

# People Incorporated Financial Services

Financial Statements

Year Ended June 30, 2023



**WIPFLI**

# People Incorporated Financial Services

Year Ended June 30, 2023

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## Table of Contents

Board of Directors Listing.....	1
Independent Auditor's Report.....	2
Financial Statements	
Statement of Financial Position.....	5
Statement of Activities.....	6
Statement of Functional Expenses.....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9
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 <i>Government Auditing Standards</i> .....	21
Schedule of Audit Findings.....	23

# People Incorporated Financial Services

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## **Independent Auditor's Report**

Board of Directors  
People Incorporated Financial Services  
Abingdon, Virginia

### ***Report on the Audit of the Financial Statements***

#### ***Opinion***

We have audited the accompanying financial statements of People Incorporated Financial Services ("PIFS"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of People Incorporated Financial Services as of June 30, 2023, 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.

#### ***Basis for Opinion***

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 of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PIFS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Adjustments to Prior Period Financial Statements***

The financial statements of People Incorporated Financial Services as of June 30, 2022, were audited by other auditors whose report dated January 11, 2023, expressed an unmodified opinion on those statements. As discussed in Note 11 to the financial statements, People Incorporated Financial Services has adjusted its 2022 financial statements to correct the net assets balance. The other auditors reported on the financial statements before the retrospective adjustments. As part of our audit of the 2023 financial statements, we audited the adjustments to the 2022 financial statements to retroactively apply these changes. In our opinion, such adjustments were appropriate and have been properly applied.

We were not engaged to audit, review or apply any procedures to People Incorporated Financial Services' 2022 financial statements other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements as a whole.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PIFS' ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PIFS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PIFS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2024 on our consideration of PIFS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PIFS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PIFS' internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP  
Madison, Wisconsin

June 13, 2024

# People Incorporated Financial Services

## Statement of Financial Position

*Year Ended June 30, 2023*

**Current Assets:**

Cash and cash equivalents	\$ 1,083,538
Restricted cash	883,467
Grants and accounts receivable, net	560,938
Interest receivable	96,433
Prepaid expenses and other assets	23,478
Notes receivable, current portion, net	990,695

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**Total Current Assets** 3,638,549

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**Long Term Assets:**

Notes receivable, net of allowance and current portion	4,477,799
Related party receivable	2,938,850

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**Total Long Term Assets** 7,416,649

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**Total Assets** \$ 11,055,198

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**Current Liabilities:**

Accounts payable and accrued expenses	\$ 134,869
Compensated absences	38,048
Notes payable, current portion	344,351

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**Total Current Liabilities** 517,268

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Notes payable, net of current portion 2,728,305

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**Total Liabilities** 3,245,573

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**Net Assets:**

Without donor restrictions	2,415,080
With donor restrictions	5,394,545

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**Total Net Assets** 7,809,625

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**Total Liabilities & Net Assets** \$ 11,055,198

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See accompanying notes to financial statements.

# People Incorporated Financial Services

## Statement of Activities

<i>Year Ended June 30, 2023</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue:</b>			
Grants	\$ -	\$ 1,643,806	\$ 1,643,806
New Market Tax Credit revenue	1,141,593	-	1,141,593
Closing fees	77,940	-	77,940
Other	22,775	-	22,775
Interest	204,648	98,394	303,042
Net assets released from restrictions	644,506	(644,506)	-
<b>Total Revenue</b>	<b>2,091,462</b>	<b>1,097,694</b>	<b>3,189,156</b>
<b>Expenses:</b>			
<b>Program Services:</b>			
New Market Tax Credit	1,084,241	-	1,084,241
U.S. Treasury Loans	602,913	-	602,913
SBA Micro Revolving Loans	527,956	-	527,956
<b>Support Services:</b>			
Management and general	633,603	-	633,603
<b>Total Expenses</b>	<b>2,848,713</b>	<b>-</b>	<b>2,848,713</b>
Change in net assets	(757,251)	1,097,694	340,443
Net assets, beginning of year, as previously stated	2,694,760	4,774,422	7,469,182
Prior period adjustment	477,571	(477,571)	-
<b>Net assets, beginning of year, as restated</b>	<b>3,172,331</b>	<b>4,296,851</b>	<b>7,469,182</b>
<b>Net assets, end of year</b>	<b>\$ 2,415,080</b>	<b>\$ 5,394,545</b>	<b>\$ 7,809,625</b>

See accompanying notes to financial statements.



# People Incorporated Financial Services

## Statement of Functional Expenses

<i>Year Ended June 30, 2023</i>	New Market Tax Credit	U.S. Treasury Loans	SBA Micro Revolving Loans	Total Program Services	Management and General	Total Expenses
Salaries and wages	\$ 18,385	\$ 173,788	\$ 215,888	\$ 408,061	\$ 126,539	\$ 534,600
Fringe benefits	10,562	60,281	89,858	160,701	47,591	208,292
Travel	4,957	2,230	3,412	10,599	8,307	18,906
Material and supplies	828	19,126	32,900	52,854	542	53,396
Contractual	114,926	17,291	32,876	165,093	98,524	263,617
Maintenance	1,681	1,804	14,666	18,151	2,923	21,074
Occupancy	3,794	19,689	26,508	49,991	8,245	58,236
Insurance	911	3,734	2,791	7,436	594	8,030
Interest	-	-	13,721	13,721	17,104	30,825
Bad debts	-	272,743	44,085	316,828	286,241	603,069
Sponsor fee	900,000	-	-	900,000	-	900,000
Dues and licenses	4,561	4,921	5,671	15,153	10	15,163
Other	23,636	27,306	45,580	96,522	36,983	133,505
<b>Totals</b>	<b>\$ 1,084,241</b>	<b>\$ 602,913</b>	<b>\$ 527,956</b>	<b>\$ 2,215,110</b>	<b>\$ 633,603</b>	<b>\$ 2,848,713</b>

See accompanying notes to financial statements.

# People Incorporated Financial Services

## Statement of Cash Flows

Year Ended June 30, 2023

Change in cash and cash equivalents and restricted cash:

Cash flows from operating activities:

Change in net assets \$ 340,443

Adjustments to reconcile change in net assets to net cash from operating activities:

Bad debt expense 603,069

Changes in operating assets and liabilities:

Grants and accounts receivable (124,335)

Interest receivable (59,782)

Related party receivable (612,603)

Prepaid expenses and other assets (8,217)

Accounts payable and accrued expenses (55,934)

Compensated absences (11,448)

Net cash from operating activities 71,193

Cash flows from investing activities:

Proceeds from repayment of notes receivable 866,370

Issuance of notes receivable (2,663,628)

Net cash from investing activities (1,797,258)

Cash flows from financing activities:

Proceeds from notes payable 1,300,000

Payments on notes payable (347,981)

Net cash from financing activities 952,019

Net change in cash, cash equivalents, and restricted cash (774,046)

Cash, cash equivalents, and restricted cash at beginning of year 2,741,051

Cash, cash equivalents, and restricted cash at end of year \$ 1,967,005

**Reconciliation of cash, cash equivalents, and restricted cash:**

Cash and cash equivalents \$ 1,083,538

Restricted cash 883,467

Total cash, cash equivalents, and restricted cash \$ 1,967,005

Supplemental schedule of other cash activity:

Interest paid \$ 25,790

See accompanying notes to financial statements.

# People Incorporated Financial Services

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies**

#### **Nature of Activities**

People Incorporated Financial Services ("PIFS") is a Virginia non-profit corporation. PIFS is a certified Community Development Financial Institution whose purpose is to utilize public monies awarded for the good of the community through its programs. Approximately 52% of revenue recognized was from grants.

#### **Basis of Presentation**

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

#### **Classification of Net Assets**

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

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net assets with donor restrictions: Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **Use of Estimates**

The preparation of the accompanying financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### **Cash and Cash Equivalents**

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

#### **Notes Receivable**

PIFS underwrites and processes loan applications, processes funding, and holds and services the loan in the portfolio. Terms and rates vary depending upon the borrower's capital requirements and management's assessment of risk. Allowance for bad debts is based on management's review of portfolio performance. Notes are secured by the borrower's collateral.

# People Incorporated Financial Services

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Notes Receivable** (Continued)

Management has the intent and ability to hold all loans for the foreseeable future or until maturity or pay-off. Management has reported the loans at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for expected loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are recognized as income or expense when received or incurred since capitalization of these fees or costs would not have a significant impact on the financial statements.

At such time when a loan is determined to be past due, the interest-bearing loans can be placed on nonaccrual status. The determination of past due loans for purposes of placing on nonaccrual status is made on a case-by-case basis. Interest accrued, but not collected for loans that are placed on nonaccrual status, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### **Allowance for Bad Debts**

The allowance bad debt is a valuation allowance for probable incurred credit losses based on an evaluation of the outstanding notes receivable and grants and accounts receivable. Bad debts are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are reported as charge-off recovery income on the statement of activities. Management regularly evaluates the allowance for bad debts taking into consideration, such factors as historical loss experience, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

#### **Related Party Receivable**

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

#### **Income Taxes**

PIFS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from Virginia franchise or income tax.

PIFS is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. PIFS has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

# People Incorporated Financial Services

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Revenue and Revenue Recognition**

##### **Grant Revenue**

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identification of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

##### **A. Grant Awards That Are Contributions**

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expense or asset acquisition is incurred. Amounts received in excess of expense or assets acquisition is reflected as a refundable advance.

##### **B. Grant Awards That Are Exchange Transactions**

Exchange transactions are reimbursed based on a predetermined rate for services performed in accordance with the terms of the award. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

# People Incorporated Financial Services

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Contract Revenue

PIFS recognized revenue from exchange transactions from contracts with customers for New Market Tax Credit (NMTC) revenue and closing fees. These are exchange transactions that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition with a focus on the transfer of control of promised goods or services to a customer. PIFS reported the following exchange transaction revenue in its statement of activities for the year ended June 30, 2023:

NMTC	\$ 1,141,593
Closing fees	77,940
<hr/>	
Total	<u>\$ 1,219,533</u>

NMTC revenue and closing fees are recognized upon successful closing of the project and disbursement of loan proceeds to the Qualified Active Low-Income Community Business. PIFS considers the performance obligation to be the successful closing of the project.

PIFS determined at June 30, 2023 that there were no services provided without a contract in place and, therefore, has no expected adjustments to receivables and revenue. There are no receivables from contracts with customers at July 1, 2022 and June 30, 2023.

There are no contract assets or contract liabilities at July 1, 2022 and June 30, 2023.

#### Functional Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Salaries and wages and fringe benefits are allocated based on time and effort. Occupancy and related costs are allocated based on square footage.

#### Upcoming Accounting Pronouncement

The FASB has issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most notes, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2022 and will be effective for PIFS' fiscal year ended June 30, 2024.

# People Incorporated Financial Services

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Subsequent Events

PIFS has evaluated events and transactions for potential recognition or disclosure in the financial statements through June 13, 2024, which is the date the financial statements were available to be issued.

### Note 2: Concentration of Credit Risk

PIFS maintains cash balances at financial institutions where the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. A portion of the cash for PIFS is maintained in a consolidated bank account with People Incorporated of Virginia. PIFS maintains other bank accounts based on fund requirements. At certain times during the year, cash balances may be in excess of FDIC coverage. PIFS has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash. Small Business Administration contracts require PIFS to maintain separate bank accounts.

### Note 3: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of June 30, 2023:

Cash and cash equivalents	\$ 1,083,538
Grants and accounts receivable	560,938
Interest receivable	96,433
Notes receivable, current portion, net	990,695
<hr/>	
Subtotal financial assets	2,731,604
Less: Net assets with donor restrictions included in financial assets	(883,467)
<hr/>	
Total	\$ 1,848,137

PIFS does not have a formal liquidity policy but generally maintains financial assets in liquid form such as cash and cash equivalents. PIFS strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. A significant source of funding for PIFS is through cost reimbursement grants. Under cost reimbursement grants, an organization can request reimbursement from the funding source. In addition, PIFS has grant commitments available for future expenses of approximately \$257,000 as further described in Note 9.

### Note 4: Notes Receivable

PIFS operates programs that provide low- or no-interest deferred or installment loans to assist low-income business owners or businesses to promote economic development for disadvantaged borrowers. The loans have varying terms and security, dependent on the source and circumstance, appropriate to the loan.

# People Incorporated Financial Services

## Notes to Financial Statements

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### Note 4: Notes Receivable (Continued)

Notes receivable at June 30, 2023, consisted of the following:

#### Federation of Appalachian Housing Enterprises

Awarded \$100,000 in loan funds fiscal year 2006-2007 to make home rehabilitation loans to individuals. Notes receivable loaned out 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, 2023, and no loans are considered past due at June 30, 2023.

\$ 426

#### U.S. Treasury

Represents money due the program from loans made to small businesses and consumers throughout 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 \$16,170 were taken against these loans during the year ended June 30, 2023 and \$38,414 of these loans are considered past due at June 30, 2023.

809,493

U.S. Treasury - During the fiscal year, PIFS received a grant to provide loans to businesses and consumers in response to the COVID pandemic. Notes receivable of \$1,404,762 are outstanding at June 30, 2023 with terms ranging from one to ten years and bear interest at rates ranging from 4.50% to 7.50%. Write-offs of \$5,058 were taken against these loans during the year ended June 30, 2023 and \$51,841 of these loans are considered past due at June 30, 2023.

1,404,762

#### Twin County Microenterprise CDBG

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, 2023, and no loans are considered past due at June 30, 2023.

3,094

#### SBA Microloan # 6085855005

Represents money due the program from loans made to small businesses with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. No write-offs were taken against these loans during the year ended June 30, 2023, and \$2,088 of these loans are considered past due at June 30, 2023.

14,186

#### SBA Microloan # 9394915007

Represents money due the program from loans made to small businesses with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$25,927 were taken against these loans during the year ended June 30, 2023, and \$24,981 of these loans are considered past due at June 30, 2023.

423,679

#### SBA Microloan # 3644897002

Represents money due the program from loans made to small businesses with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. No write-offs were taken against these loans during the year ended June 30, 2023, and \$21,051 of these loans are considered past due at June 30, 2023.

636,349



# People Incorporated Financial Services

## Notes to Financial Statements

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### Note 4: Notes Receivable (Continued)

#### SBA Microloan # 6373458209

Represents money due the program from loans made to small businesses with terms ranging from three to six years and bear interest at rates ranging from 6.25% to 8.25%. Write-offs of \$15,571 were taken against these loans during the year ended June 30, 2023, and \$17,981 of these loans are considered past due at June 30, 2023.

\$ 809,178

#### Bristol Revolving Loan Fund

Terms ranging from thirty months to five years and bear interest ranging from 0% to 6.25%; the loans were made to small businesses located in the City of Bristol, Virginia and Bristol, Tennessee. Write-offs of \$10,170 were taken against these loans during the year ended June 30, 2023, and \$8,758 of these loans are considered past due at June 30, 2023.

15,280

#### Rural Microenterprise Assistance Program

Terms ranging from two to six years and bear interest at 6.25%; the loans were made to small businesses throughout PIFS' service areas in Virginia. No write-offs were taken against these loans during the year ended June 30, 2023, and \$1,236 of these loans are considered past due at June 30, 2023.

35,717

#### Deutsche Bank

PIFS was selected by Deutsche Bank to participate in its CDFI Partners Program. PIFS was approved for a loan of up to \$250,000 for use in PIFS' economic development program. Amount represents money due the program from loans made to consumers with terms of five years and bearing interest at 8.25%. Write-offs of \$10,202 were taken against these loans during the year ended June 30, 2023, and \$688 of these loans are considered past due as of June 30, 2023.

688

#### Friends of Southwest Virginia

Represents money due the program from loans made to Friends of Southwest Virginia. The loans are secured by reserve funds held by PIFS for the Heartwood Artisan Center. The loans bear interest at the rate of .25%.

659,795

#### Offices of Community Services

PIFS received grant funding in the amount of \$750,000 to fund the establishment of the Community Action Financial Institute. Amount represents money due the program from a loan made to the Community Action Financial Institute. Note A in the amount of \$450,000 bears interest at .5% and is due on December 31, 2029. Note B in the amount of \$150,000 bears interest at .5% and may be subject to forgiveness on the maturity date if no default events occur during the term of the loan. On August 8, 2019, PIFS accepted a note with another Community Action Agency in exchange for full payoff of Note A. The note with the Community Action Agency bears interest at 1%; all other terms remain the same.

600,000

#### Fauquier County Community Development Block Grant

Terms of five years and bear interest at 6.25%. No write-offs were taken against these loans during the year ended June 30, 2023 and \$13,319 of these loans are considered past due at June 30, 2023.

13,643

# People Incorporated Financial Services

## Notes to Financial Statements

### Note 4: Notes Receivable (Continued)

#### General Loan Pool

Terms of five to ten years and bear interest ranging from 0% to 7.5%. Write-offs of \$47,471 were taken against these loans during the year ended June 30, 2023, and \$90,515 of these loans are considered past due at June 30, 2023.

\$ 429,735

#### Payday Lending Loans

Terms of one to two years and bear interest at 14.95%. Write-offs of \$452 were taken against these loans during the year ended June 30, 2023 and \$310 of these loans are considered past due at June 30, 2023.

310

#### Appalachian Community Capital Fund

PIFS borrowed \$500,000 from Appalachian Community Capital to establish a fund for small businesses in the Appalachian region. Terms of three to six year and bear interest at 7.5%. No write-offs were taken against these loans during the year ended June 30, 2023 and no loans are considered past due at June 30, 2023.

88,232

Subtotal	5,944,567
Allowance for loan losses	(476,073)
Notes receivable, net	5,468,494
Less - current portion	(990,695)
Total	\$ 4,477,799

Detailed analysis of the allowance for loan losses for the year ended June 30, 2023, is as follows:

Balance at beginning	\$ 99,112
Loans charged off	(131,021)
Provision for loan loss	507,982

Balance at end \$ 476,073

#### Allowance for loan losses:

Individually evaluated for impairment	\$ 250,000
Collectively evaluated for impairment	226,073

Total \$ 476,073

Bad debt expense related to grants and accounts receivable was \$95,087 for the year ended June 30, 2023.

# People Incorporated Financial Services

## Notes to Financial Statements

### Note 4: Notes Receivable (Continued)

Detailed analysis of loans evaluated for impairment for the year ended June 30, 2023, is as follows:

Loans:		
Individually evaluated for impairment	\$	250,000
Collectively evaluated for impairment		5,694,567
<b>Total</b>	<b>\$</b>	<b>5,944,567</b>

The following is a summary of information pertaining to impaired and nonperforming loans as of June 30, 2023:

Impaired loans with an allowance for loan loss	\$	250,000
<b>Total impaired loans</b>	<b>\$</b>	<b>250,000</b>
Allowance for loan losses related to impaired loans	\$	250,000
Total nonaccrual loans	\$	-
Average investment in impaired loans	\$	250,000
Interest income recognized on impaired loans	\$	6,232

Information regarding the credit quality indicators most closely monitored as of June 30, 2023, is as follows:

	Performing	Nonperforming	Totals
Notes receivable	\$ 5,393,834	\$ 550,733	\$ 5,944,567

Loan aging information for PIFS for the year ended June 30, 2023, is as follows:

	31-60 days	60-90 days	90+ days	Total past due loans
Notes receivable	\$ 36,972	\$ 31,258	\$ 202,952	\$ 271,182

When, for economic or legal reasons related to the borrower's financial difficulties, PIFS grants concessions to borrowers and a loan modification may be offered. Loan modifications may consist of interest-only payments for a period of time, extending amortization terms, a reduction of the interest rate, and/or forgiveness of interest and/or principal.

There were no modifications of loans classified as troubled debt restructurings during the year ended June 30, 2023.

# People Incorporated Financial Services

## Notes to Financial Statements

### Note 5: Notes Payable

Notes payable obligations are installment loans of PIFS and relate to the following as of June 30, 2023:

Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest with the current rate at 0%. Principal payments began in October 2014.	\$ 3,878
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%. Principal payments began in July 2018.	452,163
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%. Principal payments began in December 2021.	702,325
Program loan from Sachs Family Foundation. The note is for a period of three years with an interest rate of 3.25% and can be used for originating loans in Virginia. Interest only payments begin in September 2023.	500,000
Program loan from Appalachian Community Capital. The loan is for a period of three years with an interest rate of 3.65% and can be used for originating loans to small businesses in the Appalachian Region. Interest only payments began October 2019.	500,000
Microloan Program from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest with the current rate at 0.50%. Principal payments began October 2020.	914,290
<hr/>	
Subtotal	3,072,656
Less: Notes payable, current portion	(344,351)
Notes payable, net of current portion	\$ 2,728,305

Annual requirements to amortize long-term debt are as follows for the years ended June 30:

2024	\$ 344,351
2025	342,684
2026	844,920
2027	346,803
2028	734,076
Thereafter	459,822
<hr/>	
Total	\$ 3,072,656

Interest expense incurred on notes payable for the year ended June 30, 2023 was \$30,825.

# People Incorporated Financial Services

## Notes to Financial Statements

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### Note 6: Net Assets with Donor Restriction

Net assets with donor restrictions of \$5,394,545 are restricted for the lending programs for the year ended June 30, 2023.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors. For the year ended June 30, 2023, \$644,506 was released through satisfaction of program restrictions.

### Note 7: Related Party Transactions

PIFS is an affiliate of People Incorporated of Virginia (PINC). Receivables from PINC consist of administrative and other services paid by PIFS related to the New Market Tax Credit activities.

The fees receivable from PINC and the source of the funds as of June 30, 2023 are as follows:

New Market Tax Credit receivable	\$ 2,938,850
Related party receivable	\$ 2,938,850

### Note 8: Government Funding

PIFS receives a significant portion of their source of funds from federal, state and local government funding. As such, PIFS is subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by a specific funding agency. Such changes may occur with little notice or inadequate funding to pay for related costs, including the additional administrative burden to comply with such changes.

### Note 9: Grant Award Commitments

At June 30, 2023, PIFS had commitments under various grants of approximately \$257,000. These commitments are not recognized in the accompanying financial statements as they are conditional awards.

### Note 10: Restricted Cash

PIFS operates lending programs with funding from the United States Small Business Administration, which requires cash to be maintained in a separate account.

# People Incorporated Financial Services

## Notes to Financial Statements

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### **Note 11: Restatement of Previously Issued Financial Statement [Prior Period Adjustment]**

The financial statements as of and for the year ended June 30, 2022, have been restated to correct an error that was detected during the audit for the year ended June 30, 2023.

PIFS determined that the net assets with donor restrictions balance was not properly recorded to account for the restricted notes receivable balance and related interest on restricted cash. To correct this error, the beginning net assets with donor restrictions as of June 30, 2022, was decreased by \$477,571 and net assets without donor restrictions was increased by the same. There was no effect on the total net assets or change in net assets as a result of the correction.

## **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***

Board of Directors  
People Incorporated Financial Services  
Abingdon, Virginia

We have audited, 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, the financial statements of People Incorporated Financial Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2024.

### **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of People Incorporated Financial Services' internal control. Accordingly, we do not express an opinion on the effectiveness of People Incorporated Financial Services' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is reasonable possibility that a material misstatement of People Incorporated Financial Services' financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control described in the accompanying schedule of audit findings as item 2023-001 that we consider to be a material weakness.

### **Report on 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 financial statements. 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's Response to Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on People Incorporated Financial Services's response to the findings identified in our audit and described in the accompanying schedule of audit findings. People Incorporated Financial Services' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 People Incorporated Financial Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering People Incorporated Financial Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

Madison, Wisconsin

June 13, 2024



# People Incorporated Financial Services

## Schedule of Audit Findings

Year Ended June 30, 2023

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### Section I - Summary of Auditor's Results

#### Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?

Yes  No

### Section II - Financial Statement Findings

#### Finding 2023-001: Classification of Net Assets

**Condition:** As a result of audit procedures, People Incorporated Financial Services determined that the net assets with donor restrictions balance were not properly recorded to account for the restricted notes receivable balance and related interest on restricted cash. As a result, Wipfli LLP proposed a prior period adjustment to correct the net asset balances as of June 30, 2022.

**Criteria:** Internal controls are effective if they are properly designed and implemented to prevent or detect account misstatements prior to the audit.

**Cause:** The internal controls of People Incorporated Financial Services were not effective in preventing or detecting and correcting the misstatements described above prior to the audit.

**Effect:** As a result of the financial reporting matter identified in the condition paragraph, a material weakness exists in People Incorporated Financial Services' internal controls over financial reporting.

**Recommendation:** We recommend People Incorporated Financial Services implement procedures to ensure it is properly accounting for donor restricted net assets.

**View of responsible officials:** Management agrees with the assessment and has committed to a corrective action plan.