans that do not bear interest and are forgiven if the owner lives in the home for a specified period of time.

Other deferred loans are due upon sale, transfer or refinance of the related home.

If the funds are to be returned to a grantor upon collection, the full amount is included in the due to grantor liability on the statement of financial position. If Homewise is to retain the collections, the loan is recorded at estimated net realizable value. These loans are recorded net of applicable loan loss allowance.

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

1) Summary of Significant Accounting Policies — continued

Broker Receivables

Broker receivables represent amounts due from mortgage brokers for mortgage loans sold by Homewise, and are carried at their estimated collectible amounts. Homewise periodically evaluates the collectability of broker receivables and believes that they are fully collectible as of March 31, 2009.

Provision for Loan Losses

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

Interest on Loans

Interest earned is only recorded when collected because uncollected interest is not material to the financial statements at March 31, 2009.

Loans at Below Market Interest Rates

Financial institutions have made loans to Homewise at below market interest rates, resulting in debt discounts that are being amortized over the remaining lives of the loans. The initial discount is accounted for as a contribution. The amortization expense recognized for the year ended March 31, 2009, was \$99,321. There were new below market loans obtained during 2009; however, the amortization expense on these new loans is immaterial.

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

1) Summary of Significant Accounting Policies — continued

Income Taxes

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

Allocation of Functional Expenses

Homewise allocates expenses not applicable to a single activity to the appropriate activities based on the estimated percentage of time employees spend on each of the programs or on administrative or fundraising activities.

Fair Value of Financial Instruments and Derivative Financial Instruments

Homewise has adopted the Financial Accounting Standards Board SFAS No. 126, *Exemption from Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities* (Amending SFAS No. 107) which allows the disclosure requirements under SFAS No. 107 to be optional for nonpublic entities with total assets less than \$100 million who have not held or issued any derivative financial instruments as defined in SFAS No. 119 other than loan commitments. Homewise's policy is to not engage in derivative financial instruments and accordingly, it did not disclose fair value information for the year ended March 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Homewise expenses the cost of advertising as the expense is incurred. Advertising costs were \$37,985 and \$27,256 at March 31, 2009 and 2008, respectively.

Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Homewise's financial statements for the year ended March 31, 2008, from which the summarized information was derived.

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

1) **Summary of Significant Accounting Policies — continued**

Certain reclassifications have been made to the 2008 financial information to conform to the 2009 financial statement presentation. Net assets reclassifications were also made to the March 31, 2008 balances. See note 13 for a description of the net asset reclassifications. Such reclassifications had no effect on the 2008 total assets, liabilities or change in net assets.

2) **Grants Receivable**

Grants receivable consist of the following at March 31, 2009:

	Unrestricted	Temporarily Restricted	Total
City of Santa Fe	\$ 178,846	\$ -	\$ 178,846
James A. Johnson	50,000	-	50,000
McCune Foundation	10,000	-	10,000
New Mexico Mortgage Finance Authority (NMMFA)	50,000	-	50,000
NMMFA Counseling Grant	21,050	-	21,050
Neighborworks America	395,000	-	395,000
Total nonfederal	<u>704,896</u>	<u>-</u>	<u>704,896</u>
Federal			
Department of Housing and Urban Development (HUD)			
CDBG	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Total federal	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Total grants receivable	<u>\$ 704,896</u>	<u>\$ 65,000</u>	<u>\$ 769,896</u>

3) **Development Costs**

Project costs (such as land acquisition and construction) are separately tracked or allocated and recorded on the financial statements as development costs. Project costs at March 31, 2009, are as follows:

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

3) Development Costs — continued

Project	Amount
Vista Jemez 2	\$ 1,329,703
Desert Sage	1,147,654
Old Las Vegas Place	824,766
Vista Serena	714,454
Palomita	21,549
Sanchez	10,801
West Alameda	5,000
	\$ 4,053,927

Vista Jemez 2 is a seventeen unit project in Santa Fe, all of which will be single family detached units. Three are under construction, 1 of which is under contract, the other two will be model homes for the Old Las Vegas Place subdivision. Three are complete and available for sale and 3 have been sold.

Desert Sage in Santa Fe (formerly the Greer Project or Tract 4), consists of 26.8 acres of undeveloped land. Plans for the 80 unit subdivision have been approved by the City. Due to market conditions Homewise decided to develop the Old Las Vegas Place subdivision before Desert Sage. Desert Sage is expected to begin next year.

Old Las Vegas Place (formerly Old Las Vegas Highway) in Santa Fe County consists of the estimated fair value of 15.3 acres of undeveloped land donated to Homewise for affordable housing. Infrastructure work has begun and is expected to be complete by winter.

Vista Serena consists of approximately 12.7 acres of undeveloped land that Homewise purchased with the intent of building a 60 unit subdivision consisting of a combination of single family detached units as well as town home units. The project is in the design phase.

Palomita consists of one single family lot in Taos.

Sanchez subdivision is a two-unit project in Santa Fe. Homewise is under contract for the lots and will close when infrastructure is complete.

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

3) Development Costs — continued

During 2009, Homewise capitalized \$25,820 of interest in connection with financing the above projects.

4) **Mortgage Notes Receivable**

To assist low-income households with home purchases or repairs, Homewise originates amortizing mortgages bearing interest rates from 0% to 8.5%, for periods of up to 30 years. The notes are secured by a recorded perfected interest in the subject property. Homewise provides for potentially uncollectible loans as described in Note 1.

As of March 31, 2009, Homewise had the following delinquent loans:

	<u>Number</u>	<u>Payment due</u>	<u>Loan amount</u>
31-60 days	5	\$ 1,826	\$ 46,084
61-90 days	7	1,307	153,803
> 90 days	1	188	14,519

Amortizing loans are reserved for 2% of the loan balance and loans delinquent more than 90 days are reserved for 15% of the loan balance. The allowance for amortizing loans was \$333,342 at March 31, 2009. This allowance includes additional loan losses for delinquent loans of \$33,426 at March 31, 2009. As of March 31, 2009, there were no loans on nonaccrual status.

Deferred loans that are not forgivable are reserved for 15% of the loan balance. The allowance for deferred loans was \$2,132,695 and \$1,948,661 at March 31, 2009 and 2008, respectively.

Forgivable deferred loans that will be forgiven at the end of a fixed term totaled \$1,249,928 and \$1,326,132 at March 31, 2009 and 2008, respectively.

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

5) Property and Equipment

Property and equipment consist of the following at March 31, 2009:

Buildings and improvements	\$ 1,986,728
Software	404,415
Furniture and equipment	265,213
Autos	14,995
Less accumulated depreciation	<u>(443,563)</u>
Net value of depreciable property and equipment	2,227,788
Land	<u>149,183</u>
Total property and equipment	<u><u>\$ 2,376,971</u></u>

6) Lines of Credit and Notes Payable

Lines of credit and notes payable at March 31, 2009 consisted of the following:

Lines of credit

Bank, warehouse line of credit at 5.00% variable interest collateralized by mortgage loans, matures March 2010	\$ 2,164,837
Bank, line of credit at 5.00% variable interest collateralized by land, matures June 2010	295,705
Bank, line of credit at 5.50% variable interest collateralized by land, matures March 2010	74,417
Bank, line of credit at 5.50% variable interest collateralized by land, matures March 2010	<u>71,046</u>
Total lines of credit	<u><u>\$ 2,606,005</u></u>

Notes payable

Opportunity Finance Network, unsecured 3% interest, the principal balance is due at and matures February 2019	\$ 2,500,000
Bank, at 5.06% interest collateralized by security agreements, due in principal and interest payments on the 19 th day of each month beginning March 2008 and maturing February 2028	1,934,956
Bank, at 6.18% interest collateralized by the mortgage on the building, due in principal and interest payments on the 13 th day of each month beginning July 2007 and maturing June 2037	1,487,839

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

6) Lines of Credit and Notes Payable — continued

Notes payable — continued

New Mexico Mortgage Finance Authority, 1% interest collateralized by Desert Sage property, the principal balance is due at and matures September 2011	948,025
Social Investment Foundation, unsecured 4.5% interest, the principal balance and final interest payment is due at and matures April 2012	750,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2011	580,000
Neighborhood Housing Services of America, unsecured 3% interest, the principal balance is due at and matures January 2011	500,000
Bank, at 4.8% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures December 2017	500,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	350,000
Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013	250,000
Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	250,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	250,000
Bank, at 3% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	250,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012	150,000
Bank, loan for home improvement projects at 3% interest collateralized by \$122,000 of mortgage notes receivable, the principal balance is due at and matures October 2012	100,000

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

6) Lines of Credit and Notes Payable — continued

Notes payable — continued

New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2009	<u>80,000</u>
Total notes payable	10,880,820
Less current maturities	1,630,088
Less unamortized discount	<u>121,960</u>
Total notes payable, less current portion and unamortized discount	<u>\$ 9,128,772</u>

The following is a schedule of future principal payments due on the notes payable:

Year ending March 31,	
2010	\$ 1,630,088
2011	565,662
2012	1,597,087
2013	1,572,638
2014	326,399
Thereafter	<u>5,188,946</u>
	<u>\$ 10,880,820</u>

Homewise is in compliance with all financial debt covenants as of March 31, 2009.

7) **Net Assets**

Unrestricted net assets include \$3,252,430 designated for loans in the Flex Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets are available for affordable housing programs.

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

7) Net Assets — continued

Permanently restricted net assets are restricted to NeighborWorks America (NWA) and Santa Fe Land Trust (SFLT) revolving loans and property acquisitions. Summarized activity in the two funds follows:

	NWA	SFLT	Total
Cash	\$ (115,275)	\$ 117,816	\$ 2,541
Mortgage notes receivable	4,398,225	120,296	4,518,521
Accounts and escrows payable	<u>(12,272)</u>	<u>-</u>	<u>(12,272)</u>
Net assets	<u>\$ 4,270,678</u>	<u>\$ 238,112</u>	<u>\$ 4,508,790</u>
Permanently restricted net assets at beginning of year	\$ 4,393,410	\$ 238,112	\$ 4,631,522
Grants of loan funds	321,400	-	321,400
Released from restrictions	<u>(444,132)</u>	<u>-</u>	<u>(444,132)</u>
Permanently restricted net assets at end of year	<u>\$ 4,270,678</u>	<u>\$ 238,112</u>	<u>\$ 4,508,790</u>

Due to adverse market conditions Homewise is currently experiencing, NeighborWorks America granted Homewise a capital conversion of \$450,000 (net of a loan adjustment of \$5,868) from permanently restricted funds to unrestricted upon receipt of an adjustment grant letter.

8) **Government Grants**

Government grants for the year ended March 31, 2009 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
State and local awards				
City of Santa Fe - Administration of housing programs	\$ 300,775	\$ 219,500	\$ -	520,275
Total nonfederal awards	<u>300,775</u>	<u>219,500</u>	<u>-</u>	<u>520,275</u>
Federal awards				
CDFI	52,275	1,000,000	-	1,052,275
New Mexico Mortgage Finance Authority (NMMFA) - HOME	130,487	-	-	130,487
Other federal appropriations through NWA	<u>172,000</u>	<u>-</u>	<u>321,400</u>	<u>493,400</u>
Total federal awards	<u>354,762</u>	<u>1,000,000</u>	<u>321,400</u>	<u>1,676,162</u>
	<u>\$ 655,537</u>	<u>\$ 1,219,500</u>	<u>\$ 321,400</u>	<u>\$ 2,196,437</u>

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

9) Functional Expenses

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

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$ 1,515,558	\$ 805,920	\$ 115,131	\$ 2,436,609
Interest expense	504,733	-	-	504,733
Client support	40,763	19,128	2,733	62,624
Provision for loan losses	236,759	-	-	236,759
Marketing	104,629	55,636	7,948	168,213
Administration	120,840	64,256	9,179	194,275
Occupancy expense	61,796	32,860	4,694	99,350
Depreciation	118,123	62,812	8,973	189,908
Insurance	40,232	21,394	3,056	64,682
Professional	100,103	53,230	7,604	160,937
Professional development	42,046	22,358	3,194	67,598
	<u>\$ 2,885,582</u>	<u>\$ 1,137,594</u>	<u>\$ 162,512</u>	<u>\$ 4,185,688</u>

10) Retirement Plan

Homewise has a 403(b) retirement plan for its employees. Homewise makes a basic contribution of 5% of an employee's compensation plus a matching contribution up to 3% contributed by the employee through salary reduction. Homewise's contribution was \$122,955 in fiscal year 2009.

11) Concentrations of Revenue Sources and Credit Risks

Homewise is dependent on operating revenues from the City of Santa Fe, several private foundations and the NeighborWorks America.

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2009

12) Contingencies

Grants and Contracts

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

Recourse Loans

Homewise at times sells mortgage receivables to Neighborhood Housing Services of America (NHSA) for cash flow purposes. Homewise continues to service these receivables on behalf of NHSA and are sold to NHSA with full recourse, which results in a liability to Homewise upon the default of a loan. Management of Homewise has not experienced significant losses from loan defaults related to this arrangement in the past and believes its exposure due to this provision is immaterial.

13) Net Assets Reclassification

Net assets classifications at March 31, 2008 have been adjusted to restate amounts previously reported as follows:

	As Previously Reported	Restatements	As Restated
Net assets, March 31, 2008			
Unrestricted	\$ 8,005,468	\$ (1,258,989)	\$ 6,746,479
Temporarily restricted	6,847,275	1,258,989	8,106,264
Permanently restricted	<u>4,631,522</u>	<u>-</u>	<u>4,631,522</u>
Total restated net assets	<u>\$ 19,484,265</u>	<u>\$ -</u>	<u>\$ 19,484,265</u>

Homewise, Inc.
Schedule of Expenditures of Federal Awards
March 31, 2009

	Pass-through Grantor Number or Other Identifying Number	CDFA	Expenditures
U.S. Department of Housing and Urban Development			
Home Investment Partnerships Program (pass through from NMMFA)			
Training and Counseling	04-01-NMW-COP-001	14.239	\$ 65,923
CHDO - Operating	04-01-NMW-COP-001	14.239	<u>62,164</u>
			<u>128,087</u>
Community Development Block Grants (pass through from City of Santa Fe)			
Downpayment Assistance	07-0635	14.218	<u>211,500</u>
Total U.S. Department of Housing and Urban Development			<u>339,587</u>
U.S. Department of Treasury			
Community Development Financial Institutions Program			
Technical Assistance	081FA007478	21.020	52,275
Loan Capital	081FA007478	21.020	<u>1,000,000</u>
			<u>1,052,275</u>
NeighborWorks America			
Revolving Loan Fund	None	21.000	422,000
Operating - General Support	None	21.000	<u>71,400</u>
			<u>493,400</u>
Total U.S. Department of Treasury			<u>1,545,675</u>
Total all funding agencies			<u>\$ 1,885,262</u>

Homewise, Inc.
Notes to Schedule of Expenditures of Federal Awards
March 31, 2009

1) General

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

2) Reconciliation to the Financial Statements

Expenditures of federal awards	\$ 1,885,262
Nonfederal expenses	<u>6,042,024</u>
Total 2009 expenses according to financial statements	<u>\$ 7,927,286</u>

3) Federal Loans

At March 31, 2009, Homewise had four outstanding loans payable to the Department of the Treasury for a total of \$1,330,000. See details at Note 6 to the financial statements.

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
Homewise, Inc.

We have audited the financial statements of Homewise, Inc. (Homewise) as of and for the year ended March 31, 2009, and have issued our report thereon dated June 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We also noted certain matters that we reported to management of Homewise in a separate letter dated June 22, 2009.

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

REDWLLC

June 22, 2009

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Homewise, Inc.

Compliance

We have audited the compliance of Homewise, Inc. (Homewise) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2009. Homewise's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Homewise's management. Our responsibility is to express an opinion on Homewise's compliance based on our audit.

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

In our opinion, Homewise complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2009.

Internal Control Over Compliance

The management of Homewise is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Homewise's internal control.

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

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

REDWLLC

June 22, 2009

Homewise, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2009

Section I — Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2009

Section I — Summary of Auditors' Results — continued

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? No

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2009

Section II — Financial Statement Findings

None.

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2009

Section III — Federal Award Findings

None.

Homewise, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended March 31, 2009

Prior-Year Finding		Current Status
FS 08-1	Separation of Duties	Resolved.
FS 08-2	Development Costs	Resolved.