

PEOPLE INCORPORATED FINANCIAL SERVICES

Abingdon, Virginia

AUDITED FINANCIAL REPORT

June 30, 2016

PEOPLE INCORPORATED FINANCIAL SERVICES

Abingdon, Virginia

AUDITED FINANCIAL STATEMENTS

June 30, 2016

TABLE OF CONTENTS

INTRODUCTORY SECTION:

Title Page
Table of Contents
List of Board of Directors

AUDITOR'S REPORTS

Independent Auditor's Report
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on
An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

FINANCIAL STATEMENTS:

Statement of Financial Position	EXHIBIT 1
Statement of Activities	EXHIBIT 2
Statement of Cash Flows	EXHIBIT 3
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION:

Statement of Functional Expenses	SCHEDULE 1
----------------------------------	------------

People Incorporated Financial Services
BOARD OF DIRECTORS

Charlotte Mullins - **Chair**
21017 Lovers Lane
Bristol, VA 24202
(276)591-4349
cmullins@bvu.net

David McCracken - **Secretary**
518 Monte Vista Drive
P. O. Box 490
Glade Spring, VA 24340
(276)429-5480
dmac1960@embarqmail.com

Cameron Forrester
EVP/CCO
Trupoint Bank
Box 1010
Grundy, VA 24614
(276)935-3440
Cameron.forrester@trupointbank.com

Larry Yates
322 Main Street
P. O. Box 278
Haysi, VA 24256
(276)865-5187
haysimayor@dcwin.org

Dennis Morris
1685 Brook Creek Rd.
Toms Brook, VA 22660
(540)436-9149
dmorris@shentel.net

Tony Carter - **Vice-Chair**
P. O. Box 1355
Front Royal, VA 22630
(540)635-8401
tcarter@stoneburnercarter.com

Jan Selbo
320 Hospital Drive
Alice Jane Childs Building
Warrenton, VA 20186
(540) 422-8401
janis.selbo@dss.virginia.gov

D. Scott Peak
Bristol City Executive
First Bank & Trust
38 East Valley Drive
Bristol, VA 24201
(276)466-9222
peak@firstbank.com

Shelia Combs
614 Fork Ridge Rd.
Lebanon, VA 24266
(276)794-9315
(423)416-0278
scombs@highlandscsb.org

Chris Shortridge
P.O. Box 288
Grundy, VA 24614
(276)935-8437
cjproperties@verizon.net

Tony Hooper
87 Dennison Street
Fredericksburg, VA 22406
(540)373-1047
Nthooper@gmail.com

Steve Botello
8290 Wallace Lane
Manassas, VA 20109
(571)251-6000
(703)991-7400
steven.botello@gmail.com

Vicki Porter
Administrative Manager
Russell Co. Board of Supervisors
P.O. Box 1208
Lebanon, VA 24266
(276)219-2784
vicki.porter@russellcountyva.us

John Rock
First Bank & Trust
38 East Valley Drive
Bristol, VA 24201
(276)466-9222
jrock@firstbank.com

Hicok, Fern & Company

Certified Public Accountants

Thomas M. Hicok ,CPA, CVA, MAFF ^{I,IV}•
James H. Fern, CPA, CVA ^{III}•
David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
Rodney P. Jackson, CPA ^{II}

155 E. Valley Street
P.O. Box 821
Abingdon, Virginia 24212-0821
(276) 628-1123
Fax: (276) 676-3000
e-mail: hicokfern&co@firmcpa.com

All Accountants Licensed in Virginia with
Additional Licensures Noted:
^I KY; ^{II} NC; ^{III} TN; ^{IV} WV

*Members of American Institute
of Certified Public Accountants*

*Members of Virginia Society of
Certified Public Accountants*

*•Members of National Association
of Certified Valuation Analysts*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
People Incorporated Financial Services
Abingdon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of People Incorporated Financial Services (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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

Hicok, Fern & Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of People Incorporated Financial Services as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Schedule I has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued a report, dated December 2, 2016, on our consideration of People Incorporated Financial Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering People Incorporated Financial Services' internal control over financial reporting and compliance.



HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

December 2, 2016

Hicok, Fern & Company

Certified Public Accountants

Thomas M. Hicok ,CPA, CVA, MAFF ^{I,IV}•
James H. Fern, CPA, CVA ^{III}•
David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
Rodney P. Jackson, CPA ^{II}

155 E. Valley Street
P.O. Box 821
Abingdon, Virginia 24212-0821
(276) 628-1123
Fax: (276) 676-3000
e-mail: hicokfern&co@firmcpa.com

All Accountants Licensed in Virginia with
Additional Licensures Noted:
^I KY; ^{II} NC; ^{III} TN; ^{IV} WV

*Members of American Institute
of Certified Public Accountants*

*Members of Virginia Society of
Certified Public Accountants*

*•Members of National Association
of Certified Valuation Analysts*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
People Incorporated Financial Services
Abingdon, Virginia

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 financial statements of People Incorporated Financial Services (a nonprofit organization), which comprise of the statement of financial position as of June 30, 2016, and the related 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 December 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered People Incorporated Financial Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of People Incorporated Financial Services' internal control. Accordingly, we do not express an opinion on the effectiveness of People Incorporated Financial Services' 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.

Hicok, Fern & Company
Certified Public Accountants


INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether People Incorporated Financial Services' 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 results 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.



HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

December 2, 2016

People Incorporated Financial Services
 Abingdon, Virginia
 Statement of Financial Position
 June 30, 2016

EXHIBIT 1

	<u>Total</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 1,499,607
Due from grantor	213,608
Interest receivable	25,320
People Incorporated receivable	2,511,833
Total Current Assets	<u>4,250,368</u>
Long-term Assets:	
Notes receivable (Net of allowance for bad debts of \$54,141)	3,099,462
Property, plant, & equipment	970
Accumulated depreciation	(970)
Total Long-term Assets	<u>3,099,462</u>
Other Assets:	
Investments	6,897
Total Other Assets	<u>6,897</u>
 Total Assets	 <u>\$ 7,356,727</u>
<u>Liabilities & Net Assets</u>	
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 77,785
Deferred revenue	204,838
Notes payable - current	204,531
Total Current Liabilities	<u>487,154</u>
Long-term Liabilities:	
Notes payable - net of current	1,048,609
Compensated absences	141,451
Total Long-term Liabilities	<u>1,190,060</u>
 Total Liabilities	 1,677,214
<u>Net Assets</u>	
Unrestricted	3,205,978
Temporarily restricted	2,473,535
Total Net Assets	<u>5,679,513</u>
 Total Liabilities & Net Assets	 <u>\$ 7,356,727</u>

The Notes to Financial Statements are an integral part of this statement.

People Incorporated Financial Services
Abingdon, Virginia
Statement of Activities
For The Year Ended June 30, 2016

EXHIBIT 2

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Grants	\$ 68,439	\$ 375,796	\$ 444,235
Other	1,192,886	47,081	1,239,967
Interest	62,374	78,133	140,507
Satisfaction of program restrictions	444,756	(444,756)	-
Total Revenues	<u>1,768,455</u>	<u>56,254</u>	<u>1,824,709</u>
Expenses:			
Program Services:			
New Market Tax Credit	445,526	-	445,526
Bristol Revolving Loan Fund	2,973	-	2,973
Small Business Administration	264,927	-	264,927
Tobacco Indemnification Commission	14,800	-	14,800
U.S. Treasury Loans	309,292	-	309,292
Virginia Enterprise Initiative	421	-	421
Warren County CDBG	14,479	-	14,479
Support Services:			-
General & administrative	131,738	-	131,738
Sponsor fee	3,819,041	-	3,819,041
Total Expenses	<u>5,003,197</u>	<u>-</u>	<u>5,003,197</u>
Change in Net Assets	(3,234,742)	56,254	(3,178,488)
Net Assets At Beginning of Year	<u>6,440,720</u>	<u>2,417,281</u>	<u>8,858,001</u>
Net Assets At End of Year	<u>\$ 3,205,978</u>	<u>\$ 2,473,535</u>	<u>\$ 5,679,513</u>

The Notes to Financial Statements are an integral part of this statement.

People Incorporated Financial Services
 Abingdon, Virginia
 Statement of Cash Flows
 For the Year Ended June 30, 2016

EXHIBIT 3

	<u>Total</u>
Operating Activities:	
Change in net assets	\$ (3,178,488)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Allowance for bad debt	(5,810)
Net change in:	
Due from grantor & accounts receivable	2,845,187
Accounts Payable	65,165
Accrued expenses & other payables	<u>75,326</u>
Net Cash Provided By (Used In) Operating Activities	<u>(198,620)</u>
Investment Activities:	
Investment in partnerships	(691)
Principal repayment on business loans	606,456
Loans to businesses	<u>(945,400)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(339,635)</u>
Financing Activities:	
Proceeds from long-term debt	100,000
Principal payments made on long-term debt	<u>(264,982)</u>
Net Cash Provided By (Used In) Financing Activities	<u>(164,982)</u>
Increase (Decrease) in Cash	(703,237)
Cash and cash equivalents at Beginning of Year	<u>2,202,844</u>
Cash and cash equivalents at End of Year	<u>\$ 1,499,607</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u>\$ 5,437</u>

The Notes to Financial Statements are an integral part of this statement.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

People Incorporated Financial Services (“PIFS”) is a Virginia non-profit corporation. Its purpose is to utilize public monies awarded for the good of the community through its programs.

24% of the revenue received was through grants.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. Such management estimates include an allowance for uncollectible accounts.

Financial Statement Presentation

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Classification of Net Assets

Net assets of the organization are reported based on the existence of donor or grantor imposed restrictions. The following classifications are used to report the net assets of People Incorporated Financial Services.

Unrestricted – Net assets of the organization that are not subject to donor- or grantor- imposed stipulations.

Temporarily Restricted – Net assets of the organization resulting (a) from inflows of assets whose use by the organization is limited by donor or grantor imposed stipulations that either expires by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and from reclassification to or (c) from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

Income Taxes

People Incorporated Financial Services is a tax exempt, non-profit organization under Section 501(c)(3) of the Revenue Code. Therefore, a provision for income taxes is not required.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of reporting cash flows, People Incorporated Financial Services considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified as net assets released from restriction.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants are recorded as either grant revenue or exchange transactions based on criteria contained in the grant award. Grant revenues are recorded as invoiced to the funding source and are recognized in the accounting period when the related allowable costs are incurred.

Grants Receivable

Grants receivable consist of amounts billed under various grant agreements. Amounts are reviewed for collectability by management. Management has assessed the collectability of these receivables and deemed all accounts to be fully collectible; therefore, an allowance has not been recorded.

Notes Receivable

The Organization underwrites and processes loan applications, processes funding, and holds and services the loan in portfolio. Terms and rates vary depending upon the borrower's capital requirements and management's assessment of risk. Reserves for loan losses are based on management's review of portfolio performance. Loans are secured by the borrower's collateral.

Allowance for Bad Debts

FASB Codification 310-10, *Accounting by Creditors for Impairment of a Loan*, is applicable to all creditors and to all loans, uncollateralized as well as collateralized, and requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loans effective interest rate.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Bad Debts (continued)

The Organization uses the allowance method to determine uncollectible notes receivable. The allowance is based on prior years' experience and management's analysis of specific loans.

Related Party Receivable

The Organization has advanced funds to an affiliated organization. The affiliated organization has common governance.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Property and equipment are depreciated using the straight-line method.

Indirect Cost Rate

The Organization charges an indirect cost rate of 11.8% on grants and contracts with the Federal Government. This rate was established per an agreement with the Department of Health and Human Services.

Subsequent Events

Subsequent events have been evaluated as of December 2, 2016, which is the date the financial statements were issued.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers. ASU 2013-03 clarified revenue recognition principles to depict the transfer of goods or services in amounts that reflect the consideration the Organization expects to receive in exchange for those good or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2017. The Organization will implement this update for its year ended June 30, 2019 financial statements; the update is not expected to have a significant impact on the Organization's financial statements.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires certain investments to be measured at fair value and changes the impairment assessment approach for those investments; the ASU is effective for fiscal years beginning after December 15, 2018 and is not expected to have a significant impact on the Organization's financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases, which requires recognition of lease assets and lease liabilities. The ASU is effective for years beginning after December 15, 2019 and is not expected to have a significant impact on the Organization's financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-07, Investments - Equity Method and Joint Ventures, which eliminates the requirement to retroactively record a change in an investment to equity method accounting. The ASU is effective for years beginning after December 15, 2016 and is not expected to have a significant impact on the Organization's financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-14, Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities, which improves reporting of net asset classification requirements and notes about liquidity, financial performance, and cash flows. ASU 2016-14 will be effective for annual periods beginning after December 15, 2017. The Organization will implement this update for its year ended June 30, 2018 financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows, which requires a change in the presentation of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 will be effective for annual periods beginning after December 15, 2017. The Organization will implement this update for its year ended June 30, 2018 financial statements, and is not expected to have a significant impact on the Organization's financial statements.

NOTE B – FUNCTIONAL ALLOCATION OF EXPENSE

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE C – CASH

The Organization currently considers itself an affiliate of People Incorporated of Virginia (“People”). A portion of the cash for PIFS is maintained in a consolidated bank account with People. The Organization maintains thirteen additional bank accounts, nine of which are required by funders. As of June 30, 2016, the Organization had \$1,173,789 of cash in excess of FDIC coverage.

Small Business Administration contracts require the Organization to maintain separate bank accounts.

NOTE D – NOTES RECEIVABLE

Federation of Appalachian Housing Enterprises

The Organization was awarded \$100,000 in loan funds for fiscal year 2006-2007 to make home rehabilitation loans to individuals. Notes receivable of \$12,818 at June 30, 2016 have terms ranging from three to ten years and bear interest at 8.25%. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Haysi Downtown Loan Fund

Notes receivable of \$90,762 at June 30, 2016 have terms ranging from four to ten years and bear interest at rates ranging from 3.0% to 6.25%; the loans were made to small businesses located in Haysi, Virginia. No write-offs were taken against these loans during the year ended June 30, 2016 and \$87 of these loans are considered past due at June 30, 2016.

Page/Shenandoah CDBG

Notes receivable of \$20,515 at June 30, 2016 have terms ranging from three to six years and bear interest at rates ranging from 6.25% to 7.25%; the loans were made to small businesses located in Page and Shenandoah County. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Tobacco Indemnification Commission (TICR)

Notes receivable of \$437,866 represents money due the program from loans made to organizations located throughout Southwest Virginia. The notes have terms ranging from three to thirteen years and bear interest at rates ranging from 2.25% to 9.5%. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

U.S. Treasury

Notes receivable of \$898,862 represents money due the program from loans made to small businesses throughout Southwest Virginia. The notes have terms ranging from one to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$19,613 were taken against these loans during the year ended June 30, 2016 and \$1,958 of these loans are considered past due at June 30, 2016.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE D – NOTES RECEIVABLE (continued)

Smyth/Tazewell CDBG

Notes receivable of \$15,364 have terms ranging from five to six years and bear interest at 6.25%. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Twin County Microenterprise CDBG

Notes receivable of \$35,953 have terms ranging from three to six years and bear interest at 6.25%; the loans were made to small businesses throughout Carroll County, Grayson County, and the City of Galax. No write-offs were taken against these loans during the year ended June 30, 2016 and \$300 of these loans are considered past due at June 30, 2016.

SBA Microloan #5

Notes receivable of \$5,773 represents money due the program from loans made to small businesses. The notes have terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$375 were taken against these loans during the year ended June 30, 2016 and none of these loans are considered past due at June 30, 2016.

SBA Microloan #4182935008

Notes receivable of \$324,895 represents money due the program from loans made to small businesses. The notes have terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$1,821 were taken against these loans during the year ended June 30, 2016 and \$1,424 of these loans are considered past due at June 30, 2016.

SBA Microloan # 6085855005

Notes receivable of \$300,378 represents money due the program from loans made to small businesses with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$ 3,855 were taken against these loans during the year ended June 30, 2016 and \$2,032 of these loans are considered past due at June 30, 2016.

Virginia Enterprise Initiative

Notes receivable of \$2,126 have terms ranging from five to ten years and bear interest at rates ranging from 4.18% to 6.18%. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Wise/Norton CDBG

Notes receivable of \$22,862 have terms ranging from four to six years and bear interest at rates ranging from 3.25% to 6.25%; the loans were made to small businesses in Wise County and the City of Norton. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE D – NOTES RECEIVABLE (continued)

Bristol Revolving Loan Fund

Notes receivable of \$3,183 have terms ranging from thirty months to five years and bear interest at 6.25%; the loans were made to small businesses located in the City of Bristol, Virginia and Bristol, Tennessee. Write-offs of \$3,031 were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Opportunity Finance Network

Notes receivable of \$2,384 have terms ranging from three to six years and bear interest at 6.25%; the loans were made to small businesses throughout the Organization's service areas in Virginia. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Rural Microenterprise Assistance Program

Notes receivable of \$52,792 have terms ranging from two to six years and bear interest at 6.25%; the loans were made to small businesses throughout the Organization's service areas in Virginia. No write-offs were taken against these loans during the year ended June 30, 2016 and \$12 of these loans are considered past due at June 30, 2016.

Warren-Clark Community Development Block Grant

Notes receivable of \$60,701 have terms of five years and bear interest at 6.25%. No write-offs were taken against these loans during the year ended June 30, 2016 and \$613 of these loans are considered past due at June 30, 2016.

United States Department of Agriculture

Notes receivable of \$2,255 represents money due the program from loans made to homeowners in Southwest Virginia and the Northern Shenandoah Valley to repair or replace water well systems. Terms of the note are six years and bear interest at 1.0%. No write-offs were taken against these loans during the year ended June 30, 2016 and no loans are considered past due at June 30, 2016.

Deutsche Bank

The Organization was selected by Deutsche Bank to participate in its CDFI Partners Program. The Organization was approved for a loan of up to \$250,000 for use in the Organization's economic development program. Notes receivable of \$114,114 represents money due the program from loans made to consumers with terms of five years and bearing interest at 8.25%. No write-offs were taken against these loans during the year ended June 30, 2016 and \$1,290 of these loans are considered past due at June 30, 2016.

Friends of Southwest Virginia

Notes receivable of \$750,000 represents money due the program from loans made to Friends of Southwest Virginia. The loans are secured by reserve funds held by the Organization for the Heartwood Artisan Center. The loans bear interest at the rate of .25%.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE D – NOTES RECEIVABLE (continued)

An allowance for bad debts of \$54,141 has been provided as follows:

FUND	Allowance for Bad Debts June 30, 2016
Bristol Revolving Loan Fund	\$ 214
Opportunity Finance Network	240
Page/Shenandoah CDBG	709
Rural Microenterprise Assistance Program	1,281
Wise/Norton CDBG	558
Tobacco Indemnification Commission	8,959
U.S. Treasury	12,627
Haysi Downtown	2,270
Federation of Appalachian Housing Enterprises	306
Office of Community Services	1,065
Warren-Clarke	735
USDA	65
Virginia Enterprise	65
Deutsche Bank	2,129
Twin County Microenterprise CDBG	807
SBA	11,567
Other loan funds	10,544
TOTAL	<u>\$ 54,141</u>

The allowance is based on prior years' experience and management's analysis of specific loans and accounts.

Intentionally left blank

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE E – PROPERTY, PLANT AND EQUIPMENT

Property and equipment purchased is stated at cost or estimated cost. It is the Organization’s policy to capitalize property and equipment over \$5,000. Donated property is recorded at market value prevailing at date of donation. Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method. Depreciation for the period ending June 30, 2016 amounted to \$0.

Buildings	20-40 years
Equipment, vehicles and furniture and fixtures	5-20 years

Summary of changes in fixed assets follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2016</u>
Equipment, vehicles, and furniture and fixtures	\$ 970	\$ -	\$ -	\$ 970
Accumulated depreciation	970	-	-	970
Net fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Intentionally left blank

NOTE F – NOTES PAYABLE OBLIGATIONS

Notes payable obligations are installment loans of the Organization and relate to the following:

	Principal Balance as of June 30, 2016
	<hr/>
Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest with the current rate at 0.09%. Payments of \$4,746 began in July 2010.	\$ 167,285
Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest with the current rate at 0%. Principal and interest payments began in February 2011.	392,175
Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest with the current rate at 0%. Principal payments began in February 2015.	333,326
Rural Microenterprise Assistance Program loan from the U.S. Department of Agriculture. The note has a 20-year amortization with a 2.00% interest rate.	53,125
Program loans from community banks in the amount of \$25,000 each from Bank of Tennessee, Green Bank, Citizens Bank, First Tennessee Bank, and Eastman Credit Union for the revitalization of downtown Bristol. The loans are for a period of 10 years at 0% interest with principal repayable at the end of the 10 years. The notes will be renewed if program objectives are met.	55,000
Program loan from Virginia Community Capital. The loan is for a period of 10 years with a variable interest rate. Payments began in November 2007.	2,229
Program loan from Deutsche Bank. The loan is for a period of five years with interest-only payments until maturity. The note bears an interest rate of 2%.	250,000
Total	<hr/> 1,253,140
Less: Current maturities	204,531
Long Term Notes Payable	<hr/> <hr/> \$ 1,048,609

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE F – NOTES PAYABLE OBLIGATIONS (continued)

Annual requirements to amortize long-term debt are as follows:

Year Ending June 30	Principal
2017	\$ 204,531
2018	204,952
2019	452,616
2020	147,671
2021	69,310
2022	174,060
Total	<u>\$ 1,253,140</u>

Interest expense incurred on notes payable for 2016 was \$5,445.

NOTE G – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for business loans and related expenditures.

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments under FASB Codification 825-10, Disclosures About Fair Value of Financial Instruments, as amended by FASB Codification 820-10, are determined based on relevant market information. These estimates involve uncertainty and cannot be determined with precision. The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

The carrying amounts of cash, receivables, accrued liabilities, and payables on the consolidated statement of financial position approximate fair value due to the short-term nature of these items.

The carrying amounts of debt, compensated absences and notes receivable on the consolidated statement of financial position approximate fair value, which is estimated based on current market rates offered to or by the Organization for similar instruments.

FASB Codification 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB Codification 820-10 also establishes a fair value hierarchy which requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

- Level 1 Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly through corroboration with observable market data. Level 2 inputs include (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs used to measure fair value to the extent that observable inputs are not available and that are supported by little or no market activity for the asset or liability at the measurement date.

NOTE I – RELATED PARTY TRANSACTIONS

People Incorporated Financial Services is an affiliate of People Incorporated. Receivables from People Incorporated consist of administrative and other services paid by People Incorporated Financial Services.

On June 30, 2016, People Incorporated Financial Services elected to compensate People Incorporated of Virginia for sponsor fees earned through the New Market Tax Credit program in the amount of \$3,819,041.

NOTE J – RELATED PARTIES

The Organization holds a .01% ownership interest in Rural New Market Funds, LLC as a general partner.

The Organization holds a .01% ownership interest in Appalachian Markets Capital Investment Fund, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE IV, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE V, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE VI, LLC as a general partner.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2016

NOTE J – RELATED PARTIES (continued)

The Organization holds a .01% ownership interest in PIFS Sub-CDE VII, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE VIII, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE IX, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE X, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE XI, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE XII, LLC as a general partner.

The Organization holds a .01% ownership interest in PIFS Sub-CDE XIII, LLC as a general partner.

NOTE K – EMPLOYEE BENEFIT PLANS

Effective July 1, 2015, the Organization adopted a 403(b) plan which covers substantially all of the Organization's employees. The plan allows participants to make tax deferred investment contributions and requires the Organization to make a non-matching contribution equal to 1% of each eligible employee's compensation. Total contributions made by the Organization for the year ended June 30, 2016 were \$3,989.

SUPPLEMENTARY INFORMATION

People Incorporated Financial Services
 Abingdon, Virginia
 Statement of Functional Expenses
 For the Year Ended June 30, 2016

SCHEDULE 1

Expense Classification

<u>Fund</u>	<u>Salaries & Wages</u>	<u>Fringe Benefits</u>	<u>Travel</u>	<u>Material & Supplies</u>	<u>Contractual</u>	<u>Other</u>	<u>Totals</u>
New Market Tax Credit	\$ 251,373	\$ 10,617	\$ 10,651	\$ 662	\$ 120,135	\$ 52,088	\$ 445,526
Bristol Revolving Loan Fund	1,777	771	-	6	-	419	2,973
Small Business Administration	-	-	-	-	-	-	-
Tobacco Indemnification Commission	-	-	-	-	-	14,800	14,800
U.S. Treasury Business Loans	169,359	78,263	-	2,517	-	59,153	309,292
SBA Micro Revolving Loans	161,227	52,101	-	3,403	66	48,130	264,927
Virginia Enterprise Initiative	-	421	-	-	-	-	421
Warren County CDBG	6,921	2,744	-	690	-	4,124	14,479
General & Administrative	68,855	24,896	11,424	6,185	4,274	16,104	131,738
Sponsor fee	-	-	-	-	-	3,819,041	3,819,041
Total Expenses	<u>\$ 659,512</u>	<u>\$ 169,813</u>	<u>\$ 22,075</u>	<u>\$ 13,463</u>	<u>\$ 124,475</u>	<u>\$ 4,013,859</u>	<u>\$ 5,003,197</u>