

PEOPLE INCORPORATED FINANCIAL SERVICES

Abingdon, Virginia

AUDITED FINANCIAL STATEMENTS

June 30, 2015

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TABLE OF CONTENTS

INTRODUCTORY SECTION:

Title Page
Table of Contents
List of Board of Directors

AUDITORS' 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
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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
Schedule of Expenditures of Federal Awards	SCHEDULE 2
Schedule of Findings, Responses and Questioned Cost	SCHEDULE 3

People Incorporated Financial Services

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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, 2015, 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 Incorporate Financial Services as of June 30, 2015, 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.

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 it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued a report, dated December 18, 2015, 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
HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2015

Hicok, Fern & Company

Certified Public Accountants

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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 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, 2015, 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 18, 2015.

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.

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. 15-1

Hicok, Fern & Company
Certified Public Accountants

**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.

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*.

People Incorporated Financial Services' Response to Findings

People Incorporated Financial Services' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. People Incorporated Financial Services' 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 & Company
HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2015

Hicok, Fern & Company

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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 Financial Services
Abingdon, Virginia

Report on Compliance for Each Major Federal Program

We have audited People Incorporated Financial Services' 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 Financial Services' major federal programs for the year ended June 30, 2015. People Incorporated Financial Services' 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 Financial Services' 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 Financial Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Hicok, Fern & Company
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 Financial Services' compliance.

Opinion on Each Major Federal Program

In our opinion, People Incorporated Financial Services, 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, 2015.

Report on Internal Control Over Compliance

Management of People Incorporated Financial Services 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 Financial Services' 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 & Company
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 & Company

HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2015

	<u>Total</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 2,202,844
Due from grantor	158,636
Interest receivable	21,888
People Incorporated Receivable	<u>5,415,423</u>
Total Current Assets	<u>7,798,791</u>
Long-term Assets:	
Notes receivable (Net of allowance for bad debts of \$59,951)	2,754,708
Property, plant, & equipment	8,450
Accumulated depreciation	<u>(8,450)</u>
Total Long-term Assets	<u>2,754,708</u>
Other Assets:	
Investments	<u>6,206</u>
Total Other Assets	<u>6,206</u>
Total Assets	<u>\$ 10,559,705</u>
<u>Liabilities & Net Assets</u>	
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 12,619
Deferred Revenue	21,725
Notes payable - current	<u>204,116</u>
Total Current Liabilities	<u>238,460</u>
Long-term Liabilities:	
Notes payable - net of current	1,214,033
Deferred Revenue	222,407
Compensated Absences	<u>26,804</u>
Total Long-term Liabilities	<u>1,463,244</u>
Total Liabilities	1,701,704
<u>Net Assets</u>	
Unrestricted	6,440,720
Temporarily restricted	<u>2,417,281</u>
Total Net Assets	<u>8,858,001</u>
Total Liabilities & Net Assets	<u>\$ 10,559,705</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, 2015

EXHIBIT 2

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Grants	\$ 343,759	\$ 733,595	\$ 1,077,354
Other	1,035,506	122,377	1,157,883
Interest	87,828	54,333	142,161
In-Kind	2,000	-	2,000
Satisfaction of program restrictions	<u>719,455</u>	<u>(719,455)</u>	<u>-</u>
 Total Revenues	 <u>2,188,548</u>	 <u>190,850</u>	 <u>2,379,398</u>
Expenses:			
Program Services:			
New Market Tax Credit	65,669	-	65,669
Bristol Revolving Loan Fund	2,691	-	2,691
Small Business Administration	593,206	-	593,206
Tobacco Indemnification Commission	6,852	-	6,852
U.S. Treasury Loans	289,232	-	289,232
Virginia Enterprise Initiative	20,416	-	20,416
Warren County CDBG	26,193	-	26,193
Support Services:			
General & administrative	<u>153,274</u>	<u>-</u>	<u>153,274</u>
 Total Expenses	 <u>1,157,533</u>	 <u>-</u>	 <u>1,157,533</u>
Change in Net Assets	1,031,015	190,850	1,221,865
Net Assets At Beginning of Year	<u>5,409,705</u>	<u>2,226,431</u>	<u>7,636,136</u>
Net Assets At End of Year	<u>\$ 6,440,720</u>	<u>\$ 2,417,281</u>	<u>\$ 8,858,001</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, 2015

EXHIBIT 3

	<u>Total</u>
Operating Activities:	
Change in net assets	\$ 1,221,865
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Allowance for bad debt	11,109
Net change in:	
Due from grantor & accounts receivable	(1,006,718)
Accounts Payable	11,436
Accrued expenses & other payables	<u>254,098</u>
Net Cash Provided By Operating Activities	<u>491,790</u>
Investment Activities:	
Investment in partnerships	(6,206)
Principal repayment on business loans	1,431,357
Loans to businesses	<u>(1,606,096)</u>
Net Cash Used In Investing Activities	<u>(180,945)</u>
Financing Activities:	
Proceeds from long-term debt	550,000
Principal payments made on long-term debt	<u>(234,140)</u>
Net Cash Provided By Financing Activities	<u>315,860</u>
Increase in Cash	626,705
Cash and cash equivalents at Beginning of Year	<u>1,576,139</u>
Cash and cash equivalents at End of Year	<u>\$ 2,202,844</u>

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

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

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.

45% 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

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

Fund Accounting

To ensure observance limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund.

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.

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.

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.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

Related Party Receivable

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

Subsequent Events

Subsequent events have been evaluated as of December 18, 2015, 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.

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.

NOTE C - CASH

The Organization currently considers itself an affiliate of People Incorporated of Virginia. A portion of the cash for PIFS is maintained in a consolidated bank account with People. The Organization maintains nine other bank accounts based on funder requirements. As of June 30, 2015, the Organization had \$1,801,854 of cash in excess of FDIC coverage.

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

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

NOTE D – 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. Notes receivable of \$14,364 at June 30, 2015 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, 2014 and no loans are considered past due at June 30, 2015.

Haysi Downtown Loan Fund

Notes receivable of \$106,591 at June 30, 2015 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. Individual loans of \$75,158 made during the year ended June 30, 2015 were funded by Haysi Downtown Loan Fund loan proceeds. No write-offs were taken against these loans during the year ended June 30, 2015 and \$143 of these loans are considered past due at June 30, 2015.

Page/Shenandoah CDBG

Notes receivable of \$33,294 at June 30, 2015 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. Individual loans of \$10,000 made during the year ended June 30, 2015 were funded by Page/Shenandoah CDBG loan proceeds. No write-offs were taken against these loans during the year ended June 30, 2015 and \$143 of these loans are considered past due at June 30, 2015.

Tobacco Indemnification Commission (TICR)

Notes receivable of \$426,510 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%. Write-offs of \$183 were taken against these loans during the year ended June 30, 2015 and no loans are considered past due at June 30, 2015.

U.S. Treasury

Notes receivable of \$592,850 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 \$10,503 were taken against these loans during the year ended June 30, 2015 and \$3,285 of these loans are considered past due at June 30, 2015.

Smyth/Tazewell CDBG

Notes receivable of \$17,696 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, 2015 and no loans are considered past due at June 30, 2015.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

Twin County Microenterprise CDBG

Notes receivable of \$37,904 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, 2015 and \$294 of these loans are considered past due at June 30, 2015.

U.S. Treasury Consumer Loans

Notes receivable of \$12 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%. No write-offs were taken against these loans during the year ended June 30, 2015 and no loans are considered past due at June 30, 2015.

SBA Microloan #4

Notes receivable of \$14,840 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%. Write-offs of \$139 were taken against these loans during the year ended June 30, 2015 and \$215 of these loans are considered past due at June 30, 2015.

SBA Microloan #5

Notes receivable of \$8,265 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, 2015 and \$271 of these loans are considered past due at June 30, 2015.

SBA Microloan #4182935008

Notes receivable of \$398,059 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 \$22,136 were taken against these loans during the year ended June 30, 2015 and \$2,220 of these loans are considered past due at June 30, 2015.

SBA Microloan # 6085855005

The Organization was awarded \$400,000 in SBA microloan funds. Notes receivable of \$129,366 were made during the fiscal year with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Notes receivable of \$116,056 represents money due the program from loans made to small businesses. No write-offs were taken against these loans during the year ended June 30, 2015 and no loans are considered past due at June 30, 2015.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

Virginia Enterprise Initiative

Notes receivable of \$3,057 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, 2015 and no loans are considered past due at June 30, 2015.

Wise/Norton CDBG

Notes receivable of \$26,175 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, 2015 and no loans are considered past due at June 30, 2015.

Bristol Revolving Loan Fund

Notes receivable of \$10,060 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. No write-offs were taken against these loans during the year ended June 30, 2015 and no loans are considered past due at June 30, 2015.

Opportunity Finance Network

Notes receivable of \$11,288 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, 2015 and no loans are considered past due at June 30, 2015.

Rural Microenterprise Assistance Program

Notes receivable of \$60,162 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, 2015 and no loans are considered past due at June 30, 2015.

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 \$34,484 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, 2015 and no loans are considered past due at June 30, 2015.

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

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 \$3,030 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, 2015 and no loans are considered past due at June 30, 2015.

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. New loans of \$120,228 were made during the year with terms of five years and bear interest at 8.25%. Notes receivable of \$99,962 represents money due the program from loans made to consumers. Write-offs of \$4,080 were taken against these loans during the year ended June 30, 2015 and \$390 of these loans are considered past due as of June 30, 2015.

Friends of Southwest Virginia

The Organization made loans to Friends of Southwest Virginia during the year in the amount of \$750,000. The loan is secured by reserve funds held by the Organization for the Heartwood Artisan Center. The loans bear interest at the rate of .25%.

Offices of Community Services

The Organization received grant funding in the amount of \$750,000 to fund the establishment of the Community Action Financial Institute. New loans of \$50,000 were made during the year. The loan bears interest at 0% and is due on December 31, 2029. The loan may be subject to forgiveness on the maturity date if no default events occur during the term of the loan.

People Incorporated Financial Services
 Notes to Financial Statements
 June 30, 2015

An allowance for bad debts has been provided as follows:

FUND	Allowance for Bad Debts
	June 30, 2015
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	16,354
TOTAL	\$ 59,951

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

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, 2015 amounted to \$0.

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

Summary of changes in fixed assets follow:

	Balance			
	June 30, 2014	Additions	Dispositions	
Vehicles	\$ 8,450	-	-	\$ 8,450
Totals	<u>\$ 8,450</u>	<u>-</u>	<u>-</u>	<u>\$ 8,450</u>

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

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, 2015
• 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.	\$	223,102
• Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest beginning at 0.00%. Principal and interest payments began in February 2015.		380,390
• 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.		60,258
• Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest beginning at 0.00%. Principal and interest payments began July 2011.		486,297
• Program loans from community banks in the amount of \$25,000 each from Bank of Tennessee, Green Bank, Citizens Bank and First Tennessee Bank. Also \$20,000 loan from Eastman Credit Union for the revitalization of downtown Bristol. The loans are for a period of 10 years at 0.00% interest with principal repayable at the end of the 10 years. The notes will be renewed if program objectives are met.		115,000
• 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.		3,102
• Program loan from Deutsche Bank. The loan is for a period of 5 years with interest-only payments until maturity. The note bears an interest rate of 2.00%.		150,000
	\$	1,418,149

People Incorporated Financial Services
Notes to Financial Statements
June 30, 2015

Year Ending June 30	Principal
2016	\$ 204,116
2017	204,531
2018	204,952
2019	202,580
2020	147,671
2020-2022	<u>454,299</u>
Total	<u><u>\$ 1,418,149</u></u>

Interest expense incurred on notes payable for 2015 was \$2,949.

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

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

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.

People Incorporated Financial Services
 Abingdon, Virginia
 Statement of Functional Expenses
 For the Year Ended June 30, 2015

SCHEDULE 1

<u>Fund</u>	<u>Expense Classification</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	5,101	2,082	3,588	365	39,002	15,531	\$ 65,669
Bristol Revolving Loan Fund	1,576	690	-	3	-	422	2,691
Small Business Administration	-	-	-	-	-	-	-
Tobacco Indemnification Commission	-	-	-	-	-	6,852	6,852
U.S. Treasury Business Loans	168,054	56,713	-	1,267	5,523	57,675	289,232
SBA Micro Revolving Loans	113,226	38,497	169	2,560	-	438,754	593,206
Virginia Enterprise Initiative	7,788	4,671	-	440	-	7,517	20,416
Warren County CDBG	13,971	3,866	2,389	1,706	-	4,261	26,193
Wise/Norton Napoleon Hill CDBG	-	-	-	-	-	-	-
General & Administrative	56,903	18,388	4,054	6,087	214	67,628	153,274
Total Expenses	\$ 366,619	\$ 124,907	\$ 10,200	\$ 12,428	\$ 44,739	\$ 598,640	\$ 1,157,533

People Incorporated Financial Services
 Abingdon, Virginia
 Schedule of Expenditures of Federal Awards
 For June 30, 2015

SCHEDULE 2

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal Catalog Number</u>	<u>2015 Expenditures</u>
Appalachian Regional Commission:		
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Small Business Development	23.002	<u>28,807</u>
Department Total		<u>28,807</u>
U.S. Small Business Administration:		
Direct Payments:		
Technical Assistance	59.046	<u>191,351</u>
Department Total		<u>191,351</u>
Department of Treasury:		
Direct Payments:		
Community Development Financial	*	21.020
Institutions Program		<u>288,801</u>
		<u>288,801</u>
Grand Total		<u>\$ 508,959</u>

* Denotes Major Program

People Incorporated Financial Services
 Abingdon, Virginia
 Schedule of Findings, Responses and Questioned Costs
 For June 30, 2015

SCHEDULE 3
 Page 1 of 2

I. SUMMARY OF AUDIT RESULTS:

FINANCIAL STATEMENTS

Type of Auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	Yes
Significant deficiency(es) identified?	No
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:

PROGRAM	CATALOG NUMBER	FINDINGS	QUESTIONED COST
CDFI	21.020	None	No

II. FINANCIAL STATEMENT FINDINGS:

MATERIAL WEAKNESS

2015 - 1: Unrecorded Bank Account and Activity

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

Condition: All bank accounts were not included in the book and records of the entity.

Effect: Assets were understated by \$244,210.

Cause: Controls were not followed which insure proper recording of new bank accounts opened by authorized individuals. There was no board approval obtained.

Recommendation: Procedures should be followed to insure that all new bank accounts are properly identified and recorded in the general ledger.

Response: Management has implemented procedures to ensure that all new bank accounts are forwarded to the finance department and included in general ledger based on board approval.