



**HOMEWISE, INC.  
AND SUBSIDIARY**

**REPORT OF INDEPENDENT AUDITORS AND  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**MARCH 31, 2011 AND 2010**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

**HOMEWISE, INC.  
AND SUBSIDIARY**

**OFFICIAL ROSTER  
MARCH 31, 2011**

**Board of Directors**

Teresa Leger de Fernandez	President
Viola Lujan	Vice President
Richard Freedman	Treasurer
Andrew Spingler	Secretary
Arturo Estrada	Member
Frank Mathew	Member
Kate Campbell	Member
Deborah Webster	Member
Tamarra Ortiz	Member
David Hofmann	Member

**Administration Official**

Michael Loftin	Executive Director
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## Report of Independent Auditors

Board of Directors  
Homewise, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of Homewise, Inc., a nonprofit organization, and Subsidiary (Organization) as of March 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Homewise, Inc. and Subsidiary

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2011, on our consideration of the Organization'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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards is also 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Mess Adams LLP*

Albuquerque, New Mexico  
June 21, 2011

**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**March 31, 2011 and 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
Current assets		
Cash and cash equivalents	\$ 2,376,999	2,619,944
Broker receivables	1,877,215	2,159,762
Grants receivable	247,643	262,541
Amortizing mortgage loans receivable, current portion	787,802	882,931
Inventory	65,851	67,346
Development costs	3,999,206	1,692,980
<b>Total current assets</b>	<b>9,354,716</b>	<b>7,685,504</b>
Property and equipment, net	<b>2,032,997</b>	<b>2,219,581</b>
Mortgage loans receivable		
Amortizing	23,730,475	15,924,875
Allowance on amortizing loans	(732,317)	(125,052)
<b>Total amortizing</b>	<b>22,998,158</b>	<b>15,799,823</b>
Deferred	16,931,881	16,769,836
Allowance on deferred loans	(5,123,500)	(4,559,417)
<b>Total deferred</b>	<b>11,808,381</b>	<b>12,210,419</b>
<b>Total mortgage loans receivable</b>	<b>34,806,539</b>	<b>28,010,242</b>
Other real estate owned	75,000	233,830
Development costs	4,096,591	3,888,215
Infrastructure deposits	307,881	-
Other assets	373,130	288,000
<b>Total assets</b>	<b>\$ 51,046,854</b>	<b>42,325,372</b>

*See Notes to Consolidated Financial Statements.*

**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**March 31, 2011 and 2010**

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
Current liabilities		
Accounts payable and accrued expenses	\$ 469,178	464,389
Community investment deposits	205,000	-
Escrows and deposits	117,939	51,931
Lines of credit	1,845,258	2,315,554
Notes payable, current portion	1,028,025	580,000
<b>Total current liabilities</b>	<b>3,665,400</b>	<b>3,411,874</b>
Long-term liabilities		
Notes payable, long-term, net	17,074,274	10,167,884
Lines of credit, long-term	-	1,413,181
Deferred revenue on home development sales	948,217	1,040,301
Deferred grants revenue	756,503	-
Due to grantor agency	1,539,177	1,724,528
<b>Total long-term liabilities</b>	<b>20,318,171</b>	<b>14,345,894</b>
<b>Total liabilities</b>	<b>23,983,571</b>	<b>17,757,768</b>
Net assets		
Unrestricted	14,128,951	12,586,360
Temporarily restricted	9,214,589	8,233,321
Permanently restricted	3,719,743	3,747,923
Total net assets	27,063,283	24,567,604
<b>Total liabilities and net assets</b>	<b>\$ 51,046,854</b>	<b>42,325,372</b>

*See Notes to Consolidated Financial Statements.*



**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Home development sales	\$ 5,181,166	-	-	<b>5,181,166</b>
Government grants	852,729	928,961	143,020	<b>1,924,710</b>
Loan portfolio interest	1,218,387	59,060	-	<b>1,277,447</b>
Real estate sales commissions	494,999	-	-	<b>494,999</b>
Loan origination fees	706,786	-	-	<b>706,786</b>
Contributions and grants	72,215	-	-	<b>72,215</b>
Bank interest	14,604	-	-	<b>14,604</b>
Gain on purchase of loans at discount	2,850,761	-	-	<b>2,850,761</b>
Other revenue	415,435	-	-	<b>415,435</b>
Net asset transfers	(222,047)	(6,753)	228,800	-
Net assets released from restrictions	400,000	-	(400,000)	-
<b>Total support and revenues</b>	<b>11,985,035</b>	<b>981,268</b>	<b>(28,180)</b>	<b>12,938,123</b>
<b>Expenses</b>				
Program	4,577,646	-	-	<b>4,577,646</b>
Cost of home development sales	4,945,629	-	-	<b>4,945,629</b>
Administrative	762,353	-	-	<b>762,353</b>
Fundraising	156,816	-	-	<b>156,816</b>
<b>Total expenses</b>	<b>10,442,444</b>	<b>-</b>	<b>-</b>	<b>10,442,444</b>
<b>Change in net assets</b>	<b>1,542,591</b>	<b>981,268</b>	<b>(28,180)</b>	<b>2,495,679</b>
Net assets at beginning of year	12,586,360	8,233,321	3,747,923	<b>24,567,604</b>
<b>Net assets at end of year</b>	<b>\$ 14,128,951</b>	<b>9,214,589</b>	<b>3,719,743</b>	<b>27,063,283</b>

*See Notes to Consolidated Financial Statements.*

**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Home development sales	\$ 2,468,217	-	-	<b>2,468,217</b>
Government grants	1,022,369	174,539	245,000	<b>1,441,908</b>
Loan portfolio interest	964,170	67,880	-	<b>1,032,050</b>
Real estate sales commissions	702,995	-	-	<b>702,995</b>
Loan origination fees	611,293	-	-	<b>611,293</b>
Contributions and grants	153,633	-	-	<b>153,633</b>
Bank interest	14,764	-	-	<b>14,764</b>
Other revenue	426,070	3,770	-	<b>429,840</b>
Net assets released from restrictions	2,436,518	(1,430,651)	(1,005,867)	-
<b>Total support and revenues</b>	<b>8,800,029</b>	<b>(1,184,462)</b>	<b>(760,867)</b>	<b>6,854,700</b>
<b>Expenses</b>				
Program	3,368,741	-	-	<b>3,368,741</b>
Cost of home development sales	2,278,841	-	-	<b>2,278,841</b>
Administrative	785,893	-	-	<b>785,893</b>
Fundraising	161,330	-	-	<b>161,330</b>
<b>Total expenses</b>	<b>6,594,805</b>	<b>-</b>	<b>-</b>	<b>6,594,805</b>
<b>Change in net assets</b>	<b>2,205,224</b>	<b>(1,184,462)</b>	<b>(760,867)</b>	<b>259,895</b>
<b>Net assets at beginning of year</b>	<b>10,381,136</b>	<b>9,417,783</b>	<b>4,508,790</b>	<b>24,307,709</b>
<b>Net assets at end of year</b>	<b>\$ 12,586,360</b>	<b>8,233,321</b>	<b>3,747,923</b>	<b>24,567,604</b>

*See Notes to Consolidated Financial Statements.*

**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended March 31, 2011 and 2010**

	2011	2010
Cash Flows From Operating Activities		
Cash received from customers	\$ 7,815,610	4,851,484
Cash received from grants and contributions	1,996,925	1,595,541
Cash paid to suppliers	(6,116,977)	(3,776,547)
Cash paid to employees	(2,174,952)	(2,253,496)
Cash paid for interest	(682,853)	(358,180)
<b>Net cash provided by operating activities</b>	<u>837,753</u>	<u>58,802</u>
Cash Flows From Investing Activities		
Equipment acquisitions	(56,221)	(244,538)
Proceeds from sale of equipment	18,094	-
Net increase in loans	(6,701,168)	(382,090)
Proceeds from sale of other real estate owned	199,151	88,547
<b>Net cash flows used by investing activities</b>	<u>(6,540,144)</u>	<u>(538,081)</u>
Cash Flows From Financing Activities		
Long-term borrowings	8,994,835	150,000
Payments on long-term borrowings	(1,651,912)	(82,762)
Net (payments) draws on bank lines of credit	(1,883,477)	1,122,730
<b>Net cash flows provided by financing activities</b>	<u>5,459,446</u>	<u>1,189,968</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(242,945)</b>	<b>710,689</b>
Cash and cash equivalents, beginning of year	<u>2,619,944</u>	<u>1,909,255</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,376,999</b>	<b>2,619,944</b>
<b>Reconciliation of increase in net assets to net cash and cash equivalents provided by operations</b>		
Change in net assets	\$ 2,495,679	259,895
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	224,711	252,744
Amortization of discount on below market notes payable	11,492	(78,214)
Loss on sale of other real estate owned	-	(14,363)
Change in assets and liabilities		
Broker receivables	282,547	1,137,857
Infrastructure deposits	(307,881)	-
Grants receivable	(77,186)	266,744
Prepaid expenses and other assets	(85,130)	216,705
Inventory	1,495	30,163
Development costs	(2,514,602)	(1,527,268)
Accounts payable, accrued, escrows and deposits	275,797	(46,594)
Due to grantor agency	(185,351)	(280,037)
Deferred grant revenue	756,503	-
Other real estate owned	(40,321)	(158,830)
<b>Net cash flows provided by operating activities</b>	<u>\$ 837,753</u>	<u>58,802</u>

See Notes to Consolidated Financial Statements.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

*Organization.* Homewise, Inc. is a 501(c)(3) not-for-profit corporation created to secure affordable housing in the Santa Fe and Northern New Mexico area. The mission of Homewise is to help working New Mexicans become successful homeowners in order to achieve financial security, strengthen families and increase the economic and social vitality of its communities. Homewise provides financial counseling, property development, government program administration, low-interest fixed rate mortgages, home improvement loans, refinance loans and real estate sales.

The accompanying consolidated financial statements include the accounts of the Homewise, Inc.'s wholly-owned for-profit subsidiary, Homewise Mortgage, LLC. Homewise Mortgage, a New Mexico limited liability company, was formed on March 25, 2011, under the New Mexico Limited Liability Company Act. It will originate and underwrite mortgage loans to eligible income households in addition to purchasing, holding, servicing and selling such loans. Homewise Mortgage will exist for a perpetual period of time unless dissolved by Homewise, Inc.

*Basis of Consolidation.* The accompanying consolidated financial statements include the accounts of Homewise, Inc. and Homewise Mortgage, LLC, collectively referred to as Organization. All significant intercompany transactions and balances have been eliminated in consolidation.

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

*Accounting Standards Codification.* Effective for 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became the single authoritative source for nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC supersedes all previous authoritative GAAP applicable to the Organization and subsidiary and is effective for interim and annual periods ended after September 15, 2009. The ASC had no significant impact to the Organization and Subsidiary upon adoption.

*Home Development Revenue and Cost Recognition.* Homebuilding revenue and related profit are generally recognized at the time of the closing of the sale, when title to and possession of the property are transferred to the buyer. In situations where the buyer's financing is originated by Homewise and the buyer has not made an adequate initial or continuing investment as required by ASC 360-20, the profit on such sales is deferred. During construction, all direct material and labor costs and those indirect costs related to the acquisition and construction are capitalized as development costs, and all customer deposits are treated as liabilities until

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

closing. Capitalized costs are charged to cost of home sales upon completion. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred.

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

*Basis of Presentation.* The Organization is designated as a Community Development Financial Institution (CDFI). As such, the Organization is required to present its financial statements in a classified format. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

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

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

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

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

*Property, Equipment and Depreciation.* Property and equipment are stated at cost. Donated assets are recorded at estimated fair market value at date of receipt. Expenditures for maintenance and repairs are charged to expense as incurred while major betterments are capitalized. Depreciation is calculated using the straight-line method over the useful life of an asset. The Organization capitalizes assets that cost more than \$500 and have a service life of more than one year. Estimated useful lives of the assets are as follows:

Building and improvements	27.5 years
Software	3 years
Furniture and equipment	3-7 years
Autos	5 years

*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 (FIFO) method and consist primarily of building fixtures held for use in real estate development and home improvement operations.

*Mortgage Loans Receivable.* Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated as unpaid principal balances less allowance for loan losses. Interest earned on loans is recognized only when collected, as uncollected accrued interest is not considered to be material to the consolidated financial statements at March 31, 2011 and 2010.

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

The allowance for loan losses is established through a provision charged to loan losses expense. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on an evaluation of the collectability of loans and prior loss

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

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.

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

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

*Broker Receivables.* Broker receivables represent amounts due from mortgage brokers for mortgage loans sold by the Organization, and are carried at their estimated collectible amounts. The Organization periodically evaluates the collectability of broker receivables and believes that they are fully collectible as of March 31, 2011 and 2010.

*Notes Payable at Below Market Interest Rates.* Financial institutions have made loans to the Organization at below market interest rates, resulting in debt discounts that are being amortized over the remaining lives of the loans. The initial discount is accounted for as a contribution. The amortization expense recognized for the year ended March 31, 2011 and 2010 was \$89,706 and \$107,450, respectively.

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

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

The Organization adopted the provisions of ASC No. 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Organization. The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. See Note 13 for additional details.

*Allocation of Functional Expenses.* The Organization allocates expenses not applicable to a single activity to the appropriate activities based on the estimated percentage of time employees spend on each of the programs or on administrative or fundraising activities.

*Fair Value of Financial Instruments and Derivative Financial Instruments.* The Organization has adopted ASC 825-10-50, *Disclosure of Financial Instruments*, which allows the disclosure requirements for fair value of financial and derivative financial instruments to be optional for nonpublic entities with total assets less than \$100 million who have not held or issued any derivative financial instruments other than loan commitments. The Organization's policy is to not engage in derivative financial instruments. The Organization did not disclose fair value information for the years ended March 31, 2011 and 2010.

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

*Advertising Costs.* The Organization expenses the cost of advertising as the expense is incurred. Advertising costs were \$174,993 and \$178,707 at March 31, 2011 and 2010, respectively.

*Other Real Estate Owned.* Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or net realizable value less cost to sell. Revenue and



**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

*Community Investment Deposits.* Community investment deposits represent obligations of the Organization related to individuals investing in securities in the form of certificates of deposit. The total aggregate offering price amounts to \$5,000,000 and is offered with a minimum investment of \$1,000 plus additional increments of \$100 bearing interest at a rate of 1 to 4%. All principal balances are guaranteed by letter of credit. Cash generated from issuance of these deposits is utilized to fund operations. At March 31, 2011 and 2010 the balance recorded as deposits amounted to \$205,000 and \$0, respectively.

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

*Subsequent Events.* Subsequent events are events or transactions that occur after the consolidated statements of financial position date but before financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that exist at the date of the consolidated statements of financial position but arose after the consolidated statements of financial position date and before consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through June 21, 2011, which is the date the consolidated financial statements were available to be issued and, as a result of evaluation, there were no subsequent events that required disclosure.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 2. GRANTS RECEIVABLE**

Grants receivable consist of the following at March 31:

	<b>2011</b>	2010
Non-Federal		
City of Santa Fe	<b>\$ 136,600</b>	25,723
City Down Payment Assistance	-	100,000
NMMFA Counseling Grant	-	84,822
Federal Home Loan Bank (FHLB)	<b>7,000</b>	15,000
New Mexico Mortgage Finance Authority (NMMFA)	<b>34,045</b>	8,010
Other grants receivable	<b>69,998</b>	28,986
Total grants receivable	<b><u>\$ 247,643</u></b>	<u>262,541</u>

**NOTE 3. DEVELOPMENT COSTS**

Project costs (such as land acquisition and construction) are separately tracked or allocated and recorded on the consolidated financial statements as development costs. Project costs at March 31, 2011 and 2010 are as follows:

<b>Project</b>	<b>2011</b>	2010
Old Las Vegas Place	<b>\$ 3,587,423</b>	2,843,401
Las Palomas	<b>1,446,289</b>	-
Desert Sage	<b>1,214,862</b>	1,186,543
Rincon Del Sol	<b>1,060,448</b>	-
Vista Jemez 2	-	783,092
Vista Serena	<b>714,454</b>	714,454
Pinon Bluffs	<b>40,101</b>	23,139
Palomita	<b>21,713</b>	21,714
Alta Vista SFPS	<b>10,507</b>	8,852
	<b><u>\$ 8,095,797</u></b>	<u>5,581,195</u>

Old Las Vegas Place (formerly Old Las Vegas Highway) in Santa Fe County consists of unsold tracts of land that were donated to the Organization for affordable housing. The balance includes the costs of land, improvements and construction in progress. Vertical construction began in 2010 in this 50-unit development and as of March 31, 2011 there were 38 sales and 16 closings recorded.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

Las Palomas (formerly El Nido) consists of lots 35 through 66 and lots 71 through 98 located in Tract 48, Phase 2A, Unit 2 of Tierra Contenta, Santa Fe New Mexico. The development of these lots is scheduled to commence in July 2011.

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 and infrastructure construction is expected to begin sometime in 2013.

Rincon del Sol consists of 38 developed lots in the Rincon del Sol Subdivision located in Tierra Contenta. The subdivision consists of a total of 62 lots, 24 of which were built by the original developer/builder. Construction on the remaining lots is expected to begin May 2011.

Vista Jemez 2 is a ten-unit project in Santa Fe, all of which were single family detached units sold to buyers meeting the affordability requirements of the Tierra Contenta plan. During the year ended March 31, 2011, the remaining 4 units were sold.

Vista Serena consists of approximately 12.7 acres of undeveloped land that the Organization purchased with the intent of building a 60 unit subdivision consisting of a combination of single family detached units as well as town home units. The project continued in its design phase as of March 31, 2011.

Pinon Bluffs consists of two lots that the Organization purchased within the Pinon Bluffs subdivision. This subdivision consists of 15 custom lots located within the master plan of Las Estrellas in the north side of Santa Fe. Vertical construction has commenced with one home under contract.

Palomita consists of one single family lot in Taos.

Alta Vista SFPS is a .22 acre lot held for future development.

**NOTE 4. MORTGAGE LOANS RECEIVABLE**

To assist low-income households with home purchases or repairs, the Organization has originated amortizing mortgage loans bearing interest rates from 0% to 8%, for periods of up to 30 years. The notes are secured by a recorded perfected interest in the subject property. The Organization provides for potentially uncollectible loans as described in Note 1.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

As of March 31, 2011, the Organization had the following delinquent loans:

	Number	Payment Due	Loan Amount
31-60 days	16	\$ 6,147	446,527
61-90 days	5	2,437	187,934
> 90 days	5	1,802	182,395
	<u>26</u>	<u>\$ 10,386</u>	<u>816,856</u>

The amount 31 or more days past due was equivalent to 3.4% of the outstanding amortizing mortgage loans receivable balance at March 31, 2011.

As of March 31, 2010, the Organization had the following delinquent loans:

	Number	Payment Due	Loan Amount
31-60 days	8	\$ 7,586	348,641
61-90 days	5	3,376	97,555
> 90 days	8	8,467	70,677
	<u>21</u>	<u>\$ 19,429</u>	<u>516,873</u>

The amount 31 or more days past due was equivalent to 3.2% of the outstanding amortizing mortgage loans receivable balance at March 31, 2010.

Deferred mortgage loans receivable not specifically impaired are allowed for based on a calculated allocation of historical loss percentages. Amortizing mortgage loans receivable are reserved for 10%, 20% and 100% of the loan balance for delinquencies of 31 to 60 days, 61 to 90 days and greater than 90 days, respectively. An additional 2% reserve is taken on all current amortizing balances.

At March 31, 2011 and 2010, amortizing and deferred mortgage loans receivable had the following general and specific allowances applied against principal due:

	2011		2010	
	Amortizing	Deferred	Amortizing	Deferred
General allowance	\$ 732,317	2,265,241	125,052	1,473,901
Specific allowance	-	2,858,259	-	3,085,516
<b>Total allowance</b>	<b>\$ 732,317</b>	<b>5,123,500</b>	<b>125,052</b>	<b>4,559,417</b>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

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

Changes in the allowance for loan losses at March 31, 2011 and 2010 are summarized as follows:

	Amortizing	Deferred	Total
Balance, March 31, 2009	\$ 333,342	3,830,052	4,163,394
Provision for loan losses	-	521,075	521,075
Loans charged off, net of recoveries	<u>(208,290)</u>	<u>208,290</u>	<u>-</u>
Balance, March 31, 2010	125,052	4,559,417	4,684,469
Provision for loan losses	864,522	666,299	1,530,821
Loans charged off, net of recoveries	<u>(257,257)</u>	<u>(102,216)</u>	<u>(359,473)</u>
<b>Balance, March 31, 2011</b>	<b><u>\$ 732,317</u></b>	<b><u>5,123,500</u></b>	<b><u>5,855,817</u></b>

Deferred loans that are expected to be forgiven at the end of a fixed term totaled \$684,466 and \$979,178 at March 31, 2011 and 2010, respectively.

Loans to related parties amounted to \$338,554 and \$308,956 at March 31, 2011 and 2010, respectively. These loans were issued to employees of the Organization who qualified to participate in the Homewise lending program. Each loan was issued in accordance with the Organization's policy.

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at March 31:

	2011	2010
Buildings and improvements	\$ 1,989,228	1,989,228
Software	600,742	596,932
Furniture and equipment	349,051	314,734
Autos	<u>14,995</u>	<u>14,995</u>
	2,954,016	2,915,889
Less: Accumulated depreciation	<u>(921,019)</u>	<u>(696,308)</u>
Net value of depreciable property and equipment	<b><u>\$ 2,032,997</u></b>	<b><u>2,219,581</u></b>

Depreciation expense for the years ended March 31, 2011 and 2010 was \$224,712 and \$252,745, respectively.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 6. LINES OF CREDIT AND NOTES PAYABLE**

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

	2011	2010
<b>Lines of credit</b>		
Bank, warehouse line of credit of \$3,000,000 at 5.0% variable interest collateralized by mortgage loans, matures July 2011	\$ 838,791	1,413,181
Bank, construction line of credit of \$2,175,000 at 5.5% variable interest collateralized by land, matures April 2011	-	2,087,263
Bank, line of credit of \$119,000 at 5.5% variable Interest collateralized by land, matures September 2010	-	114,340
Bank, line of credit of \$1,848,750 at 5.5% variable Interest collateralized by land, vertical construction of homes, matures July 2011	1,006,467	-
Bank, line of credit of \$119,000 at 5.5% variable Interest collateralized by land, matures September 2010	-	113,951
<b>Total lines of credit</b>	<b>\$ 1,845,258</b>	<b>3,728,735</b>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 6. LINES OF CREDIT AND NOTES PAYABLE (CONTINUED)**

	2011	2010
<b>Notes payable</b>		
Opportunity Finance Network, unsecured at 3% interest, the principal balance is due at and matures February 2019	<b>\$ 2,500,000</b>	2,500,000
Opportunity Finance Network, unsecured at 4.3% interest, the principal balance is due at and matures December 2015	<b>1,000,000</b>	-
Bank, at 5.1% interest collateralized by security agreements, due in principal and interest payments on the 19 <sup>th</sup> day of each month beginning March 2008 and maturing February 2028	<b>1,806,361</b>	1,872,281
Bank, at 6.2% interest collateralized by the mortgage on Homewise headquarters building, due in principal and interest payments on the 13 <sup>th</sup> day of each month beginning July 2007 and maturing June 2037	<b>1,446,387</b>	1,467,752
New Mexico Mortgage Finance Authority, at 1% interest, collateralized by Desert Sage property, the principal balance is due at and matures September 2011	<b>948,025</b>	948,025
Social Investment Foundation, unsecured at 4.5% interest, the principal balance and final interest payment is due at and matures September 2014	<b>1,500,000</b>	750,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012	<b>580,000</b>	580,000
Neighborhood Housing Services of America, unsecured at 3% interest, the principal balance is due at and matures January 2011	-	500,000

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 6. LINES OF CREDIT AND NOTES PAYABLE (CONTINUED)**

	<b>2011</b>	2010
<b>Notes payable (Continued)</b>		
Bank, at 4.8% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures December 2017	<b>\$ 500,000</b>	500,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures April 2013	<b>350,000</b>	350,000
Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013	<b>250,000</b>	250,000
Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	<b>250,000</b>	250,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	<b>250,000</b>	250,000
Bank, at 3% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	<b>250,000</b>	250,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012	<b>150,000</b>	150,000
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	<b>100,000</b>	100,000
Religious Communities Investment, unsecured at 2% interest, the principal balance is due at and matures November 2014	<b>150,000</b>	150,000



**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 6. LINES OF CREDIT AND NOTES PAYABLE (CONTINUED)**

	2011	2010
<b>Notes payable (Continued)</b>		
Bank, at 5% interest collateralized by security agreement of mortgage notes receivable and other inventory and equipment, due in principal and interest payments on the 23 <sup>rd</sup> day of each month beginning September 2010 and maturing August 2015	\$ 3,645,123	-
Bank, at 4.3% interest collateralized by Las Palomas development, the principal balance is due at and matures September 2015	1,260,000	-
Mercy Investment Services, Inc, unsecured at 3% interest, the principal balance is due at and matures June 2015	300,000	-
Seton Enablement Fund, unsecured at 3% interest, the principal balance is due at and matures July 2015	171,871	-
New Mexico Mortgage Finance Authority, at 1% interest, collateralized by Old Las Vegas Place property, the principal balance is due at and matures May 2013	225,000	-
Bank, at 3% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures February 2021	500,000	-
New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2011	<u>80,000</u>	<u>80,000</u>
<b>Total notes payable</b>	<b>18,212,767</b>	<b>10,948,058</b>
Less current maturities	<b>(1,028,025)</b>	<b>(580,000)</b>
Less unamortized discount	<u><b>(110,468)</b></u>	<u><b>(200,174)</b></u>
Total notes payable, less current portion and unamortized discount	<u><b>\$ 17,074,274</b></u>	<u><b>10,167,884</b></u>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 6. LINES OF CREDIT AND NOTES PAYABLE (CONTINUED)**

At March 31, 2011, scheduled future principal payments due on the notes payable and lines of credit are as follows:

Year ending March 31,	
2012	\$ 2,873,283
2013	2,830,000
2014	825,000
2015	400,000
2016	6,376,995
Thereafter	<u>6,752,747</u>
	<u>\$20,058,025</u>

Homewise is in compliance with all financial debt covenants as of March 31, 2011 and 2010.

**NOTE 7. PERMANENTLY RESTRICTED NET ASSETS**

Unrestricted net assets include \$5,985,996 designated for loans in the Homewise Loan Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets of \$9,214,589 are available for affordable housing programs. Once these funds are deployed they become unrestricted.

Permanently restricted net assets are restricted to NeighborWorks America (NWA), Santa Fe Land Trust (SFLT) and Affordable Housing Trust Fund (AHTF) revolving loans and property acquisitions. During the year ended March 31, 2011, a donor changed a permanent restriction of \$400,000 and made the donation unrestricted. Summarized activity in the three funds at March 31, 2011 follows:

	NWA	SFLT	AHTF	Total
Cash	\$ 475,074	19,109	(15,900)	<b>478,283</b>
Grants Receivable	-	-	68,000	<b>68,000</b>
Mortgage notes receivable	3,070,560	219,003	286,900	<b>3,576,463</b>
Deferred Revenue	(394,680)	-	-	<b>(394,680)</b>
Accounts and escrows payable	<u>(8,323)</u>	-	-	<b>(8,323)</b>
Net Assets	<u>\$3,142,631</u>	<u>238,112</u>	<u>339,000</u>	<b><u>3,719,743</u></b>
Permanently restricted net assets at beginning of year	\$3,509,811	238,112	-	<b>3,747,923</b>
Grants of loan funds	32,820	-	110,200	<b>143,020</b>
Transfer	-	-	228,800	<b>228,800</b>
Released from restrictions	<u>(400,000)</u>	-	-	<b>(400,000)</b>
Permanently restricted net assets at end of year	<u>\$3,142,631</u>	<u>238,112</u>	<u>339,000</u>	<b><u>3,719,743</u></b>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 7. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

Summarized activity in the two funds at March 31, 2010 follows:

	NWA	SFLT	Total
Cash	\$ 72,274	9,855	<b>82,129</b>
Mortgage notes receivable	3,444,357	228,257	<b>3,672,614</b>
Accounts and escrows payable	<u>(6,820)</u>	-	<b><u>(6,820)</u></b>
Net Assets	<u>\$ 3,509,811</u>	<u>238,112</u>	<b><u>3,747,923</u></b>
Permanently restricted net assets at beginning of year	\$ 4,270,678	238,112	<b>4,508,790</b>
Grants of loan funds	245,000	-	<b>245,000</b>
Released from restrictions	<u>(1,005,867)</u>	-	<b><u>(1,005,867)</u></b>
Permanently restricted net assets at end of year	<u>\$ 3,509,811</u>	<u>238,112</u>	<b><u>3,747,923</u></b>

During the year ended March 31, 2010, a donor changed a permanent restriction of \$1,005,867 and made the donation unrestricted.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 8. GOVERNMENT GRANTS**

Government grants for the year ended March 31, 2011 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>Total</b>
State and local awards				
City of Santa Fe – Administration of housing programs	\$ 302,593	-	-	<b>302,593</b>
Total non-federal awards	<u>302,593</u>	<u>-</u>	<u>-</u>	<b><u>302,593</u></b>
Federal awards				
New Mexico Mortgage Finance Authority (NMMFA) – HOME	163,499	-	-	<b>163,499</b>
Community Development Block Grant	178,961	-	-	<b>178,961</b>
Community Development Financial Institution Program	-	788,177	-	<b>788,177</b>
Other federal appropriations Through NWA	<u>458,660</u>	<u>-</u>	<u>32,820</u>	<b><u>491,480</u></b>
Total federal Awards	<u>801,120</u>	<u>788,177</u>	<u>32,820</u>	<b><u>1,622,117</u></b>
	<u>\$ 1,103,713</u>	<u>788,177</u>	<u>32,820</u>	<b><u>1,924,710</u></b>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 8. GOVERNMENT GRANTS (CONTINUED)**

Government grants for the year ended March 31, 2010 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>Total</b>
State and local awards				
City of Santa Fe – Administration of housing programs	\$ 730,653	-	-	730,653
Total non-federal awards	<u>730,653</u>	<u>-</u>	<u>-</u>	<u>730,653</u>
Federal awards				
New Mexico Mortgage Finance Authority (NMMFA) – HOME	123,716	-	-	123,716
City of Santa Fe – Administration of Housing programs	-	174,539	-	174,539
Other federal appropriations Through NWA	<u>168,000</u>	<u>-</u>	<u>245,000</u>	<u>413,000</u>
Total federal Awards	<u>291,716</u>	<u>174,539</u>	<u>245,000</u>	<u>711,255</u>
	<u>\$ 1,022,369</u>	<u>174,539</u>	<u>245,000</u>	<u>1,441,908</u>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 9. FUNCTIONAL EXPENSES**

For the year ended March 31, 2011, program, administrative and fundraising expenses were composed of the following:

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$1,565,965	500,239	108,746	<b>2,174,950</b>
Client support	47,721	15,118	3,287	<b>66,126</b>
Interest	682,854	-	-	<b>682,854</b>
Occupancy	65,658	20,974	4,560	<b>91,192</b>
Professional services	173,028	55,273	12,016	<b>240,317</b>
Administrative	118,382	37,816	8,221	<b>164,419</b>
Marketing	125,995	40,248	8,750	<b>174,993</b>
Professional development	47,896	18,627	-	<b>66,523</b>
Depreciation	161,792	51,684	11,236	<b>224,712</b>
Insurance	57,534	22,374	-	<b>79,908</b>
Bad debt	1,530,821	-	-	<b>1,530,821</b>
	<u>\$4,577,646</u>	<u>762,353</u>	<u>156,816</u>	<u><b>5,496,815</b></u>

For the year ended March 31, 2010, program, administrative and fundraising expenses were composed of the following:

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$1,607,435	530,693	115,368	2,253,496
Client support	46,141	14,739	3,204	64,084
Interest	358,180	-	-	358,180
Occupancy	43,904	14,025	3,049	60,978
Professional services	145,695	46,541	10,118	202,354
Administrative	115,461	36,883	8,018	160,362
Marketing	128,669	41,103	8,935	178,707
Professional development	59,694	23,214	-	82,908
Depreciation	181,976	58,131	12,638	252,745
Insurance	52,874	20,564	-	73,438
Loss on sale of assets	107,637	-	-	107,637
Bad debt	521,075	-	-	521,075
	<u>\$3,368,741</u>	<u>785,893</u>	<u>161,330</u>	<u>4,315,964</u>

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 10. RETIREMENT PLAN**

The Organization has a 403(b) retirement plan for its employees. Following one year of service, Homewise makes a basic contribution of 5% of an employee's compensation plus a contribution matching up to 3% contributed by the employee through salary reduction. The Organization's contribution was \$122,845 and \$117,305 for the years ended March 31, 2011 and 2010, respectively.

**NOTE 11. CONCENTRATIONS OF REVENUE SOURCES AND CREDIT RISKS**

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

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

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

**NOTE 12. COMMITMENTS AND CONTINGENCIES**

**Grants and Contracts**

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

**Recourse Loans**

In prior years, the Organization at times sold mortgage receivables to Neighborhood Housing Services of America (NHS) for cash flow purposes. The Organization continued to service these receivables on behalf of NHS and they were sold to NHS with full recourse, which resulted in a liability to the Organization upon the default of a loan. At March 31, 2010 the balance of these loans was \$7,238,906. Management of the Organization has not experienced significant losses from loan defaults related to this arrangement in the past. During the course of the 2011 fiscal year, all loans were repurchased at a discount resulting in a recorded gain of \$2,775,011. The balance of the related liability at March 31, 2011 was zero.

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 AND 2010**

**NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Letters of Credit**

At March 31, 2011, the Organization had three available letters of credit issued by financial institutions in the aggregate amount of \$2,359,121 related to the Las Polomas, Desert Sage and Old Las Vegas Place developments. At March 31, 2010, the aggregate amount available on these letters of credit was \$1,821,389.

At March 31, 2011, the Organization had a \$5,000,000 letter of credit issued by a financial institution to secure its community investment deposits reflected within the consolidated statements of financial position. The Organization was additionally required to hold 10% of the deposits in a cash lock box with the financial institution.

**NOTE 13. INCOME TAXES**

The Organization had no unrecognized tax benefits which would require an adjustment to the April 1, 2009 beginning balance of net assets and had no unrecognized tax benefits at March 31, 2011 and 2010. The Organization files an exempt organization return in the U.S. federal jurisdiction and with the New Mexico Taxation and Revenue Department.



**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**March 31, 2011**

<b>ASSETS</b>	Homewise, Inc.	Homewise Mortgage, LLC	Elimination	<b>Total</b>
Current assets				
Cash and cash equivalents	\$ 2,375,999	1,000	-	<b>2,376,999</b>
Broker receivables	1,877,215	-	-	<b>1,877,215</b>
Grants receivable	247,643	-	-	<b>247,643</b>
Amortizing mortgage loans receivable, current portion	787,802	-	-	<b>787,802</b>
Inventory	65,851	-	-	<b>65,851</b>
Development costs	3,999,206	-	-	<b>3,999,206</b>
<b>Total current assets</b>	<b>9,353,716</b>	<b>1,000</b>	<b>-</b>	<b>9,354,716</b>
Property and equipment, net	2,032,997	-	-	<b>2,032,997</b>
Mortgage loans receivable				
Amortizing	23,730,475	-	-	<b>23,730,475</b>
Allowance on amortizing loans	(732,317)	-	-	<b>(732,317)</b>
<b>Total amortizing</b>	<b>22,998,158</b>	<b>-</b>	<b>-</b>	<b>22,998,158</b>
Deferred	16,931,881	-	-	<b>16,931,881</b>
Allowance on deferred loans	(5,123,500)	-	-	<b>(5,123,500)</b>
<b>Total deferred</b>	<b>11,808,381</b>	<b>-</b>	<b>-</b>	<b>11,808,381</b>
<b>Total mortgage notes receivable</b>	<b>34,806,539</b>	<b>-</b>	<b>-</b>	<b>34,806,539</b>
Other real estate owned	75,000	-	-	<b>75,000</b>
Development costs	4,096,591	-	-	<b>4,096,591</b>
Infrastructure deposits	307,881	-	-	<b>307,881</b>
Other assets	374,130	-	(1,000)	<b>373,130</b>
<b>Total assets</b>	<b>\$ 51,046,854</b>	<b>1,000</b>	<b>(1,000)</b>	<b>51,046,854</b>

**HOMEWISE, INC.  
AND SUBSIDIARY  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)  
March 31, 2011**

<b>LIABILITIES AND NET ASSETS</b>	<b>Homewise, Inc.</b>	<b>Homewise Mortgage, LLC</b>	<b>Elimination</b>	<b>Total</b>
<b>Current liabilities</b>				
Accounts payable and accrued expenses	\$ 469,178	-	-	<b>469,178</b>
Community investment deposits	205,000	-	-	<b>205,000</b>
Escrows and deposits	117,939	-	-	<b>117,939</b>
Lines of credit	1,845,258	-	-	<b>1,845,258</b>
Notes payable, current portion	1,028,025	-	-	<b>1,028,025</b>
<b>Total current liabilities</b>	<b>3,665,400</b>	<b>-</b>	<b>-</b>	<b>3,665,400</b>
<b>Long-term liabilities</b>				
Notes payable, long-term, net	17,074,274	-	-	<b>17,074,274</b>
Lines of credit, long-term	-	-	-	<b>-</b>
Deferred revenue on home development sales	948,217	-	-	<b>948,217</b>
Deferred grants revenue	756,503	-	-	<b>756,503</b>
Due to grantor agency	1,539,177	-	-	<b>1,539,177</b>
Total long-term liabilities	20,318,171	-	-	<b>20,318,171</b>
<b>Total liabilities</b>	<b>23,983,571</b>	<b>-</b>	<b>-</b>	<b>23,983,571</b>
<b>Net assets</b>				
Unrestricted	14,128,951	1,000	(1,000)	<b>14,128,951</b>
Temporarily restricted	9,214,589	-	-	<b>9,214,589</b>
Permanently restricted	3,719,743	-	-	<b>3,719,743</b>
Total net assets	27,063,283	1,000	(1,000)	<b>27,063,283</b>
<b>Total liabilities and net assets</b>	<b>\$ 51,046,854</b>	<b>1,000</b>	<b>(1,000)</b>	<b>51,046,854</b>

**HOMEWISE, INC. AND SUBSIDIARY  
CONSOLIDATING SCHEDULE OF ACTIVITIES  
For the Year Ended March 31, 2011**

	<b>Homewise, Inc.</b>			<b>Homewise Mortgage, LLC</b>	<b>Elimination</b>	<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Unrestricted</b>		
Support and Revenues						
Home development sales	\$ 5,181,166	-	-	-	-	<b>5,181,166</b>
Government grants	852,729	928,961	143,020	-	-	<b>1,924,710</b>
Loan portfolio interest	1,218,387	59,060	-	-	-	<b>1,277,447</b>
Real estate sales commissions	494,999	-	-	-	-	<b>494,999</b>
Loan origination fees	706,786	-	-	-	-	<b>706,786</b>
Contributions and grants	72,215	-	-	-	-	<b>72,215</b>
Bank interest	14,604	-	-	-	-	<b>14,604</b>
Gain on purchase of loans at discount	2,850,761	-	-	-	-	<b>2,850,761</b>
Other revenue	415,435	-	-	-	-	<b>415,435</b>
Net asset transfers	(222,047)	(6,753)	228,800	-	-	-
Net assets released from restrictions	400,000	-	(400,000)	-	-	-
<b>Total support and revenues</b>	<b>11,985,035</b>	<b>981,268</b>	<b>(28,180)</b>	<b>-</b>	<b>-</b>	<b>12,938,123</b>
Expenses						
Program	4,577,646	-	-	-	-	<b>4,577,646</b>
Cost of home development sales	4,945,629	-	-	-	-	<b>4,945,629</b>
Administrative	762,353	-	-	-	-	<b>762,353</b>
Fundraising	156,816	-	-	-	-	<b>156,816</b>
<b>Total expenses</b>	<b>10,442,444</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,442,444</b>
<b>Change in net assets</b>	<b>1,542,591</b>	<b>981,268</b>	<b>(28,180)</b>	<b>-</b>	<b>-</b>	<b>2,495,679</b>
Net assets at beginning of year	12,586,360	8,233,321	3,747,923	-	-	<b>24,567,604</b>
Member contributions	-	-	-	1,000	(1,000)	-
Member distributions	-	-	-	-	-	-
<b>Net assets at end of year</b>	<b>\$ 14,128,951</b>	<b>9,214,589</b>	<b>3,719,743</b>	<b>1,000</b>	<b>(1,000)</b>	<b>27,063,283</b>

**HOMEWISE, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF CASH FLOWS**  
**For the Year Ended March 31, 2011**

	Homewise			
	Homewise, Inc.	Mortgage, LLC	Elimination	Total
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	\$ 7,815,610	-	-	7,815,610
Cash received from grants and contributions	1,996,925	-	-	1,996,925
Cash paid to suppliers	(6,116,977)	-	-	(6,116,977)
Cash paid to employees	(2,174,952)	-	-	(2,174,952)
Cash paid for interest	(682,853)	-	-	(682,853)
<b>Net cash provided by operating activities</b>	<b>837,753</b>	<b>-</b>	<b>-</b>	<b>837,753</b>
<b>Cash Flows From Investing Activities</b>				
Equipment and land acquisitions	(56,221)	-	-	(56,221)
Proceeds from sale of property and equipment	18,094	-	-	18,094
Net increase in loans	(6,701,168)	-	-	(6,701,168)
Proceeds from other real estate owned	199,151	-	-	199,151
<b>Net cash flows used by investing activities</b>	<b>(6,540,144)</b>	<b>-</b>	<b>-</b>	<b>(6,540,144)</b>
<b>Cash Flows From Financing Activities</b>				
Long-term borrowings	8,994,835	-	-	8,994,835
Payments on long-term borrowings	(1,651,912)	-	-	(1,651,912)
Net (payments) draws on bank lines of credit	(1,883,477)	-	-	(1,883,477)
Member (distributions) contributions	(1,000)	1,000	-	-
<b>Net cash flows provided by financing activities</b>	<b>5,458,446</b>	<b>1,000</b>	<b>-</b>	<b>5,459,446</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(243,945)</b>	<b>1,000</b>	<b>-</b>	<b>(242,945)</b>
Cash and cash equivalents, beginning of year	2,619,944	-	-	2,619,944
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,375,999</b>	<b>1,000</b>	<b>-</b>	<b>2,376,999</b>
<b>Reconciliation of increase in net assets to net cash and cash equivalents provided by operations</b>				
Change in net assets	\$ 2,495,679	-	-	2,495,679
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:				
Depreciation	224,711	-	-	224,711
Amortization of discount on below market notes payable	11,492	-	-	11,492
Loss on sale of other real estate owned	-	-	-	-
Change in assets and liabilities				
Broker receivables	282,547	-	-	282,547
Infrastructure deposits	(307,881)	-	-	(307,881)
Grants receivable	(77,186)	-	-	(77,186)
Prepaid expenses and other assets	(85,130)	-	-	(85,130)
Inventory	1,495	-	-	1,495
Development costs	(2,514,602)	-	-	(2,514,602)
Accounts payable, accrued, escrows and deposits	275,797	-	-	275,797
Due to grantor agency	(185,351)	-	-	(185,351)
Deferred grant revenue	756,503	-	-	756,503
Other real estate owned	(40,321)	-	-	(40,321)
<b>Net cash flows provided by operating activities</b>	<b>\$ 837,753</b>	<b>-</b>	<b>-</b>	<b>837,753</b>

**HOMEWISE, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**March 31, 2011**

	Pass-through Grantor Number or Other Identifying Number	CFDA	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
HOME investment partnerships program (pass-through from NMMFA)			
Training and counseling	A-125.14	14.239	\$113,499
CHDO – operating	A-125.14	14.239	50,000
			<u>163,499</u>
Community Development Block Grants (pass through from City of Santa Fe)			
Down payment assistance	07-0635	14.218	100,000
Down payment assistance ARRA (CDBG-R)	None	14.218	78,961
			<u>178,961</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>342,460</u>
<b>U.S. Department of Treasury</b>			
Community Development Financial Institutions (CDFI) Program			
Financial Education and Counseling Pilot	091FC009093	21.010	38,177
Program Loan Capital	101FA008765	21.020	750,000
			<u>788,177</u>
NeighborWorks America			
Revolving loan fund	None	21.000	32,820
Operating – general support	None	21.000	458,660
			<u>491,480</u>
<b>Total U.S. Department of Treasury</b>			<u>1,279,657</u>
<b>Total all funding agencies</b>			<u>\$1,622,117</u>

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

**HOMEWISE, INC. AND SUBSIDIARY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**March 31, 2011**

**NOTE 1. GENERAL**

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

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

Expenditures of federal awards	\$ 1,622,117
Non-federal expenses	<u>8,820,327</u>
Total 2011 expenses according to financial statements	<u>\$ 10,442,444</u>

**NOTE 3. FEDERAL LOANS**

At March 31, 2011, Homewise had four outstanding loans payable to the U.S. Department of Treasury for a total of \$1,330,000. See details at Note 6 to the consolidated financial statements.

**Report of 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. and Subsidiary

We have audited the accompanying consolidated financial statements of Homewise, Inc. and Subsidiary (Organization) as of and for the year ended March 31, 2011, and have issued our report thereon dated June 21, 2011. 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 the Organization'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 the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Board of Directors  
Homewise, Inc. and Subsidiary

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
June 21, 2011



**Report of Independent Auditors on Compliance  
With Requirements that Could Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133**

Board of Directors  
Homewise, Inc. and Subsidiary

Compliance

We have audited the compliance of Homewise, Inc. and Subsidiary (Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2011. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 the Organization'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 the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those

Board of Directors  
Homewise, Inc. and Subsidiary

requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-01.

### Internal Control Over Compliance

Management of the Organization 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 the Organization'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organizations response and, accordingly, we express no opinion on the response.

Board of Directors  
Homewise, Inc. and Subsidiary

This report is intended solely for the information and use of the Board of Directors, 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
June 21, 2011

**HOMEWISE, INC.**  
**STATUS OF PRIOR YEAR FINDINGS**  
**For the Year Ended March 31, 2011**

10-01	Prior Period Restatement - Deferred Revenue Recognition and Allowance for Loan Losses	Resolved
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**HOMEWISE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended March 31, 2011**

**A. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued Unqualified

Internal control over financial reporting:

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

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

***Federal Awards***

Internal control over major programs:

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

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

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

**Identification of Major Program**

CFDA Number	Name of Federal Program or Cluster
21.000	NeighborWorks America Revolving Loan Fund
21.000	NeighborWorks America Operating – general support
21.020	Community Development Financial Institutions Loan Capital

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, 2011**

**B. FINANCIAL STATEMENT FINDINGS**

None.

**C. FEDERAL AWARD FINDINGS**

**11-01 Time and Effort Certifications (Non-Compliance) CFDA 21.000**

CONDITION

Subsequent to the completion of testing procedures over payroll disbursements it was noted the Organization had maintained reports for professional employees working on federal awards; however, specific time and effort reporting requirements for those professional employees charged to federal awards was not maintained during the fiscal year.

CRITERIA

In accordance with Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, reports reflecting the distribution of activity of each employee must be maintained for all professional and non-professional staff members whose compensation is charged, in whole or in part, directly to awards. The report must:

- a) Reflect an after-the-fact determination of the actual activity of each employee.
- b) Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the Organization.
- c) Be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- d) Must be prepared at least monthly and must coincide with one or more pay periods.

QUESTIONED COSTS

None.

**HOMEWISE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**For the Year Ended March 31, 2011**

**C. FEDERAL AWARD FINDINGS (CONTINUED)**

**11-01 Time and Effort Certifications (Non-Compliance) CFDA 21.000**  
**(Continued)**

**EFFECT**

Failure to comply with federal cost circular requirements could result in a loss of funding.

**CAUSE**

The Organization was aware of the requirement to maintain reports for employees charged to federal awards; however, was not aware of the specific OMB Circular A-122 Time and Effort reporting requirements.

**RECOMMENDATION**

We recommend that the Organization implement policies and procedures to track time and effort for all employees to ensure compliance with OMB Circular A-122.

**MANAGEMENT RESPONSE**

Management, upon being advised of the issue, has implemented a monthly payroll process to appropriately track time and effort for employees that is in full compliance with OMB Circular A-122. To ensure compliance, Management has made this part of the monthly closing procedures.