

**PEOPLE INCORPORATED OF VIRGINIA  
AND AFFILIATES**

**CONSOLIDATED ANNUAL FINANCIAL REPORT**

**June 30, 2014**

PEOPLE INCORPORATED OF VIRGINIA  
CONSOLIDATED ANNUAL FINANCIALS REPORT  
YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

<u>INTRODUCTORY SECTION:</u>	<u>PAGES</u>
Title Page	
Table of Contents	
List of Board of Directors	
 <u>AUDITORS' REPORTS:</u>	
Independent Auditor's Report	1
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	3
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	5
 <u>CONSOLIDATED FINANCIAL STATEMENTS:</u>	
Statement of Consolidated Financial Position	8
Statement of Consolidated Activities	10
Statement of Consolidated Cash Flows	11
Notes to Financial Statements	12
 <u>SUPPLEMENTARY INFORMATION:</u>	
Schedule of Functional Expenses	34
Schedule of Expenditure of Federal Awards	35
Schedule of Findings, Responses and Questioned Costs	38
Head Start Grant - Revenue and Expense Detail	41

PEOPLE INCORPORATED OF VIRGINIA

BOARD OF DIRECTORS, ABINGDON, VIRGINIA

SECTOR I

Head Start Policy Council

Ms. Christy Whitaker  
14 Heritage Drive, Apt 28  
Bristol, VA 24201

Haysi Community

Mr. Larry D. Yates  
P.O. Box 278  
Haysi, VA 24256

Abingdon Green - Resident

Ms. Shannon Berry  
290 Senior Dr., NE Apt H  
Abingdon, VA 24210

Head Start- Parent

Bristol B/B Parent-HS/EHS

Ms. Amanda Ball  
30404 Micah Lane  
Meadowview, VA 24361

Sweetbriar Apartments

Ms. Anne Murray  
16173 Gilbert Drive  
Abingdon, VA 24210

Valley Vista Apartments

Ms. Tina Watson  
141 Valley Vista Apt # 202  
Woodstock, VA 22664

King's Mountain Supportive Housing

Mr. Tommy Burriss  
1235 West State Street  
Bristol, VA 24201

Project Discovery

Ms. Mary Cook  
206 Old Fincastle Rd.  
Lebanon, VA 24266

Dante Community

Ms. Bobbie Gullet  
P.O. Box 321  
Dante, VA 24237

Abingdon Village Apartments

Vacant

Section 8 Housing

Mr. David McCracken  
P. O. Box 490  
Glade Spring, VA 24340

White Mill Point Apartments

Ms. Evelyn McCracken  
15365 Whites Mill Road  
Abingdon, VA 24210

Tom's Brook School Apartments

Ms. Joyce Rice  
3232 S. Main St. – Apt 9  
Toms Brook, VA 22601

Abingdon Terrace Apartments

Vacant

PEOPLE INCORPORATED OF VIRGINIA

BOARD OF DIRECTORS, ABINGDON, VIRGINIA

SECTOR II

Page County Board of Supervisors  
Vacant

Washington Co. Bd. of Supervisors  
Mr. Phillip McCall  
24597 Walden Road  
Abingdon, VA 24210

Russell Co. Bd. of Supervisors  
Mr. Rufus Hood  
County Administrator  
P. O. Box 1208  
Lebanon, VA 24266

Warren County Bd.  
of Supervisors  
Mr. Tony F. Carter  
P.O. Box 1355  
Front Royal, VA 22630

Clarke County Board of Supervisors  
Ms. Coleen Hillerson  
11 Battletown Drive  
Berryville, VA 22611

Rappahannock County  
Board of Supervisors  
Ms. Beverly Dunford  
Director of Social Services  
P.O. Box 87  
Washington, VA 22747

Fauquier County Board of Supervisors  
Ms. Jan Selbo  
320 Hospital Drive  
Warrenton, VA 20186

Buchanan Co. Bd. of Supervisors  
Mr. Trey Adkins  
P.O. Box 350  
Grundy, VA 24614

Bristol City Council  
Ms. Catherine Brillhart  
213 Autumn Drive  
Bristol, VA 24201

Dickenson Co. Bd. of Supervisors  
Mr. G. David Moore, Jr.  
County Administrator  
P.O. Box 1098  
Clintwood, VA 24228

Shenandoah County Bd.  
of Supervisors  
Mr. David Ferguson  
489 Cliffside Drive  
Edinburg, VA 22824

Manassas City Council  
Mr. Ronald King  
Director of Family Services  
9324 West Street  
Manassas, VA 20110

Manassas Park City Council  
Ms. Deniece R. Brown  
Director of Social Services  
City Hall  
One Park Center Court  
Manassas, VA 20111

Prince William County Board of Supervisors

Ms. Janine Sewell

Department of Social Services

7987 Ashton Avenue, Suite 200

Manassas, VA 20109

PEOPLE INCORPORATED OF VIRGINIA

BOARD OF DIRECTORS, ABINGDON, VIRGINIA

SECTOR III

Town of Grundy  
Industrial Development Authority  
Mr. Chris Shortridge  
P.O. Box 288  
Grundy, VA 24614

Russell County  
Chamber of Commerce  
Mr. Greg Bailey  
3108 5<sup>th</sup> Avenue  
St. Paul, VA 24283

Southwest Virginia Legal Aid  
Society  
Ms. Yvette Goode  
P.O. Box 670  
Castlewood, VA 24224

Lord Fairfax Community College  
Vacant

Emory and Henry College  
Early Childhood Education Specialist  
Dr. Janet L. Justice Crickmer  
21360 Crosswinds Drive  
Abingdon, VA 24211

Foothills Housing Network  
Mr. Tony Hooper  
87 Dennison Street  
Fredricksburg, VA 22406

Maurertown Ruritans  
Vacant

Washington County  
Chamber of Commerce  
Ms. Denise Stanley, CPA  
P.O. Box 886  
Emory, VA 24327

Dickenson County  
Chamber of Commerce  
Mr. Doug Ratliff  
P.O. Drawer Z  
Haysi, VA 24256

Virginia Highlands  
Community College  
Ms. Winona Fleenor  
P.O. Box 828  
Abingdon, VA 24212

Shenandoah County  
Dept. of Social Services  
Mr. John Ayers  
115 Lou Jake Lane  
Edinburg, VA 22824

Greater PWC Human  
Services Consortium  
Mr. Paul Moessner  
12368 Grantley Court  
Woodbridge, VA 22192

The Christian Center  
Ms. Alice Meade  
28 Major Street  
Lebanon, VA 24266

Prince William Chamber  
of Commerce  
Vacant

EXECUTIVE COMMITTEE

Chairperson  
Vice Chairperson  
Treasurer  
Secretary  
Assistant Secretary  
Member  
Member  
Member  
Member  
Member

Chris Shortridge  
David McCracken  
John Ayers  
Alice Meade  
Christy Whitaker  
Mary Cook  
Tony Carter  
Jan Selbo  
Denise Stanley  
Catherine Brillhart

# Hicok, Fern, Brown & Garcia

## *Certified Public Accountants*

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James H. Fern, CPA, CVA  
David B. Brown, CPA  
Juan J. Garcia, CPA

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
People Incorporated of Virginia and Affiliates  
Abingdon, Virginia

We have audited the accompanying financial statements of People Incorporated of Virginia and Affiliates (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, 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, Brown & Garcia

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 of Virginia and Affiliates as of June 30, 2014, 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**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the schedule of functional expenses, is presented for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the 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 financial statements as a whole.

The Schedule on pages 34 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 8, 2014, on our consideration of People Incorporated of Virginia and Affiliates' 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 of Virginia and Affiliates' internal control over financial reporting and compliance.



HICOK, FERN, BROWN & GARCIA  
CERTIFIED PUBLIC ACCOUNTANTS

December 8, 2014

# Hicok, Fern, Brown & Garcia

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING 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 of Virginia and Affiliates  
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 of Virginia and Affiliates (a nonprofit organization), which comprise of the statement of financial position as of June 30, 2014, 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 8, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered People Incorporated of Virginia and Affiliates' 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 of Virginia and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of People Incorporated of Virginia and Affiliates' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 14-1

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

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. 14-2, 14-3

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether People Incorporated of Virginia and Affiliates' 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*.

We have reported other matters to the Board of Directors in a separate letter dated December 8, 2014.

**People Incorporated of Virginia and Affiliates' Response to Findings**

People Incorporated of Virginia and Affiliates' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. People Incorporated of Virginia and Affiliates' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 Brown & Garcia*

HICOK, FERN, BROWN & GARCIA  
CERTIFIED PUBLIC ACCOUNTANTS

December 8, 2014

# Hicok, Fern, Brown & Garcia

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors  
People Incorporated of Virginia and Affiliates  
Abingdon, Virginia

#### **Report on Compliance for Each Major Federal Program**

We have audited People Incorporated of Virginia and Affiliates' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of People Incorporated of Virginia and Affiliates' major federal programs for the year ended June 30, 2014. People Incorporated of Virginia and Affiliates' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of People Incorporated of Virginia and Affiliates' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about People Incorporated of Virginia and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

# Hicok, Fern, Brown & Garcia

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 People Incorporated of Virginia and Affiliates' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, People Incorporated of Virginia and Affiliates, 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 June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of People Incorporated of Virginia and Affiliates 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 People Incorporated of Virginia and Affiliates' 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of People Incorporated of Virginia and Affiliates' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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. 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.

**Hicok, Fern, Brown & Garcia**

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133**

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hicok Fern Brown & Garcia*

HICOK, FERN, BROWN & GARCIA  
CERTIFIED PUBLIC ACCOUNTANTS

December 8, 2014

People Incorporated of Virginia and Affiliates  
 Abingdon, Virginia  
 Statement of Consolidated Financial Position  
 For June 30, 2014

EXHIBIT 1  
 Page 1 of 2

<u>Assets</u>	<u>Total</u>
<b>Current Assets:</b>	
Cash and cash equivalents (Note 1 & 2)	\$ 2,175,632
Vacation trust account	9,372
Receivables	
Due from grantor	1,393,008
Clients	140,061
Contracts	356,168
Rents, interest, and other	48,991
Retainage	644,844
Developer fees	724,082
Related party	1,465,749
Inventory (Note 1)	68,354
Prepaid expenses	279,100
Costs in excess of billings (Note 3)	21,394
Other current assets	86,081
Total Current Assets	<u>7,412,836</u>
<b>Long-term Assets:</b>	
Notes receivable (Net of allowance for bad debts of \$48,842) (Note 4)	2,591,078
Notes receivable - related party	3,411,057
Property, plant, & equipment (Note 6)	24,427,530
Accumulated depreciation	<u>(5,801,220)</u>
Total Long-term Assets	<u>24,628,445</u>
<b>Other Assets:</b>	
Deferred developer fees	2,471,668
Investments (Note 8)	<u>576,752</u>
Total Other Assets	3,048,420
 Total Assets	 <u><u>\$ 35,089,701</u></u>

	<u>Total</u>
<u>Liabilities &amp; Net Assets</u>	
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 785,639
Accrued expenses	433,980
Deferred revenue	143,520
Billings in excess of costs (Note 3)	459,305
Retainage payable	53,356
Refundable deposits	1,291,346
Accrued losses on contracts	212,230
Lines of credit (Note 11)	456,082
Notes payable - current (Note 11)	401,871
Total Current Liabilities	<u>4,237,329</u>
Long-term Liabilities:	
Compensated absences (Note 10)	1,321,740
Notes payable - net of current (Note 11)	3,209,278
Total Long-term Liabilities	<u>4,531,018</u>
Other Liabilities	
Deferred developer fees	2,471,668
Total Other Liabilities	<u>2,471,668</u>
Total Liabilities	11,240,015
<u>Net Assets</u>	
Unrestricted	6,604,169
Temporarily restricted (Note 12)	17,245,517
Total Net Assets	<u>23,849,686</u>
Total Liabilities & Net Assets	<u>\$ 35,089,701</u>

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

People Incorporated of Virginia and Affiliates  
 Abingdon, Virginia  
 Statement of Consolidated Activities  
 For the Year Ended June 30, 2014

EXHIBIT 2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Grants	\$ 3,216,565	\$ 8,807,077	\$ 12,023,642
Other	7,579,124	102,880	7,682,004
Interest	139,430	122,386	261,816
Contributions	-	-	-
In-Kind	311,429	-	311,429
Net assets released from restrictions:			
Satisfaction of program restrictions	9,224,864	(9,224,864)	-
<b>Total Revenues</b>	<u>20,471,412</u>	<u>(192,521)</u>	<u>20,278,891</u>
Expenses:			
Program Services:			
Community Services	1,119,442	-	1,119,442
Community Development	139,814	-	139,814
Community Economic Development	699,955	-	699,955
Children & Family Services	4,265,401	-	4,265,401
Housing	8,793,978	-	8,793,978
Workforce Development	1,718,006	-	1,718,006
Support Services:			
General & Administrative	1,178,173	-	1,178,173
Fundraising	551,737	-	551,737
<b>Total Expenses</b>	<u>18,466,506</u>	<u>-</u>	<u>18,466,506</u>
Change in Net Assets	2,004,906	(192,521)	1,812,385
Net Assets At Beginning of Year (Restated)	<u>4,599,263</u>	<u>17,438,038</u>	<u>22,037,301</u>
Net Assets At End of Year	<u>\$ 6,604,169</u>	<u>\$ 17,245,517</u>	<u>\$ 23,849,686</u>

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

People Incorporated of Virginia and Affiliates  
 Abingdon, Virginia  
 Statement of Consolidated Cash Flows  
 For the Year Ended June 30, 2014

EXHIBIT 3

	<u>Total</u>
Operating Activities:	
Change in net assets	\$ 1,812,385
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Loss on sale of fixed assets	43,413
Depreciation	917,579
Allowance for bad debt	31,785
Net change in:	
Due from grantor & accounts receivable	(1,742,197)
Other assets	(289,669)
Inventory	(1,737)
Prepaid expense	73,497
Accounts payable	100,086
Accrued expenses & other payables	1,053,568
Other liabilities	(1,753)
Net Cash Provided By Operating Activities	<u>1,996,957</u>
Investment Activities:	
Purchase of property, plant & equipment	(487,596)
Proceeds from disposition of property, plant & equipment	65,482
Investment in partnerships	(329,990)
Loans to businesses and consumers	(1,506,872)
Principal repayment on business and consumer loans	1,027,382
Net Cash Used By Investing Activities	<u>(1,231,594)</u>
Financing Activities:	
Proceeds from long-term debt	530,417
Principal payments made on long-term debt	(414,424)
Net Cash Provided By Financing Activities	<u>115,993</u>
Increase In Cash	881,356
Cash and cash equivalents at Beginning of Year	<u>1,303,648</u>
Cash and cash equivalents at End of Year	<u>\$ 2,185,004</u>
Supplemental information: Cash paid for interest	<u>\$ 101,314</u>

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

People Incorporated of Virginia (“the Organization”) is a Virginia non-profit corporation organized in 1964. Its purpose is to utilize public monies awarded for the good of the community through its various programs.

During the fiscal year ended June 30, 2014, People Incorporated of Virginia received 53% of its total revenue from federal, state, and local government sources.

People Incorporated Financial Services was organized as a non-profit corporation in 2000. People Incorporated Financial Services is a certified Community Development Financial Institution that offers micro and small business loans, business training and technical assistance, consumer loans, and equity-attracting New Market Tax Credits in low-income, primarily rural, communities in Virginia.

People Incorporated Housing Group was organized as a non-profit corporation in 2004 to provide quality, affordable housing to low-income individuals.

### Basis of Presentation

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

### Principles of Consolidation

The consolidated financial statements include the accounts of People Incorporated Financial Services and People Incorporated Housing Group, both of which are affiliates under common control. All significant intercompany transactions and balances have been eliminated in these consolidated financial statements.

### 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 of Virginia.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Organization to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and intangibles; valuation allowances for receivables and inventories; and assets and obligations related to employee benefits. Accordingly, actual results could differ from those estimates.

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.

Construction revenues are recognized on the percentage-of-completion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. Contract costs include all direct materials and labor costs, and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The asset “Costs and estimated earnings in excess of billings on uncompleted contracts” represents costs incurred in excess of amounts billed. The liability “Billings in excess of costs and estimated earnings on uncompleted contracts” represent billings in excess of costs incurred. Substantially all contract retainage is expected to be collected within one year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Developer fees for Low-Income Housing Tax Credit (“LIHTC”) projects are recognized when the project is substantially complete. Developer fees for New Market Tax Credit (“NMTC”) projects are recognized as received.

Donated Services and Materials

People Incorporated of Virginia reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts or grants of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, People Incorporated of Virginia reports expirations of donor restrictions starting in the year the asset is placed in service.

Cash and Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories consist of materials and supplies held for use in various agency programs.

Receivables

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.

Client receivables consist of amounts used to provide indoor plumbing assistance to income-eligible individuals in the form of loans. The loans are secured by liens on the property for 120 months. The loans are interest free and repayments are based on household income. Repaid funds are to be used for future indoor plumbing projects. Management has elected not to record an allowance against these receivables since the value of the home exceeds the outstanding receivable.

Contract and Retainage receivables consist of amounts billed under LIHTC rehabilitation projects; the Organization acts as the General Contractor and Developer for the projects.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract and retainage receivables are recognized as progress billings are submitted to the project owner. Management has assessed the collectability of these receivables and deemed all accounts to be fully collectible; therefore, an allowance has not been recorded.

Developer fee receivables consist of amounts currently due to the Organization under agreements to provide services to LIHTC projects that were substantially complete at the balance sheet date. Management has assessed the collectability of these receivables and deemed all accounts to be fully collectible; therefore, an allowance has not been recorded.

Related party receivables consist of amounts advanced to related parties that operate low-income multi-family housing communities. The advances are for operating expenses and management fees.

Other Current Assets

Other current assets include costs incurred to investigate the feasibility of future LIHTC projects. Such costs include tax credit reservation fees, legal and consulting fees, and architectural and engineering. These costs are recorded as assets until the project is approved; upon approval of the LIHTC project, the costs are expensed to the project. Any funds expended on a project that does not pass beyond the predevelopment stage are recorded as expenses when activity on the project ceases.

Notes Receivable

The Organization underwrites and processes loan applications, processes funding, and holds and services the loan 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related Party Notes Receivable

The Organization entered into agreements to act as the project sponsor of certain LIHTC projects. As the project sponsor, the Organization received grant funds that were loaned to the project owner.

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.

Investments

The Organization's investment in other companies is recorded using the equity method. The investments are initially recorded at cost and subsequently adjusted for the Organization's share of undistributed earnings or losses.

Deferred Developer Fees

The Organization has entered into development agreements with sixteen LIHTC projects. The agreements provide for development fees for services in connection with the rehabilitation of the LIHTC projects. At June 30, 2014, the Organization had successfully completed fourteen LIHTC projects, with two projects in progress. The Organization recognizes a portion of the developer fees at the close of the construction period. The remainder of the developer fee is deferred and recognized as the LIHTC project pays the deferred fees over the life of the project.

Income Taxes

People Incorporated of Virginia 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.

Indirect Cost Rate

In accordance with the provisions of Circular A-122 of the U.S. Office of Management and Budget, the Organization charges an indirect cost rate of 10% on grants and contracts with the Federal Government. This rate was established per an agreement with the Department of Health and Human Services.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated as of December 8, 2014, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update 2014-01, Investments – Equity Method and Joint Ventures, Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01). ASU 2014-01 provides guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The update permits an election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Organization does not meet the criteria set forth in the update; therefore, this update will not impact the Organization.

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.

NOTE 2 – CASH

Cash for the Organization is maintained in five separate banks. Some of the banks have secured the Organization's deposits in excess of FDIC coverage. The amount in excess of FDIC coverage at June 30, 2014 is \$1,969,241.

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

NOTE 3 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

During the year ended June 30, 2014, the Organization operated under agreements to act as the General Contractor for five LIHTC projects. As of June 30, 2014, two projects remain uncompleted. Following is a summary of contracts in progress at June 30, 2014:

Costs incurred on uncompleted contracts	\$2,010,545
Estimated earnings	<u>(401,912)</u>
	1,608,633
Less billings to date	<u>2,046,544</u>
	<u>\$ (437,911)</u>

These amounts are included in the accompanying balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 21,394
Billings in excess of costs and estimated earnings on uncompleted contracts	(459,305)

Subsequent to the balance sheet date, an additional \$200,000 in HOME funds were awarded to one of the contracts in progress, which will reduce the estimated loss on the project.

NOTE 4 – NOTES RECEIVABLE

Federation of Appalachian Housing Enterprises

The Organization was awarded \$100,000 in loan funds fiscal year 2006-2007 to make home rehabilitation loans to individuals. Individual loans of \$4,410 made during the year ended June 30, 2014 were funded by FAHE loan proceeds. Notes receivable of \$22,986 at June 30, 2014 has 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, 2014 and no loans are considered past due at June 30, 2014.

Haysi Downtown Loan Fund

Notes receivable of \$90,647 at June 30, 2014 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, 2014 and no loans are considered past due at June 30, 2014.

Page/Shenandoah CDBG

Notes receivable of \$51,156 at June 30, 2014 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. Write-offs of \$18,394 were taken against these loans during the year ended June 30, 2014 and \$15 of these loans are considered past due at June 30, 2014.

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

Tobacco Indemnification Commission (TICR)

Notes receivable of \$858,519 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, 2014 and \$1,284 of these loans are considered past due at June 30, 2014.

U.S. Treasury

Notes receivable of \$756,803 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 \$24,312 were taken against these loans during the year ended June 30, 2014 and \$4,615 of these loans are considered past due at June 30, 2014.

Twin County Microenterprise CDBG

Notes receivable of \$38,841 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, 2014 and \$72 of these loans are considered past due at June 30, 2014.

U.S. Treasury Consumer Loans

Notes receivable of \$4,426 represents money due the program from loans made to individuals for debt consolidation and transportation and home purchases. The notes have terms ranging from three to five years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$7,659 were taken against these loans during the year ended June 30, 2014 and \$2,245 of these loans are considered past due at June 30, 2014.

SBA Microloan #4

Notes receivable of \$19,448 represents money due the program from loans made to small businesses. The notes have terms ranging up to six years and bear interest at rates ranging from 3.25% to 8.0%. No write-offs were taken against these loans during the year ended June 30, 2014 and no amounts are considered past due at June 30, 2014.

SBA Microloan #5

Notes receivable of \$152,090 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%. No write-offs were taken against these loans during the year ended June 30, 2014 and \$283 of these loans are considered past due at June 30, 2014.

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

SBA Microloan #4182935008

Notes receivable of \$485,495 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 \$17,952 were taken against these loans during the year ended June 30, 2014 and \$4,417 of these loans are considered past due at June 30, 2014.

Virginia Enterprise Initiative

Notes receivable of \$4,321 has 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, 2014 and no loans are considered past due at June 30, 2014.

Wise/Norton CDBG

Notes receivable of \$6,491 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, 2014 and no loans are considered past due at June 30, 2014.

Bristol Community Development Block Grant

A Note receivable of \$5,907 has a term of fifty-four months and bears interest at 6.25%; the loans were made to small businesses located in the City of Bristol, Virginia. No write-offs were taken against these loans during the year ended June 30, 2014 and no loans are considered past due at June 30, 2014.

Bristol Revolving Loan Fund

Notes receivable of \$27,903 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 \$11,754 were taken against these loans during the year ended June 30, 2014 and \$304 of these loans are considered past due at June 30, 2014.

Opportunity Finance Network

Notes receivable of \$18,739 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. Write-offs of \$982 were taken against these loans during the year ended June 30, 2014 and \$97 of these loans are considered past due at June 30, 2014.

Rural Microenterprise Assistance Program

Notes receivable of \$73,398 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, 2014 and \$362 of these loans are considered past due at June 30, 2014.

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

Warren-Clark Community Development Block Grant

The Organization was awarded \$200,000 in grant funds under the CDBG’s Microenterprise Assistance Project. Notes receivable of \$19,130 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, 2014 and no loans are considered past due at June 30, 2014.

United States Department of Agriculture

The Organization was awarded \$180,590 in grant funds under the USDA’s Household Water Well System Grant. Notes receivable of \$3,620 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, 2014 and no loans are considered past due at June 30, 2014.

An allowance for bad debts has been provided as follows:

FUND	Allowance for Bad Debts June 30, 2014	
Bristol Revolving Loan Fund	\$	615
Opportunity Finance Network		67
Page/Shenandoah CDBG		28
Rural Microenterprise Assistance Program		2,823
Tobacco Indemnification Commission		10,232
U.S. Treasury		9,371
Twin County Microenterprise CDBG		82
SBA Microloan #5		21,471
SBA Microloan #4182935008		4,153
TOTAL	\$	<u>48,842</u>

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

NOTE 5 – NOTES RECEIVABLE – RELATED PARTY

The Organization entered into agreements with related party LIHTC entities to provide secured loans to the entities. The notes are secured by a deed of trust on the properties.

Abingdon Green, LLC

Note receivable of \$180,000, bearing no interest and due upon the earlier of 30 years, conveyance of the property or refinancing of the property.

NOTE 5 – NOTES RECEIVABLE – RELATED PARTY (CONTINUED)

Buchanan County Housing, LLC

Note receivable of \$659,074, bearing interest at 6% and due upon the sale or conveyance of the property. Interest income of \$37,306 was recognized on the note during the year.

Clinch View Manor Apartments, LLC

Note receivable of \$427,000, bearing no interest and due upon the sale or conveyance of the property.

Dante Crossings Apartments, LLC

Note receivable of \$347,676, bearing interest at 4.21% and due upon the sale or conveyance of the property. Interest income of \$14,046 was recognized on the note during the year.

Jonesville Manor, LLC

Note receivable of \$170,000, bearing no interest and due upon the sale or conveyance of the property.

Norton Green, LLC

Note receivable of \$200,000, bearing no interest and due upon the earlier of 30 years, conveyance of the property or refinancing of the property.

Pulaski Village, LLC

Note receivable of \$220,000, bearing no interest and due upon the earlier of 30 years, conveyance of the property or refinancing of the property.

Rock School Management, LLC

Note receivable of \$168,881, bearing no interest and has a 30-year term.

Spruce Hill Apartments, LLC

Note receivable of \$198,000, bearing no interest and due upon the sale or conveyance of the property.

Valley Vista, LLC

Note receivable of \$133,926, bearing interest at 2% and due upon the earlier of 30 years, conveyance of the property, or refinancing of the property.

Note receivable of \$467,500, bearing no interest and due upon the earlier of October 30, 2039 or the sale of the property. Interest income of \$2,550 was recognized on the note during the year.

West Lance, LLC

Note receivable of \$239,000, bearing no interest and due upon the sale or conveyance of the property.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment purchased is stated at cost or estimated cost. 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, 2014 amounted to \$917,579.

Buildings .....	20 – 40 years
Equipment, vehicles and Furniture and fixtures.....	5 – 20 years

Summary of changes in fixed assets follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Land	\$ 1,189,573	-	-	\$ 1,189,573
Real Property	20,632,278	46,314	(108,893)	20,569,699
Equipment	412,724	-	-	412,724
Vehicles	1,888,716	441,281	(74,463)	2,255,534
Totals	<u>\$ 24,123,291</u>	<u>487,595</u>	<u>(183,356)</u>	<u>\$ 24,427,530</u>

Federal programs require that all assets disposed of during the year that were obtained with restricted money must be accounted for if the sale price exceeds \$5,000.

The Organization acquired \$320,416 in property & equipment through federal grants for the year ending June 30, 2014.

NOTE 7 – DEFERRED DEVELOPER FEES

The Organization entered into agreements with related party LIHTC entities to act as developer for certain LIHTC projects. The agreements allow for a portion of the developer fee to be paid upon substantial completion of the projects and a portion to be deferred over the life of the tax credits. During the year ended June 30, 2014, the Organization recognized \$980,912 in developer fee revenue and deferred \$403,142 in developer fees related to projects completed during the year.

NOTE 8 – INVESTMENTS

The Organization holds ownership interests in sixteen LIHTC partnerships and eight NMTC partnerships. Income from the LIHTC entities was \$1,433 for the year ended June 30, 2014 and capital contributions totaled \$327,995. Income from the NMTC entities was \$23 and return of capital was \$21.

NOTE 8 – INVESTMENTS (CONTINUED)

Investments in other companies as of June 30, 2014 consisted of the following:

Abingdon Green LLC	\$ 48,762
Abingdon Terrace LLC	150
Abingdon Village Apartments LLC	272
Buchanan County Housing LP	(136)
Clinch View Manor Apartments LLC	438
Dante Crossings Apartments Management, Inc.	149,971
Jonesville Manor LLC	(26)
Norton Green LLC	(26)
Pulaski Village LLC	(42)
Rock School Management, Inc.	143,080
Spruce Hill Apartments LLC	348
Sweetbriar Apartment Management, Inc.	50,961
Toms Brook School Apartments LLC	(9)
Valley Vista Apartments LLC	(44)
West Lance Apartments LLC	335
Mill Point Apartments, Inc.	177,934
Rural New Markets Fund, LLC	884
Appalachian Markets Capital Investment Fund, LLC	632
PIFS Sub-CDE IV, LLC	703
PIFS Sub-CDE V, LLC	555
PIFS Sub-CDE VI, LLC	708
PIFS Sub-CDE VII, LLC	451
PIFS Sub-CDE VIII, LLC	301
PIFS Sub-CDE IX, LLC	550
	<u>550</u>
	<u>\$ 576,752</u>

NOTE 9 – CONTINGENT LIABILITIES

Federal programs in which the Organization participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133. All major programs and certain other programs were tested for compliance with applicable grant requirements. While no material instances of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

NOTE 9 – CONTINGENT LIABILITIES (CONTINUED)

As of the statement of financial position date, the Organization is contingent on two loans held by Rural Development for the purpose of purchasing a building in Abingdon and a building in Clintwood. The Organization is required to set aside reserves in the amount of \$46,308 for the Abingdon building and \$14,016 for the Clintwood building in case of default. As of June 30, 2014, neither loan is in default and a total of \$63,485 in reserves has been set aside for both locations.

The Organization is a guarantor on debt incurred by the LIHTC and NMTC investment entities.

There are possible litigations with past clients. It is expected that if any payments are required that the amount will be covered entirely by insurance companies.

NOTE 10 – COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation, depending on length of service and other factors. The liability for compensated absences at June 30, 2014 was \$697,323.

The Organization has a severance agreement with a key employee. The agreement grants the employee severance pay based on the number of months of service to the Organization and is paid at the compensation rate in effect at the time of termination. The liability for severance pay at June 30, 2014 was \$624,417.

NOTE 11 – NOTES PAYABLE OBLIGATIONS

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

	Principal Balance as of June 30, 2014
Purchase of an office building and land in Lebanon, VA. There are two notes, each with a 10-year amortization. The notes were refinanced in 2010 at 6.0% with monthly payments of \$1,980.	\$122,681
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.	278,920

People Incorporated of Virginia and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2014

NOTE 11 – NOTES PAYABLE OBLIGATIONS(CONTINUED)

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 1.125%. Principal and interest payments began in July 2007.	\$1,466
Financing of an office building in Bristol, VA. The note matures August 2020 with interest. The interest rate is 1% with payments of \$4,489 per month.	321,999
Financing of an office building in Grundy, VA. The note has a 20-year amortization with interest payable at the 5 year Treasury rate plus 2.45%. Principal and interest payments began in April 2006. The note was refinanced in April 2011.	450,138
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.	116,691
Purchase of an office building in Woodstock, VA. Note is in the amount of \$365,796 to be used for purchase and renovation. Term of note is 20 years with a 5 year balloon. Interest only payments accumulating at 6.00% for the first 12 months; monthly payments thereafter will be \$3,096.	363,479
Purchase of an office building and land in Clintwood, VA. The note has a 20-year amortization with interest payable at 5.125%. Principal and interest payments of \$1,168 began in September 2000.	72,794
Purchase of Benham’s Head Start Center building in Bristol, VA. The note is being amortized over a 15-year period at 6.00% interest	84,503
Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest beginning at 0%. Principal and interest payments began July 2011.	580,419
Purchase and renovation of office building in Abingdon, VA. The note has a 30-year amortization with interest payable at 4.00%.	794,405

People Incorporated of Virginia and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2014

NOTE 11 – NOTES PAYABLE OBLIGATIONS(CONTINUED)

Purchase of 2011 Ford Ranger. Note is for a period of 5 years with a 0% interest rate. Payments began in February 2011.	\$5,795
Purchase of (4) 2010 Toyota Corollas. Notes are for a period of 5 years with a 0% interest rate. Principal payments began in February 2011.	21,864
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.	120,000
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.	4,798
Program loan from Federation of Appalachian Housing Enterprises. The loan is due in three equal installments on July 1, 2014, July 1, 2015, and July 1, 2016. The note bears an interest rate of 3% and is secured by a deed of trust.	99,877
Purchase of (3) 2013 Nissan Rogues. Notes are for a period of 5 years with a 0% interest rate. Principal payments began in February 2014.	63,820
Program loan from Federation of Appalachian Housing Enterprises. The loan is for a period of three years with payments of \$573 per month. The note bears an interest rate of 5.25% and is secured by real property.	82,500
Program loan from Northern Shenandoah Valley Regional Commission. The project was abandoned and the loan will be forgiven during the year ending June 30, 2015.	<u>25,000</u>
TOTAL	\$3,611,149
Less: Current maturities	<u>(401,871)</u>
Long-term debt	<u>\$3,209,278</u>

People Incorporated of Virginia and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2014

NOTE 11 – NOTES PAYABLE OBLIGATIONS (CONTINUED)

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

Year Ending June 30	Principal
2015	\$ 401,871
2016	375,081
2017	444,612
2018	340,968
2019	346,016
2020 and beyond	1,702,601
Total	<u>\$ 3,611,149</u>

The Organization has a line of credit with First Bank & Trust with maximum borrowings of \$250,000, of which \$250,000 was outstanding at June 30, 2014. Advances on the line of credit carry a rate of 5.25%. The credit line is secured by a deed of trust.

The Organization has a line of credit with Federation of Appalachian Housing Enterprises with maximum borrowings of \$325,000, of which \$206,082 was outstanding at June 30, 2014. Advances on the line of credit carry a rate of 5.25%. The credit line is secured by undeveloped land.

Interest expense incurred on notes payable and lines of credit for 2014 was \$108,620.

NOTE 12 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

Business loans and related expenditures	<u>\$ 2,226,431</u>
Time or purpose restricted for period after June 30, 2014	<u>15,019,086</u>
TOTAL	<u>\$ 17,245,517</u>

#### NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values 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:

- 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.

People Incorporated of Virginia and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2014

NOTE 14 – IN-KIND

The Head Start program is required to contribute 20% of the cost of the program through non-federal cash or in-kind contributions. Other programs also require matching funds similar to Head Start. The following is a breakdown of in-kind received by program and month:

	Head Start	Project Discovery	Domestic Violence
Jul-13	\$ 14,144	\$ -	\$ 2,477
Aug-13	24,991	-	4,075
Sep-13	43,117	13,157	2,860
Oct-13	88,192	31,870	2,358
Nov-13	128,668	-	4,140
Dec-13	72,397	3,164	4,231
Jan-14	32,317	-	3,751
Feb-14	60,526	-	2,097
Mar-14	56,776	-	2,275
Apr-14	75,827	-	3,382
May-14	82,370	-	2,128
Jun-14	44,327	-	3,010
	<u>\$ 723,652</u>	<u>\$ 48,191</u>	<u>\$ 36,784</u>

NOTE 15 – LEASE OBLIGATIONS

On December 1, 2013, the Organization entered into a one year lease for the Head Start program with the Hayters Gap Community Center of Washington County, Virginia. The lease relates to real property located at the Hayters Gap Elementary School in Washington County, Virginia. The lease can be terminated by either party with sixty days written notice.

On December 1, 2013, the Organization entered into a one year lease for the Head Start program with Russell County, Virginia. The lease relates to real property located at Route 80, Russell County, Virginia in the Swords Creek Community Center. The lease can be terminated by either party with ninety days written notice.

On September 3, 2013, the Organization entered into a one year lease for the Head Start program with Russell County, Virginia. The lease relates to real property located in the Givens Elementary School in Russell County, Virginia. The lease is subject to annual renewal.

On December 1, 2013, the Organization entered into a one year lease for the Head Start program with Cumberland Plateau Housing Authority. The lease relates to real property located in the Fox Meadows community. The lease can be terminated by either party with ninety days written notice.

NOTE 15 – LEASE OBLIGATIONS (CONTINUED)

On October 11, 2012, the Organization entered into a two year lease for office space in Gainesville, Virginia.

Minimum payments under these leases are as follows:

<u>June, 30</u>	<u>Amount</u>
2015	\$ 9,250
2016 and Later	0

NOTE 16 –USDA REIMBURSEMENTS

Head Start, Dickenson Day Care, Infant Toddler and Abingdon Day Care receive reimbursements from the United States Department of Agriculture for meals served to children. Reimbursements received for Head Start and the day care centers for the year ended June 30, 2014 are:

Head Start/Early Head Start	<u>\$ 199,936</u>
Day Care Centers	<u>\$ 15,746</u>

NOTE 17 – REFUNDABLE DEPOSITS

The Organization holds a deposit from the Southwest Virginia Cultural Heritage Commission in the amount of \$1,283,200. This deposit is being held as a reserve fund to be used for all major repairs and extraordinary maintenance fees related to the Heartwood Artisan Center. Interest earned on these funds are returned to Round the Mountain quarterly. Interest earned on the reserve funds during FY14 was \$3,157.

NOTE 18 – CONTRIBUTED ASSET

The Organization entered into an agreement with the Southwest Virginia Cultural Heritage Commission (“the Commission”) to oversee the construction of the Heartwood Artisan Center in Abingdon, Virginia. Upon completion of construction in July 2011, the Organization assumed complete ownership of the building and its improvements. The Organization has a 30-year lease from the Commission on the 8-acre tract of land on which the building is situated and has a lease to the Commission for the building with the same 30-year term. The depreciated value of the building at June 30, 2013 was \$12,055,891.

#### NOTE 19 – RELATED PARTIES

The Organization holds a .009% ownership interest in Riverside Place Apartments, LLC as a general partner through Rock School Management, Inc., a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .009% ownership interest in White's Mill Point, LP as a general partner through Mill Point Apartments, Inc., a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Valley Vista Apartments, LLC as a general partner through Vista Apartments Management, Inc., a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Pulaski Village, LLC as a general partner through People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Jonesville Manor, LLC as a general partner through People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Abingdon Green, LLC as a general partner through People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Norton Green, LLC as a general partner through People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Dante Crossing, LLC as a general partner through Dante Crossing Apartments Management, Inc., a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Sweetbriar, LP as a general partner through Sweetbriar Apartments Management, Inc., a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .01% ownership interest in Buchanan County Housing, LP as a general partner through Deskins Apartments, LLC, a corporation owned 100% by People Incorporated Housing Group.

The Organization holds a .009% ownership interest in Tom's Brook Apartments, LLC as a general partner through People Incorporated Housing Group.

The Organization holds a .01% ownership interest in Rural New Market Funds, LLC as a general partner through People Incorporated Financial Services.

NOTE 19 – RELATED PARTIES (CONTINUED)

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

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

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

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

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

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

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

NOTE 20 – OPEN TAX YEARS

Although the Organization has not been notified that any of its information returns have been selected for examination by any taxing authority, the statute of limitations remains open for its years ended June 30, 2011, 2012, 2013 and 2014. Accordingly, the Organization's information returns remain subject to examination.

NOTE 21 – PRIOR PERIOD ADJUSTMENT

Beginning net assets of the Organization as of June 30, 2013 were restated for prior period adjustments. The adjustments are primarily from contractor accounting for projects the Organization operates as the general contractor and adjustments for previous un-recorded liabilities for severance pay and payroll liabilities. Net assets of the Organization as of June 30, 2013 have been restated from \$19,270,672 to \$22,037,301.

Fund	Expense Classification									Totals
	Salaries & Wages	Fringe Benefits	Travel	Equipment Expense	Material & Supplies	Contractual	Others	Depreciation	In-Kind	
Community Services	\$ 563,985	\$ 215,802	\$ 31,154	\$ 2,057	\$ 48,744	\$ 2,408	\$ 170,367	\$ -	\$ 84,925	\$ 1,119,442
Community Development	18,571	6,419	3,930	470	2,453	57,728	50,243	-	-	\$ 139,814
Community Economic Development	312,933	112,081	14,135	3,214	12,745	8,425	236,422	-	-	\$ 699,955
Children & Family Services	1,918,989	907,866	39,196	386,572	364,649	40,459	394,080	-	213,590	\$ 4,265,401
Housing	940,824	426,270	38,313	28,500	732,431	4,994,513	1,620,214	-	12,913	\$ 8,793,978
Workforce Development	445,646	127,879	27,380	1,275	36,680	266,370	812,776	-	-	\$ 1,718,006
General & Administration	709,701	279,272	43,415	9,026	43,215	99,985	(924,020)	917,579	-	\$ 1,178,173
Fundraising	396,467	121,101	8,510	1,430	4,521	5,157	14,551	-	-	\$ 551,737
Total Expenses	<u>\$ 5,307,116</u>	<u>\$ 2,196,690</u>	<u>\$ 206,033</u>	<u>\$ 432,544</u>	<u>\$ 1,245,438</u>	<u>\$ 5,475,045</u>	<u>\$ 2,374,633</u>	<u>\$ 917,579</u>	<u>\$ 311,428</u>	<u>\$ 18,466,506</u>

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal Catalog <u>Number</u>	<u>Expenditures</u>
Department of Health and Human Services:		
Direct Payments:		
Head Start	93.600 *	\$ 3,945,749
Community Economic Development	93.570	1,319
Healthy Tomorrows	93.110	46,842
Pass Through Payments:		
Virginia Department of Social Services:		
CSBG	93.569	1,035,787
LIHEAP	93.568	217,331
Victims of Crime	16.575	53,845
Domestic Violence	93.592	91,695
Department of Health:		
Maternal, Infant & Early Childhood Home	93.505	110,971
Resource Mothers	93.778	-
Department Total		<u>5,503,539</u>
Department of Energy:		
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Weatherization - ARRA	81.042	56,250
Sustainable Energy Resources for Consumers	81.042	150,350
Department Total		<u>206,600</u>
Department of Education:		
Pass Through Payments:		
Project Discovery	84.378	32,215
Department Total		<u>32,215</u>
Department of Housing and Urban Development:		
Direct Payments:		
Section 8	14.871	280,673
HUD Counseling	14.169	2,872
Permanent Supportive Housing	14.235	25,497

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal Catalog <u>Number</u>	<u>Expenditures</u>
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Emergency Shelter Grants	14.231	55,191
HOME Partnership	14.239	21,600
Northern Shenandoah Valley Regional Commission		
HOME Investment Partnership	14.239	101,301
Department Total		<u>487,134</u>
Department of Labor:		
Pass Through Payments		
New River/Mt Rogers Workforce Investment Board		
WIA Adult Program	17.258	383,641
WIA Youth Program	17.259	464,159
Dislocated Worker/One Stop Operator	17.260	543,619
Southwest VA Workforce Investment Board		
WIA Youth Program	17.259	283,609
Department Total		<u>1,675,028</u>
Department of Agriculture		
Direct Payments:		
Child and Adult Care Food Program	10.558 *	215,682
RD Rural Microenterprise Assistance	10.870	2,400
Department Total		<u>218,082</u>
U.S. Small Business Administration:		
Direct Payments:		
Technical Assistance	59.046 *	259,399
Department Total		<u>259,399</u>
Department of Justice:		
Pass Through Payments		
Domestic Violence Program	16.588	19,972
Sex Assault Program	16.575	18,104
Sexual Assault Services Formula Program	16.017	6,228
Department Total		<u>44,304</u>

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
Department of Treasury:		
Direct Payments:		
Community Development Financial Institutions Program	21.020	100,901
Volunteer Income Tax Assistance	21.009	8,931
Pass Through Payments		
National Foreclosure Mitigation	21.000	2,094
Department Total		<u>111,926</u>
Department of Veterans Affairs:		
Direct Payments:		
Supportive Services for Veterans Families	64.033 *	373,948
Department Total		<u>373,948</u>
Grand Total		<u>\$ 8,912,175</u>

\* Denotes Major Program

I. SUMMARY OF AUDIT RESULTS:

FINANCIAL STATEMENTS

Type of Auditor's report issued:	Unmodified
Internal control over financial reporting: Material Weakness(es) identified?	Yes
Significant deficiency(es) identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs: Material Weakness(es) identified?	No
Significant deficiency(es) identified?	No
Type of auditors' report issued on compliance for major program?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)?	No
Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
Auditee qualified as low-risk auditee?	No

Identification of Federal Programs:

<u>PROGRAM</u>	<u>CATALOG NUMBER</u>	<u>FINDINGS</u>	<u>QUESTIONED COST</u>
Head Start	93.600	None	No
Child and Adult Care Food Program	10.558	None	No
Technical Assistance	59.046	None	No
Support Services for Veterans Families	64.033	None	No

II. FINANCIAL STATEMENT FINDINGS:

MATERIAL WEAKNESS

2014 - 1: Unrecorded Severance Pay and Payroll Tax Liabilities

Criteria: Controls should be in place to provide reasonable assurance that liabilities are properly identified and recorded.

Condition: Liabilities for servance pay and payroll taxes were not recorded properly.

Effect: Prior period adjustments for severance pay and payroll tax liabilities that reduced net assets by \$570,156 and \$98,257, respectively.

Cause: Internal controls in place failed to identify mateial liabilities. The unrecording of material liabilities is primarily due to limited access to contracts.

Recommendation: Procedures for indentifying and recording liabilities should be improved to include a contract control sheet for existing and new contracts.

Response: The severance pay liability has been recorded. Management is implementing a contract control sheet to track contracts.

SIGNIFICANT DEFICIENCIES

2014 - 2: Unreconciled Bank Account

Criteria: Controls should be in place to provide reasonable assurance that reconciliations of all bank accounts are timely prepared and reviewed.

Condition: All bank accounts were not properly reconciled.

Effect: Assets were understated by \$74,968.

Cause: The organization's policy on preparation and review of bank reconciliations was not followed. The reconciliation of a bank account, that contained missing or incorrect transactions was not prepared and bank reconciliations were not properly reviewed.

Recommendation: Procedures for reconciliation and review of bank accounts be followed.

Response: The bank account in question was not included on the trial balance in prior years, so the normal procedures for reconciling all accounts did not detect the account.

#### 2014 - 3: Unrecorded Assets

Criteria: Controls should be in place to provide reasonable assurance that reconciliations of all assets are properly recorded.

Condition: All insurance policies were not included in the calculation of prepaid insurance.

Effect: Assets were understated by \$70,714.

Cause: Controls are not present to insure proper recording of prepaid insurance allowing prepaid insurance to be calculated on 3 policies, with 16 additional policies being omitted from the calculation.

Recommendation: Procedures should be in place to insure that all policies are properly identified and used to calculate prepaid insurance.

Response: Management has implemented procedures to ensure that all policies are included in prepaid insurance analysis.

People Incorporated of Virginia and Affiliates  
 Abingdon, Virginia  
 Head Start Grant  
 Revenue and Expenses Detail  
 For the Year Ended June 30, 2013

SCHEDULE 4

	12/01/2012 through <u>11/30/2013</u>	12/01/2013 through <u>6/30/2014</u>
<b>Revenue</b>		
Grant	\$ 3,666,003	\$ 1,931,016
Grantee's in-kind	927,632	426,915
Total Revenue	<u>4,593,635</u>	<u>2,357,931</u>
<b>Expenses</b>		
Federal Expenses:		
HHS share:		
Head Start training tech-assistance	<u>36,044</u>	<u>26,387</u>
Total	<u>36,044</u>	<u>26,387</u>
Head Start		
Personnel salary	1,063,186	739,478
Personnel fringe benefits	480,658	337,210
Travel	17,936	10,013
Supplies	45,428	17,264
Others	<u>1,013,443</u>	<u>189,944</u>
Total	<u>2,620,651</u>	<u>1,293,909</u>
Early Head Start		
Personnel salary and fringes	593,740	398,311
Supplies and other	<u>154,862</u>	<u>78,972</u>
Total	<u>748,602</u>	<u>477,283</u>
Food Services		
Personnel salary	146,402	76,526
Personnel fringe benefits	94,418	53,591
Other	<u>19,886</u>	<u>3,320</u>
Total	<u>260,706</u>	<u>133,437</u>
Total In-Kind Expenses	<u>927,632</u>	<u>426,915</u>
Total Expenses	<u>4,593,635</u>	<u>2,357,931</u>
Excess (deficiency) of revenue over expenses	<u>\$ -</u>	<u>\$ -</u>