



The Rogoff Firm

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS

Homewise, Inc.

Financial Statements, Supplementary Information
and
Independent Auditors' Reports

March 31, 2008

Homewise, Inc.

**Official Roster
March 31, 2008**

Board of Directors

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

Administration Official

Michael Loftin	Executive Director
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Homewise, Inc.

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Independent Auditors' Report

Board of Directors
Homewise, Inc.

We have audited the accompanying statement of financial position of Homewise, Inc. (Homewise) as of March 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Homewise's management. Our responsibility is to express an opinion on these financial statements based on our audit. Except for the effect of the accounting changes discussed in Note 12, the prior-year summarized comparative information has been derived from Homewise's 2007 financial statements and, in our report dated July 24, 2007, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homewise, Inc. as of March 31, 2008, 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.

As described in Note 12, during 2008 Homewise changed certain accounting policies related to home sales revenue, contributed deferred loan revenue, and deferred loan discount.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2008, on our consideration of the Homewise's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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July 3, 2008

Homewise, Inc.
Statements of Financial Position
March 31,

	2008	2007 (Restated, Note 12)
Assets		
Current assets		
Cash and cash equivalents	\$ 654,000	\$ 3,018,933
Investments	-	106,160
Accounts receivable	1,321,670	791,451
Grants receivable	353,078	267,863
Amortizing notes receivable, current portion	1,382,424	584,007
Prepaid expenses and other assets	330,584	297,678
Development costs	<u>2,673,193</u>	<u>6,756,159</u>
Total current assets	<u>6,714,949</u>	<u>11,822,251</u>
Property and equipment, net	2,556,760	72,093
Mortgage notes receivable		
Amortizing, net	13,417,717	9,400,250
Deferred, net	13,153,814	10,829,104
Other assets	<u>36,000</u>	<u>36,000</u>
Total assets	<u>\$ 35,879,240</u>	<u>\$ 32,159,698</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 451,029	\$ 250,034
Escrows and deposits	62,838	64,456
Current portion of notes payable	<u>568,001</u>	<u>3,701,095</u>
Total current liabilities	<u>1,081,868</u>	<u>4,015,585</u>
Long-term liabilities		
Long-term portion of notes payable	7,040,199	2,477,315
Deferred revenue	6,141,501	5,201,145
Due to grantor agency	<u>2,131,407</u>	<u>2,199,760</u>
Total long-term liabilities	<u>15,313,107</u>	<u>9,878,220</u>
Total liabilities	16,394,975	13,893,805
Net assets		
Unrestricted	8,005,468	7,873,883
Temporarily restricted	6,847,275	6,500,668
Permanently restricted	<u>4,631,522</u>	<u>3,891,342</u>
Total net assets	<u>19,484,265</u>	<u>18,265,893</u>
Total liabilities and net assets	<u>\$ 35,879,240</u>	<u>\$ 32,159,698</u>

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

Homewise, Inc.
Statements of Activities
For the Year Ended March 31, 2008
(Summarized Totals for the Year Ended March 31, 2007)

	2008			Total	2007 Total (Restated, Note 12)
	Unrestricted	Temporarily restricted	Permanently restricted		
Support and Revenues					
Government grants	\$ 654,799	\$ 230,919	\$ 740,180	\$ 1,625,898	\$ 1,708,740
Contributions and grants	368,873	19,900	-	388,773	971,435
Loan origination fees	742,188	-	-	742,188	586,492
Home sales	11,494,590	-	-	11,494,590	9,355,702
Bank interest	69,207	-	-	69,207	87,597
Loan interest	656,804	94,989	-	751,793	629,416
Commissions	786,700	-	-	786,700	618,527
Other revenue	410,716	2,651	-	413,367	389,478
Net assets released from restrictions	1,852	(1,852)	-	-	-
Total support and revenues	<u>15,185,729</u>	<u>346,607</u>	<u>740,180</u>	<u>16,272,516</u>	<u>14,347,387</u>
Expenses					
Cost of home sales	11,299,778	-	-	11,299,778	8,521,189
Program	2,466,916	-	-	2,466,916	1,237,083
Administrative	1,126,522	-	-	1,126,522	654,279
Fundraising	160,928	-	-	160,928	153,200
Total expenses	<u>15,054,144</u>	<u>-</u>	<u>-</u>	<u>15,054,144</u>	<u>10,565,751</u>
Increase in net assets	131,585	346,607	740,180	1,218,372	3,781,636
Net assets at beginning of year (as restated, Note 12)	<u>7,873,883</u>	<u>6,500,668</u>	<u>3,891,342</u>	<u>18,265,893</u>	<u>14,484,257</u>
Net assets at end of year	<u>\$ 8,005,468</u>	<u>\$ 6,847,275</u>	<u>\$ 4,631,522</u>	<u>\$ 19,484,265</u>	<u>\$ 18,265,893</u>

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

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

	2008	2007 (Restated, Note 12)
Cash flows from operating activities		
Cash received from customers	\$ 16,480,977	\$ 14,331,823
Cash received from grants and contributions	303,558	971,435
Cash paid to suppliers	(8,423,885)	(9,971,176)
Cash paid to employees	(2,333,727)	(1,473,552)
Cash paid for interest	(316,797)	(657,286)
Net cash provided by operating activities	<u>5,710,126</u>	<u>3,201,244</u>
Cash flows from investing activities		
Equipment and land acquisitions	(2,619,776)	(12,082)
Proceeds from sale of capital assets	34,550	544,556
Loans originated	(8,956,261)	(6,955,378)
Payments received on loans	1,991,882	2,314,465
Other	106,160	(5,807)
Net cash used for investing activities	<u>(9,443,445)</u>	<u>(4,114,246)</u>
Cash flows from financing activities		
Long-term borrowings	4,501,480	-
Net draws on bank lines of credit	(3,133,094)	744,643
Net cash provided by financing activities	<u>1,368,386</u>	<u>744,643</u>
Net decrease in cash	(2,364,933)	(168,359)
Cash at beginning of year	3,018,933	3,187,292
Cash at end of year	<u>\$ 654,000</u>	<u>\$ 3,018,933</u>
Reconciliation of increase in net assets to net cash provided by operations		
Increase in net assets	\$ 1,218,372	\$ 3,781,636
Adjustments to reconcile increase in net assets to cash provided by operations		
Depreciation	126,458	54,130
Amortization of discount on below market notes payable	61,404	61,404
Provision for loan losses	(176,215)	(31,173)
Loss (gain) on sale of land	(25,899)	(242,801)
Change in assets and liabilities		
Accounts receivable	(530,219)	(378,368)
Grants receivable	(85,215)	29,594
Prepaid expenses and other assets	(32,906)	(289,313)
Development costs	4,082,966	(1,326,006)
Accounts payable, escrows and deposits	199,377	87,889
Deferred revenue	940,356	1,547,446
Due to grantor agency	(68,353)	(93,194)
Net cash provided by operating activities	<u>\$ 5,710,126</u>	<u>\$ 3,201,244</u>

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

1) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Revenue and Cost Recognition

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

During 2008, Homewise changed its accounting for deferred loan subsidy that is included in the sales price of a Homewise-constructed home. See Note 12.

Basis of Presentation

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

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

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

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

1) Summary of Significant Accounting Policies — continued

Basis of Presentation — continued

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

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

Cash Equivalents and Concentrations

For purposes of the statement of cash flows, cash and cash equivalents consist of deposits held in banks and repurchase agreements. The repurchase agreements are collateralized by pledged securities.

Fixed Assets and Depreciation

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

Grant Revenue, Grant Receivable, and Deferred Grant Revenue

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

Vacation Accruals

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

Deferred Loans

Deferred loans are loans not currently receivable. They include:

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

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

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

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

1) Summary of Significant Accounting Policies — continued

Provision for Loan Losses

Homewise accounts for impaired loans in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures. SFAS No. 114 generally requires Homewise to account for impaired loans at the present value of the expected future cash flows discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price or the fair value of the collateral. SFAS No. 114 indicates that a creditor should evaluate the collectibility of both contractual interest and principal when assessing the need for a loss accrual. Loans are determined to be delinquent 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 reserve for loan losses expense. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on an evaluation of the collectibility of loans and prior loss experience. This evaluation also takes into consideration such factors, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The allowance is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. When all or a portion of a loan balance is deemed uncollectible, or recoverable through sale of collateral, such amount is charged to the allowance for loan losses.

Interest on Loans

Interest earned is only recorded when collected because uncollected interest is not material to the financial statements at March 31, 2008.

Loans at Below Market Interest Rates

Financial institutions have made loans to Homewise at below market interest rates, resulting in debt discounts that are being amortized over the remaining lives of the loans. The initial discount is accounted for as a contribution. The amortization expense recognized for the year ended March 31, 2008, was \$61,404. There were new below market loans obtained during 2008; however, the amortization expense on these new loans is immaterial.

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

1) Summary of Significant Accounting Policies — continued

Income Taxes

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

Allocation of Functional Expenses

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

Fair Value of Financial Instruments and Derivative Financial Instruments

Homewise has adopted the Financial Accounting Standards Board SFAS No. 126, Exemption from Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities (Amending SFAS No. 107) which allows the disclosure requirements under SFAS No. 107 to be optional for nonpublic entities with total assets less than \$100 million who have not held or issued any derivative financial instruments as defined in SFAS No. 119 other than loan commitments. Homewise's policy is to not engage in derivative financial instruments and accordingly, it did not disclose fair value information for the year ended March 31, 2008.

Use of Estimates

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

Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Homewise's financial statements for the year ended March 31, 2007, from which the summarized information was derived.

Advertising Costs

Homewise expenses the cost of advertising as the expense is incurred.

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

2) Grants Receivable

Grants receivable consist of the following at March 31, 2008:

	Unrestricted	Temporarily Restricted	Total
City of Santa Fe	\$ 11,618	\$ 265,412	\$ 277,030
New Mexico Mortgage Finance Authority	8,000	18,940	26,940
Total nonfederal	<u>19,618</u>	<u>284,352</u>	<u>303,970</u>
Federal			
Department of Housing and Urban Development (HUD)			
CHDO	-	12,608	12,608
CDBG	-	36,500	36,500
Total federal	<u>-</u>	<u>49,108</u>	<u>49,108</u>
Total grants receivable	<u>\$ 19,618</u>	<u>\$ 333,460</u>	<u>\$ 353,078</u>

3) Development Costs

Project costs (such as land acquisition and construction) are separately tracked or allocated and recorded on the financial statements as development costs. Project costs at March 31, 2008, are as follows:

Project	Amount
Desert Sage	\$ 937,309
Vista Jemez	787,672
Old Las Vegas Property	565,809
Aldea de Santa Fe	171,008
Acequia Bonita	118,136
La Pradera	54,463
Palomita	21,224
Cielo Azul	12,118
West Alameda	5,000
Sanchez	454
	<u>\$ 2,673,193</u>

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

3) Development Costs — continued

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 in the later summer or early fall.

Vista Jemez is a ten-unit project in Santa Fe, all of which will be single family detached units and sold to buyers meeting the affordability requirements of the Tierra Contenta plan. Nine units are in construction, of which 6 are under contract.

Old Las Vegas Place (formerly Old Las Vegas Highway) in Santa Fe County consists of the estimated fair value of 15.3 acres of undeveloped land donated to Homewise for affordable housing. The annexation and rezoning of the 50-unit subdivision have been approved and the preliminary subdivision plat will be considered by the City's Planning Commission in June 2008.

Aldea de Santa Fe in Santa Fe County is in its final phase of construction. Two single family units remain to be completed and closed and both are under contract to buyers.

Acequia Bonita is a two-unit project in Santa Fe. Both units will be sold to buyers under 100% of AMI. Both units are completed and under contract and are expected to close by the end of July 2008.

La Pradera in Santa Fe County is a six-unit project of single family attached and detached units. Two units were completed and closed in the current fiscal year. The remaining four units are in construction and under contract. All of the units will be sold to buyers under 100% Area Median Income (AMI).

Palomita consists of one single family lot in Taos.

Cielo Azul is an 89 unit project of affordable homes within a larger subdivision. Homewise has a purchase agreement for the 89 finished lots and will close on the first phase of lots as soon as infrastructure is completed, expected summer 2008.

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

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

During 2008, Homewise capitalized \$79,548 of interest in connection with financing the above projects.

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

4) Mortgage Notes Receivable

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

As of March 31, 2008, Homewise had the following delinquent loans:

	<u>Number</u>	<u>Payment due</u>	<u>Loan amount</u>
31-60 days	6	\$ 1,230	\$ 62,922
61-90 days	3	1,882	108,684
> 90 days	3	1,800	63,549

Amortized loans are reserved for 2% of the loan balance and loans delinquent more than 90 days are reserved for 15% of the loan balance. The allowance for amortized loans was \$308,710 at March 31, 2008. This allowance includes additional loan losses for delinquent loans of \$9,532 at March 31, 2008. As of March 31, 2008, there were no loans on nonaccrual status.

Deferred loans that are not forgivable are reserved for 15% of the loan balance. The allowance for deferred loans was \$1,948,661 and \$1,524,591 at March 31, 2008 and 2007, respectively.

Forgivable deferred loans that will be forgiven at the end of a fixed term totaled \$1,326,132 and \$1,381,132 at March 31, 2008 and 2007, respectively.

5) Property and Equipment

Property and equipment consist of the following at March 31, 2008:

Buildings and improvements	\$ 1,986,728
Software	259,008
Furniture and equipment	250,097
Autos	14,995
Less accumulated depreciation	<u>(253,655)</u>
Net value of depreciable property and equipment	2,257,173
Land	<u>299,587</u>
Total property and equipment	<u><u>\$ 2,556,760</u></u>

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

6) Notes Payable

Notes payable at March 31, 2008, consisted of the following:

Current notes payable

Bank, warehouse line of credit at 7.75% variable interest collateralized by mortgage loans, matures May 2008	\$ <u>568,001</u>
Total current notes payable	<u>568,001</u>

Long-term notes payable

New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2009	80,000
Bank, loan for home improvement projects at 3% interest collateralized by \$122,000 of mortgage notes receivable, the principal balance is due at and matures October 2012	100,000
Bank, at 3% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	250,000
Bank, at 4.8% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures December 2017	500,000
Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	250,000
Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013	250,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2011	580,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 1.6% interest, the principal balance is due at and matures July 2012	150,000
Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	250,000

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

6) Notes Payable — continued

Long-term notes payable — continued

Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	350,000
Bank, at 6.18% interest collateralized by the mortgage on the building, due in principal and interest payments on the 13 th day of each month beginning July 2007 and maturing June 2037	1,506,725
Bank, at 5.06% interest collateralized by security agreements, due in principal and interest payments on the 19 th day of each month beginning March 2008 and maturing February 2028	1,994,755
Neighborhood Housing Services of America, unsecured 3% interest, the principal balance is due at and matures January 2011	500,000
Social Investment Foundation, unsecured 4.5% interest, the principal balance and final interest payment is due at and matures April 2012	<u>500,000</u>
Total long-term notes payable	7,261,480
Total notes payable	7,829,481
Less unamortized discount	<u>221,281</u>
Total notes payable	<u>\$ 7,608,200</u>

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

Year ending March 31,

2009	\$ 646,252
2010	162,527
2011	587,041
2012	671,798
2013	1,346,822
Thereafter	<u>4,415,041</u>
	<u>\$ 7,829,481</u>

Homewise is in compliance with all financial debt covenants as of March 31, 2008.

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

7) Net Assets

Unrestricted net assets include \$1,575,644 designated for loans in the Flex Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets are available for affordable housing programs.

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

	NWA	SFLT	Total
Cash	\$ 14,183	\$ 100,082	\$ 114,265
Accounts receivable	141	-	141
Mortgage notes receivable	4,397,654	138,030	4,535,684
Accounts and escrows payable	<u>(18,568)</u>	<u>-</u>	<u>(18,568)</u>
Net assets	<u>\$ 4,393,410</u>	<u>\$ 238,112</u>	<u>\$ 4,631,522</u>
Permanently restricted net assets at beginning of year	\$ 3,653,230	\$ 238,112	\$ 3,891,342
Grants of loan funds	<u>740,180</u>	<u>-</u>	<u>740,180</u>
Permanently restricted net assets at end of year	<u>\$ 4,393,410</u>	<u>\$ 238,112</u>	<u>\$ 4,631,522</u>

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

8) Government Grants

Government grants for the year ended March 31, 2008, consisted of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
State and local awards				
City of Santa Fe - Administration of housing programs	387,535	150,419	-	537,954
Total nonfederal awards	<u>387,535</u>	<u>150,419</u>	<u>-</u>	<u>537,954</u>
Federal awards				
HUD passed through				
City of Santa Fe - CDBG	16,512	-	-	16,512
New Mexico Mortgage Finance Authority				
(NMMFA) - HOME	-	80,500	-	80,500
Enterprise Foundation	140,952	-	-	140,952
Other federal appropriations through NWA	<u>109,800</u>	<u>-</u>	<u>740,180</u>	<u>849,980</u>
Total federal awards	<u>267,264</u>	<u>80,500</u>	<u>740,180</u>	<u>1,087,944</u>
	<u>\$ 654,799</u>	<u>\$ 230,919</u>	<u>\$ 740,180</u>	<u>\$ 1,625,898</u>

9) Functional Expenses

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

	Program	Administrative	Fundraising	Total
Personnel services and benefits	\$ 1,412,676	\$ 805,920	\$ 115,131	\$ 2,333,727
Interest expense	316,797	-	-	316,797
Client support	32,790	19,128	2,733	54,651
Provision for loan losses	176,215	-	-	176,215
Marketing	119,686	68,281	9,754	197,721
Administration	103,439	59,012	8,430	170,881
Occupancy expense	67,018	38,233	5,461	110,712
Depreciation	76,549	43,671	6,238	126,458
Insurance	63,521	36,239	5,176	104,936
Professional	66,239	37,790	5,398	109,427
Professional development	<u>31,986</u>	<u>18,248</u>	<u>2,607</u>	<u>52,841</u>
	<u>\$ 2,466,916</u>	<u>\$ 1,126,522</u>	<u>\$ 160,928</u>	<u>\$ 3,754,366</u>

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

10) Retirement Plan

Homewise has a 403(b) retirement plan for its employees. Homewise makes a basic contribution of 5% of an employee's compensation plus a matching contribution up to 3% contributed by the employee through salary reduction. Homewise's contribution was \$105,612 in fiscal year 2008.

11) Concentrations of Revenue Sources and Credit Risks

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

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

12) Accounting Changes

Home Sale and Contributed Deferred Loan Revenue Recognition

In fiscal year 2008, Homewise changed its accounting policy for recognizing home sale revenue and contributed deferred loan revenue. In previous fiscal years, if a deferred mortgage was issued as a subsidy to that home, home sale revenue was recognized on the issuance of that deferred mortgage. The change suspends the deferred mortgage revenue until the time that the deferred mortgage is paid.

In prior fiscal years, Homewise entered into a contract with developers to find buyers and provide financing for the subdivision's affordable units. As a result of providing this service, Homewise gains interest in the deferred mortgage issued on these homes, which was recognized as contributions and grants. In fiscal year 2008, Homewise changed its accounting policy for recognizing contributed deferred loan revenue to suspend the recognition of contribution revenue until the time that the deferred mortgage is paid.

Homewise, Inc.
Notes to Financial Statements
March 31, 2008

12) Accounting Changes — continued

Deferred Loan Discount

In previous fiscal years deferred loans that were not forgivable were discounted by an estimate of the present value (35%). In fiscal year 2008, Homewise changed its accounting to record a loan loss reserve for deferred loans that are not forgivable instead of a discount. The reserve is recorded at 15% of the deferred loan balance.

Amounts previously reported as of and for the year ended March 31, 2007, have been restated to conform with the change in accounting policy as follows:

	As Previously Reported	Restatement	As Restated
Deferred loans	\$ 8,880,350	\$ 1,948,754	\$ 10,829,104
Deferred revenue	810,819	4,390,326	5,201,145
Ending net assets	20,707,465	(2,441,572)	18,265,893
Beginning net assets	16,393,057	1,908,800	14,484,257
Home sales	9,737,166	(381,464)	9,355,702
Contributions and grants	3,071,497	(2,100,062)	971,435
Expenses	12,514,505	(1,948,754)	10,565,751
Increase in net assets	4,314,408	(532,772)	3,781,636

Homewise, Inc.
Schedule of Expenditures of Federal Awards
March 31, 2008

	CDFA	Expenditures
Department of Housing and Urban Development		
HOME investment partnerships (pass through from NMMFA)		
Training and Counseling	14.239	\$ 80,968
Home DPA for teachers (\$220k)	14.239	5,714
CHDO - Operating \$50k (05-06)	14.239	51,883
		138,565
HUD capacity building grant (pass through from enterprise foundation)	14.XXX	30,000
Community development block grant Downpayment assistance (05-06) (pass through from City of Santa Fe)	14.218	80,500
		110,500
Total Department of Housing and Urban Development		249,065
Department of Treasury		
Community development financial institution from treasury department Loan capital	21.020	170,580
		170,580
NeighborWorks America Revolving loan fund	21.000	350,000
Operating - general support	21.000	109,300
		459,300
Total Department of Treasury		629,880
Total all funding agencies		\$ 878,945

Homewise, Inc.
Notes to Schedule of Expenditures of Federal Awards
March 31, 2008

1) General

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

2) Reconciliation to the Financial Statements

Expenditures of federal awards	\$ 878,945
Nonfederal expenses	<u>14,175,199</u>
Total 2008 expenses according to financial statements	<u>\$ 15,054,144</u>

3) Federal Loans

At March 31, 2008, Homewise had four outstanding loans payable to the Department of the Treasury for a total of \$1,330,000. See details at Note 6 to the financial statements.

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

Board of Directors
Homewise, Inc.

We have audited the financial statements of Homewise, Inc. (Homewise) as of and for the year ended March 31, 2008, and have issued our report thereon dated July 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Homewise's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Homewise's financial statements that is more than inconsequential will not be prevented or detected by Homewise's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 08-1 and FS 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Homewise's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described above to be material weaknesses.

We also noted certain matters related to internal control over financial reporting that we reported to management of Homewise in a separate letter dated July 3, 2008.

Compliance and Other Matters

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

Homewise's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Homewise's responses and, accordingly, we express no opinion on them.

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

REDWLLC

July 3, 2008

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

Board of Directors
Homewise, Inc.

Compliance

We have audited the compliance of Homewise, Inc. (Homewise) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2008. Homewise's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Homewise's management. Our responsibility is to express an opinion on Homewise's compliance based on our audit.

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

In our opinion, Homewise complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2008.

Internal Control Over Compliance

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

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

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

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

REDWLLC

July 3, 2008

Homewise, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2008

Section I — Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2008

Section I — Summary of Auditors' Results — continued

Identification of major programs:

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

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, 2008

Section II — Financial Statement Findings

FS 08-1 — Separation of Duties

Type of Finding: Significant Deficiency

Criteria or Specific Requirement: Adequate separation of duties should exist to mitigate the likelihood of errors in the accounts payable and payroll process.

Condition: The accounts payable specialist has access to add vendors to the accounting system, maintains the vendor listing, posts invoices to the accounting system, prepares and prints checks and is responsible for the mailing of checks to vendors once they have been authorized by a member of management. This control deficiency is magnified by the fact that invoices are not properly cancelled once paid.

The payroll specialist performs the duties of both human resources and payroll. This employee is responsible for adding new employees to the payroll system, processing all payroll information, remitting this information to the external payroll processing company, and reconciling all payroll reports and payment information from the payroll processing company. This control deficiency is magnified by the fact that payroll information is compiled from the electronic time sheets, instead of the hard copy timesheets approved by department managers.

Cause: Homewise does not have an internal control system designed to provide for proper separation of duties.

Effect: When one employee can create vendors or employees and has access to signed checks, that employee may be able to disburse company funds to fictitious or inappropriate vendors or employees without being easily detected.

Recommendation: Although there is a review by the CFO of all accounts payable check runs, management should assign the responsibility of adding vendors to the accounting system and mailing authorized checks to a different employee. This employee should not have access to the general ledger and ideally not be involved in the accounts payable process. By segregating this part of the process, the risk of fraudulent payment is significantly reduced.

Management should also separate the human resources and payroll duties to different employees. This will separate major processes in the organization and also strengthen the internal control system. Management should also implement a review process for all new employees and employee time sheets.

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2008

Section II — Financial Statement Findings

FS 08-1 — Separation of Duties — continued

Management Response: While management believes the review by the Accounting Manager and CFO are adequate to detect any fraudulent payment, we will identify an employee that does not have access to the general ledger and is not involved in the accounts payable process to appropriately segregate the responsibility of adding vendors to the accounting systems and mailing authorized checks from the individual responsible for the accounts payable process.

Management also recognizes the risk related to the combined human resources and payroll duties. We will identify and implement a process that will appropriately segregate those responsibilities. In addition, we will implement changes to strengthen our review process for new employees and employee time sheets.

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2008

Section II — Financial Statement Findings — continued

FS 08-2 — Development Costs

Type of Finding: Significant Deficiency

Criteria or Specific Requirement: In accordance with generally accepted accounting principles, revenue and associated cost of sales should be recorded in the financial statements when (1) amounts are realized or realizable and (2) amounts are earned. In addition, these amounts should be recorded at actual revenue and costs to properly present the results of operations for the organization.

Condition: During 2007, cost of home sales was being recorded based on the internally budgeted costs to build a single unit.

Cause: Homewise is not accurately recording the costs of home sales for each unit based on the actual costs incurred to build that unit.

Effect: Cost of home sales was under-stated based on this cost recognition policy.

Recommendation: Management should change the accounting policy related to cost of home sales to ensure proper recognition of this event. This policy should state that allocated cost of home sales are required to be recorded in the general ledger based on the actual costs incurred to build these homes. The costs of development for each home are tracked by management, so this change should not have a significant effect on administrative functions at Homewise. This change will ensure that the results of operations are properly stated in the financial statements.

Management Response: During fiscal year 2008, management changed this process to recognize allocated cost of sales at actual costs. However, we did not implement the change retroactively for the year.

Homewise, Inc.
Schedule of Findings and Questioned Costs — continued
For the Year Ended March 31, 2008

Section III — Federal Award Findings

None.

Homewise, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended March 31, 2008

FA 07-1 – Federal Audit Clearing House Report

Recommendation: We recommend that management implement procedures to ensure that the data collection form and audit report are submitted timely to the appropriate granting agency.

Current status: Resolved. The 2007 data collection form was submitted within the required time frame.