Report of Independent Auditors
and Financial Statements for

Ventana Fund

September 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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VENTANA FUND

SEPTEMBER 30, 2016

BOARD OF DIRECTORS

Todd Clarke	Chair and Executive Director
Mark Allison	Vice Chair
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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Ventana Fund
Albuquerque, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of Ventana Fund, a nonprofit, which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

To the Board of Directors
Ventana Fund
Albuquerque, New Mexico

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 financial statements referred to above present fairly, in all material respects, the financial position of Ventana Fund as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the Ventana Fund restated its prior period financial statements to correct an overstatement in unrestricted net assets and temporarily restricted net assets and an understatement in permanently restricted net assets, as well as to present restricted cash separately from cash and cash equivalents. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Albuquerque, New Mexico
January 13, 2017

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VENTANA FUND
STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30, 2016	September 30, 2015 As Restated
CURRENT ASSETS		
Cash and cash equivalents	$ 49,437	$ 49,903
Restricted cash	1,750,000	900,000
Interest receivable	3,056	1,863
Other receivable	4,200	-
Mortgages receivable, net of allowance of $5,478 and $8,775, respectively	532,159	868,775
Total current assets	2,338,852	1,820,541
NONCURRENT ASSETS		
Mortgages receivable, net of allowance of $4,677 and $6,667, respectively	713,764	660,012
Total assets	$ 3,052,616	$ 2,480,553

LIABILITIES AND NET ASSETS

	2016	2015 As Restated
CURRENT LIABILITIES		
Accounts payable	$ 98	$ 3,032
NET ASSETS		
Unrestricted	302,518	227,521
Temporarily restricted	-	-
Permanently restricted	2,750,000	2,250,000
Total net assets	3,052,518	2,477,521
Total liabilities and net assets	$ 3,052,616	$ 2,480,553

See accompanying notes.

VENTANA FUND
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Grants	$ 93,711	$ -	$ 500,000	$ 593,711
Mortgage interest	27,422	-	-	27,422
Loan fees	9,500	-	-	9,500
Investment interest	123	-	-	123
Total revenue, gains, and other support	130,756	-	500,000	630,756
Net assets released from restrictions/change in restriction	-	-	-	-
Total revenue, gains, and other support after assets released from/change in restrictions	130,756	-	500,000	630,756
EXPENSES				
Program services	34,154	-	-	34,154
Management and general	21,605	-	-	21,605
Total expenses	55,759	-	-	55,759
CHANGE IN NET ASSETS	74,997	-	500,000	574,997
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	227,521	-	2,250,000	2,477,521
NET ASSETS, END OF YEAR	$ 302,518	$ -	$ 2,750,000	$ 3,052,518

VENTANA FUND
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted As Restated	Temporarily Restricted As Restated	Permanently Restricted As Restated	Total As Restated
REVENUE, GAINS AND OTHER SUPPORT				
Grants	$ -	$ -	$ 900,000	$ 900,000
Mortgage interest	14,493	-	-	14,493
Loan fees	5,500	-	-	5,500
Investment interest	110	-	-	110
Total revenue, gains, and other support	20,103	-	900,000	920,103
Net assets released from restrictions/change in restriction	-	-	-	-
Total revenue, gains, and other support after assets released from restrictions	20,103	-	900,000	920,103
EXPENSES				
Program services	47,143	-	-	47,143
Management and general	8,139	-	-	8,139
Total expenses	55,282	-	-	55,282
CHANGE IN NET ASSETS	(35,179)	-	900,000	864,821
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	262,700	-	1,350,000	1,612,700
NET ASSETS, END OF YEAR, AS RESTATED	$ 227,521	$ -	$ 2,250,000	$ 2,477,521

See accompanying notes.

	September 30, 2016	September 30, 2015 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 574,997	$ 864,821
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Provision for loan losses	(5,288)	15,442
Mortgage loan transferred to Ventana via grant	(91,711)	-
Changes in assets and liabilities:		
Restricted cash	(850,000)	450,000
Interest and other receivables	(5,393)	(1,863)
Mortgages receivable, net	379,863	(1,322,775)
Accounts payable	(2,934)	83
Net cash flows (used) provided by operating activities	(466)	5,708
NET CHANGE IN CASH AND CASH EQUIVALENTS	(466)	5,708
CASH AND CASH EQUIVALENTS, beginning of year	49,903	44,195
CASH AND CASH EQUIVALENTS, end of year	$ 49,437	$ 49,903

Note 1 – Organization

The Ventana Fund (Ventana) was formed on February 27, 2014. It was organized and incorporated as a New Mexico nonprofit corporation by private citizens and housing professionals who are dedicated to increasing the number of decent affordable homes available to New Mexico's low-income residents. The mission of Ventana is to meet the critical need for an increased supply of early stage financing for affordable housing construction and rehabilitation in New Mexico. Ventana is committed to dramatically increasing the amount of low-interest rate loans available to qualified housing developers who build and rehabilitate affordable housing. Ventana was certified as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury in March 2015.

Note 2 – Summary of Significant Accounting Policies

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

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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

Basis of financial statement presentation – Ventana's financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities, Presenting Financial Statements. Under ASC 958-205, Ventana is required to report 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.

Unrestricted net assets – represent those assets that Ventana may use at its discretion. Unrestricted net assets are not subject to donor-imposed restrictions.

Temporarily restricted net assets – represent those assets subject to restrictions imposed by donors, grantors, or contract provision that may or will be met by the occurrence of a specific event or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – result from donor-imposed stipulations that neither expire by the passage of time or can be fulfilled or otherwise removed by actions of Ventana. Permanently restricted net assets include revolving loan funds, which are funds restricted by the donor to be loaned to qualified recipients with repayments to Ventana to be re-loaned in perpetuity.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – For purposes of the statements of cash flows, Ventana considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Restricted cash – Restricted cash represents grant funds received and required by the grantor to be used to provide mortgages to qualified borrowers.

Mortgages receivable – Mortgages receivables that are expected to be collected within one year are recorded at net realizable value. Mortgage receivables that are expected to be collected after one year are also recorded at net realizable value which management believes materially approximates the present value of expected future cash flows using an estimated discount rate.

Interest income is recognized upon receipt with interest amounts determined by the loan terms and may be received monthly, quarterly, annually, upon maturity, or on another approved payment schedule. Interest income is presented net of loan service fees. Application and origination fees, including a minimum 1% loan fee, are assessed on each loan request and recognized as revenue upon receipt. Periodic loan payments are typically interest only with all unpaid interest, plus unpaid fees and outstanding principal balance due on or before the loan maturity date.

Collection is enforced through a promissory note and mortgage deed which are recorded in public records. Default occurs upon the failure of the borrower to pay any installment on the loan when it becomes due and continues for ten days after the date of notice to the borrower.

An allowance for loan losses is estimated by Ventana's management based on risk ratings assigned to each mortgage note. Risk ratings are adjusted no more than quarterly, but no less than annually, based on the performance and analysis of each note's collection history. All but one of the mortgages shown at September 30, 2016 and 2015 were internally rated having "excellent repayment probability", meeting or exceeding internal underwriting criteria with no indication of cost overruns or delays in construction or problems that would imperil project completion. One mortgage at September 30, 2016 was rated as having "good repayment probability", meeting most of internal underwriting criteria with granted exceptions and no indication of cost overruns or delays in construction or problems that would imperil project completion. No mortgages were past due or delinquent at September 30, 2016 or 2015.

Donor restricted gifts – Unconditional promises to give cash and other assets to Ventana are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by Ventana, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. There are no outstanding unconditional promises to give at September 30, 2016 or 2015.

Note 2 – Summary of Significant Accounting Policies (continued)

Grant revenues – For grants in which funds are disbursed to Ventana prior to services being rendered – revenue is recognized when funds are received. Funds which must be perpetually re-loaned upon repayment are reported as permanently restricted net assets. Assigned mortgage receivables in which principal and interest repayments are permitted to be used to fund operations are shown as unrestricted net assets.

Federal income tax – Ventana is designated by the Internal Revenue Service (IRS) as a tax exempt organization per section 501 (c) (3) of the Code. Ventana had no taxable unrelated business income for the years ended September 30, 2016 or 2015. Accordingly, a provision for income taxes has not been established in the accompanying financial statements.

Ventana 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. Any such tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Ventana had no unrecognized tax benefits at September 30, 2016 or 2015.

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

Ventana has evaluated subsequent events through January 13, 2017, which is the date the financial statements are available to be issued.

Three additional mortgage loans totaling $1.75 million were approved as of September 30, 2016; however, these mortgages have not closed and no funds have been disbursed by Ventana as of the date of this report.

ASU 2016-14 – The FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) during August 2016. ASU 2016-14 revises the current net asset classification requirements and information presented in financial statements and notes about a non-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is evaluating the effect that implementation of ASU 2016-14 will have on the financial statements of Ventana.

Note 3 – Mortgages Receivable

Mortgages receivable consisted of the following at September 30:

	2016	2015
Principal due in less than one year	$ 537,637	$ 877,550
Less allowance for loan losses	(5,478)	(8,775)
Net mortgages receivable - current	$ 532,159	$ 868,775
Principal due in one year or more	$ 718,441	$ 666,679
Less allowance for loan losses	(4,677)	(6,667)
Net mortgages receivable - long-term	$ 713,764	$ 660,012

The allowance for loan losses totaled $10,155 and $15,442 for the years ended September 30, 2016 and 2015, respectively.

Note 4 – Noncash Transactions

Noncash transactions during the period ended September 30, 2016 consist of the transfer of a mortgage receivable totaling $91,711 from New Mexico Mortgage Finance Authority to Ventana as part of a grant agreement. There were no such noncash activities during the year ended September 30, 2015.

Note 5 – Concentrations of Credit, Market and Business Risk

Geographical concentration – Ventana's operations are limited to New Mexico.

Revenue concentration – Ventana received approximately 94% and 98% of its revenue and support from one grant for the years ended September 30, 2016 and 2015, respectively.

Credit and market risk concentration – Financial instruments that potentially expose Ventana to concentrations of credit and market risk consist primarily of cash and mortgages receivable for the years ended September 30, 2016 and 2015. Ventana mitigates its risk related to cash by maintaining a collateralized repurchase sweep account (REPO) for cash balances over the $250,000 FDIC insured limit.

Note 6 – Relationship with Interested Donor

Ventana received a multi-year loan program grant from the New Mexico Mortgage Finance Authority (MFA) in April 2014 for the purpose of providing direct lending to eligible recipients to support the development of affordable housing for low and moderate income persons. During the year ended September 30, 2015, $900,000 was received from MFA. MFA donated an additional $500,000 and a mortgage receivable valued at $91,711 to Ventana during the year ended September 30, 2016. In addition, $400,000 will be provided by MFA in 2017, if Ventana meets certain performance goals.

Ventana contracted with MFA to provide professional services including loan origination, pre-approval, and closing services, as well as fiscal agent services including the maintaining of its books and records of account. Ventana currently pays MFA $2,000 per month. The contract expires December 31, 2017, but may be extended for an additional two, one-year terms. Professional service fees paid to MFA under this contract totaled $24,000 and $12,000 for the years ended September 30, 2016 and 2015, respectively, and are allocated between program and management and general expenses in the Statement of Activities and Changes in Net Assets.

Ventana also utilizes MFA to service its mortgage receivables for a fee in the amount of 0.35% of the interest rate on each loan, until such loans are fully paid. The agreement may be terminated by either party, regardless of cause, upon thirty days' written notice. Loan service fees paid to MFA are netted against interest income.

Note 7 – Correction of Errors

During 2016, management determined that the previously issued financial statements for the period and year ended September 30, 2014 and 2015 required correction due to the inadvertent overstatement of unrestricted and temporarily restricted net assets and understatement of permanently restricted net assets. The permanently restricted and temporarily restricted net assets as of October 1, 2014 have been restated accordingly to correct for this. The effect of these adjustments as of October 1, 2014 was to increase permanently restricted net assets by $1,350,000 from zero to $1,350,000 and decrease temporarily restricted net assets at October 1, 2014 from $1,350,000 to zero.

In addition, $900,000 of restricted cash was mistakenly included as part of a subtotal line item, titled "Total cash and cash equivalents" on the Statement of Financial Position at September 30, 2015. The subtotal line item has been removed and restricted cash has been presented as a separate line item under current assets on the Statement of Financial Position at September 30, 2016 and 2015.

The restricted cash amount was also incorrectly included in the line item "total cash and cash equivalents" on the Statement of Cash Flows for the year ended September 30, 2015. The decrease in restricted cash of $450,000 is shown as a separate item on the restated 2015 Statement of Cash Flows under "Changes in assets and liabilities". Furthermore, the cash and cash equivalents ending balance on the Statement of Cash flows at September 30, 2015 was restated from $949,903 to $49,903. In addition, the beginning cash and cash equivalents at October 1, 2014 has been restated from $1,394,195 to $44,195 to reflect the removal of $1,350,000 of restricted cash improperly included in this line item.

Note 7 – Correction of Errors (continued)

There was no effect on the total change in net assets for the year ended September 30, 2015 as a result of these restatements.

The following table outlines the 2015 balances affected by these corrections.

	September 30, 2015 As Restated	September 30, 2015 Before Correction	Net Effect Increase (Decrease)
Statement of Financial Position			
Cash and cash equivalents	$ 49,903	$ 949,903	$ (900,000)
Restricted cash	900,000	-	900,000
Net assets - unrestricted	227,521	1,577,521	(1,350,000)
Net assets - temporarily restricted	-	900,000	(900,000)
Net assets - permanently restricted	2,250,000	-	2,250,000
Statement of Activities and Changes in Net Assets			
Grant revenue, temporarily restricted	-	900,000	(900,000)
Grant revenue, permanently restricted	900,000	-	900,000
Change in net assets - unrestricted	(35,179)	1,314,821	(1,350,000)
Change in net assets - temporarily restricted	-	(450,000)	450,000
Change in net assets - permanently restricted	900,000	-	900,000
Statement of Cash Flows			
Change in restricted cash	450,000	-	450,000
Cash and cash equivalents, beginning of year	44,195	1,394,195	(1,350,000)
Cash and cash equivalents, end of year	49,903	949,903	(900,000)

Note 8 –Lines of Credit

In November 2016, Ventana signed an agreement for a guidance line of credit in the aggregate principal amount of $500,000 to be used to finance the construction or rehabilitation of affordable housing projects in New Mexico. The non-revolving credit line terminates when the entire unpaid balance is paid in full, but no later than November 29, 2017. Lender has the right to approve or decline funding to Ventana for specific projects at lender's sole discretion. Interest only payments are due monthly with the outstanding principal due at maturity. The interest rate is set at a fixed 3% per annum on the outstanding principal balance. Collateral includes the assignment of the related promissory note and first lien position on mortgages for construction loans.

In January 2017, Ventana obtained a revolving loan in the aggregate principal amount of $1.1 million to be used to make construction and rehabilitation loans. Monthly interest-only payments are due commencing February 1, 2017, with outstanding principal and interest due after 24 months. The loan bears interest at the rate of 2.5% per annum. Collateral for the loan includes the assigning of certain project loans.