HOMEWISE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

HOMEWISE, INC.

OFFICIAL ROSTER
(Unaudited)
MARCH 31, 2019

Board of Directors

Erika Campos	Chair
Debra (Dee) Walsh	Vice Chair
Anne Messbarger-Eguia	Secretary
Andrew Spingler	Treasurer
Teresa Leger de Fernandez	Member
Kay Naranjo	Member
Agnes Noonan	Member
David Delgado	Member
Katherine Ulibarri	Member
Shelle VanEtten de Sanchez	Member
Paul Vogel	Member

Administration Official

Michael Loftin	Chief Executive Officer
David Brasier, CPA, CMA	Director of Finance

HOMEWISE, INC.

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MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Homewise, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Homewise Inc. (Homewise) which comprise the consolidated statement of financial position as of March 31, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homewise (and its subsidiaries) as of March 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter– Adoption of New Accounting Standard

As described in Note 1 to the consolidated financial statements, Homewise adopted ASU 2016-14, Not-for-Profit Entities (Tope 958*): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards *as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2019 on our consideration of Homewise, Inc*'s* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Homewise Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homewise Inc.'s internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
June 21, 2019

HOMEWISE, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
March 31, 2019

ASSETS

Current assets		
Cash and cash equivalents	$	17,172,902
Broker receivables and other accounts receivable		2,313,573
Grants receivable		546,677
Amortizing mortgage loans receivable, current portion		1,558,431
Inventory		4,684
Development costs, current portion		11,279,999
Total current assets		32,876,266
Property and equipment, net		4,064,923
Mortgage loans receivable		
Amortizing, net of current portion		62,897,595
Allowance on amortizing loans		(1,347,048)
Total amortizing mortgage loans receivable		61,550,547
Deferred mortgage loans receivable		26,806,283
Allowance on deferred loans		(5,362,000)
Total deferred mortgage loans receivable		21,444,283
Total long-term mortgage loans receivable		82,994,830
Other real estate owned		200,000
Mortgage servicing rights		2,736,924
Development costs, net of current portion		9,221,685
Qualified low income community investment		9,716,398
Other assets		447,781
Total assets	$	142,258,807

See Notes to Consolidated Financial Statements.

HOMEWISE, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
March 31, 2019

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	$	1,980,781
Accrued expenses		1,421,315
Escrows and deposits		2,850,887
Lines of credit, current portion		3,200,013
Notes payable, current portion		3,627,387
Notes payable community investment, current portion		1,578,502
Total current liabilities		14,658,885
Long-term liabilities		
Lines of credit, net of current portion		2,077,800
Notes payable, net of current portion		62,690,872
Notes payable, equity equivalent investment		3,300,000
Notes payable, community investment, net of current portion		3,185,150
Deferred revenue		2,528,701
Due to grantor agency		978,377
Total long-term liabilities		74,760,900
Total liabilities		89,419,785
Net assets		
Without donor restriction		37,919,892
With donor restriction		14,919,130
Total net assets		52,839,022
Total liabilities and net assets	$	142,258,807

See Notes to Consolidated Financial Statements.

HOMEWISE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and support			
Home development sales	$ 17,807,338	-	17,807,338
Loan origination fees	2,920,997	-	2,920,997
Real estate sales commissions	2,004,998	-	2,004,998
Loan portfolio interest	3,547,711	58,922	3,606,633
Loan servicing income	847,306	-	847,306
Amortization and valuation of mortgage servicing rights	795,189	-	795,189
Loan capital grants and contributions	3,998,688	3,279,496	7,278,184
Operating grants and contributions	1,574,972	-	1,574,972
Bank interest	7,088	-	7,088
Gain on sale of asset	135,946	-	135,946
Other revenue	441,027	-	441,027
Net asset transfers	58,922	(58,922)	-
Released from restrictions	814,206	(814,206)	-
Total revenues, gains, and support	34,954,388	2,465,290	37,419,678
Cost of home development sales	15,063,158	-	15,063,158
Expenses			
Program	14,064,955	-	14,064,955
Administrative	2,990,476	-	2,990,476
Fundraising	245,837	-	245,837
Total expenses	17,301,268	-	17,301,268
Change in net assets	2,589,962	2,465,290	5,055,252
Net assets at beginning of year	35,329,930	12,453,840	47,783,770
Net assets at end of year	$ 37,919,892	14,919,130	52,839,022

See Notes to Consolidated Financial Statements.

HOMEWISE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2019

Cash Flows From Operating Activities		
Cash received from customers	$	27,875,331
Cash received from grants and contributions		4,516,769
Cash paid to suppliers		(24,410,341)
Cash paid to employees		(6,784,851)
Cash paid for interest		(2,111,350)
Net cash flows used by operating activities		(914,442)
Cash Flows From Investing Activities		
Property and equipment acquisitions		(161,867)
Qualified low income community investment		(5,972,737)
Net increase in loans		(11,060,672)
Net cash flows used by investing activities		(17,195,276)
Cash Flows From Financing Activities		
Long-term borrowings		24,066,006
Payments on long-term borrowings		(3,526,962)
Net draws on bank lines of credit		1,611,349
Net cash flows provided by financing activities		22,150,393
Net increase in cash and cash equivalents		4,040,675
Cash and cash equivalents, beginning of year		13,132,227
Cash and cash equivalents, end of year	$	17,172,902

Reconciliation of increase in net assets to net cash and cash equivalents used by operations

Change in net assets	$	5,055,252
Adjustments to reconcile change in net assets to net cash flows used by operating activities:		
Depreciation		244,463
Amortization of mortgage servicing rights		309,880
Amortization of discount on below market notes payable		1,081,324
Amortization of discount on low income housing investment		52,236
Bad debt and reserve for loan loss		721,068
Gail on sale of an asset		(135,946)
Mortgage servicing rights		(795,189)
Change in assets and liabilities		
Broker receivables		(274,994)
Grants receivable		(540,177)
Inventory		26,311
Development costs		(6,908,412)
Other real estate owned		177,844
Other assets		(18,512)
Accounts payable and accrued expenses		1,331,957
Escrows and deposits		514,938
Deferred revenue		(1,771,955)
Due to grantor agency		15,470
Net cash used by operating activities	$	(914,442)

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Homewise, Inc. is a 501(c)(3) not-for-profit corporation created to secure affordable housing in New Mexico. The mission of Homewise is to help create successful homeowners and strengthen neighborhoods so that individuals and families can improve their long-term financial wellbeing and quality of life. Homewise provides financial counseling, property development, government program administration, low-interest fixed rate mortgages, home improvement loans, refinance loans, mortgage loan servicing, and real estate sales.

Principles of Consolidation. The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of Homewise, Inc. and its wholly-owned subsidiaries:

Homewise Orpheum, LLC
Homewise Ruppe, LLC
Homewise Mortgage, LLC

All intercompany transactions and balances have been eliminated in consolidation.

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

Basis of Presentation. The Organization is designated as a Community Development Financial Institution (CDFI). As such, the Organization is required to present its consolidated financial statements in a classified format. The Organization reports information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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

Net assets without donor restrictions – 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.

Net assets with donor restrictions – 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, or that are subject to donor imposed stipulations that they be maintained in perpetuity, with only the income used for operating activities, due to donor imposed restrictions. When a donor restriction expires, net assets with donor imposed restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Broker Receivables. Broker receivables represent amounts due from mortgage brokers for mortgage loans sold by the Organization, and are carried at their estimated collectible amounts. The Organization periodically evaluates the collectability of broker receivables and believes that they are fully collectible as of March 31, 2019.

Grant Revenue, Grants 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 grant revenue on the consolidated statement of financial position. Earned amounts in excess of collections are classified as grant receivables.

Mortgage Loans Receivable. Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated as unpaid principal balances less allowance for loan losses. Interest earned on loans is recognized only when collected, as uncollected accrued interest is not considered to be material to the consolidated financial statements at March 31, 2019.

Provision for Loan Losses. Management considers a loan to be impaired when, based on current information and events, it is determined that they will not be able to collect all amounts due according to the original terms of the note. The Organization accounts for impaired loans in accordance with FASB ASC No. 310-10-35.

Subsequent Measurement of Receivables. The standard indicates that a creditor should evaluate the collectability of both contractual interest and principal when assessing the need for a loss accrual. Loans are determined to be delinquent if they are not timely paid based on the contractual terms of the respective loan agreement.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 not recoverable through sale of collateral, such amount is charged to the allowance for loan losses.

Deferred Mortgage Loans Receivable. Deferred mortgage loans receivable are loans that are due at an unknown future date. They include: (1) loans which are due upon sale, transfer, vacating of 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 due to grantor agency liability on the consolidated statement of financial position. If the Organization is to retain the collections, the loan is booked net of applicable loan loss allowance.

Inventory. Inventory is stated at cost on the first-in, first-out (FIFO) method and consists primarily of building fixtures held for use in real estate development and home improvement operations.

Home Development Revenue and Development Costs. 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. Real Estate Held for Investment, or Rehab Properties, are properties which require repair and maintenance before sale. 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 the 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.

Property, Equipment and Depreciation. Property and equipment are stated at cost. Donated assets are recorded at estimated fair market value at date of receipt. Expenditures for maintenance and repairs are charged to expense as incurred while major betterments are capitalized. Depreciation is calculated using the straight-line method over the useful life of an asset. The Organization capitalizes assets that cost more than $1,000 and have a service life of more than one year. Estimated useful lives of the assets are as follows:

Land improvements	15 years
Building and improvements	27.5 years
Software	3–5 years
Furniture and equipment	3–7 years
Leasehold improvements	3-5 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived Assets and Impairment. Long-lived assets to be held and used are recorded at cost. Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Recoverability of these assets is determined by comparing the cost to the forecasted, undiscounted net cash flows of operation. No impairment losses on real estate or other long-lived assets were recognized during the year ended March 31, 2019.

Other Real Estate Owned. Assets acquired through, or in lieu of, loan foreclosure, totaled $200,000 at March 31, 2019. These assets are held for sale and are initially recorded at fair value at the date of acquisition less estimated selling cost, establishing a new cost basis. Subsequent to acquisition or through direct purchase, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or net realizable value less cost to sell. Revenue and expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

Mortgage Servicing Rights. Rights to service mortgage loans for others are recognized as an asset after origination and sale of each loan. These servicing rights are initially measured at fair value. The carrying amount of mortgage servicing rights, and the amortization thereon, is periodically evaluated in relation to estimated fair value. The mortgage loan portfolio is stratified by certain risk characteristics, such as loan type, interest rate and maturity, for purposes of measuring impairment. Estimation of the fair value of each stratum is accomplished by calculating the discounted present value of future net servicing income based on management's best estimate of remaining loan lives. The carrying value of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues.

Qualified Low Income Community Investment. The New Market Tax Credit Program (“NMTC”) provides investors with credits against federal income tax in exchange for capital investments in businesses and commercial projects in low-income communities. The U.S. Treasury CDFI fund awards NMTCs to certified Community Development Entities (“CDE”) to make qualified low income investments (“QLICI”) into qualified low income businesses (“QLICB”). In 2017 the Organization recorded its 33.33%, non-controlling investment in HPN Leverage I, LLC. In 2018 the Organization has recorded its 53.93%, non-controlling investment in HPN Leverage III, LLC. The initial investment is accounted for using the equity method and will decrease by loan servicing of the associated QLICI loan and increase by the Leverage Lender’s K-1 income allocation annually. Other fees and closing costs and compliance period costs are capitalized and amortized accordingly, as they relate to the compliance period, or the expected life of the associated QLICI loan. See Note 8.

Paid Time Off Accruals. Employees accrue paid time off based on their tenure. The liability, calculated by applying the employees’ current pay rates to paid time off hours accrued, is recognized as accrued expenses in the consolidated statement of financial position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrows and Deposits. The organization requires that tax and insurance escrows are collected on first amortizing loans. If the organization is in first position on a deferred loan, escrows may not be required upon the approval of Chief Lending Officer. If an amortizing loan is in a subordinate position and the first mortgage lender does not escrow, the organization requires the escrow of taxes and insurance. Where an insurance escrow account is maintained, insurance is paid annually from the escrow account. Payment records and escrow account balances are maintained in the loan servicing system. Where a real estate tax escrow account is maintained, taxes are paid twice yearly from the escrow accounts at the appropriate times. Payment records and escrow account balances are maintained in the loan servicing system.

Community Investment Notes Payable. Community investment notes represent obligations of the Organization related to individuals and trusts investing in notes issued by the Organization. The total aggregate offering price amounts to $5,000,000 and is offered with a minimum investment of $1,000 plus additional increments of $100 bearing interest at a rate of 1% to 4%. Cash generated from issuance of these deposits is utilized to fund operations. At March 31, 2019 the balance recorded as community investment notes amounted to $4,763,652.

Income Taxes. The Organization is a tax-exempt organization and is not subject to federal or state income taxes, except unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying consolidated financial statements. 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 16 for additional details.

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

Fair Value of Financial Instruments and Derivative Financial Instruments. The Organization has applied certain amendments to ASC 825-10-50, Disclosure of Financial Instruments, per ASU 2016-01, which allows the disclosure requirements for the fair value of financial and derivative financial instruments to be optional for nonpublic business entities, including nonprofits. The Organization's policy is to not engage in derivative financial instruments. Accordingly, the Organization did not disclose fair value information for the year ended March 31, 2019.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Loan Origination Fees. Origination fees (points), service release premiums, underwriting fees, yield spread premiums, and other miscellaneous loan fees are determined as a percentage of the loan amount and are recognized at closing and reported on the consolidated statement of activities.

Advertising and Marketing Costs. The Organization expenses the cost of advertising and marketing as the expense is incurred. Advertising costs were $279,279 for the year ended March 31, 2019.

Subsequent Events. Subsequent events are events or transactions that occur after the consolidated statements of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that exist at the date of the consolidated statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statements are available to be issued.

Management has evaluated subsequent events for potential recognition and disclosure through June 21, 2019, which is the date the consolidated financial statements were available to be issued.

New Pronouncements. FASB has issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* The amendments in this update were issued to improve the current net asset classification requirements and the information presented in Not-for-Profit financial statements and notes. The update simplifies the statement of financial position by requiring only two net asset classifications: net assets with donor restrictions and net assets without donor restrictions. The amendments in this update are effective for fiscal years beginning after December 15, 2017. Management has adopted this standard for the year ended March 31, 2019 and has adjusted these consolidated statements accordingly.

FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance establishes the principles to report useful information to users of the financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The new guidance affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The new guidance will be required for annual reporting periods beginning after December 15, 2018. Early application is permitted. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

FASB has issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. Management is currently in the process of evaluating the impact of adoption of this guidance on the consolidated financial statements.

FASB has issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available for sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables, and held-to maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the life of the asset, rather than incurred losses.

Subsequently, FASB has issued Codification Improvements to Topic 326, Financial Instruments-Credit Losses, making the ASU effective for fiscal years beginning after December 15, 2021. The organization does not intend to early adopt. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Organization’s net assets or changes in net assets.

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date of March 31, 2019, are comprised of the following:

Financial assets at year end	$ 142,258,807
Add available funds per lines of credit	17,469,687
Less amounts not available to be used within one year:	
Property, plant, and equipment, net	(4,064,923)
Amortizing mortgage loans receivable, net of current portion	(62,897,595)
Deferred mortgage loans receivable	(26,806,283)
Other real estate owned	(200,000)
Mortgage servicing rights	(2,736,924)
Development costs	(20,501,684)
Qualified low income community investment	(9,716,398)
Other assets	(447,781)
	(127,371,588)
Less amounts not available to be used within one year due to:	
Contractual or donor imposed restrictions:	
Restricted cash	(3,172,418)
Restricted grants receivable	(53,950)
Restricted amortizing mortgage loans receivable	(1,344,995)
	(4,571,363)
Financial assets available to meet cash needs for general expenditures within one year	$ 27,785,543

As part of its Capital Strategy and Operating Budget, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

NOTE 3. GRANTS RECEIVABLE

Grants receivable consist of the following:

Federal, Loan Capital, CDFI FA	$ 125,000
Financial Institution Contributions	38,500
Non-Federal, City of Santa Fe	151,203
Community Development Block Grant (pass through from the City of Santa Fe for home improvement and home purchase principal reduction loans - restricted)	53,950
Community Development Block Grant (pass through from the City of Albuquerque for home improvement and home purchase principal reduction loans)	211,024
FHLB, net payable	(33,000)
Total Grants Receivable	$ 546,677

NOTE 4. DEVELOPMENT COSTS

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

Project:

Tessera	$ 5,854,768
Oshara	1,441,974
Aldea	724,792
Desert Sage	1,290,657
El Camino Crossing	2,997,304
Vista Serena	2,309,541
Fairly	419,585
Palomita	21,928
Villa Toscana	49,903
Orpheum	2,708,959
Ruppe Building	347,645
Siler Expansion	720,741
Albuquerque Renovation	1,596,387
Santa Fe Renovation	17,500
Total development costs	20,501,684
Less: current development costs	(11,279,999)
Development costs, net of current portion	$ 9,221,685

NOTE 4. DEVELOPMENT COSTS (CONTINUED)

Tessera subdivision in the County of Santa Fe is a residential development comprised of three phases. Phase 1 is outside the city limits and consists of 77 residential lots with an average lot size of approximately one half acre. Currently all lots have been sold. Phase 2 is comprised of 78 entitled, but undeveloped, lots averaging about one half acre. Currently 13 have sold and 18 are under construction, with 47 lots available to build. Phase 3 is 92.3 acres located south of the Route 599 bypass in what is called the "presumptive city limits", which means it is scheduled to be annexed into the city limits.

Oshara consists of 40 developed lots in the County of Santa Fe. Oshara is a mixed use development with several product types and price points of homes. The 40 lots are zoned for 32 Townhomes and 8 Patio Homes. Currently 24 have sold and 6 under construction, with 10 lots available to build.

Aldea consists of 20 developed lots in the County of Santa Fe in the Aldea development. Currently 12 have sold and 4 under construction, with 4 lots available to build.

Desert Sage in Santa Fe consists of 26.8 acres of undeveloped land. Plans for the 80-unit subdivision have been approved by the City.

El Camino Crossing (formerly known as Corazon Santo) is a mixed use development with several product types and price points of homes. Phase 1 consist of a 40 lot single family home subdivision. Currently 34 have sold and 4 are under construction, with 2 inventory. Phase 2 is a Mixed Use tract that will have 13 condo units, 22 live/work units and 2 commercial only buildings.

Vista Serena consists of approximately 12.7 acres of undeveloped land that the Organization purchased with the intent of building a 50-unit subdivision consisting of single family detached homes within the Master Plan Community of Tierra Contenta. Currently the project is under infrastructure development. Building will begin in fiscal year 2020.

Fairly consists of two parcels of land, Lot 1 is 6.26 acres and Lot 2 is 3.787 acres off of Fairly Road in the County of Santa Fe also known as T.J. Henry Tract for a total of 60 lots. These parcels are located between two existing residential developments in the Master Plan Community of Tierra Contenta for future development.

Palomita consists of one single family lot in Taos.

Villa Toscana – A single family residential subdivision where Homewise acquired 2 lots. Currently, both are under construction.

Orpheum is the Albuquerque Homeownership Center and Community Hub. It is currently undergoing renovation and will include a community classroom/performance space, artist studios, apartments, gallery space, and offices for the Homewise Albuquerque Homeownership Center.

NOTE 4. DEVELOPMENT COSTS (CONTINUED)

Ruppe is a historic pharmacy building located in the Barelas community of Albuquerque. It will be renovated to warm shell status for a period of public activation prior to securing long term tenants.

Siler Expansion Homewise's Main Office in Santa Fe is located at 1301 Siler Rd within an existing building of 9,927 square feet. Homewise is currently under construction on expanding their current location by adding an additional 6,655 square feet. The project should be complete in fiscal year 2020.

Albuquerque Renovation consists of distressed homes in Albuquerque that are purchased, renovated, and resold to support and restore neighborhoods.

Santa Fe Renovation consists of distressed homes in Santa Fe that are purchased, renovated, and resold to support and restore neighborhoods.

NOTE 5. MORTGAGE LOANS RECEIVABLE

Amortizing Mortgage Loans

To assist low-income households with home purchases or repairs, the Organization has originated amortizing mortgage loans bearing interest rates from 1.0% to 8.5%, for periods of up to 30 years. Amortizing mortgage loans are secured by a recorded perfected interest in the subject property.

The Organization provides for potentially uncollectible loans as described in Note 1. The Organization had the following delinquent amortizing loans:

	Loan Number		Payment Due	Loan Amount
31 – 60 days	14	$	4,825	373,134
61 – 90 days	5		5,120	154,112
>90 days	4		6,411	155,935
		$	16,356	683,181

The total amount 31 or more days past due was equivalent to 1.06% of the gross outstanding amortizing mortgage loans receivable balance at March 31, 2019.

Amortizing mortgage loans receivable are reserved for at 2%, 10%, and 20% of the loan balance for current and delinquent loans less than 31 days past due, delinquencies of 31 to 60 days, and delinquencies of 61 to 90 days, respectively and are subject to a loan covenant that requires the allowance to be no less than 2% of the outstanding balance. For loans greater than 90 days' delinquent, management reserves 100% of the outstanding principal balance less specifically identified amounts they would expect to recover based on supported information obtained during the collection process.

NOTE 5. MORTGAGE LOANS RECEIVABLE (CONTINUED)

At March 31, 2019, amortizing mortgage loans receivable had the following general and specific allowances applied against principal due:

Amortizing gross mortgage loans	$ 64,456,026
General allowance	(1,347,048)
	$ 63,108,978

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

Balance, March 31, 2018	$ 1,370,928
Provision (recovery) for loan losses	6,034
Loans charged off, net of recoveries	(29,914)
Balance, March 31, 2019	$ 1,347,048

Loans to related parties amounted to $1,624,884 at March 31, 2019. These loans were issued to employees of the Organization who qualified to participate in the Homewise lending program. Each loan was issued in accordance with the Organization’s policy.

Deferred Mortgage Loans

The Organization has also originated deferred mortgage loans. These are loans that have no required periodic payments and bear no interest, but are due in full upon sale, transfer, vacating of, or refinance of the related home. A portion of these deferred loans are forgivable if the owner lives in the home for a specified period of time. All amounts collected on the forgivable deferred loans are to be returned to a grantor and all amounts forgiven reduce the amount due to the grantor. The full amount of forgivable deferred loans and other deferred loans for which the funds are to be returned to a grantor upon collection are included in the "Due to grantor agency" liability on the consolidated statement of financial position. Deferred mortgage loans are made to improve the affordability of homes to the Organization's customers. The Customer buys the house at a fair market price, but the deferred loan results in a reduction in the down payment required and the monthly mortgage payments. As a result, the customer obtains a more affordable house, but doesn't get a windfall by buying the house at a below-market price. As of March 31, 2019, 61% of deferred loans were funded through grants and contributions made to the Organization for this specific purpose. Of the remaining 39% of deferred loans that were funded by the Organization, the vast majority was provided on homes built by the Organization and was funded from the proceeds of the home sale. Deferred mortgage loans are secured by a recorded perfected interest in the subject property.

NOTE 5. MORTGAGE LOANS RECEIVABLE (CONTINUED)

Deferred mortgage loans are allowed for based on the calculated amount that would be expected to be paid based primarily on trends in home values between the date of the loan and the date of valuation, subject to a loan covenant that requires the allowance to be no less than 20% of the outstanding balance.

At March 31, 2019, deferred mortgage loans receivable had the following general and specific allowances applied against principal due:

Deferred mortgage loans	$ 26,806,283
General allowance	(5,362,000)
	$ 21,444,283

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

Balance, March 31, 2018	$ 4,600,000
Provision (recovery) for loan losses	777,000
Loans charged off, net of recoveries	(15,000)
Balance, March 31, 2019	$ 5,362,000

Deferred loans that are expected to be forgiven at the end of a fixed term totaled $390,568 at March 31, 2019.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	$ 1,233,768
Land improvements	47,451
Buildings and improvements	3,329,564
Software	1,486,513
Furniture and equipment	768,012
Trademark	8,000
Leasehold improvements	9,123
Total property and equipment	6,882,431
Less: accumulated depreciation	(2,817,508)
Net value of property and equipment	$ 4,064,923

Depreciation expense for the year ended March 31, 2019 was $244,463.

NOTE 7. MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not included in the accompanying consolidated statement of financial position. Not all loans serviced for others include non-cancellable servicing rights. The unpaid balance of loans with non-cancellable servicing rights as of March 31, 2019 is summarized as follows:

Mortgage loan portfolios serviced for:	
Federal National Mortgage Association (FNMA)	$ 336,544,450
Other investors	34,792,430
Total	$ 371,336,880

During 2019, substantially all of the loans serviced for others had a contractual servicing fee of 0.25% per annum of the unpaid principal balance. These servicing fees totaled $795,189 during 2019.

An analysis of changes in mortgage servicing rights is as follows:

Balance at beginning of period	$ 2,251,615
Servicing rights originated and capitalized	795,189
Amortization	(309,880)
Balance at end of period	$ 2,736,924

The primary risk characteristics of the underlying loans used to stratify the servicing assets for the purposes of measuring impairment are interest rate and original term. The valuation allowance is used to recognize impairments of the mortgage servicing rights. A mortgage servicing right is impaired when the fair value of the mortgage servicing right is below the amortized book value of the mortgage servicing right. The mortgage servicing rights are accounted by risk tranche, with the interest rate and term of the underlying loan being the primary strata used in distinguishing the tranches. Each tranche is evaluated separately for impairment. At March 31, 2019 there was no impairment.

The following assumptions were used to calculate the market value of the mortgage servicing rights:

Discount rate	9.10%
Earnings rates:	
Principal and Interest Payoffs	2.50%
Escrows	2.50%
Advances	3.00%

NOTE 8. INVESTMENT IN LEVERAGE LENDER

Investment in HPN Leverage I, LLC

In 2017 the Organization participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2017 the Organization recorded its 33.33%, non-controlling investment in HPN Leverage I, LLC at the cost of $3,354,012. Atlanta Neighborhood Development Partnership, Inc. (ANDP) and Homewise, Inc. participated in this transaction. In May, 2024, Twain Investment Fund 231, LLC (the Fund), and the upstream effective owner of HPN NMTC I, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement HPN Leverage I, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

Long Term Debt

Long-term debt consists of the following: HPN NMTC I, LLC $4,875,000. Debt requires interest only payments until May, 2024 at 0.69%. The loan matures in May, 2037. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable May, 2024.

Investment in HPN Leverage III, LLC

In 2018 the Organization participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2018 the Organization has recorded its 53.93%, noncontrolling investment in HPN Leverage III, LLC at the cost of $5,367,300. Develop Detroit, Inc. (Develop Detroit), and Homewise, Inc. participated in this transaction. In April, 2025, USBCDC Investment Fund 214, LLC (the Fund), and the upstream effective owner of HPN NMTC III, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement HPN Leverage III, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

Long Term Debt

Long-term debt consists of the following: HPN NMTC III, LLC $7,800,000. Debt requires interest only payments until April, 2025 at 0.70%. The loan matures in April, 2038. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable April, 2025.

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES

Homewise is subject to several loan covenants, which among other, items, require minimum net asset, liquidity, allowance for loan losses, leverage, and collateral levels. Homewise is in compliance with these covenants as of March 31, 2019. At March 31, 2019, Homewise had lines of credit, notes payable, equity equivalent investment and community investment notes outstanding of:

Current	
Lines of credit	$ 3,200,013
Notes payable	3,627,387
Notes payable, community investment	1,578,502
Total current	8,405,902
Long-Term	
Lines of credit	2,077,800
Notes payable	62,690,872
Notes payable, equity equivalent investment	3,300,000
Notes payable, community investments	3,185,150
Total long-term, net	71,253,822
Total	$ 79,659,724

Lines of credit at March 31, 2019:

Bank, line of credit of $10,000,000 at 3.75% variable interest, collateralized by mortgages, matures August 2019	$ 2,982,204
Bank, line of credit of $5,438,000 for various loans at 5.50% interest, collateralized by lot mortgages, matures July 2020	2,077,800
Bank, Line of credit of $1,309,500 for various loans at 4.25% interest, collateralized by El Camino Crossing Development, matures May 2019	217,809
Total lines of credit	$ 5,277,813

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)

Notes payable at March 31, 2019:

Opportunity Finance Network, unsecured at 3.00% interest, principal balance is due at and matures March 2022	$ 1,875,000
Opportunity Finance Network, at 3.00% interest, collateralized by mortgages, principal balance is due at and matures March 2022	1,000,000
Opportunity Finance Network, at 3.00% interest, collateralized by mortgages, principal balance is due at and matures June 2022	1,250,000
Opportunity Finance Network, at 3.50% interest, collateralized by mortgages, principal balance is due at and matures March 2022	750,000
Opportunity Finance Network, at 3.56% interest, collateralized by mortgages, principal and interest due in quarterly payments and matures March 2047	2,670,000
Opportunity Finance Network, at 3.26% interest, collateralized by mortgages, principal and interest due in quarterly payments and matures March 2047	7,230,000
Bank, at 3.75% interest collateralized by mortgages, due in monthly payments and maturing February 2028	1,116,366
Bank, at 4.00% interest, collateralized by the Homewise headquarters building, due in monthly payments and maturing June 2037	1,183,620
Bank, unsecured at 4.50% interest, due in monthly payments, principal balance is due and matures June 2024	864,882
Albuquerque Community Foundation, at 3.00% interest, Interest only due in quarterly payments, principal and all outstanding interest due and matures October 2022	250,000
Calvert Social Investment Foundation, unsecured at 4.5% interest, with the final payment due at maturity in March 2020	500,000

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)

Bank, revolving loan with $5,000,000 available for drawdown until October 2019 at the ten (10) year Libor rate plus 1.25% at the time of drawdown, collateralized by mortgages, quarterly payments are amortized over 20 years and due in full 10 years from initial drawdown	$ 4,750,747
Bank, at 3.00% interest, collateralized by mortgages, the principal balance is due at and matures February 2021	500,000
Bank, at 3.00% interest, collateralized by mortgages, the principal balance is due at and matures September 2022	500,000
Bank, unsecured at 2.75% interest, the principal balance is due at and matures December 2023	3,867,532
Bank, 5.50% interest, collateralized by mortgages, quarterly payments are amortized over 30 years and due in full in March 2022	276,021
Religious Communities Investment Fund, unsecured at 2.00% interest, the principal balance is due at and matures November 2019	350,000
Seton Enablement Fund, unsecured at 3.00% interest, the principal payments began February 2017 with a final payment of $75,000 due January 2021	110,492
Mercy Investment Services, Inc., unsecured at 3.00% interest, the principal balance is due at and matures June 2020	1,000,000
Christus Health, at 3.00% interest, collateralized by mortgages, the principal balance is due at and matures March 2020	1,000,000
Sachs Foundation, unsecured at 3.25% interest, the principal balance is due at and matures September 2021	750,000
Bank, at 4.50% interest, collateralized by mortgages, monthly payments are amortized over 15 years and due in full in September 2025	1,465,506
Bank, at 3.00% interest, collateralized by mortgages, the principal balance is due and matures February 2022	500,000

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)

Bank, at 3.00% interest, collateralized by mortgages, the principal balance is due and matures October 2022	$ 500,000
Bank, at 3.50% interest, collateralized by mortgages, monthly payments are amortized over 20 years and due in full in September 2023	791,306
Bank, at 4.50% interest, collateralized by mortgages, monthly payments are amortized over 15 years and due in full in September 2024	3,843,134
Bank, unsecured at 3.00% interest, the principal balance is due and matures July 2023	1,500,000
Monarch Community Fund, unsecured at 4.00% interest, the principal balance is due at and matures July 2022	350,000
Santa Fe Community Foundation, unsecured at 2.50% interest, the principal balance is due at and matures April 2021	250,000
Santa Fe Community Foundation, unsecured at 2.50% interest, the principal balance is due at and matures January 2023	165,000
Sisters of Charity of the Incarnate Word, unsecured at 1.00% interest, the principal balance is due at and matures February 2021	150,000
Bank, at 3.50% interest, collateralized by mortgages, with 2 principal payments of $1,000,000 each due in February 2022 and February 2023 and the remaining balance due on maturity in February 2024	3,000,000
Bank, at 3.00% interest, collateralized by mortgages, annual principal payments began September 2018 and the remaining balance due on maturity in September 2027	2,840,000
Anchorum St. Vincent support, at 3.00 % interest, collateralized by mortgages, quarterly payments are amortized over 20 years and due in full in March 2023	1,770,656
Bank, at 3.75% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in March 2030	1,860,738

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)

Bank, at 3.75% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in March 2030	$ 316,192
Bank, at 3.75% interest, collateralized mortgages, quarterly payments are amortized over 20 years and due in full in September 2030	546,067
Bank, at 2.00% interest, unsecured, the principal balance is due at and matures March 2026	1,000,000
Bank, at 2.00% interest, unsecured, the principal balance is due at and matures March 2030	1,000,000
Housing Partnership Network NMTC I at 0.69% interest, secured by substantially all assets acquired by the organization from the loan proceeds, interest only monthly payments and due in full May 2037	4,875,000
Housing Partnership Network NMTC I at 0.70% interest, secured by substantially all assets acquired by the organization from the loan proceeds, interest only monthly payments and due in full April 2038	7,800,000
Total notes payable	66,318,259
Less: current maturities	(3,627,387)
Total notes payable, net of current portion	$ 62,690,872

Notes payable – Equity equivalent investment ("EQ2") at March 31, 2019:

Bank of the West, unsecured, the principal balance is due at and matures September 2028	$ 1,000,000
Compass Bank, unsecured at 2.25% interest, the principal balance is due at and matures November 2027	2,300,000
Total notes payable – equity equivalent, long-term	$ 3,300,000

Notes payable, community investment consists of unsecured investments made by individuals and trusts to the Organization.

NOTE 9. LINES OF CREDIT, NOTES PAYABLE, EQUITY EQUIVALENT INVESTMENT AND COMMUNITY INVESTMENT NOTES (CONTINUED)

Individuals and trusts, twenty-eight notes at 1.00% to 2.50% Interest, maturing April 2019 to March 2020	$ 1,578,502
Individuals and trusts, eleven notes at 1.00% to 2.50% Interest, maturing April 2020 to March 2021	1,085,146
Individuals and trusts, ten notes at 2.00% to 3.50% Interest, maturing April 20201 to March 2022	748,880
Individuals and trusts, six notes at 2.00% to 3.50% Interest, maturing April 2022 to March 2023	108,018
Individuals and trusts, eighteen notes at 2.00% to 3.50% Interest maturing after April 2023	1,243,106
Total notes payable, community investment	4,763,652
Less: current maturities	(1,578,502)
Total notes payable, community investment, long-term	$ 3,185,150

Scheduled future principal payments due on the notes payable and lines of credit are as follows:

Year ending March 31,	
2020	$ 8,405,902
2021	6,721,082
2022	8,997,593
2023	7,145,714
2024	7,626,340
Thereafter	40,763,093
Total future principal payments	$ 79,659,724

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

The breakdown of net assets with permanent donor restrictions by program follows:

	Beginning Net Assets	Change in Net Assets	Ending Net Assets
NeighborWorks America	$ 1,596,795	(814,206)	782,589
Santa Fe Land Trust	237,955	-	237,955
Net assets with permanent donor restrictions	$ 1,834,750	(814,206)	1,020,544

Net assets with temporary donor restrictions by program consist of the following:

Purpose Restricted	Beginning Net Assets	Change in Net Assets	Ending Net Assets
Santa Fe Community Housing Trust	$ 526,239	-	526,239
Santa Fe Affordable Housing Trust Fund	816,900	120,000	936,900
Land Title Trust Fund	15,964	-	15,964
Santa Fe Public Schools	636,531	-	636,531
Watersmart	233,741	-	233,741
Anchorum	170,538	-	170,538
Project Reinvest	1,970,500	1,239,000	3,209,500
Community Development Block Grant, City of Santa Fe pass through funds	6,057,677	54,786	6,112,463
Total purpose restricted	$ 10,428,090	1,413,786	11,841,876
Time Restricted			
Community Development Financial Institutions Fund, Capital Magnet Fund	$ 191,000	1,865,710	2,056,710
Net assets with donor restrictions	$ 12,453,840	2,465,290	14,919,130

NOTE 11. GRANTS AND CONTRIBUTIONS

	Without Donor Restrictions	With Donor Restrictions	Total
Loan capital grants and contributions			
Federal loan capital grants			
Capital Magnet Fund	$ -	1,865,710	1,865,710
HUD, Community Development Block Grant, pass through from City of Santa Fe	-	54,786	54,786
CDFI Financial Assistance	1,125,000	-	1,125,000
Other Federal Appropriations through NWA	750,000	-	750,000
Total federal loan capital grants	$ 1,875,000	1,920,496	3,795,496
Nonfederal loan capital grants and contributions			
City of Santa Fe - Administration of housing programs	$ 98,380	120,000	218,380
Project Reinvest	-	1,239,000	1,239,000
Project LIFT	2,010,000	-	2,010,000
Other nonfederal loan capital contributions	15,308	-	15,308
Total nonfederal loan capital grants and contributions	$ 2,123,688	1,359,000	3,482,688
Total loan capital grants and contributions	$ 3,998,688	3,279,496	7,278,184

NOTE 11. GRANTS AND CONTRIBUTIONS (CONTINUED)

Operating grants	Without donor restrictions	With donor restrictions	Total
Federal operating capital grants			
Other Federal Appropriations through NWA	$ 483,476	-	483,476
Total federal operating capital grants	$ 483,476	-	483,476
Nonfederal operating grants and contributions			
City of Santa Fe - Administration of housing programs	$ 188,366	-	188,366
Project Reinvest	302,500	-	302,500
Project LIFT	366,435	-	366,435
Other nonfederal operating contributions	234,195		234,195
Total nonfederal operating grants and contributions	$ 1,091,496	-	1,091,496
Total operating grants and contributions	$ 1,574,972	-	1,574,972
Total grants and contributions	$ 5,573,660	3,279,496	8,853,156

NOTE 12. FUNCTIONAL EXPENSES

A breakdown of expenses by natural classification and function follows:

	Program	Administrative	Fundraising	Total
Personnel Services and Benefits	$ 5,844,690	1,551,849	159,091	7,555,630
Client Support Services	419,543	6,533	-	426,076
Interest Expense	1,990,597	120,753	-	2,111,350
Occupancy	109,587	232,983	306	342,876
Real Estate Carrying Costs	403,508	20,783	559	424,850
Professional Services	166,095	268,304	2,758	437,157
Administrative Expenses	358,090	375,805	10,058	743,953
Advertising & Marketing Expenses	210,258	-	69,021	279,279
Professional Development	222,148	62,268	3,372	287,788
Depreciation & Amortization	1,516,458	171,445	-	1,687,903
Insurance	79,334	179,753	-	259,087
Loan Loss Reserve	738,120	-	-	738,120
Bad Debt Recovery	(17,052)	-	-	(17,052)
Capital Grant Expense	2,023,579	-	672	2,024,251
Total functional expenses	$ 14,064,955	2,990,476	245,837	17,301,268

NOTE 13. RETIREMENT PLAN

The Organization has a 403(b) retirement plan for its employees. Following one year of service, Homewise makes a basic contribution of 5% of an employee's compensation plus a contribution matching up to 3% contributed by the employee through salary reduction. The Organization's contribution was $343,027 for the year ended March 31, 2019.

NOTE 14. CONCENTRATIONS OF REVENUE SOURCES AND CREDIT RISKS

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

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

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

At March 31, 2019, the Organization held deposits with multiple banks that individually exceeded the Federal Deposit Insurance Coverage (FDIC) limit of $250,000. Certain banks pledged collateral covering the remainder of the uninsured balance. Management has taken action to mitigate the credit risk of the remaining uninsured and uncollateralized balance of $5,453,181 by depositing with well-known and highly reputable institutions.

NOTE 15. 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 conditions of its grants and contracts and no significant liability, if any, will result from an audit.

Letters of Credit - At March 31, 2019, the Organization had four available letters of credit issued by financial institutions in the aggregate amount of $3,619,506 related to the Desert Sage, Las Palomas and El Camino Crossing developments.

The Organization is subject to litigation in the normal and ordinary course of business, which, in the opinion of management and based upon advice of counsel, would not have a material effect on its consolidated financial position or operations.

NOTE 16. INCOME TAXES

The Organization had no unrecognized tax benefits which would require an adjustment to the April 1, 2018 beginning balance of net assets and had no unrecognized tax benefits at March 31, 2019. The Organization files an exempt organization return in the U.S. federal jurisdiction.

NOTE 17. RELATED PARTY TRANSACTIONS

The Organization has a loan with Anchorum St. Vincent (ASV) totaling $1,770,656. An Organization Board Member is the former President of ASV and former board member of Christus St. Vincent Regional Medical Center (CSVRMC).

The Organization has a continuing relationship with CSVRMC related to an Employee Affordable Housing Program. The purpose of the Program is to help CSVRMC retain employees by providing financial assistance to employees who meet the program guidelines for the purchase of a home. The Organization received a $100,000 Affordable Housing contribution from CSVRMC during 2016 used for down payment assistance in the form of deferred loans. In addition, ASV provides secondary loans to CSVRMC employees under the Employee Affordable Housing Program. The Organization provides mortgage loan servicing to ASV for these loans.

The Organization has investments from both Homewise Employees and Homewise Board Members in Homewise Community Investment Notes. Related party investments totaled $107,468 for 2019.

HOMEWISE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2019

Grantor /Pass-Through Grantor/Program Title	Pass-through Grantor Number or Other Identifying Number	CFDA	Without donor restrictions	With donor restrictions	Total Expenditures	Loans & Loan Guarantees
U.S. Department of Housing and Urban Development						
Pass through	City POs:					
Community Development Block Grant (pass through from the City of Santa Fe)	17181189 - 000 - OP, 17181190 - 000 - OP	14.218	$ -	54,786	54,786	-
Community Development Block Grant (pass through from the City of Albuquerque		14.218	316,324	-	316,324	-
Total U.S. Department of Housing and Urban Development and Pass-through			316,324	54,786	371,110	-
U.S. Department of Treasury						
Federal Direct						
Community Development Financial Institution Program Capital Magnet Fund- loan capital	FAW-004594	21.011	-	1,865,710	1,865,710	2,056,710
CDFI Bond Guarantee Program		21.014	9,900,000	-	9,900,000	-
CDFI Financial Assistance	181FA023113	21.020	975,469	-	975,469	-
NeighborWorks America	PL 115-114, 116.6	21.115	1,233,476	-	1,233,476	-
Total U.S. Department of Treasury and Federal Direct			12,108,945	1,865,710	13,974,655	2,056,710
Total federal expenditures			$ 12,425,269	1,920,496	14,345,765	2,056,710

HOMEWISE, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2019

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the expenditures of Homewise, Inc. and affiliates under programs of the federal government for the year ended March 31,2019. The information in the Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed. Catalogue of Federal Domestic Assistance numbers ("CFDA No.") are provided when available.

The Organization elected not to use the 10% de minimis indirect cost rate.

NOTE 3. PRIOR YEAR'S EXEPNDITURES

The accompanying Schedule of Expenditures of Federal Awards includes $191,000 in expenditures from prior year for which continuing compliance is required.

NOTE 4. CDFI BOND GUARANTEE PROGRAM

Bonds outstanding at the beginning of the year and bond funding drawn during the year are included in the federal expenditures presented in the schedule. The balance of bonds outstanding at March 31, 2019 consists of:

Beginning balance, March 31, 2018	$ -
Bond funding drawn	9,900,000
Ending balance, March 31, 2019	$ 9,900,000

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Report of Independent Auditors 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

The Board of Directors
Homewise, Inc.

We have audited, in accordance with the 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, the consolidated financial statements of Homewise, Inc., which comprise the consolidated statement of financial position as of March 31, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Homewise, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Homewise, Inc.'s internal control.

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 a 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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homewise, Inc.'s financial statements are free from 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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
June 21, 2019

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Homewise, Inc.

Report on Compliance for Each Major Federal Program

We have audited Homewise, Inc.’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Homewise, Inc.'s major federal programs for the year ended March 31, 2019. Homewise, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Homewise, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Homewise, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Homewise, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2019.

Report on Internal Control Over Compliance

Management of Homewise, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Homewise, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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, Inc.'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 a 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. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
June 21, 2019

HOMEWISE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
MARCH 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Number(s)	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
21.014	CDFI Bond Guarantee Program	Unmodified
21.020	CDFI Financial Assistance	Unmodified
PL 115-141, 116-6	NeighborWorks America	Unmodified

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II - Financial Statement Findings

No reportable matters

Section III - Federal Award Findings and Questioned Costs

No reportable matters