

HOMEWISE, INC. and
SUBSIDIARY

Consolidated Financial
Statements and Supplementary
Information

March 31, 2012 and 2011



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

**HOMEWISE, INC.
and SUBSIDIARY**

**OFFICIAL ROSTER
MARCH 31, 2012**

Board of Directors

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

Administration Official

Michael Loftin	Executive Director
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Independent Auditor's Report

To the Board of Directors of
Homewise, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Homewise, Inc., a nonprofit organization, and Subsidiary (collectively referred to as "Organization") as of March 31, 2012, and the related consolidated statements of activities and cash flows for the year 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 audit. The consolidated financial statements of the Organization as of March 31, 2011, were audited by other auditors whose report dated June 21, 2011, expressed an unqualified opinion on those 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and 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 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2012, 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.

To the Board of Directors of
Homewise, Inc. and Subsidiary

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2012, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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 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.



Albuquerque, New Mexico
June 7, 2012

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2012 and 2011

ASSETS	2012	2011
Current assets		
Cash and cash equivalents	\$ 3,692,317	2,376,999
Broker receivables	2,186,180	1,877,215
Grants receivable	43,498	247,643
Amortizing mortgage loans receivable, current portion	765,953	787,802
Inventory	46,556	65,851
Development costs	3,554,466	3,999,206
Total current assets	10,288,970	9,354,716
Property and equipment, net	1,920,436	2,032,997
Mortgage loans receivable		
Amortizing	25,638,886	23,730,475
Allowance on amortizing loans	(694,336)	(732,317)
Total amortizing	24,944,550	22,998,158
Deferred	17,128,542	16,931,881
Allowance on deferred loans	(6,011,400)	(5,123,500)
Total deferred	11,117,142	11,808,381
Total mortgage loans receivable	36,061,692	34,806,539
Other real estate owned	152,709	75,000
Development costs	3,569,575	4,096,591
Infrastructure deposits	201,316	307,881
Other assets	286,636	373,130
Total assets	\$ 52,481,334	51,046,854

See Notes to Consolidated Financial Statements.

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
March 31, 2012 and 2011

LIABILITIES AND NET ASSETS	2012	2011
Current liabilities		
Accounts payable and accrued expenses	\$ 560,246	469,178
Community investment deposits	44,961	-
Escrows and deposits	395,925	117,939
Lines of credit	1,953,106	1,845,258
Notes payable, current portion	1,330,000	1,028,025
Total current liabilities	4,284,238	3,460,400
Long-term liabilities		
Notes payable, long-term, net	17,428,052	17,074,274
Community investment deposits	230,156	205,000
Deferred revenue on home development sales	244,648	948,217
Deferred grants revenue	376,094	756,503
Due to grantor agency	1,449,428	1,539,177
Total long-term liabilities	19,728,378	20,523,171
Total liabilities	24,012,616	23,983,571
Net assets		
Unrestricted	16,092,870	14,128,951
Temporarily restricted	8,883,724	9,214,589
Permanently restricted	3,492,124	3,719,743
Total net assets	28,468,718	27,063,283
Total liabilities and net assets	\$ 52,481,334	51,046,854

See Notes to Consolidated Financial Statements.

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Home development sales	\$ 10,421,055	-	-	10,421,055
Government grants	868,975	174,383	1,059,375	2,102,733
Loan portfolio interest	1,473,279	43,233	-	1,516,512
Real estate sales commissions	465,308	-	-	465,308
Loan origination fees	1,128,614	-	-	1,128,614
Contributions and grants	78,241	50,000	-	128,241
Bank interest	5,033	14	-	5,047
Other revenue	238,178	5,590	-	243,768
Net asset transfers	943,085	(604,085)	(339,000)	-
Net assets released from restrictions	947,994	-	(947,994)	-
Total support and revenues	16,569,762	(330,865)	(227,619)	16,011,278
Expenses				
Program	4,729,718	-	-	4,729,718
Cost of home development sales	8,745,349	-	-	8,745,349
Administrative	939,888	-	-	939,888
Fundraising	190,888	-	-	190,888
Total expenses	14,605,843	-	-	14,605,843
Change in net assets	1,963,919	(330,865)	(227,619)	1,405,435
Net assets at beginning of year	14,128,951	9,214,589	3,719,743	27,063,283
Net assets at end of year	\$ 16,092,870	8,883,724	3,492,124	28,468,718

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

See Notes to Consolidated Financial Statements.

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Cash received from customers	\$ 13,536,536	7,610,610
Cash received from grants and contributions	2,230,974	1,996,925
Cash paid to suppliers	(10,659,421)	(6,116,977)
Cash paid to employees	(2,595,611)	(2,174,952)
Cash paid for interest	(631,023)	(682,853)
Net cash provided by operating activities	1,881,455	632,753
Cash Flows From Investing Activities		
Equipment acquisitions	(154,678)	(56,221)
Proceeds from sale of equipment	3,890	18,094
Net increase in loans	(1,233,304)	(6,701,168)
Proceeds from sale of other real estate owned	-	199,151
Net cash flows used by investing activities	(1,384,092)	(6,540,144)
Cash Flows From Financing Activities		
Long-term borrowings	2,352,001	8,994,835
Payments on long-term borrowings	(1,712,011)	(1,651,912)
Issuances (redemptions) of community investment deposits	70,117	205,000
Net draws (payments) on bank lines of credit	107,848	(1,883,477)
Net cash flows provided by financing activities	817,955	5,664,446
Net increase (decrease) in cash and cash equivalents	1,315,318	(242,945)
Cash and cash equivalents, beginning of year	2,376,999	2,619,944
Cash and cash equivalents, end of year	\$ 3,692,317	2,376,999
Reconciliation of increase in net assets to net cash and cash equivalents provided by operations		
Change in net assets	\$ 1,405,435	2,495,679
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	263,349	224,711
Amortization of discount on below market notes payable	15,763	11,492
Change in assets and liabilities		
Broker receivables	(308,965)	282,547
Infrastructure deposits	106,565	(307,881)
Grants receivable	(499,424)	(77,186)
Prepaid expenses and other assets	86,494	(85,130)
Inventory	19,295	1,495
Development costs	971,756	(2,514,602)
Accounts payable and accrued liabilities	91,068	4,789
Escrows and deposits	277,986	66,008
Due to grantor agency	(89,749)	(185,351)
Deferred grant revenue	(380,409)	756,503
Other real estate owned	(77,709)	(40,321)
Net cash flows provided by operating activities	\$ 1,881,455	632,753

See Notes to Consolidated Financial Statements.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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 plans to 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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011.

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, 2012 AND 2011

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, 2012 and 2011.

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, 2012 and 2011 was \$15,763 and \$89,706, 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, 2012 AND 2011

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, 2012 and 2011.

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 \$244,858 and \$174,993 at March 31, 2012 and 2011, 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, 2012 AND 2011

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, 2012 and 2011 the balance recorded as community investment deposits amounted to \$275,117 and \$205,000, 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 7, 2012, 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, 2012 AND 2011

NOTE 2. GRANTS RECEIVABLE

Grants receivable consist of the following at March 31:

	2012	2011
Non-Federal		
City of Santa Fe	\$ 18,500	136,600
Federal Home Loan Bank (FHLB)	-	7,000
New Mexico Mortgage Finance Authority (NMMFA)	-	34,045
Other grants receivable	<u>24,998</u>	69,998
Total grants receivable	<u>\$ 43,498</u>	<u>247,643</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, 2012 and 2011 are as follows:

Project	2012	2011
Rincon Del Sol	\$ 2,088,867	1,060,448
Las Palomas	1,245,650	1,446,289
Desert Sage	1,227,500	1,214,862
Piñon Ridge	1,153,203	-
Vista Serena	714,454	714,454
Old Las Vegas Place	661,931	3,587,423
Palomita	21,929	21,713
Alta Vista SFPS	10,507	10,507
Piñon Bluffs	-	40,101
	<u>\$ 7,124,041</u>	<u>8,095,797</u>

Rincon del Sol consists of 38 developed lots in the Rincon del Sol Subdivision located in Tierra Contenta. The subdivision consists of a total of 62 lots, 24 of which were built by the original developer/builder. As of March 31, 2012 construction on the 11th and 12th homes were in progress, six homes were sold during the year and two spec homes available for sale. Sales in this development picked up since February.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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. During the fiscal year, the Organization completed the revision to the development plan and plat. Model homes will begin construction in July 2012.

Desert Sage in Santa Fe (formerly the Greer Project or Tract 4), consists of 26.8 acres of undeveloped land. Plans for the 80 unit subdivision have been approved by the City; however, the Organization is currently working with the city on possible relocation of the entrance to the development. The project is currently on hold for 2 years.

Piñon Ridge subdivision consists of 39 custom lots. Construction of the model homes are expected to be completed in July 2012. As of March 31, 2012 there were nine pre-sales of which three were under construction. The first closing in this division is expected to occur in August 2012.

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, 2012.

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, 2012 there were, inclusive of the model home, four remaining homes to sell.

Palomita consists of one single family lot in Taos.

Alta Vista SFPS is a .22 acre lot held for future development. Subsequent to March 31, 2012 the Organization agreed to sell this lot to Habitat for Humanity.

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 7.75%, 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, 2012 AND 2011

NOTE 4. MORTGAGE LOANS RECEIVABLE (CONTINUED)

As of March 31, 2012, the Organization had the following delinquent loans:

	Number	Payment Due	Loan Amount
31-60 days	8	\$ 1,293	180,951
61-90 days	12	5,608	339,521
> 90 days	7	4,811	237,439
	<u>27</u>	<u>\$ 11,712</u>	<u>757,911</u>

The amount 31 or more days past due was equivalent to 3.0% of the outstanding amortizing mortgage loans receivable balance at March 31, 2012.

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.

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 at 10% and 20% of the loan balance for delinquencies of 31 to 60 days and 61 to 90 days, respectively. An additional 2% reserve is taken on all current amortizing balances. In 2011 the Organization reserved 100% of the loan balance for delinquencies greater than 90 days. In 2012, management evaluated recoveries on amortizing loans for loans greater than 90 days delinquent and concluded that there is evident recovery on portions of those loans. As such, they changed their policy to write off 100% of the outstanding principal balance less specifically identified amounts they expect to recover based on supported information obtained during the collection process.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 4. MORTGAGE LOANS RECEIVABLE (CONTINUED)

At March 31, 2012 and 2011, amortizing and deferred mortgage loans receivable had the following general and specific allowances applied against principal due:

	2012		2011	
	Amortizing	Deferred	Amortizing	Deferred
General allowance	\$ 598,042	4,500,037	732,317	2,265,241
Specific allowance	<u>96,294</u>	<u>1,511,363</u>	<u>-</u>	<u>2,858,259</u>
Total allowance	<u>\$ 694,336</u>	<u>6,011,400</u>	<u>732,317</u>	<u>5,123,500</u>

Changes in the allowance for loan losses at March 31, 2012 and 2011 are summarized as follows:

	Amortizing	Deferred	Total
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>
Balance, March 31, 2011	732,317	5,123,500	5,855,817
Provision for loan losses	303,083	1,028,490	1,331,573
Loans charged off, net of recoveries	<u>(341,064)</u>	<u>(140,590)</u>	<u>(481,654)</u>
Balance, March 31, 2012	<u>\$ 694,336</u>	<u>6,011,400</u>	<u>6,705,736</u>

Deferred loans that are expected to be forgiven at the end of a fixed term totaled \$613,466 and \$684,466 at March 31, 2012 and 2011, respectively.

Loans to related parties amounted to \$61,214 and \$338,554 at March 31, 2012 and 2011, 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. At March 31, 2012 additional loans serviced by the Organization that are not recorded as mortgage loans receivable on the accompanying consolidated statements of financial position amounted to \$728,423.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	2012	2011
Buildings and improvements	\$ 1,989,228	1,989,228
Software	696,577	600,742
Furniture and equipment	396,930	349,051
Autos	<u>14,995</u>	<u>14,995</u>
	<u>3,097,730</u>	<u>2,954,016</u>
Less: Accumulated depreciation	<u>(1,177,294)</u>	<u>(921,019)</u>
Net value of depreciable property and equipment	<u>\$ 1,920,436</u>	<u>2,032,997</u>

Depreciation expense for the years ended March 31, 2012 and 2011 was \$263,349 and \$224,712, respectively.

NOTE 6. LINES OF CREDIT AND NOTES PAYABLE

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

	2012	2011
Lines of credit		
Bank, warehouse line of credit of \$3,000,000 at 5.0% variable interest collateralized by mortgage loans, matures July 2012	\$ 809,380	838,791
Bank, line of credit of \$2,175,000 at 5.3% variable interest collateralized by land, matures August 2012	716,250	-
Bank, line of credit of \$1,900,000 at 5.25% variable interest collateralized by land, matures August 2012	236,007	-
Bank, line of credit of \$1,000,000 at 5.5% variable interest collateralized by land, vertical construction of homes, matures March 2013	188,644	1,006,467

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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

	2012	2011
Lines of credit (Continued)		
Bank, line of credit of \$2,000,000 at 5.25% variable interest collateralized by land, matures August 2012	<u>\$ 2,825</u>	-
Total lines of credit	<u>\$ 1,953,106</u>	<u>1,845,258</u>
Notes payable		
Opportunity Finance Network, unsecured at 3.0% interest, the principal balance is due at and matures February 2019	\$ 2,500,000	2,500,000
Opportunity Finance Network, unsecured at 4.3% interest, the principal balance is due at and matures December 2015	1,000,000	1,000,000
Bank, at 5.1% interest collateralized by security agreements, due in principal and interest payments on the 19 th day of each month beginning March 2008 and maturing February 2028	1,737,218	1,806,361
Bank, at 5.3% interest collateralized by the mortgage on Homewise headquarters building, due in principal and interest payments on the 13 th day of each month beginning July 2007 and maturing June 2037	1,420,757	1,446,387
New Mexico Mortgage Finance Authority, at 3.0% interest, collateralized by Desert Sage property, the principal balance is due at and matures September 2014	848,025	948,025
Social Investment Foundation, unsecured at 4.5% interest, the principal balance and final interest payment is due at and matures September 2014	1,500,000	1,500,000

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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

	2012	2011
Notes payable (Continued)		
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	\$ 580,000	580,000
Bank, at 4.8% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures December 2017	500,000	500,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3.0% interest, the principal balance is due at and matures April 2013	350,000	350,000
Bank, at 2.0% interest unsecured, the principal balance is due at and matures March 2013	250,000	250,000
Bank, at 3.0% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	250,000	250,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3.0% interest, the principal balance is due at and matures July 2014	250,000	250,000
Bank, at 3.0% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	250,000	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	150,000	150,000
Bank, loan for home improvement projects at 3.0% interest collateralized by \$125,000 of mortgage notes receivable, the principal balance is due at and matures October 2012	100,000	100,000

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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

	2012	2011
Notes payable (Continued)		
Religious Communities Investment, unsecured at 2.0% interest, the principal balance is due at and matures November 2014	\$ 150,000	150,000
Bank, at 5.0% interest collateralized by security agreement of mortgage notes receivable and other inventory and equipment, due in principal and interest payments on the 23 rd day of each month beginning September 2010 and maturing August 2015	2,681,100	3,645,123
Bank, at 4.3% interest collateralized by Las Palomas development, the principal balance is due at and matures September 2015	1,050,000	1,260,000
Mercy Investment Services, Inc, unsecured at 3.0% interest, the principal balance is due at and matures June 2015	300,000	300,000
Seton Enablement Fund, unsecured at 3.0% interest, the principal balance is due at and matures July 2015	133,657	171,871
New Mexico Mortgage Finance Authority, at 1.0% interest, collateralized by Old Las Vegas Place property, the principal balance is due at and matures May 2013	-	225,000
Bank, at 3.0% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures February 2021	500,000	500,000
Christus Health, \$1,000,000 note with interest at 3.0% payable quarterly with any unpaid principal balance due at maturity date of March 2017. Collateralized by assignment of mortgages	1,000,000	-
Bank, at 3.0% interest collateralized by assignment of mortgage notes receivable, the principal balance is due at and matures February 2022	500,000	-

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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

	2012	2011
Notes payable (Continued)		
New Mexico Mortgage Finance Authority, at 1.0% interest, collateralized by Rincon del Sol property, the principal balance is due at and matures November 2014	852,000	-
New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2011	<u>-</u>	<u>80,000</u>
Total notes payable	18,852,757	18,212,767
Less current maturities	(1,330,000)	(1,028,025)
Less unamortized discount	<u>(94,705)</u>	<u>(110,468)</u>
Total notes payable, less current portion and unamortized discount	<u>\$ 17,428,052</u>	<u>17,074,274</u>

At March 31, 2012, scheduled future principal payments due on the notes payable and lines of credit are as follows:

Year ending March 31,	
2013	\$ 3,283,106
2014	600,000
2015	3,600,025
2016	5,164,757
2017	1,000,000
Thereafter	<u>7,157,975</u>
	<u>\$20,805,863</u>

Homewise is in compliance with all financial debt covenants as of March 31, 2012 and 2011.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 7. PERMANENTLY RESTRICTED NET ASSETS

Unrestricted net assets include \$3,803,829 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 \$8,883,724 are available for affordable housing programs.

Permanently restricted net assets are restricted to NeighborWorks America (NWA) and Santa Fe Land Trust (SFLT). During the year ended March 31, 2012, a donor changed a permanent restriction of \$947,994 and made the donation unrestricted. Summarized activity in the two funds at March 31, 2012 follows:

	NWA	SFLT	AHTF	Total
Cash	\$ (89,740)	40,308	-	(49,432)
Mortgage notes receivable	3,602,127	197,804	-	3,799,931
Deferred revenue	(246,505)	-	-	(246,505)
Accounts and escrows payable	<u>(11,870)</u>	<u>-</u>	<u>-</u>	<u>(11,870)</u>
Net assets	<u>\$ 3,254,012</u>	<u>238,112</u>	<u>-</u>	<u>3,492,124</u>
Permanently restricted net assets				
beginning of year	\$ 3,142,631	238,112	339,000	3,719,743
Grants of loan funds	1,059,375	-	-	1,059,375
Transfer	-	-	(339,000)	(339,000)
Released from restrictions	<u>(947,994)</u>	<u>-</u>	<u>-</u>	<u>(947,994)</u>
Permanently restricted net assets				
end of year	<u>\$ 3,254,012</u>	<u>238,112</u>	<u>-</u>	<u>3,492,124</u>

Summarized activity in the two funds at March 31, 2011 follows:

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

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 7. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

During the year ended March 31, 2011, a donor changed a permanent restriction of \$400,000 and made the donation unrestricted.

NOTE 8. GOVERNMENT GRANTS

Government grants for the year ended March 31, 2012 consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
State and local awards				
City of Santa Fe – Administration of housing programs	\$ 143,723	42,126	-	185,849
Total non-federal awards	<u>143,723</u>	<u>42,126</u>	<u>-</u>	<u>185,849</u>
Federal awards				
New Mexico Mortgage Finance Authority (NMMFA) – HOME	56,168	-	-	56,168
Community Development Block Grant	-	132,257	-	132,257
Community Development Financial Institution Program	232,234	-	-	232,234
Other federal appropriations Through NWA	<u>436,850</u>	<u>-</u>	<u>1,059,375</u>	<u>1,496,225</u>
Total federal Awards	<u>725,252</u>	<u>132,257</u>	<u>1,059,375</u>	<u>1,916,884</u>
	<u>\$ 868,975</u>	<u>174,383</u>	<u>1,059,375</u>	<u>2,102,733</u>

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 8. GOVERNMENT GRANTS (CONTINUED)

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

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

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 9. FUNCTIONAL EXPENSES

For the year ended March 31, 2012, program, administrative and fundraising expenses were composed of the following:

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$1,868,840	596,990	129,781	2,595,611
Client support	48,185	15,392	3,346	66,923
Interest	631,023	-	-	631,023
Occupancy	138,751	44,323	9,636	192,710
Professional services	143,226	45,753	9,946	198,925
Administrative	183,873	58,737	12,769	255,379
Marketing	176,298	56,317	12,243	244,858
Professional development	80,157	31,172	-	111,329
Depreciation	189,611	60,571	13,167	263,349
Insurance	78,771	30,633	-	109,404
Bad debt, net of recoveries	1,190,983	-	-	1,190,983
	\$4,729,718	939,888	190,888	5,860,494

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	500,240	108,746	2,174,951
Client support	47,721	15,118	3,287	66,126
Interest	682,854	-	-	682,854
Occupancy	65,658	20,974	4,560	91,192
Professional services	173,028	55,273	12,016	240,317
Administrative	118,382	37,816	8,221	164,419
Marketing	125,995	40,248	8,750	174,993
Professional development	47,896	18,627	-	66,523
Depreciation	161,792	51,683	11,236	224,711
Insurance	57,534	22,374	-	79,908
Bad debt, net of recoveries	1,530,821	-	-	1,530,821
	\$4,577,646	762,353	156,816	5,496,815

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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 \$126,925 and \$122,845 for the years ended March 31, 2012 and 2011, 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.

At March 31, 2012, the Organization held deposits with multiple banks that individually exceeded the Federal Deposit Insurance Coverage (FDIC) limit of \$250,000. Certain banks pledged collateral covering the remainder of the uninsured balance. Management has taken action to mitigate the credit risk of the remaining uninsured and uncollateralized balance of \$1,850,608 by depositing with well-known and highly reputable institutions.

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.

HOMEWISE, INC. and SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Recourse Loans

In prior years, the Organization at times sold mortgage receivables to Neighborhood Housing Services of America (NHTSA) for cash flow purposes. The Organization continued to service these receivables on behalf of NHTSA and they were sold to NHTSA with full recourse, which resulted in a liability to the Organization upon the default of a loan. During the course of the 2011 fiscal year, all loans were repurchased at a discount resulting in a recorded gain of \$2,775,011. There was no related liability upon repurchase of the loans.

Letters of Credit

At March 31, 2012, the Organization had four available letters of credit issued by financial institutions in the aggregate amount of \$2,884,785 related to the Las Palomas, Desert Sage, Piñon Ridge and Old Las Vegas Place developments. At March 31, 2011, the aggregate amount available on these letters of credit was \$2,359,121.

At March 31, 2012, 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, 2012 and 2011. 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, 2012

ASSETS	Homewise Homewise, Inc.	Homewise Mortgage, LLC	Elimination	Total
Current assets				
Cash and cash equivalents	\$ 3,691,317	1,000	-	3,692,317
Broker receivables	2,186,180	-	-	2,186,180
Grants receivable	43,498	-	-	43,498
Amortizing mortgage loans receivable, current portion	765,953	-	-	765,953
Inventory	46,556	-	-	46,556
Development costs	3,554,466	-	-	3,554,466
Total current assets	10,287,970	1,000	-	10,288,970
Property and equipment, net	1,920,436	-	-	1,920,436
Mortgage loans receivable				
Amortizing	25,638,886	-	-	25,638,886
Allowance on amortizing loans	(694,336)	-	-	(694,336)
Total amortizing	24,944,550	-	-	24,944,550
Deferred	17,128,542	-	-	17,128,542
Allowance on deferred loans	(6,011,400)	-	-	(6,011,400)
Total deferred	11,117,142	-	-	11,117,142
Total mortgage loans receivable	36,061,692	-	-	36,061,692
Other real estate owned	152,709	-	-	152,709
Development costs	3,569,575	-	-	3,569,575
Infrastructure deposits	201,316	-	-	201,316
Other assets	287,636	-	(1,000)	286,636
Total assets	\$ 52,481,334	1,000	(1,000)	52,481,334

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
March 31, 2012

LIABILITIES AND NET ASSETS	Homewise, Homewise, Inc.	Homewise Mortgage, LLC	Elimination	Total
Current liabilities				
Accounts payable and accrued expenses	\$ 560,246	-	-	560,246
Community investment deposits	44,961	-	-	44,961
Escrows and deposits	395,925	-	-	395,925
Lines of credit	1,953,106	-	-	1,953,106
Notes payable, current portion	1,330,000	-	-	1,330,000
Total current liabilities	4,284,238	-	-	4,284,238
Long-term liabilities				
Notes payable, long-term, net	17,428,052	-	-	17,428,052
Community investment deposits	230,156	-	-	230,156
Deferred revenue on home development sales	244,648	-	-	244,648
Deferred grants revenue	376,094	-	-	376,094
Due to grantor agency	1,449,428	-	-	1,449,428
Total long-term liabilities	19,728,378	-	-	19,728,378
Total liabilities	24,012,616	-	-	24,012,616
Net assets				
Unrestricted	16,092,870	1,000	(1,000)	16,092,870
Temporarily restricted	8,883,724	-	-	8,883,724
Permanently restricted	3,492,124	-	-	3,492,124
Total net assets	28,468,718	1,000	(1,000)	28,468,718
Total liabilities and net assets	\$ 52,481,334	1,000	(1,000)	52,481,334

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

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

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

LIABILITIES AND NET ASSETS	Homewise, Inc.	Homewise Mortgage, LLC	Elimination	Total
Current liabilities				
Accounts payable and accrued expenses	\$ 469,178	-	-	469,178
Community investment deposits	-	-	-	-
Escrows and deposits	117,939	-	-	117,939
Lines of credit	1,845,258	-	-	1,845,258
Notes payable, current portion	1,028,025	-	-	1,028,025
Total current liabilities	3,460,400	-	-	3,460,400
Long-term liabilities				
Notes payable, long-term, net	17,074,274	-	-	17,074,274
Community investment deposits	205,000	-	-	205,000
Deferred revenue on home development sales	948,217	-	-	948,217
Deferred grants revenue	756,503	-	-	756,503
Due to grantor agency	1,539,177	-	-	1,539,177
Total long-term liabilities	20,523,171	-	-	20,523,171
Total liabilities	23,983,571	-	-	23,983,571
Net assets				
Unrestricted	14,128,951	1,000	(1,000)	14,128,951
Temporarily restricted	9,214,589	-	-	9,214,589
Permanently restricted	3,719,743	-	-	3,719,743
Total net assets	27,063,283	1,000	(1,000)	27,063,283
Total liabilities and net assets	\$ 51,046,854	1,000	(1,000)	51,046,854

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended March 31, 2012

	Homewise, Inc.			Homewise Mortgage, LLC	Elimination	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted		
Support and Revenues						
Home development sales	\$ 10,421,055	-	-	-	-	10,421,055
Government grants	868,975	174,383	1,059,375	-	-	2,102,733
Loan portfolio interest	1,473,279	43,233	-	-	-	1,516,512
Real estate sales commissions	465,308	-	-	-	-	465,308
Loan origination fees	1,128,614	-	-	-	-	1,128,614
Contributions and grants	78,241	50,000	-	-	-	128,241
Bank interest	5,033	14	-	-	-	5,047
Other revenue	238,178	5,590	-	-	-	243,768
Net asset transfers	943,085	(604,085)	(339,000)	-	-	-
Net assets released from restrictions	947,994	-	(947,994)	-	-	-
Total support and revenues	16,569,762	(330,865)	(227,619)	-	-	16,011,278
Expenses						
Program	4,729,718	-	-	-	-	4,729,718
Cost of home development sales	8,745,349	-	-	-	-	8,745,349
Administrative	939,888	-	-	-	-	939,888
Fundraising	190,888	-	-	-	-	190,888
Total expenses	14,605,843	-	-	-	-	14,605,843
Change in net assets	1,963,919	(330,865)	(227,619)	-	-	1,405,435
Net assets at beginning of year	14,128,951	9,214,589	3,719,743	1,000	(1,000)	27,063,283
Member contributions	-	-	-	-	-	-
Member distributions	-	-	-	-	-	-
Net assets at end of year	\$ 16,092,870	8,883,724	3,492,124	1,000	(1,000)	28,468,718

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

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

HOMEWISE, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF CASH FLOWS
For the Year Ended March 31, 2012

	Homewise, Inc.	Homewise Mortgage, LLC	Elimination	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 13,536,536	-	-	13,536,536
Cash received from grants and contributions	2,230,974	-	-	2,230,974
Cash paid to suppliers	(10,659,421)	-	-	(10,659,421)
Cash paid to employees	(2,595,611)	-	-	(2,595,611)
Cash paid for interest	(631,023)	-	-	(631,023)
Net cash provided by operating activities	1,881,455	-	-	1,881,455
Cash Flows From Investing Activities				
Equipment and land acquisitions	(154,678)	-	-	(154,678)
Proceeds from sale of property and equipment	3,890	-	-	3,890
Net increase in loans	(1,233,304)	-	-	(1,233,304)
Proceeds from other real estate owned	-	-	-	-
Net cash flows used by investing activities	(1,384,092)	-	-	(1,384,092)
Cash Flows From Financing Activities				
Long-term borrowings	2,352,001	-	-	2,352,001
Payments on long-term borrowings	(1,712,011)	-	-	(1,712,011)
Issuances (redemptions) of community investment deposits	70,117	-	-	70,117
Net draws on bank lines of credit	107,848	-	-	107,848
Member (distributions) contributions	-	-	-	-
Net cash flows provided by financing activities	817,955	-	-	817,955
Net increase in cash and cash equivalents	1,315,318	-	-	1,315,318
Cash and cash equivalents, beginning of year	2,375,999	1,000	-	2,376,999
Cash and cash equivalents, end of year	\$ 3,691,317	1,000	-	3,692,317
Reconciliation of increase in net assets to net cash and cash equivalents provided by operations				
Change in net assets	\$ 1,405,435	-	-	1,405,435
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:				
Depreciation	263,349	-	-	263,349
Amortization of discount on below market notes payable	15,763	-	-	15,763
Change in assets and liabilities				
Broker receivables	(308,965)	-	-	(308,965)
Infrastructure deposits	106,565	-	-	106,565
Grants receivable	(499,424)	-	-	(499,424)
Prepaid expenses and other assets	86,494	-	-	86,494
Inventory	19,295	-	-	19,295
Development costs	971,756	-	-	971,756
Accounts payable and accrued liabilities	91,068	-	-	91,068
Escrows and deposits	277,986	-	-	277,986
Due to grantor agency	(89,749)	-	-	(89,749)
Deferred grant revenue	(380,409)	-	-	(380,409)
Other real estate owned	(77,709)	-	-	(77,709)
Net cash flows provided by operating activities	\$ 1,881,455	-	-	1,881,455

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

	Homewise, Inc.	Homewise Mortgage, LLC	Elimination	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 7,610,610	-	-	7,610,610
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)
Net cash provided by operating activities	632,753	-	-	632,753
Cash Flows From Investing Activities				
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
Net cash flows used by investing activities	(6,540,144)	-	-	(6,540,144)
Cash Flows From Financing Activities				
Long-term borrowings	8,994,835	-	-	8,994,835
Payments on long-term borrowings	(1,651,912)	-	-	(1,651,912)
Issuances (redemptions) of community investment deposits	205,000	-	-	205,000
Net (payments) on bank lines of credit	(1,883,477)	-	-	(1,883,477)
Member (distributions) contributions	(1,000)	1,000	-	-
Net cash flows provided by financing activities	5,663,446	1,000	-	5,664,446
Net (decrease) increase in cash and cash equivalents	(243,945)	1,000	-	(242,945)
Cash and cash equivalents, beginning of year	2,619,944	-	-	2,619,944
Cash and cash equivalents, end of year	\$ 2,375,999	1,000	-	2,376,999
Reconciliation of increase in net assets to net cash and cash equivalents provided by operations				
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
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 and accrued liabilities	4,789	-	-	4,789
Escrows and deposits	66,008	-	-	66,008
Due to grantor agency	(185,351)	-	-	(185,351)
Deferred grant revenue	756,503	-	-	756,503
Other real estate owned	(40,321)	-	-	(40,321)
Net cash flows provided by operating activities	\$ 632,753	-	-	632,753

HOMEWISE, INC. and SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2012

	Pass-through Grantor Number or Other Identifying Number	CFDA	Expenditures
U.S. Department of Housing and Urban Development			
HOME investment partnerships program (pass-through from NMMFA)			
Training and counseling	A-125.14	14.239	\$25,897
CHDO – operating	A-125.14	14.239	<u>30,271</u>
			<u>56,168</u>
Community Development Block Grants (pass through from City of Santa Fe)			
Down payment assistance	07-0635	14.218	132,257
Total U.S. Department of Housing and Urban Development			<u>188,425</u>
U.S. Department of Treasury			
Financial Education and Counseling Pilot Program Loan Capital			
	101FA008765	21.020	232,234
NeighborWorks America			
Revolving loan fund	None	21.000	1,121,400
Operating – general support	None	21.000	<u>374,825</u>
			1,496,225
Total U.S. Department of Treasury			<u>1,728,459</u>
Total all funding agencies			<u><u>\$1,916,884</u></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, 2012

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	\$ 1,916,884
Non-federal expenses	<u>12,688,959</u>
Total expenses	<u>\$ 14,605,843</u>

NOTE 3. FEDERAL LOANS

At March 31, 2012, 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 on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors of
Homewise, Inc. and Subsidiary

We have audited the consolidated financial statements of Homewise, Inc., a nonprofit organization, and Subsidiary (collectively referred to as "Organization") as of and for the year ended March 31, 2012, and have issued our report thereon dated June 7, 2012. 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

Management of the Organization is responsible for establishing and maintaining effective 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.

To the Board of Directors of
Homewise, Inc. and Subsidiary

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 previously.

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*.

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



Albuquerque, New Mexico
June 7, 2012

**Independent Auditor's Report 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**

To the Board of Directors of
Homewise, Inc. and Subsidiary

Compliance

We have audited the Organization's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2012. The Organization's major federal programs are identified in the summary of auditor's 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, 2012.

To the Board of Directors of
Homewise, Inc. and Subsidiary

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 to determine the 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.

To the Board of Directors of
Homewise, Inc. and Subsidiary

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



Albuquerque, New Mexico
June 7, 2012

**HOMEWISE, INC. and SUBSIDIARY
STATUS OF PRIOR YEAR FINDINGS
For the Year Ended March 31, 2012**

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

Resolved

**HOMEWISE, INC. and SUBSIDIARY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended March 31, 2012**

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? _____ Yes x 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

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

Auditee qualified as low-risk auditee? No

**HOMEWISE, INC. and SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended March 31, 2012**

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS

None.