




**REDW**

*The Rogoff Firm*

# **Homewise, Inc.**

Financial Statements, Supplementary Information  
and  
Independent Auditors' Reports

March 31, 2006



# **Homewise, Inc.**

**Official Roster  
March 31, 2006**

## **Board of Directors**

Viola Lujan	President
Ann Lockhart	Vice President
Steve Dichter	Treasurer
Teresa Leger de Fernandez	Secretary
David DeVary	Member
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.

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## Independent Auditors' Report

Board of Directors  
Homewise, Inc.

We have audited the accompanying statements of financial position of the Homewise, Inc. (Homewise) as of March 31, 2006, 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 2005 financial statements and, in our report dated May 20, 2005, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Homewise, Inc. as of March 31, 2006, 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 1, 2006, on our consideration of the Homewise's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

*RGDW LLC*

June 1, 2006

**Homewise, Inc.**  
**Statement of Financial Position**  
**March 31, 2006**  
**(Summarized Totals for the Year Ended March 31, 2005)**

	2006			Total	2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 1,752,995	\$ 1,318,628	\$ 216,022	\$ 3,287,645	\$ 3,594,650
Accounts receivable	401,703	9,736	1,644	413,083	822,751
Grants receivable	132,271	165,186	-	297,457	278,880
Amortizing notes receivable, current portion	70,321	71,464	60,183	201,968	288,888
Prepaid expenses	8,365	-	-	8,365	8,365
Development costs	4,032,019	923,134	-	4,955,153	2,868,816
Total current assets	<u>6,397,674</u>	<u>2,488,148</u>	<u>277,849</u>	<u>9,163,671</u>	<u>7,862,350</u>
Property and equipment, net	368,896	-	47,000	415,896	461,299
Mortgage notes receivable and other investments					
Amortizing notes receivable, net	3,845,954	1,779,924	3,449,702	9,075,580	7,507,190
Deferred mortgage notes receivable, net	3,532,062	3,091,571	240,094	6,863,727	5,795,220
Land held for future development	475,000	-	-	475,000	475,000
Investment in Taos Community Development Corporation	36,000	-	-	36,000	36,000
Total mortgage notes receivable and other investments	<u>7,889,016</u>	<u>4,871,495</u>	<u>3,689,796</u>	<u>16,450,307</u>	<u>13,813,410</u>
Total assets	<u>\$ 14,655,586</u>	<u>\$ 7,359,643</u>	<u>\$ 4,014,645</u>	<u>\$ 26,029,874</u>	<u>\$ 22,137,059</u>

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

**Homewise, Inc.**  
**Statement of Financial Position — continued**  
**March 31, 2006**  
**(Summarized Totals for the Year Ended March 31, 2005)**

	2006			Total	2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
<b>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 151,629	\$ 17,581	\$ 3,474	\$ 172,684	\$ 196,964
Escrows and deposits	27,022	19,745	7,150	53,917	53,508
Current portion of notes payable	<u>2,956,452</u>	<u>-</u>	<u>-</u>	<u>2,956,452</u>	1,741,548
Total current liabilities	<u>3,135,103</u>	<u>37,326</u>	<u>10,624</u>	<u>3,183,053</u>	<u>1,992,020</u>
Long-term liabilities					
Long-term portion of notes payable	2,335,911	80,000	-	2,415,911	2,354,507
Deferred revenue	-	454,719	390,180	844,899	416,111
Due to grantors	<u>1,599,999</u>	<u>692,955</u>	<u>-</u>	<u>2,292,954</u>	2,320,673
Total long-term liabilities	<u>3,935,910</u>	<u>1,227,674</u>	<u>390,180</u>	<u>5,553,764</u>	5,091,291
Total liabilities	7,071,013	1,265,000	400,804	8,736,817	7,083,311
Net assets	<u>7,584,573</u>	<u>6,094,643</u>	<u>3,613,841</u>	<u>17,293,057</u>	15,053,748
Total liabilities and net assets	<u>\$ 14,655,586</u>	<u>\$ 7,359,643</u>	<u>\$ 4,014,645</u>	<u>\$ 26,029,874</u>	<u>\$ 22,137,059</u>

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

**Homewise, Inc.**  
**Statement of Activities**  
**For the Year Ended March 31, 2006**  
**(Summarized Totals for the Year Ended March 31, 2005)**

	2006			Total	2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
<b>Support and Revenues</b>					
Government grants	\$ 624,126	218,714	477,843	1,320,683	1,159,904
Contributions and grants	345,747	1,321,705	-	1,667,452	678,208
Loan origination fees	410,778	-	-	410,778	441,296
Home sales, net					
Cash home sales	429,999	-	-	429,999	375,387
Financed by deferred mortgages	752,000	-	-	752,000	535,606
Bank interest	48,987	-	-	48,987	20,347
Loan interest	422,103	85,375	-	507,478	451,918
Commissions	319,279	-	-	319,279	290,911
Other revenue	61,304	899	-	62,203	39,619
Net assets released from restrictions	347,726	(347,726)	-	-	-
Total support and revenues	<u>3,762,049</u>	<u>1,278,967</u>	<u>477,843</u>	<u>5,518,859</u>	<u>3,993,196</u>
<b>Expenses</b>					
Program	2,524,279	-	-	2,524,279	2,370,467
Administrative	595,204	-	-	595,204	485,181
Fundraising	160,067	-	-	160,067	109,566
Total expenses	<u>3,279,550</u>	<u>-</u>	<u>-</u>	<u>3,279,550</u>	<u>2,965,214</u>
Increase in net assets	482,499	1,278,967	477,843	2,239,309	1,027,982
Net assets at beginning of year	7,102,074	4,815,676	3,135,998	15,053,748	14,025,766
Net assets at end of year	<u>\$ 7,584,573</u>	<u>\$ 6,094,643</u>	<u>\$ 3,613,841</u>	<u>\$ 17,293,057</u>	<u>\$ 15,053,748</u>

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



**Homewise, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended March 31, 2006**  
**(Summarized Totals for the Year Ended March 31, 2005)**

	2006	2005
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 2,239,309	\$ 1,027,982
Adjustments to reconcile increase in net assets to cash provided by operations		
Depreciation	51,722	28,219
Amortization of discount on below market loans	61,405	61,404
Provision (credit) for loan losses	(14,357)	(102,134)
Loss on disposition of equipment and leasehold improvements	108,648	4,171
Net revenues from home sales	(1,181,999)	(910,993)
Developments, costs	(4,852,049)	(1,926,045)
Proceeds from sale of home	3,947,709	2,920,530
Decrease (increase) in		
Accounts receivable	409,668	(42,694)
Grants receivable	(18,577)	58,950
Increase (decrease) in		
Accounts payable, escrows and deposits	(23,871)	(61,182)
Deferred revenue	428,788	369,860
Due to grantor agency	(27,719)	(58,528)
Net cash provided by operating activities	1,128,677	1,369,540
<b>Cash flows from investing activities</b>		
Equipment and land acquisitions	(114,966)	(122,646)
Loans originated	(4,213,748)	(4,657,000)
Payments received on loans	1,678,128	4,101,678
Net cash used for investing activities	(2,650,586)	(677,968)
<b>Cash flows from financing activities</b>		
Net draws on bank lines of credit	1,214,904	368,368
Net cash provided by financing activities	1,214,904	368,368
Net decrease in cash	(307,005)	1,059,940
Cash at beginning of year	3,594,650	2,534,710
Cash at end of year	\$ 3,287,645	\$ 3,594,650
<b>Supplemental information</b>		
Interest paid	\$ 670,688	\$ 142,059
<b>Noncash investing and financing activities</b>		
Mortgage notes receivable granted in connection with sale of homes	\$ 752,000	\$ 535,606

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

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**1) Summary of Significant Accounting Policies**

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

Basis of Accounting

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

Revenue and Cost Recognition

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

Basis of Presentation

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

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

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

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

*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, 2006**

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. Homewise had cash balances in certain banks that exceeded federally insured limits during fiscal year 2006 and at year-end. Homewise has not experienced any losses from exceeding the limits. The repurchase agreements are collateralized by pledged securities.

Fixed Assets and Depreciation

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

Grant Revenue, Grant Receivable, and Deferred Grant Revenue

Grant revenue is recognized when earned. The earnings process is considered complete when the authorized expenditure has been made. 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 as grant receivables.

Vacation Accruals

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

Deferred Loans

Deferred loans are loans not currently receivable. They include:

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

Unforgivable—Other deferred loans that are due upon sale, transfer or refinance of the related home fall into two categories: (1) if they are to be returned to a grantor upon collection, they are not discounted and the full amount is included in the due to grantor liability on the statement of financial position, and (2) if Homewise is to retain the collections, the loan is discounted by an estimate of the present value and required loan loss reserve (35% at March 31, 2006). The discount is recognized in full when the loan is collected.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

1) Summary of Significant Accounting Policies — continued

Provision for Loan Losses

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

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

Interest on Loans

Interest earned is only recorded when collected because uncollected interest is not material to the financial statements at March 31, 2006.

Loans at Below Market Interest Rates

Financial institutions have made loans to Homewise at below market interest rates, resulting in deferred charges that are being amortized over the remaining lives of the loans. The amortization expense recognized for the year ended March 31, 2006, was \$61,405. No such new loans were originated in 2006.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

1) Summary of Significant Accounting Policies — continued

Income Taxes

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

Allocation of Functional Expenses

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

Fair Value of Financial Instruments and Derivative Financial Instruments

Homewise has adopted the Financial Accounting Standards Board SFAS No. 126, Exemption from Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities (Amending SFAS No. 107) which allows the disclosure requirements under SFAS No. 107 to be optional for nonpublic entities with total assets less than \$100 million who have not held or issued any derivative financial instruments as defined in SFAS No. 119 other than loan commitments. Homewise's policy is to not engage in derivative financial instruments and accordingly, it did not disclose fair value information for the year ended March 31, 2006.

Use of Estimates

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

Prior-Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Homewise's financial statements for the year ended March 31, 2005, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**2) Grants Receivable**

Grants receivable consist of the following at March 31, 2006:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
City of Santa Fe	\$ 56,995	\$ 16,000	\$ -	\$ 72,995
New Mexico Mortgage Finance Authority	7,700	14,286	-	21,986
Federal Home Loan Bank	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>18,000</u>
Total nonfederal	<u>82,695</u>	<u>30,286</u>	<u>-</u>	<u>112,981</u>
Federal				
Department of Housing and Urban Development (HUD)				
Counseling	22,117	-	-	22,117
CHDO	6,250	-	-	6,250
THAP	1,429	-	-	1,429
CDBG	<u>19,780</u>	<u>134,900</u>	<u>-</u>	<u>154,680</u>
Total federal	<u>49,576</u>	<u>134,900</u>	<u>-</u>	<u>184,476</u>
Total	<u>\$ 132,271</u>	<u>\$ 165,186</u>	<u>\$ -</u>	<u>\$ 297,457</u>

**3) Development Costs and Land Held for Development**

Project costs (such as land acquisition and construction) are separately tracked or allocated and recorded on the financial statements as development costs and land held for future development. Project costs at March 31, 2006, are as follows:

<u>Project</u>	<u>Amount</u>
Rancho Viejo	\$ 900,000
Aldea de Santa Fe	141,328
Chamisa Verde	12,650
Greer Property	60,217
Old Las Vegas Property	477,054
Palomita	21,081
Evergreen	3,394,792
Alta Vista – Santa Fe Public Schools	418,031
West Alameda	<u>5,000</u>
	<u>\$ 5,430,153</u>

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

3) Development Costs — continued

Project costs are reported on the statement of financial position as follows:

Development costs	\$ 4,955,153
Land held for future development	<u>475,000</u>
	<u>\$ 5,430,153</u>

Rancho Viejo in Santa Fe, consists of nine lots for single-family homes contributed to Homewise during fiscal year 2006. Based on the terms of this restricted gift, Homewise will discount the prices of the houses built and sold on these lots to effectively not charge buyers for the value of the lots.

Aldea de Santa Fe consists of thirteen lots for single-family homes and nine lots for townhomes in Santa Fe County. At year-end, Homewise had completed and sold twelve single family homes and seven townhomes. Three lots remain unsold.

Chamisa Verde, still in the planning phase, will consist of seventeen single-family homes in Taos.

Greer property in Santa Fe consists of 26.8 acres of undeveloped land. Plans for an eighty-unit subdivision have been approved by the City Planning Commission and will be presented to the City Council for approval in May 2006.

Old Las Vegas in Santa Fe consists of the estimated fair value of 15.3 acres of undeveloped land donated to Homewise for affordable housing.

Palomita consists of one single-family lot in Taos.

Evergreen in Santa Fe is an eighty-unit subdivision. Fifty homes will be sold to families below 80% of Area Median Income (AMI) and thirty will be sold to families above 80% AMI but below Homewise's upper income limit. As of March 31, 2006, eight homes were sold and twenty-five are under contract.

Alta Vista – Santa Fe Public Schools consists of 5 homes built by Homewise for teachers qualified under the School District's Teacher Housing Program. Three homes are under contract.

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

During 2006, Homewise capitalized \$163,210 of interest in connection with financing the above projects.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**4) Mortgage Notes Receivable**

To assist low-income households with home purchases or repairs, Homewise originates amortizing mortgages bearing interest rates from 0% to 8.5%, for periods of up to 30 years. The notes are secured by a recorded perfected interest in the subject property. Homewise has not discounted the amortizing mortgage notes to present value at interest rates appropriate for such instruments because (1) Homewise is substantially a financial institution whose primary business is lending money, and (2) similar organizations making low or no interest loans to assist low income households with home purchases and repairs generally do not discount their mortgage notes receivable. Homewise provides for potentially uncollectible loans as described in Note 1. A tabulation of loans and funding sources at March 31, 2006, follows:

Funding Source	Amortizing			Due Upon Sale		
	Total	Loss reserve	Net	Total	Discount	Net
Unrestricted						
HOME	\$ -	\$ -	\$ -	\$ 1,220,276	\$ -	\$ 1,220,276
Other discretionary	4,017,571	(101,296)	3,916,275	3,368,954	(1,057,168)	2,311,786
Total unrestricted	4,017,571	(101,296)	3,916,275	4,589,230	(1,057,168)	3,532,062
Temporarily restricted						
HUD-CDBG—Revolving Loan Fund	1,673,337	(35,534)	1,637,803	1,180,004	(428,239)	751,765
HUD-CDBG program income	147,509	(2,950)	144,559	1,768,700	(619,045)	1,149,655
CDFI	42,720	-	42,720	-	-	-
Santa Fe Affordable Housing Roundtable	-	-	-	648,076	(214,785)	433,291
Teachers Home Fund	15,527	(311)	15,216	781,096	(24,236)	756,860
Watersmart - City	2,438	-	2,438	-	-	-
Watersmart - State	8,652	-	8,652	-	-	-
Total temporarily restricted	1,890,183	(38,795)	1,851,388	4,377,876	(1,286,305)	3,091,571
Permanently restricted NRC-						
Revolving Loan Fund	3,355,629	(67,678)	3,287,951	240,094	-	240,094
Santa Fe Land Trust	228,848	(6,914)	221,934	-	-	-
Total permanently restricted	3,584,477	(74,592)	3,509,885	240,094	-	240,094
	<u>\$ 9,492,231</u>	<u>\$ (214,683)</u>	<u>\$ 9,277,548</u>	<u>\$ 9,207,200</u>	<u>\$ (2,343,473)</u>	<u>\$ 6,863,727</u>



**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

4) Mortgage Notes Receivable — continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current portion of amortizing loans, net	\$ 70,321	\$ 71,464	\$ 60,183	\$ 201,968
Noncurrent portion of amortizing loans, net	<u>3,845,954</u>	<u>1,779,924</u>	<u>3,449,702</u>	<u>9,075,580</u>
Total amortizing loans, net	<u>\$ 3,916,275</u>	<u>\$ 1,851,388</u>	<u>\$ 3,509,885</u>	<u>\$ 9,277,548</u>

As of March 31, 2006, Homewise had the following delinquent loans:

	<u>Number</u>	<u>Payment due</u>	<u>Loan amount</u>
31-60 days	3	\$ 1,512	\$ 137,422
61-90 days	6	1,608	30,463
> 90 days	3	3,161	30,181

Loans delinquent more than 90 days are reserved for 15% of the loan balance. The allowance for loan losses for delinquent loans was \$15,000 at March 31, 2006. As of March 31, 2006, there were no loans on nonaccrual status.

Homewise has sold loans with an outstanding principal amount of \$2,013,946 at March 31, 2006, to Neighborhood Housing Services of America (NHS). Homewise services the loans at market rates. NHS has the option to replace delinquent loans with other Homewise loans. No loans were more than 30 days delinquent as of year-end.

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

HUD – HOME	\$ 381,648
Federal Home Loan Bank	189,623
Santa Fe affordable housing roundtable	37,705
Other discretionary programs	<u>898,648</u>
	<u>\$ 1,507,624</u>

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**5) Investment in TCDC/Tierra Montosa**

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

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

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

**6) Property and Equipment**

Property and equipment consist of the following at March 31, 2006:

Furniture and equipment	\$ 177,058
Autos	28,838
Leasehold improvements	8,412
Less accumulated depreciation	(107,667)
Net value of depreciable property and equipment	106,641
Land	301,755
Office construction	7,500
Total property and equipment	\$ 415,896

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**7) Notes Payable**

Notes payable at March 31, 2006, consisted of loans as follows:

Current notes payable

Bank, construction line of credit at 6.75% variable interest collateralized by a negative pledge of mortgage loans, matures May 2006	\$ 416,554
Bank, construction line of credit at 6% variable interest collateralized by \$199,190 of mortgage notes receivable, matures October, 2006	91,244
Bank, construction line of credit at 6% variable interest collateralized by Evergreen property, matures February 2007	2,060,454
Bank, warehouse line of credit at 6.75% variable interest collateralized by a negative pledge of mortgage loans, matures July 2006	<u>388,200</u>
Total current notes payable	<u>2,956,452</u>

Long-term notes payable

New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2009	80,000
Bank, loan for home improvement projects at 3% interest collateralized by \$125,000 of mortgage notes receivable, the principal balance is due at and matures October 2012	100,000
Bank, at 3% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	250,000
Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	250,000
Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013	250,000

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

7) Notes Payable — continued

Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2011	580,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012	150,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	250,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures April 2013	350,000
Neighborhood Housing Services of America, unsecured 3% interest, the principal balance is due at and matures January 2011	<u>500,000</u>
Total long-term notes payable	<u>2,760,000</u>
Total notes payable	5,716,452
Less unamortized discount	<u>344,089</u>
Total notes payable	<u><u>\$ 5,372,363</u></u>

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

Year ending March 31,	
2007	\$ 2,956,452
2008	-
2009	80,000
2010	-
2011	1,080,000
Thereafter	<u>1,600,000</u>
	<u><u>\$ 5,716,452</u></u>

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**8) Net Assets**

Unrestricted net assets consist of the following:

Designated for loans in the flex fund	\$ 1,299,631
Unrestricted and undesignated	<u>6,284,942</u>
	<u>\$ 7,584,573</u>
Temporarily restricted net assets available for affordable housing programs	<u>\$ 6,094,643</u>

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

	<u>NRC</u>	<u>SFLT</u>	<u>Total</u>
Cash	\$ 199,915	\$ 16,107	\$ 216,022
Accounts receivable	1,644	-	1,644
Mortgage notes receivable	3,528,044	221,935	3,749,979
Land	47,000	-	47,000
Accounts and escrows payable	(10,694)	70	(10,624)
Deferred revenue	(390,180)	-	(390,180)
Net assets	<u>\$ 3,375,729</u>	<u>\$ 238,112</u>	<u>\$ 3,613,841</u>
Net assets at beginning of year	\$ 2,897,886	\$ 238,112	\$ 3,135,998
Federal grants of loan funds	<u>477,843</u>	-	<u>477,843</u>
Net assets at end of year	<u>\$ 3,375,729</u>	<u>\$ 238,112</u>	<u>\$ 3,613,841</u>

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**9) Government Grants**

Government grants for the year ended March 31, 2006, consisted of:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
State and local awards				
State of New Mexico	\$ 40,422	\$ 4,893	\$ -	\$ 45,315
City of Santa Fe— Administration of housing programs	<u>125,695</u>	<u>53,846</u>	<u>-</u>	<u>179,541</u>
Total nonfederal awards	<u>166,117</u>	<u>58,739</u>	<u>-</u>	<u>224,856</u>
Federal awards				
HUD ROSS grant	74,664	-	-	74,664
HUD training and counseling	22,117	-	-	22,117
HUD passed through				
City of Santa Fe—CDBG	-	159,975	-	159,975
City of Santa Fe—Fair Housing Initiative	27,693	-	-	27,693
New Mexico Mortgage Finance Authority (NMMFA)—HOME	78,300	-	-	78,300
CDFI loan capital	78,920	-	-	78,920
Enterprise Foundation	20,000	-	-	20,000
Other federal appropriations through NRC	<u>156,315</u>	<u>-</u>	<u>477,843</u>	<u>634,158</u>
Total federal awards	<u>458,009</u>	<u>159,975</u>	<u>477,843</u>	<u>1,095,827</u>
	<u>\$ 624,126</u>	<u>\$ 218,714</u>	<u>\$ 477,843</u>	<u>\$ 1,320,683</u>

**10) Home Sales**

During 2006, Homewise had \$3,947,709 of revenue related to the sale of homes and incurred \$2,765,710 of related expenses. Of the \$1,181,999 earned on home sales during the year ended March 31, 2006, \$752,000 was in the form of deferred loans with an interest rate of zero percent. These loans are due upon the sale of the property or upon the failure of the homeowner to occupy the property. These loans are included in the unrestricted, other discretionary unforgivable deferred loans.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**11) Functional Expenses**

Functional expenses are composed of the following:

	<u>Program</u>	<u>Admini- strative</u>	<u>Fund- raising</u>	<u>Total</u>
Personnel services and benefits	\$ 1,228,718	\$ 409,564	\$ 128,700	\$ 1,766,982
Grants and projects	295,412	-	-	295,412
Client support	113,363	37,842	11,907	163,112
Interest expense	172,065	-	-	172,065
Occupancy expense	105,322	28,702	8,555	142,579
Professional	26,893	58,783	-	85,676
Administration	163,109	25,083	7,577	195,769
Marketing	132,873	-	-	132,873
Professional development	14,390	18,253	-	32,643
Depreciation	35,947	12,000	3,775	51,722
Insurance	248,673	6,401	-	255,074
Reduction of reserve for loan losses	(14,357)	-	-	(14,357)
	<u>\$ 2,522,408</u>	<u>\$ 596,628</u>	<u>\$ 160,514</u>	<u>\$ 3,279,550</u>

**12) 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 \$72,551 in fiscal year 2006.

**Homewise, Inc.**  
**Notes to Financial Statements**  
**March 31, 2006**

**13) Commitments**

Homewise has signed a contract with a designer/builder to build a 10,500 square foot office in an office complex for \$1,900,000. The estimated completion date for the new facility is November 2006. Homewise plans to sell the land previously acquired for an office and finance the remaining cost. A loan commitment for \$1,900,000 has been obtained for permanent financing.

**14) Office Lease**

Homewise leases its office space for \$5,640 per month and cubicles for \$600 per month under leases that expire in November 2006. Lease expense for fiscal year 2006 was \$67,701.

**15) Concentrations of Revenue Sources and Credit Risks**

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

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

**16) Related Parties**

Homewise conducts business with various institutions that employ members of the Board of Directors of Homewise. These transactions are conducted at an arms-length basis.



**Homewise, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**March 31, 2006**

	C DFA	Receivable (payable) at beginning of year	Receipts	Expenditures	Receivable (payable) at end of year
<b>Department of Housing and Urban Development</b>					
HOME investment partnerships (pass through from NMMFA)					
Rehabilitation (05-06)	14.239	\$ -	\$ 36,066	\$ 36,066	\$ -
Training and Counseling	14.239	-	-	-	-
Lead based paint	14.239	9,899	9,899	-	-
Home DPA for teachers (\$220k)	14.239	1,429	10,985	10,984	1,428
CHDO - Alta Vista	-	-	-	-	-
CHDO - Wedgewood	-	-	-	-	-
CHDO - Aldea	-	-	-	-	-
CHDO - Operating \$50k (05-06)	14.239	-	25,000	31,250	6,250
CHDO - Operating \$47,184 (04-05)	14.239	-	-	-	-
		<u>11,328</u>	<u>81,950</u>	<u>78,300</u>	<u>7,678</u>
HUD capacity building grant (pass through from enterprise foundation)	14.XXX	-	20,000	20,000	-
HUD Training and Counseling (pass through from NMFA)	14.XXX	-	-	22,117	22,117
HUD ROSS Grant	14.870	27,127	101,791	74,664	-
HUD - Fair Housing Initiative (pass through from City)	14.409	7,841	35,534	27,693	-
CDBG					
Downpayment assistance (05-06)	14.218	-	5,295	123,975	118,680
Emergency (02-04) (\$50k)	14.218	-	-	36,000	36,000
		<u>34,968</u>	<u>162,620</u>	<u>304,449</u>	<u>176,797</u>
Total Department of Housing and Urban Development		<u>46,296</u>	<u>244,570</u>	<u>382,749</u>	<u>184,475</u>
<b>Department of Treasury</b>					
Community development financial institution from treasury department					
Technical assistance (03-04)	21.020	(12,112)	-	12,112	-
Loan Capital	21.020	-	513,000	78,920	(434,080)
		<u>(12,112)</u>	<u>513,000</u>	<u>91,032</u>	<u>(434,080)</u>
Neighborhood reinvestment corporation					
Revolving loan fund	21.000	-	377,823	377,823	-
Operating - financial fitness	21.000	-	2,222	2,222	-
Operating - homeownership centers	21.000	-	7,742	7,742	-
Operating - Dorothy Richardson Award	21.000	-	5,000	5,000	-
Operating - Albuquerque due diligence	21.000	-	30,625	30,625	-
Operating - watersmart	21.000	-	21,875	21,875	-
Operating - Neighborworks Week	21.000	-	1,350	1,350	-
Operating - VITA support	21.000	-	2,500	2,500	-
Operating - underserved markets	21.000	-	10,000	10,000	-
Revolving loan fund	21.000	-	100,000	100,000	-
Operating - general support	21.000	-	75,000	75,000	-
		<u>-</u>	<u>634,137</u>	<u>634,137</u>	<u>-</u>
Total Department of Treasury		<u>(12,112)</u>	<u>1,147,137</u>	<u>725,169</u>	<u>(434,080)</u>
Total all funding agencies		<u>\$ 34,184</u>	<u>\$ 1,391,707</u>	<u>\$ 1,107,918</u>	<u>\$ (249,605)</u>

**Homewise, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**March 31, 2006**

**1) General**

The accompanying schedule of expenditures of federal awards presents the federal financial assistance programs of Homewise, Inc.

**2) Basis of Accounting**

The accompany schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements.

**3) Loans Receivable**

Loans receivable represent the federal funded portion of loans for which the federal granting department imposes continuing compliance requirements.

**4) Reconciliation to the 2006 Financial Statements**

Expenditures of federal awards	\$ 1,107,918
Nonfederal expenditures	<u>2,171,632</u>
Total 2006 expenses according to financial statements	<u>\$ 3,279,550</u>

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

Board of Directors  
Homewise, Inc.

We have audited the financial statements of Homewise, Inc. (Homewise) as of and for the years ended March 31, 2006 and 2005, and have issued our report thereon dated June 1, 2006. We conducted our audits 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 the Homewise's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### *Compliance and Other Matters*

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

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

*RGDW LLC*

June 1, 2006

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

Board of Directors  
Homewise, Inc.

### *Compliance*

We have audited the compliance of Homewise, Inc. (Homewise) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended March 31, 2006. Homewise's major federal program is 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 its major federal program 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 its major federal program for the year ended March 31, 2006.

### *Internal Control Over Compliance*

The management of Homewise is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Homewise's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*RSDW LLC*

June 1, 2006

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

**Section I — Summary of Auditors' Results**

*Financial Statements*

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

*Federal Awards*

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

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

Section I — Summary of Auditors' Results — continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.0	Agency: Department of the Treasury Program Title: Neighborhood Reinvestment Corporation

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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**Section II — Financial Statement Findings**

None.

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

None.



**Homewise, Inc.**  
**Summary Schedule of Prior-Audit Findings**  
**For the Year Ended March 31, 2006**

**Prior Audit Findings**

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**None.**