



HOMEWISE, INC.

**INDEPENDENT AUDITORS'
REPORT AND FINANCIAL
STATEMENTS WITH
SUPPLEMENTARY
INFORMATION**

MARCH 31, 2010

Moss Adams LLP

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HOMEWISE, INC.

OFFICIAL ROSTER
MARCH 31, 2010

Board of Directors

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

Administration Official

Michael Loftin	Executive Director
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HOMEWISE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2010

The management of Homewise presents the following discussion and analysis (MD&A) of the organization's financial activities for the fiscal year ending March 31, 2010. This represents an overview of financial information. Please read this discussion and analysis in conjunction with Homewise's included audited financial statements.

FINANCIAL HIGHLIGHTS

Homewise total net assets increased by \$259,895 fiscal year ending March 31, 2010. This is a surplus of our income exceeding our expenses.

The Homewise external auditor team recommended two accounting changes from prior year's practices that resulted in a positive net adjustment to our equity position of \$3.5 million.

- **Recognition of Deferred Revenue:** To increase the affordability of Homewise developed homes, Homewise often provides buyers with a "Due Upon Sale" second mortgage that satisfies the difference between the market price and the actual effective price the buyer pays. Since no cash is exchanged for this second mortgage and Homewise does not know when the loan will be repaid, Homewise chose to take a conservative position in booking these loans as "deferred revenue" and would recognize the revenue when the loan was paid in full. However, it is deemed that GAAP requires us to recognize the revenue when the home is sold and certain criteria are met including the transfer of the risk and rewards to the buyer of the property; consequently resulting in a \$5.2 million prior year increase in revenue adjustment.
- **Provision for Deferred loan losses:** Homewise has refined its methodology for calculating estimated potential losses on "Due Upon Sale" second mortgages. Homewise changed from a straight line percentage calculation to making loss estimates based on individual assessments of market values in specific sub-divisions. This resulted in an increase in the allowance for loan loss of \$1.7 million.

Homewise received authorization from CDFI to transfer \$1.4 million from Temporarily Restricted to Unrestricted.

HOMEWISE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2010

- Homewise received authorization from Neighbor Works to transfer \$1 million from Permanently Restricted to Unrestricted.

- In fiscal year ending March 31, 2010, Homewise began construction on its new 50 unit development Old Las Vegas Highway.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to Homewise audited financial statements. 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.

Homewise auditors provided assurance in their independent auditors' report with which this MD&A is included, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

Independent Auditors' Report

T 505-878-7200
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Board of Directors
Homewise, Inc.

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

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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Homewise, Inc. as of March 31, 2010, 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 discussed in Note 13, net assets as of March 31, 2009 were restated to correct departures from accounting principles generally accepted in the United States in which the Organization improperly deferred revenue on the sale of homes and did not apply appropriate subsequent measurement procedures for loans that were individually considered to be impaired.

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Board of Directors
Homewise, Inc.

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2010, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Moss Adams LLP

Albuquerque, New Mexico
July 9, 2010

HOMEWISE, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2010

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,619,944
Broker receivables	2,159,762
Grants receivable	262,541
Amortizing mortgage notes receivable, current portion	882,931
Inventory	67,346
Development costs	5,581,195
Total current assets	<u>11,573,719</u>
Property and equipment, net	<u>2,219,581</u>
Mortgage notes receivable	
Amortizing	15,924,875
Allowance on amortizing notes	(125,052)
Total amortizing	<u>15,799,823</u>
Deferred	16,769,836
Allowance on deferred notes	(4,559,417)
Total deferred	<u>12,210,419</u>
Total mortgage notes receivable	<u>28,010,242</u>
Other real estate owned	233,830
Other assets	288,000
Total assets	<u>\$ 42,325,372</u>

See Notes to Financial Statements.

HOMEWISE, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2010

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 464,389
Escrows and deposits	51,931
Lines of credit	2,315,554
Notes payable, current portion	580,000
Total current liabilities	<u>3,411,874</u>
Long-term liabilities	
Notes payable, long-term, net	10,167,884
Lines of credit, long-term	1,413,181
Deferred revenue on home development sales	1,040,301
Due to grantor agency	1,724,528
Total long-term liabilities	<u>14,345,894</u>
Total liabilities	<u>17,757,768</u>
Net assets	
Unrestricted	12,586,360
Temporarily restricted	8,233,321
Permanently restricted	3,747,923
Total net assets	<u>24,567,604</u>
Total liabilities and net assets	<u>\$ 42,325,372</u>

See Notes to Financial Statements.

HOMEWISE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Home development sales	\$ 2,468,217	-	-	2,468,217
Government grants	1,022,369	174,539	245,000	1,441,908
Loan portfolio interest	964,170	67,880	-	1,032,050
Real estate sales commissions	702,995	-	-	702,995
Loan origination fees	611,293	-	-	611,293
Contributions and grants	153,633	-	-	153,633
Bank interest	14,764	-	-	14,764
Other revenue	426,070	3,770	-	429,840
Net assets released from restrictions	2,436,518	(1,430,651)	(1,005,867)	-
Total support and revenues	8,800,029	(1,184,462)	(760,867)	6,854,700
Expenses				
Program	3,368,741	-	-	3,368,741
Cost of home development sales	2,278,841	-	-	2,278,841
Administrative	785,893	-	-	785,893
Fundraising	161,330	-	-	161,330
Total expenses	6,594,805	-	-	6,594,805
Change in net assets	2,205,224	(1,184,462)	(760,867)	259,895
Net assets at beginning of year, as previously reported	6,782,163	9,417,783	4,508,790	20,708,736
Prior period restatements (See Note 13)	3,598,973	-	-	3,598,973
Net assets at beginning of year, as restated	10,381,136	9,417,783	4,508,790	24,307,709
Net assets at end of year	\$ 12,586,360	8,233,321	3,747,923	24,567,604

See Notes to Financial Statements.

HOMEWISE, INC.
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2010

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,851,484
Cash received from grants and contributions	1,595,541
Cash paid to suppliers	(3,255,472)
Cash paid to employees	(2,253,496)
Cash paid for interest	(358,180)
Net cash provided by operating activities	<u>579,877</u>
Cash Flows From Investing Activities	
Equipment and land acquisitions	(244,538)
Loans originated	(5,916,015)
Payments received on loans	5,012,850
Proceeds from other real estate owned	88,547
Net cash flows used for investing activities	<u>(1,059,156)</u>
Cash Flows From Financing Activities	
Long-term borrowings	150,000
Payments on long-term borrowings	(82,762)
Net draws on bank lines of credit	1,122,730
Net cash flows provided by financing activities	<u>1,189,968</u>
Net increase in cash and cash equivalents	710,689
Cash and cash equivalents, beginning of year	<u>1,909,255</u>
Cash and cash equivalents, end of year	<u>\$ 2,619,944</u>

Reconciliation of increase in net assets to net cash and cash equivalents (used for) provided by operations

Change in net assets	\$ 259,895
Adjustments to reconcile change in net assets to net cash flows (used for) provided by operating activities:	
Depreciation	252,744
Amortization of discount on below market notes payable	(78,214)
Provision for loan losses	521,075
Recoveries on provision for loan losses	
Loss on sale of other real estate owned	(14,363)
Change in assets and liabilities	
Broker receivables	1,137,857
Grants receivable	266,744
Prepaid expenses and other assets	216,705
Inventory	30,163
Development costs	(1,527,268)
Accounts payable, accrued, escrows and deposits	(46,594)
Due to grantor agency	(280,037)
Other real estate owned	(158,830)
Net cash flows provided by operating activities	<u>\$ 579,877</u>

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Homewise, Inc. (Homewise) is a 501 (c) (3) not-for-profit corporation created to secure affordable housing in the Santa Fe and Northern New Mexico area. Homewise's activities includes assisting 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 and home improvement loans.

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

FASB 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 Foundation and subsidiaries and is affective for interim and annual periods ended after September 15, 2009. The ASC had no significant impact to the Organization 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 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 statements of financial position. Earned amounts in excess of collections are classified as grant receivables.

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

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

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

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

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

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

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

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

Cash, Cash Equivalents and Concentrations. For purposes of the statement of cash flows, cash and cash equivalents consist of deposits held in banks and repurchase agreements, which were fully insured at March 31, 2010. The repurchase agreements are collateralized by pledged securities.

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

Building and improvements	27.5 years
Software	5 years
Furniture and equipment	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.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Mortgage Notes 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 material to the financial statements at March 31, 2010.

Provision for Loan Losses. Management considers a loan to be impaired when, based on current information and events, it is determined that they will not be able to collect all amounts due according to the original terms of the note. Homewise accounts for impaired loans in accordance with FASB Accounting Standards Codification No. 310-10-35, *Subsequent Measurement of Receivables* (ASC 310-10-35). 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 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 Notes Receivable. Deferred mortgage notes receivable are loans that are due on sale 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 liability on the statement of financial position. If Homewise is to retain the collections, the loan is recorded net of applicable loan loss allowance.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Notes Payable 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, 2010 was \$107,450.

Income Taxes. Homewise 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.

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 14 for additional details.

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 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. 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, 2010.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Advertising Costs. Homewise expenses the cost of advertising as the expense is incurred. Advertising costs were \$29,877 at March 31, 2010.

Other Real Estate Owned. Real estate acquired by foreclosure is initially recorded at the lower of the balance of the loan on the property on the date of acquisition, or fair value. Subsequent valuation adjustments are made if net realizable value falls below the carrying amount.

Subsequent Events. Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. Homewise recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of position, including the estimates inherent in the process of preparing the financial statements. The Homewise financial statements do not recognize subsequent events that provide evidence about conditions that exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. Homewise has evaluated subsequent events through July 9, 2010, which is the date the financial statements were available to be issued and, as a result of evaluation, there were no subsequent events that required disclosure.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 2. GRANTS RECEIVABLE

Grants receivable consist of the following at March 31, 2010

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

NOTE 3. DEVELOPMENT COSTS

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

Project	Amount
Old Las Vegas Place	\$ 2,843,401
Desert Sage	1,186,543
Vista Jemez 2	783,092
Vista Serena	714,454
Sanchez	23,139
Palomita	21,714
Alta Vista SFPS	<u>8,852</u>
	<u>\$ 5,581,195</u>

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 infrastructure of the 50-unit subdivision is now underway with the onsite work of all roads and utilities.

Desert Sage in Santa Fe (formerly the Greer Project or Tract 4), consists of 26.8 acres of undeveloped land. Plans for the 80 unit subdivision have been approved by the City and Infrastructure Construction is expected to begin sometime in 2011.

Vista Jemez 2 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. There are currently 4 units remaining to be sold.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 3. DEVELOPMENT COSTS (CONTINUED)

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

Palomita consists of one single family lot in Taos.

Sanchez subdivision is a two-unit project in Santa Fe. Homewise has finalized the purchase of the two lots and began construction in April 2010.

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

NOTE 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, 2010, Homewise had the following delinquent loans:

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

Amortizing notes receivable are reserved for 10%, 20% and 100% of the loan balance for delinquencies of 31 to 60 days, 61 to 90 days and greater than 90 days, respectively. Deferred mortgage notes receivable not specifically impaired are allowed for at 20% of their balance.

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

	Amortizing	Deferred
General Allowance	\$ 125,052	1,473,901
Specific Allowance	-	3,085,516
Total Allowance	<u>\$ 125,052</u>	<u>4,559,417</u>

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 4. MORTGAGE NOTES RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses are summarized as follows:

	Amortizing	Deferred	Total
Balance, beginning of year (as restated, Note 13)	\$ 333,342	3,830,052	4,163,394
Provision (reversal) for loan losses	<u>(208,290)</u>	<u>729,365</u>	<u>521,075</u>
Balance, end of year	<u>\$ 125,052</u>	<u>4,559,417</u>	<u>4,684,469</u>

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

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2010:

Buildings and improvements	\$ 1,989,228
Software	596,932
Furniture and equipment	314,734
Autos	<u>14,995</u>
	2,915,889
Less: Accumulated depreciation	<u>(696,308)</u>
Net value of depreciable property and equipment	<u>\$ 2,219,581</u>

Depreciation expense for the year ended March 31, 2010 was \$252,745.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 6. LINES OF CREDIT AND NOTES PAYABLE

Lines of credit and notes payable at March 31, 2010 consisted of the following:

Lines of credit

Bank, warehouse line of credit of \$3,000,000 at 5.00% variable interest collateralized by mortgage loans, matures July 2011	\$ 1,413,181
Bank, construction line of credit of \$2,175,000 at 5.50% variable interest collateralized by land, matures April 2011	2,087,263
Bank, line of credit of \$119,000 at 5.50% variable interest collateralized by land, matures September 2010	114,340
Bank, line of credit of \$119,000 at 5.50% variable interest collateralized by land, matures September 2010	<u>113,951</u>
Total lines of credit	<u>\$ 3,728,735</u>

Notes payable

Opportunity Finance Network, unsecured 3% interest, the principal balance is due at and matures February 2019	\$ 2,500,000
Bank, at 5.06% interest collateralized by security agreements, due in principal and interest payments on the 19 th day of each month beginning March 2008 and maturing February 2028	1,872,281
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	1,467,752
New Mexico Mortgage Finance Authority, 1% interest, collateralized by Desert Sage property, the principal balance is due at and matures September 2011	948,025
Social Investment Foundation, unsecured 4.5% interest, the principal balance and final interest payment is due at and matures April 2012	750,000
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
Neighborhood Housing Services of America, unsecured 3% interest, the principal balance is due at and matures January 2011	500,000
Bank, at 4.8% interest collateralized by \$500,000 of mortgage notes receivable, the principal balance is due at and matures December 2017	<u>500,000</u>

Page Total

9,118,058

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

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

Notes payable – continued from prior page	\$ 9,118,058
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	350,000
Bank, at 2% interest unsecured, the principal balance is due at and matures March 2013	250,000
Bank, at 3% interest collateralized by a commercial security and pledge agreement, the principal balance is due at and matures January 2014	250,000
U.S. Department of the Treasury—Community Development Financial Institutions (CDFI) unsecured at 3% interest, the principal balance is due at and matures July 2014	250,000
Bank, at 3% interest collateralized by \$312,000 of mortgage notes receivable, the principal balance is due at and matures September 2012	250,000
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
Bank, loan for home improvement projects at 3% interest collateralized by \$125,000 of mortgage notes receivable, the principal balance is due at and matures October 2012	100,000
Religious Communities Investment, unsecured 2% interest, the principal balance is due at and matures November 2014	150,000
New Mexico Mortgage Finance Authority, 0% interest collateralized by second mortgages, the principal balance is due at and matures September 2010	<u>80,000</u>
Total notes payable	10,948,058
Less current maturities	(580,000)
Less unamortized discount	<u>(200,174)</u>
Total notes payable, less current portion and unamortized discount	<u>\$ 10,167,884</u>

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

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

At March 31, 2010, scheduled future principal payments due on the notes payable and lines of credit are as follows:

2011	\$ 4,308,735
2012	948,025
2013	2,080,000
2014	250,000
2015	750,000
Thereafter	<u>6,340,033</u>
	<u>\$ 14,676,793</u>

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

NOTE 7. NET ASSETS

Unrestricted net assets include \$4,410,020 designated for loans in the Homewise Loan Fund, a fund created by the Board of Directors for originating portfolio loans. Temporarily restricted net assets are available for affordable housing programs. Once these funds are deployed they become unrestricted.

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

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

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 8. GOVERNMENT GRANTS

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

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

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 9. FUNCTIONAL EXPENSES

At March 31, 2010, program, administrative and fundraising expenses were composed of the following:

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

NOTE 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 \$117,305 in fiscal year 2010.

NOTE 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 on amortizing mortgage notes receivable.

Homewise 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.

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 12. COMMITMENTS AND CONTINGENCIES

Grants and Contracts

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

Recourse Loans

Homewise at times sells mortgage receivables to Neighborhood Housing Services of America (NHTSA) for cash flow purposes. Homewise continues to service these receivables on behalf of NHTSA and are sold to NHTSA with full recourse, which results in a liability to Homewise upon the default of a loan. Management of Homewise has not experienced significant losses from loan defaults related to this arrangement in the past and believes its exposure due to this provision is immaterial. At March 31, 2010 the balance of these loans was \$7,238,906.

Letters of Credit

At March 31, 2010, Homewise had two available letters of credit issued by a financial institution for \$1,821,389 and \$3,199,037, respectively.

NOTE 13. PRIOR PERIOD RESTATEMENTS

Net assets at March 31, 2009 have been adjusted to restate amounts previously reported as follows:

	As Previously Reported	Restatements	As Restated
Net Assets, March 31, 2009			
Unrestricted	\$ 6,782,163	3,598,973	10,381,136
Temporarily restricted	9,417,783	-	9,417,783
Permanently restricted	4,508,790	-	4,508,790
Total restated net assets	<u>\$ 20,708,736</u>	<u>3,598,973</u>	<u>24,307,709</u>

The above restatement was the result of the following:

Deferred Revenue

In prior periods, Homewise had adopted an accounting policy which deviated from GAAP as it required the Organization to record a deferred revenue liability related to deferred mortgage notes receivable. ASC 360-20 provides that deferred revenue should be recorded only for those deferred loans associated with the sale of homes developed by Homewise. Furthermore, ASC 360-20 provides criteria for the recognition of revenue

HOMEWISE, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2010

NOTE 13. PRIOR PERIOD RESTATEMENTS (CONTINUED)

from real estate sales, including that the associated risks and rewards must have transferred from the seller to the buyer of the property. Remaining revenues in which the risks and rewards have not transferred should be deferred. At March 31, 2009 a total of \$6,577,242 in revenues had been deferred. As a result of the restatement at March 31, 2009, net assets increased by \$5,296,330.

Specific Identification for Impairment on Loans Receivable

In prior periods, Homewise had adopted a policy to allow for loan losses of 15% of all deferred mortgage loans receivable balances; however, had not applied subsequent measurement procedures for loans that were individually considered to be impaired as required by ASC 310-10 and 450-20. Management has corrected the accounting matter in the current year in which they identified that the allowance for deferred loans should be adjusted by \$1,697,357. As a result of the restatement, net assets at March 31, 2009 decreased by \$1,697,357.

The effect of the restatements would have increased the change in net assets for the year ended March 31, 2009 by approximately \$200,000.

NOTE 14. INCOME TAXES

Homewise 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, 2010. The Organization files an exempt organization return in the U.S. federal jurisdiction and with the New Mexico Taxation and Revenue Department.

HOMEWISSE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2010

	Pass-through Grantor Number or Other Identifying Number	CFDA	Expenditures
U.S. Department of Housing and Urban Development			
HOME investment partnerships (pass-through from NMMFA)			
Training and counseling	04-01-NMW-COP-001	14.239	\$ 58,841
CHDO – operating	04-01-NMW-COP-001	14.239	64,875
			<u>123,716</u>
Community Development Block Grants (pass through from City of Santa Fe)			
Down payment assistance	07-0635	14.218	174,539
Total U.S. Department of Housing and Urban Development			<u>298,255</u>
U.S. Department of Treasury			
NeighborWorks America			
Revolving loan fund	None	21.000	245,000
Operating – general support	None	21.000	168,000
Total U.S. Department of Treasury			<u>413,000</u>
Total all funding agencies			<u>\$ 711,255</u>

See notes to schedule of expenditures of federal awards.

HOMEWISE, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2010

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	\$ 711,255
Non-federal expenses	<u>5,883,550</u>
Total 2010 expenses according to financial statements	<u>\$ 6,594,805</u>

3) Federal Loans

At March 31, 2010, 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 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, 2010, and have issued our report thereon dated July 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 10-01 that we consider to be a significant deficiency in internal control over

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Board of Directors
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financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Moss Adams LLP

Albuquerque, New Mexico
July 9, 2010

**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**

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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, 2010. 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, 2010.

Internal Control Over Compliance

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

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grants applicable to federal programs. In planning and performing our audit, we considered Homewise's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Homewise'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.

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

Moss Adams LLP

Albuquerque, New Mexico
July 9, 2010

HOMEWISE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended March 31, 2010

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)? x Yes _____ 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? Yes

HOMEWISE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended March 31, 2010

B. FINANCIAL STATEMENT FINDINGS

10-01 Prior Period Restatement - Deferred Revenue Recognition and Allowance for Loan Losses

CONDITION

In prior years, revenue was not recognized related to the sale of certain homes developed by Homewise for which the revenue recognition process was complete. Additionally, in prior years, the loan loss allowance was not established on mortgage notes receivable based on specific identification. Management has restated its previously reported net assets.

CRITERIA

ASC 360-20, *Real Estate Sales*, provides criteria for the recognition of revenue from real estate sales, including that the associated risks and rewards must have transferred from the seller to the buyer of the property.

ASC 310-10, *Receivables*, and ASC 450-20, *Loss Contingencies*, requires certain methods of measurement for notes that are individually considered to be impaired.

EFFECT

Deferring revenue past the point when all revenue recognition criteria was met materially impacted reported changes in net assets and understated the year end net assets balance.

While the application of a general allowance is considered to be an essential part of the estimation for the allowance for loan losses, it is crucial to specifically identify notes that are considered to be impaired. With the absence of such specific identification, investors and lenders may be inadequately informed of the true position of the mortgage notes receivable held on the books.

CAUSE

The application of policies was found to deviate with the available authoritative accounting guidance.

HOMEWISE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended March 31, 2010

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

RECOMMENDATION

We recommend that management update policies and procedures to ensure that they comply with ASC 360-20 which provides specific guidance on the criteria for when gain on sales of real estate developed by Homewise should be recognized.

We also recommend that management review specific notes for impairment. Identification should include those notes which are non-performing, those that are significantly past due and based on knowledge of the market in which the collateral for loans resides.

MANAGEMENT RESPONSE

Management will update the organization's current accounting policies and procedures to ensure compliance with ASC 360-20 and will ensure that the procedures clearly document the appropriate accounting steps. These steps will document when and how the gain on sales of real estate developed by Homewise are to be recognized.

Management will review, on a monthly basis, specific notes for impairment. Identification will include those notes which are non-performing, those that are significantly past due and based on knowledge of the market in which the collateral for the loans resides.

C. FEDERAL AWARD FINDINGS

None