

**PEOPLE INCORPORATED OF VIRGINIA
AND AFFILIATES**

CONSOLIDATED ANNUAL FINANCIAL REPORT

June 30, 2015

PEOPLE INCORPORATED OF VIRGINIA AND AFFILIATES

CONSOLIDATED ANNUAL FINANCIALS REPORT

YEAR ENDED JUNE 30, 2015

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PEOPLE INCORPORATED OF VIRGINIA AND AFFILIATES

BOARD OF DIRECTORS, ABINGDON, VIRGINIA

SECTOR I

Abingdon Terrace Apartments

Jean Neal
526 Lowry Drive, Apt. H
Abingdon, VA 24210

Dante Community

Bobbie Gullett
P.O. Box 321
Dante, VA 24237

Deskins Apartments

Larry H. Tiller
P. O. Box 232
Vansant, VA 24656

Head Start Policy Council

Lisa St. Clair
515 New Garden Rd.
Cleveland, VA 24225

Valley Vista Apartments

Naileen Torres Almodivar
139 Valley Vista Dr., Apt 102
Woodstock, VA 22664

Sweetbriar Apartments

Terry P. Mullins
16114 Gilbert Drive
Abingdon, VA 24210

Haysi Community

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

Head Start - Parent

Rebecca Pippin
781 Baugh Lane, NE, Apt 28
Abingdon, VA 24210

Abingdon Green Apartments

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

Section 8 Housing

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

Va Cares

Danny Swartz
36423 Plum Creek Rd.
Glade Spring, VA 24340

White Mill Apartments

Evelyn McCracken
15365 Whites Mill Road
Abingdon, VA 24210

Project Discovery

Kati Statzer
1761 Crossroads
Lebanon, VA 24266

Kings Mountain Supportive
Housing Community

Tommy Burris
1235 West State St., Unit 12
Bristol, VA 24201

Abingdon Village Apartments
Pam Dunn
506 Lowry Drive SW, Apt 12
Abingdon, VA 24210

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

SECTOR II

Bristol City Council
Catherine Brillhart
Mayor
213 Autumn Drive
Bristol, VA 24201

Buchanan County Board of Supervisors
Trey Adkins
P.O. Box 350
Grundy, VA 24614

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

City of Manassas Park
Vacant

Clarke County
Coleen Hillerson
11 Battletown Drive
Berryville, VA 22611

Culpeper County
Cathy M. Zielinski
420 Southridge Parkway, Suite 106
Culpeper, VA 22701

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

Fauquier County
Board of Supervisors
Jan Selbo
320 Hospital Drive
Alice Jane Childs Building
Warrenton, VA 20186

Frederick County Board of Supervisors
Vacant

Page County
Stephanie Lillard
Economic Dev/Tourism Coordinator
103 South Court Street, Suite F
Luray, VA 22835

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

Russell County Board of Supervisors
Vicki Porter
Administrative Manager
P O Box 1208
Lebanon, Virginia 24266

Shenandoah County Board of Supervisors
David Ferguson
489 Cliffside Drive
Edinburg, VA 22824

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

Washington County Board of Supervisors
Phillip McCall
24597 Walden Rd
Abingdon, VA 24210

Prince William County
Board of Supervisors
Vacant

SECTOR III

Lord Fairfax Community College
James “Jim” Kraft
Middletown Campus
173 Skirmisher Lane
Middletown, VA 22645-1745

Prince William
Chamber of Commerce
Vacant

Washington County
Doris C. Shuman
116 Valley Street NW
Abingdon, VA 24210

Fauquier County
Chamber of Commerce
Vacant

Russell County Chamber of Commerce
Vacant

Shenandoah County
Healthy Families
John Ayers
214 Millertown Rd.
Edinburg, VA 22824

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

Emory and Henry College
Early Childhood
Education Specialist
Dr. Janet L. Justice Crickmer
21360 Crosswinds Drive
Abingdon, VA 24211-2400

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

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

Greater PWC Human Services Consortium
ACTS Coalition for Human Services
Prince William
Paul Moessner
12368 Grantley Court
Woodbridge, VA 22192

The Christian Center
Alice D. Meade
28 Major St.
Lebanon, VA 24266

Rappahannock Food Pantry
Vacant

Mauriertown Ruritans
Dennis Morris
1685 Brook Creek Rd.
Toms Brook, VA 22660

Foothills Housing Network
Tony Hooper
87 Dennison Street
Fredericksburg, VA 22406

Culpeper Chamber of
Commerce
Vacant

EXECUTIVE COMMITTEE

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

Chris Shortridge
David McCracken
Alice Meade
Evelyn McCracken
John Ayers
Jan Selbo
Tommy Burris
Tony Carter
Ronald King
Catherine Brillhart
Dennis Morris

Hicok, Fern & Company

Certified Public Accountants

Thomas M. Hicok ,CPA, CVA, MAFF ^{I, IV}•
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David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
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All Accountants Licensed in Virginia with
Additional Licensures Noted:
^I KY; ^{II} NC; ^{III} TN; ^{IV} WV

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of People Incorporated of Virginia and Affiliates as of June 30, 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.

The Schedule on page 35 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued a report, dated October 30, 2015, on our consideration of People Incorporated of Virginia and Affiliates' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering People Incorporated of Virginia and Affiliates' internal control over financial reporting and compliance.


HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

October 30, 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 of Virginia and Affiliates
Abingdon, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of People Incorporated of Virginia and Affiliates (a nonprofit organization), which comprise of the statement of financial position as of June 30, 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 October 30, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 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

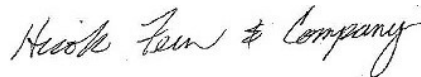
As part of obtaining reasonable assurance about whether People Incorporated of Virginia and Affiliates' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

People Incorporated of Virginia and Affiliates' Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

October 30, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited People Incorporated of Virginia and Affiliates' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of People Incorporated of Virginia and Affiliates' major federal programs for the year ended June 30, 2015. People Incorporated of Virginia and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of People Incorporated of Virginia and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about People Incorporated of Virginia and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of People Incorporated of Virginia and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, People Incorporated of Virginia and Affiliates, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of People Incorporated of Virginia and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered People Incorporated of Virginia and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of People Incorporated of Virginia and Affiliates' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Hicok, Fern & 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
CERTIFIED PUBLIC ACCOUNTANTS

October 30, 2015

	<u>Total</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 2,234,388
Vacation trust account	180,518
Receivables:	
Grants	1,375,339
Clients	150,616
Contracts	954,626
Rents, Interest, and Other (net of allowance of \$8,326)	99,775
Retainage	441,767
Developer Fees	5,056
Related Party	1,302,559
Inventory	61,091
Prepaid expenses	225,433
Other current assets	7,018
Total Current Assets	<u>7,038,186</u>
Long-term Assets:	
Notes receivable (Net of allowance for bad debts of \$59,951)	2,754,708
Notes receivable - related party	4,637,143
Property, plant, & equipment	24,890,490
Accumulated depreciation	<u>(6,645,574)</u>
Total Long-term Assets	<u>25,636,767</u>
Other Assets:	
Deferred Developer Fees	3,001,310
Investments	576,505
Total Other Assets	<u>3,577,815</u>
Total Assets	<u><u>\$ 36,252,768</u></u>

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

	<u>Total</u>
<u>Liabilities & Net Assets</u>	
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 425,657
Accrued expenses	528,354
Deferred revenue	394,748
Retainage Payable	101,482
Refundable deposits	1,292,024
Lines of Credit	433,666
Lease obligations payable - current	42,776
Notes payable - current	402,661
Total Current Liabilities	<u>3,621,368</u>
Long-term Liabilities:	
Compensated absences	1,402,051
Lease obligations payable - net of current	63,163
Notes payable - net of current	3,307,518
Total Long-term Liabilities	<u>4,772,732</u>
Other Liabilities:	
Deferred Developer Fees	<u>3,001,310</u>
Total Other Liabilities	3,001,310
 Total Liabilities	 11,395,410
<u>Net Assets</u>	
Unrestricted	7,391,655
Temporarily restricted	17,465,703
Total Net Assets	<u>24,857,358</u>
 Total Liabilities & Net Assets	 <u>\$ 36,252,768</u>

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

People Incorporated of Virginia and Affiliates
Abingdon, Virginia
Statement of Consolidated Activities
For the Year Ended June 30, 2015

EXHIBIT 2

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Grants	\$ 1,167,353	\$ 10,043,099	\$ 11,210,452
Other	5,587,940	-	5,587,940
Interest	96,297	103,277	199,574
Contributions	13,025	6,320	19,345
In-Kind	281,100	-	281,100
Net assets released from restrictions:			
Satisfaction of program restrictions	9,932,510	(9,932,510)	-
Total Revenues	17,078,225	220,186	17,298,411
Expenses:			
Program Services:			
Community Services	1,216,564	-	1,216,564
Community Development	134,350	-	134,350
Community Economic Development	1,111,298	-	1,111,298
Children & Family Services	4,610,947	-	4,610,947
Housing	5,329,332	-	5,329,332
Workforce Development	1,898,814	-	1,898,814
Support Services:			-
General & Administrative	1,536,578	-	1,536,578
Fundraising	452,856	-	452,856
Total Expenses	16,290,739	-	16,290,739
Change in Net Assets	787,486	220,186	1,007,672
Net Assets At Beginning of Year	6,604,169	17,245,517	23,849,686
Net Assets At End of Year	\$ 7,391,655	\$ 17,465,703	\$ 24,857,358

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

People Incorporated of Virginia and Affiliates
Abingdon, Virginia
Statement of Consolidated Cash Flows
For the Year Ended June 30, 2015

EXHIBIT 3

	<u>Total</u>
Operating Activities:	
Change in net assets	\$ 1,007,672
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
(Gain) loss on sale of fixed assets	(5,390)
Depreciation	924,228
Allowance for bad debt	19,435
Net change in:	
Receivables	434,839
Other assets	(262,041)
Inventory	7,263
Prepaid expense	154,124
Accounts payable	(359,984)
Accrued expenses & other payables	(186,681)
Other Liabilities	251,906
Net Cash Provided By Operating Activities	<u>1,985,371</u>
Investment Activities:	
Purchase of property, plant & equipment	(542,834)
Proceeds from disposition of property, plant & equipment	5,390
Investment in partnerships	247
Loans to businesses and consumers	(2,832,182)
Principal repayment on business and consumer loans	1,431,357
Net Cash Used In Investing Activities	<u>(1,938,022)</u>
Financing Activities:	
Proceeds from long-term debt	788,566
Principal payments made on long-term debt	(606,013)
Net Cash Provided By Financing Activities	<u>182,553</u>
Increase In Cash	229,902
Cash and cash equivalents at Beginning of Year	<u>2,185,004</u>
Cash and cash equivalents at End of Year	<u><u>\$ 2,414,906</u></u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

During the fiscal year ended June 30, 2015, People Incorporated of Virginia received 65% of its total revenue from federal, state, and local government sources.

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

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

Basis of Presentation

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

Principles of Consolidation

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

Classification of Net Assets

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

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

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

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

Donated Services and Materials

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

Cash and Cash Equivalents

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

Inventories

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

Receivables

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

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

Contract and Retainage receivables consist of amounts billed under LIHTC rehabilitation projects; the Organization acts as the General Contractor and Developer for the projects. Contract and retainage receivables are recognized as progress billings are submitted to the project owner. Management has assessed the collectability of these receivables and deemed all accounts to be fully collectible; therefore, an allowance has not been recorded.

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

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

Other Current Assets

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

Notes Receivable

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

Related Party Notes Receivable

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

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Property and Equipment

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

Investments

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

Deferred Developer Fees

The Organization has entered into development agreements with sixteen LIHTC projects. The agreements provide for development fees for services in connection with the rehabilitation of the LIHTC projects. At June 30, 2015, the Organization had successfully completed sixteen LIHTC projects, with two projects at the permanent financing stage. The Organization recognizes a portion of the developer fees at the close of the construction period. The remainder of the developer fee is deferred and recognized as the LIHTC project pays the deferred fees over the life of the project.

Income Taxes

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

Indirect Cost Rate

In accordance with the provisions of Circular A-122 of the U.S. Office of Management and Budget, the Organization charges an indirect cost rate of 11.3% on grants and contracts with the Federal Government. This rate was established per an agreement with the Department of Health and Human Services.

Subsequent Events

Subsequent events have been evaluated as of October 30, 2015, which is the date the financial statements were issued.

Recent Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update 2014-01, Investments – Equity Method and Joint Ventures, Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01). ASU 2014-01 provides guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that

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qualify for the low-income housing tax credit. The update permits an election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Organization does not meet the criteria set forth in the update; therefore, this update will not impact the Organization. The Organization will comply with the disclosure requirements under ASU 2014-01 in its financial statements beginning July 1, 2015.

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 goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14 that defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual periods beginning after December 15, 2018. The Organization will implement this update for its year ended June 30, 2020 financial statements; the update is not expected to have a significant impact on the Organization's financial statements.

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation. ASU 2015-02 clarifies the requirements to consolidate certain legal entities. ASU 2015-02 is effective for fiscal years beginning after December 15, 2016; the update is not expected to have a significant impact on the Organization's financial statements.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Inventory. ASU 2015-11 replaces the lower of cost or market test for subsequent measurements of inventory with a lower of cost or net realizable value test; the ASU applies only to inventories accounted for using the FIFO method. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016; the update is not expected to have a significant impact on the Organization's financial statements.

NOTE 2 – CASH

Cash for the Organization is maintained in five separate banks. Some of the banks have secured the Organization's deposits in excess of FDIC coverage. The amount in excess of FDIC coverage at June 30, 2015 is \$1,826,827.

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

The vacation trust account is maintained in a financial institution trust account for the purpose of funding the compensated absences for the Head Start program. This account is not subject to FDIC coverage.

NOTE 3 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

During the year ended June 30, 2015, the Organization operated under agreements to act as the General Contractor for two LIHTC projects. As of June 30, 2015, no projects remain uncompleted.

NOTE 4 – NOTES RECEIVABLE

Federation of Appalachian Housing Enterprises

The Organization was awarded \$100,000 in loan funds fiscal year 2006-2007 to make home rehabilitation loans to individuals. 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.

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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.

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.

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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.

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.

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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.

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. Notes receivable of \$3,030 represents money due the program from loans made. 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.

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NOTE 5 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

An allowance for bad debts has been provided as follows:

	Allowance for Bad Debts	
	June 30, 2015	
Notes Receivable	\$	59,951
Receivables - Rents, Interest, and Other		8,326
TOTAL	\$	68,277

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

The Organization is owed \$1,302,559 from related party Low-Income Housing Tax Credit entities for management fees and operating expenses. Management has evaluated the collectability of these receivables and has determined that an allowance against these receivables is not necessary.

NOTE 6 – NOTES RECEIVABLE – RELATED PARTY

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

Abingdon Green, LLC

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

Abingdon Terrace, LLC

Note receivable of \$279,638, bearing no interest and due upon the earlier of 30 years, conveyance of the property, or refinancing of the property.

Buchanan County Housing, LLC

Note receivable of \$699,212, bearing interest at 6% and due upon the sale or conveyance of the property. Interest income of \$40,138 was recognized on the note during the year.

Clinch View Manor Apartments, LLC

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

Dante Crossings Apartments, LLC

Note receivable of \$362,251, bearing interest at 4.21% and due upon the sale or conveyance of the property. Interest income of \$14,575 was recognized on the note during the year.

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Jonesville Manor, LLC

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

Norton Green, LLC

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

Pulaski Village, LLC

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

Rock School Management, LLC

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

Spruce Hill Apartments, LLC

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

Toms Brook School Apartments, LLC

Notes receivable of \$889,323, bearing no interest and due upon the earlier of 30 years, conveyance of the property, or refinancing of the property.

Valley Vista, LLC

Note receivable of \$136,338, bearing interest at 2% and due upon the earlier of 30 years, conveyance of the property, or refinancing of the property. Note receivable of \$467,500, bearing no interest and due upon the earlier of October 30, 2039 or the sale of the property. Interest income of \$2,686 was recognized on the note during the year.

West Lance, LLC

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

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NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment purchased is stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method. Depreciation for the period ending June 30, 2015 amounted to \$924,228.

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

Summary of changes in fixed assets follows:

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Land	\$ 1,360,586	-	-	\$ 1,360,586
Real Property	20,115,151	11,820	-	20,126,971
Equipment	512,063	157,669	-	669,732
Vehicles	2,439,731	29,175	(79,874)	2,389,032
Construction in Process	-	344,169	-	344,169
Totals	<u>\$ 24,427,531</u>	<u>542,833</u>	<u>(79,874)</u>	<u>\$ 24,890,490</u>

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

The Organization acquired \$17,810 in property & equipment through federal grants for the year ending June 30, 2015.

NOTE 8 – DEFERRED DEVELOPER FEES

The Organization entered into agreements with related party LIHTC entities to act as developer for certain LIHTC projects. The agreements allow for a portion of the developer fee to be paid upon substantial completion of the projects and a portion to be deferred over the life of the tax credits. During the year ended June 30, 2015, the Organization recognized \$123,712 in developer fee revenue and deferred \$477,944 in developer fees related to projects completed during the year. Deferred developer fees at June 30, 2015 is \$3,001,310.

NOTE 9 – INVESTMENTS

The Organization holds ownership interests in sixteen LIHTC LLCs and eleven NMTC LLCs. Losses from the LIHTC entities were \$127 for the year ended June 30, 2015 and capital contributions totaled \$0. Losses from the NMTC entities were \$16 and return of capital was \$33.

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Investments in other companies as of June 30, 2015 consisted of the following:

Abingdon Green LLC	\$ 48,756
Abingdon Terrace LLC	(3)
Abingdon Village Apartments LLC	(4)
Buchanan County Housing LP	(149)
Clinch View Manor Apartments LLC	(7)
Dante Crossings Apartments Management, Inc.	149,962
Jonesville Manor LLC	(32)
Norton Green LLC	(33)
Pulaski Village LLC	(50)
Rock School Management, Inc.	143,075
Spruce Hill Apartments LLC	(8)
Sweetbriar Apartment Management, Inc.	50,952
Toms Brook School Apartments LLC	(25)
Valley Vista Apartments LLC	(55)
West Lance Apartments LLC	(6)
Mill Point Apartments, Inc.	177,926
Rural New Markets Fund, LLC	884
Appalachian Markets Capital Investment Fund, LLC	(20)
PIFS Sub-CDE IV, LLC	701
PIFS Sub-CDE V, LLC	552
PIFS Sub-CDE VI, LLC	704
PIFS Sub-CDE VII, LLC	449
PIFS Sub-CDE VIII, LLC	300
PIFS Sub-CDE IX, LLC	551
PIFS Sub-CDE X	515
PIFS Sub-CDE XII	670
PIFS Sub-CDE XI	900
	\$ 576,505

NOTE 10 – CONTINGENT LIABILITIES

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

As of the statement of financial position date, the Organization is contingent on two loans held by Rural Development for the purpose of purchasing a building in Abingdon and a building in

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Clintwood. The Organization is required to set aside reserves in the amount of \$46,308 for the Abingdon building and \$14,016 for the Clintwood building in case of default. As of June 30, 2015, neither loan is in default and a total of \$63,485 in reserves has been set aside for both locations.

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

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

NOTE 11 – COMPENSATED ABSENCES AND SEVERANCE PAY

Employees of the Organization are entitled to paid vacation, depending on length of service and other factors. The liability for compensated absences at June 30, 2015 was \$716,882.

The Organization has a severance agreement with a key employee. The agreement grants the employee severance pay based on the number of months of service to the Organization and is paid at the compensation rate in effect at the time of termination. The liability for severance pay at June 30, 2015 was \$685,169.

NOTE 12 – NOTES PAYABLE OBLIGATIONS

Notes payable obligations consist of the following:

	<u>Principal Balance as of June 30, 2015</u>
Purchase of an office building and land in Lebanon, VA. There are two notes, each with a 10-year amortization. The notes were refinanced in 2010 at 6.0% with monthly payments of \$1,980.	\$ 105,931
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 with the current rate at 0%. Principal payments began in February 2015.	380,390
Financing of an office building in Bristol, VA. The note matures August 2020 with interest. The interest rate is 1% with payments of \$4,489 per month.	271,123
Financing of an office building in Grundy, VA. The note has a 20-year amortization with interest payable at the 5 year Treasury rate plus 2.45%. Principal and interest payments began in April 2006. The note was refinanced in April 2011.	423,475

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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
Purchase of an office building in Woodstock, VA. Note is in the amount of \$365,796 to be used for purchase and renovation. Term of note is 20 years with a 5 year balloon. Interest only payments accumulating at 6.00% for the first 12 months; monthly payments thereafter will be \$3,096.		334,911
Purchase of an office building and land in Clintwood, VA. The note has a 10-year amortization with interest payable at 3.95%. Principal and interest payments of \$717 began in March 2015.		69,079
Purchase of Benham's Head Start Center building in Bristol, VA. The note is being amortized over a 15-year period at 6.00% interest		80,940
Microloan Program loan from the U.S. Small Business Administration. The note has a 10-year amortization with varying interest beginning at 0%. Principal and interest payments began July 2011.		486,297
Purchase and renovation of office building in Abingdon, VA. The note has a 30-year amortization with interest payable at 4.00%.		776,281
Purchase of 2011 Ford Ranger. Note is for a period of 5 years with a 0% interest rate. Payments began in February 2011.		1,830
Purchase of (4) 2010 Toyota Corollas. Notes are for a period of 5 years with a 0% interest rate. Principal payments began in February 2011.		8,746
Program loans from community banks in the amount of \$25,000 each from Bank of Tennessee, Green Bank, Citizens Bank, First Tennessee Bank and Eastman Credit Union for the revitalization of downtown Bristol. The loans are for a period of 10 years at 0% interest with principal repayable at the end of the 10 years. The notes will be renewed if program objectives are met.		115,000

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Program loan from Federation of Appalachian Housing Enterprises. The loan is due in three equal installments on July 1, 2014, July 1, 2015, and July 1, 2016. The note bears an interest rate of 3% and is secured by a deed of trust. \$ 66,544

Purchase of (3) 2013 Nissan Rogues. Notes are for a period of 5 years with a 0% interest rate. Principal payments began in February 2014. 49,896

Program loan from Federation of Appalachian Housing Enterprises. The loan is for a period of three years with payments of \$573 per month. The note bears an interest rate of 5.25% and is secured by real property. 78,963

Program loan from Deutsche Bank. The loan is for a period of five years with interest-only payments until maturity. The note bear an interest rate of 2%. 150,000

Purchase of Ford F150. Note is for a period of 5 years with a 0% interest rate. Principal payments began September 2014. 24,313

TOTAL \$ 3,710,181

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

Year Ending June 30	Principal
2016	\$ 402,661
2017	491,919
2018	408,692
2019	391,065
2020	328,117
2021 and beyond	1,687,727
Total	\$ 3,710,181

The Organization has a line of credit with First Bank & Trust with maximum borrowings of \$250,000, of which \$224,905 was outstanding at June 30, 2015. Advances on the line of credit carry a rate of 5.25%. The credit line is secured by a deed of trust.

The Organization has a line of credit with Federation of Appalachian Housing Enterprises with maximum borrowings of \$325,000, of which \$208,761 was outstanding at June 30, 2015. Advances on the line of credit carry a rate of 5.25%. The credit line is secured by undeveloped land.

Interest expense incurred on notes payable and lines of credit for 2015 was \$139,202.

NOTE 13 – CAPITAL LEASE OBLIGATIONS

The Organization leases certain computer equipment under leases classified as capital leases. The leased equipment is amortized on a straight-line basis over three years. The following is a schedule showing the future minimum lease payments under capital leases by years.

Year Ending June 30	Principal
2016	\$ 42,776
2017	43,945
2018	19,218
Total	<u>\$ 105,939</u>

NOTE 14 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	Amount
Business loans and related expenditures	\$ 2,240,572
Time or purpose restricted for period after June 30, 2015	<u>15,225,131</u>
TOTAL	<u>\$ 17,465,703</u>

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

People Incorporated of Virginia and Affiliates
Notes to Consolidated Financial Statements
June 30, 2015

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

NOTE 16 – IN-KIND

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

	Head Start	Homeless Programs	Economic Development	Project Discovery	Domestic Violence
Jul-14	\$ 19,630	\$ 791	\$ -	\$ -	\$ 2,348
Aug-14	10,344	1,398	-	-	2,012
Sep-14	18,083	4,038	-	2,125	3,348
Oct-14	11,101	6,102	-	2,130	3,972
Nov-14	32,068	10,252	400	2,025	800
Dec-14	24,702	9,007	-	2,034	800
Jan-15	10,868	7,364	-	1,920	2,720
Feb-15	18,579	888	-	1,920	2,670
Mar-15	10,463	1,985	800	1,973	5,498
Apr-15	10,791	1,674	400	2,920	800
May-15	10,966	361	400	1,920	800
Jun-15	10,190	-	-	1,920	800
	<u>\$ 187,785</u>	<u>\$ 43,860</u>	<u>\$ 2,000</u>	<u>\$ 20,887</u>	<u>\$ 26,568</u>

NOTE 17 – LEASE OBLIGATIONS

On December 1, 2014, the Organization entered into a one year lease for the Head Start program with the Hayters Gap Community Center of Washington County, Virginia. The lease relates to real property located at the Hayters Gap Elementary School in Washington County, Virginia. The lease can be terminated by either party with sixty days written notice.

On December 1, 2014, the Organization entered into a one year lease for the Head Start program with Russell County, Virginia. The lease relates to real property located at Route 80, Russell County, Virginia in the Swords Creek Community Center. The lease can be terminated by either party with ninety days written notice.

On September 1, 2014, the Organization entered into a one year lease for the Head Start program with Russell County, Virginia. The lease relates to real property located in the Givens Elementary School in Russell County, Virginia. The lease is subject to annual renewal.

On December 1, 2014, the Organization entered into a one year lease for the Head Start program with Cumberland Plateau Housing Authority. The lease relates to real property located in the Fox Meadows community. The lease can be terminated by either party with ninety days written notice.

On August 11, 2014, the Organization entered into an eleven month lease for the Head Start program with Damascus Presbyterian Church. The lease relates to real property located in Damascus, Virginia. The lease can be terminated by either party with sixty days written notice.

On October 11, 2012, the Organization entered into a two year lease for office space in Gainesville, Virginia. The lease renewed for an additional one year term on October 1, 2014.

NOTE 18 – USDA REIMBURSEMENTS

The Organization's Head Start and day care programs receive reimbursements from the United States Department of Agriculture for meals served to children. Reimbursements received for Head Start and the day care centers for the year ended June 30, 2015 are:

Head Start/Early Head Start	<u>\$ 185,872</u>
Day Care Centers	<u>\$ 19,041</u>

NOTE 19 – REFUNDABLE DEPOSITS

The Organization holds a deposit from the Southwest Virginia Cultural Heritage Commission in the amount of \$1,283,200. This deposit is being held as a reserve fund to be used for all major repairs and extraordinary maintenance fees related to the Heartwood Artisan Center. Interest earned on these funds are offset against the interest earned on the note receivable from Friends of Southwest Virginia; the remainder is due to the Commission. Interest earned on the reserve funds during FY15 was \$3,227.

NOTE 20 – CONTRIBUTED ASSET

The Organization entered into an agreement with the Southwest Virginia Cultural Heritage Commission (“the Commission”) to oversee the construction of the Heartwood Artisan Center in Abingdon, Virginia. Upon completion of construction in July 2011, the Organization assumed complete ownership of the building and its improvements. The Organization has a 30-year lease from the Commission on the 8-acre tract of land on which the building is situated and has a lease to the Commission for the building with the same 30-year term. The depreciated value of the building at June 30, 2015 was \$11,197,311.

NOTE 21 – RELATED PARTIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

People Incorporated of Virginia and Affiliates
Notes to Consolidated Financial Statements
June 30, 2015

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

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

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

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

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

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

NOTE 22 – SUBSEQUENT EVENTS

Effective July 1, 2015, the Organization adopted a 403(b) plan which covers substantially all of the Organization's employees. The plan requires the Organization to make a non-matching contribution equal to 1% of each eligible employee's compensation.

<u>Fund</u>	<u>Expense Classification</u>									
	<u>Salaries & Wages</u>	<u>Fringe Benefits</u>	<u>Travel</u>	<u>Equipment Expense</u>	<u>Material & Supplies</u>	<u>Contractual</u>	<u>Others</u>	<u>Depreciation</u>	<u>In-Kind</u>	<u>Totals</u>
Community Services	\$ 611,378	\$ 216,036	\$ 40,863	\$ 1,942	\$ 50,662	\$ 10,840	\$ 237,388	\$ -	\$ 47,455	\$ 1,216,564
Community Development	16,157	5,858	215	4,981	2,652	39,002	65,485	-	-	\$ 134,350
Community Economic Development	362,716	123,206	10,243	3,145	16,390	7,372	586,226	-	2,000	\$ 1,111,298
Children & Family Services	2,099,573	946,108	38,487	8,861	389,933	21,966	918,234	-	187,785	\$ 4,610,947
Housing	829,024	355,171	39,849	9,991	294,901	2,542,425	1,214,111	-	43,860	\$ 5,329,332
Workforce Development	485,865	157,165	32,171	1,053	39,745	312,472	870,343	-	-	\$ 1,898,814
General & Administration	871,343	185,717	59,998	29,785	43,908	349,536	(927,937)	924,228	-	\$ 1,536,578
Fundraising	283,709	87,138	-	4,767	5,908	26,770	44,564	-	-	\$ 452,856
Total Expenses	<u>\$ 5,559,765</u>	<u>\$ 2,076,399</u>	<u>\$ 221,826</u>	<u>\$ 64,525</u>	<u>\$ 844,099</u>	<u>\$ 3,310,383</u>	<u>\$ 3,008,414</u>	<u>\$ 924,228</u>	<u>\$ 281,100</u>	<u>\$ 16,290,739</u>

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
Department of Health and Human Services:		
Direct Payments:		
Head Start	93.600 *	\$ 3,982,393
Community Economic Development	93.570	50,214
Healthy Tomorrows	93.110	66,499
Pass Through Payments:		
Virginia Department of Social Services:		
CSBG	93.569 *	1,110,950
CSBG TANF	93.558	111,600
LIHEAP	93.568 *	399,836
Victims of Crime	16.575	54,890
Domestic Violence	93.592	171,960
Department of Health:		
Maternal, Infant & Early Childhood Home	93.505	212,263
Department Total		<u>6,160,605</u>
Department of Energy:		
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Weatherization	81.042 *	142,382
Department Total		<u>142,382</u>
Appalachian Regional Commission:		
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Small Business Development	23.002	28,807
Department Total		<u>28,807</u>
Department of Housing and Urban Development:		
Direct Payments:		
Section 8	14.871 *	307,184
HUD Counseling	14.169	42,000
Permanent Supportive Housing	14.235	45,874

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
Pass Through Payments:		
VA. Department of Housing and Community Development:		
Homeless Solutions	14.231	226,443
HOME Partnership	14.239	45,137
Department Total		<u>666,638</u>
Department of Labor:		
Pass Through Payments		
New River/Mt Rogers Workforce Investment Board		
WIA Adult Program	17.258	424,741
WIA Youth Program	17.259	492,261
Dislocated Worker On-the-Job Training	17.260	21,323
Dislocated Worker/One Stop Operator	17.260	627,465
Southwest VA Workforce Investment Board		
WIA Youth Program	17.259	325,026
Department Total		<u>1,890,816</u>
Department of Agriculture		
Direct Payments:		
Child and Adult Care Food Program	10.558	199,188
Department Total		<u>199,188</u>
U.S. Small Business Administration:		
Direct Payments:		
Technical Assistance	59.046	191,351
Department Total		<u>191,351</u>
Department of Justice:		
Pass Through Payments		
Domestic Violence Program	16.588	14,225
Court Appointed Advocate	16.756	29,200
Sexual Assault Program	16.575	29,660
Sexual Assault Services Formula Program	16.017	13,383
Department Total		<u>86,468</u>

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
Department of Treasury:		
Direct Payments:		
Community Development Financial Institutions Program	21.020	288,801
Volunteer Income Tax Assistance	21.009	13,000
Pass Through Payments		
National Foreclosure Mitigation	21.000	7,125
Department Total		<u>308,926</u>
Department of Veterans Affairs:		
Direct Payments:		
Supportive Services for Veterans Families	64.033	168,644
Department Total		<u>168,644</u>
Grand Total		<u>\$ 9,843,825</u>

* Denotes Major Program

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
Head Start	93.600	None	No
Section 8 Rental Assistance	14.871	None	No
Community Services Block Grant	93.569	None	No
LIHEAP	93.568	None	No
Weatherization	81.042	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.

People Incorporated of Virginia and Affiliates
Abingdon, Virginia
Head Start Grant
Revenue and Expenses Detail
For the Year Ended June 30, 2015

SCHEDULE 4

7/01/2014 through
6/30/2015

Revenue

Grant	\$ 3,969,397
Grantee's in-kind	187,785
Total Revenue	<u>4,157,182</u>

Expenses

Federal Expenses:

HHS share:

Head Start training tech-assistance	<u>53,762</u>
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Total	<u>53,762</u>
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Head Start

Personnel salary	1,329,873
Personnel fringe benefits	587,542
Travel	39,849
Supplies	389,933
Others	<u>418,590</u>

Total	<u>2,765,787</u>
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Early Head Start

Personnel salary and fringes	680,945
Supplies and other	<u>215,937</u>

Total	<u>896,882</u>
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Food Services

Personnel salary	141,879
Personnel fringe benefits	89,505
Other	<u>21,582</u>

Total	<u>252,966</u>
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Total In-Kind Expenses	<u>187,785</u>
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Total Expenses	<u>4,157,182</u>
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Excess (deficiency) of revenue over expenses	<u><u>\$ -</u></u>
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