

OPPORTUNITY VILLAGE ARC

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

HRC

OPPORTUNITY VILLAGE ARC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Opportunity Village ARC
Las Vegas, Nevada

We have audited the accompanying financial statements of Opportunity Village Association for Retarded Citizens (a nonprofit organization) ("Opportunity Village ARC"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Opportunity Village ARC as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Opportunity Village ARC's 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it was derived.

Houldsworth, Russo & Company, P.C.

Las Vegas, Nevada
February 4, 2021

The logo for HRC (Houldsworth, Russo & Company) is a dark blue square with a white border. The letters "HRC" are written in white, bold, sans-serif font inside the square.

HRC

OPPORTUNITY VILLAGE ARC**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,732,287	\$ 2,269,122
Cash and cash equivalents, restricted	102,827	194,059
Investments	328,464	392,369
Accounts receivable, net of allowance	2,392,019	3,481,398
Employee receivable, current	3,579	924
Unconditional promises to give, current	75,166	75,166
Inventory	353,864	252,646
Prepaid expenses and other	346,077	217,931
	<u>6,334,283</u>	<u>6,883,615</u>
Property and equipment:		
Land	1,671,898	1,671,898
Buildings and improvements	37,614,929	37,466,881
Furniture, fixtures and equipment	9,669,796	9,464,185
Vehicles	1,396,455	1,430,665
Construction in progress	2,363	43,452
Accumulated depreciation	<u>(27,703,746)</u>	<u>(25,874,145)</u>
	22,651,695	24,202,936
Other noncurrent assets:		
Deposits and other	35,161	32,331
Employee receivable, long-term	-	2,000
Unconditional promises to give, net	2,017,134	2,021,681
Down payment assistance receivable	153,432	153,432
	<u>2,205,727</u>	<u>2,209,444</u>
Total assets	<u><u>\$ 31,191,705</u></u>	<u><u>\$ 33,295,995</u></u>

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

**STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2020 AND 2019**

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	591,722	\$	595,393
Accrued expenses		1,395,019		1,148,781
Deferred income		119,448		1,352,354
Current portion of capital lease obligations		107,210		104,508
		<u>2,213,399</u>		<u>3,201,036</u>

Long-term liabilities:

Deferred compensation		371,773		413,565
Capital lease obligations		329,808		437,447
Deposits		6,000		6,000
Paycheck Protection Program loan		5,583,900		-
		<u>6,291,481</u>		<u>857,012</u>
		<u>8,504,880</u>		<u>4,058,048</u>

Net assets:

Without donor restriction		19,047,253		25,369,262
With donor restriction		3,639,572		3,868,685
		<u>22,686,825</u>		<u>29,237,947</u>

Total liabilities and net assets

	\$	<u>31,191,705</u>	\$	<u>33,295,995</u>
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OPPORTUNITY VILLAGE ARC**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Net Assets without donor restrictions		
Revenues, gains and support:		
Government support for services	\$ 9,291,784	\$ 10,732,916
Contributions	987,899	1,118,584
Service contracts	7,335,734	8,493,928
Thrift store sales, net	1,526,563	1,649,344
General contract sales	6,201,759	6,198,906
Vehicle sales, net of selling fees	14,418	2,779
Rental income	50,160	68,852
Other	17,752	17,691
Gain on disposal of assets	1,518	22,624
Grants from Opportunity Village Foundation	1,619,036	2,337,513
Release of restrictions	245,772	137,752
Total revenues, gains and support	<u>27,292,395</u>	<u>30,780,889</u>
Expenses and losses:		
Program services:		
Service contracts	8,459,411	8,690,972
Thrift store	2,121,459	2,062,256
Work-training and adult development	17,921,549	16,721,046
Support services:		
Management and general	5,111,985	5,105,656
	<u>33,614,404</u>	<u>32,579,930</u>
Bad debt loss	-	42,115
Total expenses and losses	<u>33,614,404</u>	<u>32,622,045</u>
Change in net assets without donor restrictions	<u>(6,322,009)</u>	<u>(1,841,156)</u>
Net assets with donor restrictions		
Contributions	16,659	36,894
Release of restrictions	(245,772)	(137,752)
Change in net assets with donor restrictions	<u>(229,113)</u>	<u>(100,858)</u>
Decrease in net assets	(6,551,122)	(1,942,014)
Net assets, beginning of year	29,237,947	31,179,961
Net assets, end of year	<u>\$ 22,686,825</u>	<u>\$ 29,237,947</u>

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Program Services				Support	Total 2020	Total 2019
	Service Contracts	Thrift Store	Work-training and Adult Development	Total Program Services	Management and General		
Salaries, taxes and benefits	\$ 4,514,589	\$ 1,087,133	\$ 12,036,485	\$ 17,638,207	\$ 3,625,093	\$ 21,263,300	\$ 19,235,729
Payments to clients	2,937,988	249,990	1,206,092	4,394,070	20,941	4,415,011	4,686,205
Depreciation and amortization	25,233	47,988	1,620,935	1,694,156	159,571	1,853,727	1,980,593
Subcontracts and consulting	324,055	36,293	537,271	897,619	181,781	1,079,400	1,419,521
Utilities and telephone	131,887	113,806	632,498	878,191	117,727	995,918	1,041,772
Supplies, training, and development	306,366	22,437	419,161	747,964	140,707	888,671	939,116
Rent	-	189,029	351,289	540,318	228,476	768,794	740,437
Repairs and maintenance	19,151	70,553	236,883	326,587	105,555	432,142	608,785
Contract services, freight, and transportation	71,947	208,585	652,422	932,954	22,705	955,659	880,913
Professional fees	-	-	2,201	2,201	114,905	117,106	76,674
Bank fees and interest	84	43,781	23,070	66,935	16,758	83,693	92,621
Insurance	86,127	21,109	86,870	194,106	36,562	230,668	210,345
Advertising	521	3,849	1,440	5,810	716	6,526	22,818
Recruitment	14,140	3,488	35,423	53,051	19,330	72,381	109,567
Conferences, travel and meals	2,288	674	5,947	8,909	66,429	75,338	133,673
Dues and subscriptions	8,966	8,244	31,554	48,764	228,257	277,021	234,771
Uniforms	15,667	-	10,949	26,616	9,135	35,751	42,950
Customer relations	280	-	14,082	14,362	11,920	26,282	57,635
Postage	122	14,500	16,977	31,599	5,417	37,016	65,805
Total expenses	\$ 8,459,411	\$ 2,121,459	\$ 17,921,549	\$ 28,502,419	\$ 5,111,985	\$ 33,614,404	\$ 32,579,930

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Cash flow from operating activities:		
Change in net assets	\$ (6,551,122)	\$ (1,942,014)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization expense	1,853,727	1,980,593
(Gain)/loss on disposal of assets	(1,518)	(22,624)
Noncash grants from Opportunity Village Foundation	(1,164,682)	(1,646,396)
Bad debt expense	-	33,283
Unrealized (gain) loss on investments	63,905	97,458
Change in present value discount	(70,619)	(70,747)
Changes in operating assets and liabilities:		
Accounts receivable	1,089,379	(446,222)
Employee receivable	(655)	16,289
Unconditional promises to give	75,166	75,166
Inventory	(101,218)	(53,037)
Prepaid expenses and other	(128,146)	(55,831)
Deposits and other	(2,830)	223,838
Down payment assistance receivable	-	50,000
Accounts payable	(3,671)	330,544
Accrued expenses	246,238	160,136
Due to Opportunity Village Foundation	1,164,682	1,646,396
Deferred income	(1,232,906)	1,341,854
Deferred compensation	(41,792)	(86,036)
Net cash provided by (used in) operating activities	(4,806,062)	1,632,650
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	-	11,899
Purchase of property and equipment	(300,968)	(536,960)
Net cash used in investing activities	(300,968)	(525,061)
Cash flows from financing activities:		
Payments on capital lease obligations	(104,937)	(103,760)
Proceeds from Paycheck Protection Program loan	5,583,900	-
Net cash provided by (used in) financing activities	5,478,963	(103,760)
Net change in cash	371,933	1,003,829
Cash and equivalents, beginning of year	2,463,181	1,459,352
Cash and equivalents, end of year	\$ 2,835,114	\$ 2,463,181

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Summary of cash accounts:		
Cash and cash equivalents	\$ 2,732,287	\$ 2,269,122
Cash and cash equivalents, restricted	102,827	194,059
	<u>\$ 2,835,114</u>	<u>\$ 2,463,181</u>
Supplemental disclosures:		
Imputed interest on capital lease obligations	\$ 13,965	\$ 14,489

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Opportunity Village Association for Retarded Citizens (“Opportunity Village ARC”) is a not-for-profit organization operated to assist and train adults with intellectual disabilities (“clients”) through vocational training, employment and similarly organized activities in the Southern Nevada region. Opportunity Village ARC also operates one thrift store. Opportunity Village ARC receives funding from the State of Nevada and local government, as well as self-earned income.

The following is a summary of significant accounting policies:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Opportunity Village ARC presents its financial statements in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under the FASB ASC, Opportunity Village ARC is required to report information regarding its financial position and changes in financial position activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates. Significant estimates include the functional allocation of expenses and the useful lives of depreciated assets.

Cash and Cash Equivalents

Cash and cash equivalents are highly-liquid investments with an initial maturity of three months or less and are stated at the lower of cost or market value. Opportunity Village ARC has concentrated its custodial credit risk by maintaining deposits in financial institutions which at most times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The loss would represent the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance. Opportunity Village ARC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Inventory

Inventory consists of items used in the Employment Training Center and donated thrift store goods and is stated at the lower of cost or net realizable value, if purchased, and approximate fair value at the date of donation, if donated. Costs are determined using the first-in, first-out method.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable result from contracts for the services of Opportunity Village ARC clients, including contracts with the government, and are shown net of allowance. Management reviews accounts receivable balances to determine if an allowance for doubtful accounts is necessary. At June 30, 2020 and 2019, the allowance for doubtful accounts was \$78,551 and \$78,707, respectively. All amounts recorded are expected to be received within one year. As of June 30, 2020 and 2019, 44% and 35% of the balance was due from one customer, respectively.

Impairment of Long-Lived Assets

Opportunity Village ARC follows the provisions of the FASB ASC, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of assets. Opportunity Village ARC believes that no adjustment for impairment is necessary at June 30, 2020 and 2019.

Property and Equipment

Opportunity Village ARC capitalizes all expenditures for property and equipment in excess of \$2,500 and with a useful life of greater than one year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Costs associated with the acquisition, development, and construction of a project are capitalized as construction in progress and are not depreciated until placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the associated assets. The useful lives are estimated as follows:

- 3 to 5 years for vehicles;
- 3 to 10 years for furniture, fixtures and equipment;
- 5 to 47 years for buildings and improvements.

Comparative Financial Information and Reclassifications

The statement of functional expenses includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with the FASB ASC. Accordingly, such information should be read in conjunction with Opportunity Village ARC's financial statements for the year ended June 30, 2019, from which the summarized information was derived. Additionally, certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Opportunity Village ARC accounts for contributions in accordance with the FASB ASC. Accordingly, contributions are recognized as revenue when they are received or unconditionally pledged at their estimated net realizable value. Contributions received are recorded as increases in net assets with or without restrictions, depending on the existence or absence, respectively, of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Opportunity Village ARC receives a substantial amount of donated clothing and furniture that is sold through its thrift store outlet. Assets unconditionally donated and retained by Opportunity Village ARC are recorded at fair value on the date of donation. Thrift store sales are shown net of markdowns.

Government support is obtained from various government agencies. Revenue is recorded in the same period as the costs are recognized. Service contracts are obtained from various public and private agencies throughout the community. Revenue is recorded in the same period as the costs are recognized.

Services Expense Allocation

Opportunity Village ARC provides management services, facilities maintenance, and custodial services to the Opportunity Village Foundation (“Foundation”), a not-for-profit organization organized to raise, invest, and distribute funds to promote the interests of persons with intellectual disabilities and to promote capital campaign drives, under an annual agreement. For the years ended June 30, 2020 and 2019, costs allocated to Foundation under this agreement were \$1,572,416 and \$1,356,562, respectively. These expenses are excluded from the statement of functional expenses.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. All allocated costs were directly allocated by function based on the nature of the expense.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized as contributions in accordance with the FASB ASC, if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by Opportunity Village ARC.

Advertising

Opportunity Village ARC expensed all advertising costs as they were incurred.

Income Tax Status

Opportunity Village ARC is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate section of the Internal Revenue Code. In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. In accordance with the accounting standards, management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of three to six years.

Subsequent Events

Subsequent events have been evaluated through February 4, 2021 which is the date the financial statements were available to be issued.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

Opportunity Village ARC receives program and contribution revenues, and considers contributions restricted for programs which are ongoing, major, and central to its operations to be available to meet cash needs for general expenditures. Opportunity Village ARC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects the Opportunity Village ARC's financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

	As of June 30,	
	2020	2019
Cash and cash equivalents	\$ 2,791,805	\$ 2,441,986
Accounts receivable, net of allowance	2,392,019	3,481,398
Employee receivable, current	3,579	924
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,187,403</u>	<u>\$ 5,924,308</u>

To help manage unanticipated liquidity needs, the Opportunity Village ARC has a committed line of credit in the amount of \$3,000,000 which it could draw upon (Note 10). Additionally, as discussed in Note 10, the Opportunity Village ARC is required to meet certain covenants related to bonds payable.

3. INVESTMENTS AND FAIR VALUE

Investments consist of the following:

	As of June 30,	
	2020	2019
Equity mutual funds	\$ 185,649	\$ 200,550
Fixed income funds	142,815	191,819
Total investments	<u>\$ 328,464</u>	<u>\$ 392,369</u>

Investment holdings at June 30, 2020 and 2019 were carried at fair value. Fair value is identified 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 and is measured according to a hierarchy that includes: "Level 1" inputs, such as quoted prices in an active market for identical assets or liabilities; "Level 2" inputs, which are observable inputs for similar assets; or "Level 3" inputs, which are unobservable inputs.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

3. INVESTMENTS AND FAIR VALUE (CONTINUED)

Investment balances at June 30, 2020 and 2019 were valued using Level 1 inputs:

	Level 1	Level 2	Level 3	Total Fair Value
As of June 30, 2020				
Equity mutual funds	\$ 185,649	\$ -	\$ -	\$ 185,649
Fixed income funds	142,815	-	-	142,815
Total investments	<u>\$ 328,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,464</u>
As of June 30, 2019				
Equity mutual funds	\$ 200,550	\$ -	\$ -	\$ 200,550
Fixed income funds	191,819	-	-	191,819
Total investments	<u>\$ 392,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 392,369</u>

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	As of June 30,	
	2020	2019
Land lease (1)	<u>\$ 6,213,704</u>	<u>\$ 6,288,870</u>
Receivable in less than one year	\$ 75,166	\$ 75,166
Receivable in one to five years	375,829	375,829
Receivable in more than five years	<u>5,762,709</u>	<u>5,837,875</u>
Total unconditional promises to give	6,213,704	6,288,870
Less: unamortized discount (2)	<u>4,121,404</u>	<u>4,192,023</u>
Net unconditional promises to give	2,092,300	2,096,847
Less: current portion	<u>75,166</u>	<u>75,166</u>
Net long-term unconditional promises to give	<u>\$ 2,017,134</u>	<u>\$ 2,021,681</u>

(1) This land lease, with a term of 89 years, is intended to be used for a future residential housing project. For further details, see lease description in Note 8.

(2) Unconditional promises to give are recorded at the present value of the estimated fair value of the land parcels using a discount rate of 4.0%. Amounts are recorded as net assets with donor restrictions until released from restriction.

5. DOWN PAYMENT ASSISTANCE RECEIVABLE

Opportunity Village ARC received grant funding during the year ended June 30, 2002 to offer a down payment assistance loan program for clients to purchase a primary residence. Clients could receive a loan of up to \$25,000 for down payment assistance for a personal and primary residence. Under the grant agreement, the clients must repay the loan upon the sale of the residence.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

6. DEFERRED COMPENSATION

Opportunity Village ARC has deferred compensation agreements with select employees of the organization. As of June 30, 2020, three employees had individual deferred compensation agreements requiring the Organization to make a total of \$49,750 in employer contributions. Contributions will continue to be made each fiscal year during the continuance of each employees' employment. The employees are fully vested in all funds placed in the deferred compensation account, including all investment income and losses. The fully vested amount, including the accumulated investment income or losses, will be distributed to the employees (or beneficiaries) at the employees' departure, disability, or death based on the payout structure of the contract. During the year ended June 30, 2018, one such employee retired from employment with Opportunity Village ARC and has made withdrawals according to the payout structure of the contract.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes and periods:

	As of June 30,	
	2020	2019
Subject to expenditure for a specific purpose:		
Job Discovery program	\$ -	\$ 12,445
Very Important Arts program	86,168	181,614
Americorp	16,659	-
	<u>102,827</u>	<u>194,059</u>
Subject to the passage of time:		
Residential land lease	2,092,300	2,096,847
Lifetime learning park (Sean's Park)	1,444,445	1,577,779
Total net assets with donor restrictions	<u>\$ 3,639,572</u>	<u>\$ 3,868,685</u>

Net assets with donor restrictions were held as follows:

	As of June 30,	
	2020	2019
Cash and cash equivalents	\$ 102,827	\$ 194,059
Unconditional promises to give	2,092,300	2,096,847
Property and equipment	1,444,445	1,577,779
Total net assets with donor restrictions	<u>\$ 3,639,572</u>	<u>\$ 3,868,685</u>

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 as follows:

	Years Ended June 30,	
	2020	2019
Satisfaction of purpose restrictions:		
Job Discovery program	\$ 12,445	\$ -
Very Important Arts program	95,446	-
	<u>107,891</u>	<u>-</u>
Expiration of time restrictions:		
Residential land lease	4,547	4,419
Lifetime learning park (Sean's Park)	133,334	133,333
Total net assets released from donor restrictions	<u>\$ 245,772</u>	<u>\$ 137,752</u>

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

8. LEASES

Capital Leases: Opportunity Village ARC leases assets under long-term agreements that are classified as capital leases. Amortization expense of \$107,718 related to these assets is included in depreciation expense. Assets under capital lease obligations are as follows:

	As of June 30,	
	2020	2019
Office equipment	\$ 114,908	\$ 114,908
Vehicles	593,006	593,006
	<u>707,914</u>	<u>707,914</u>
Less: accumulated amortization	(273,806)	(166,088)
Total assets under capital lease obligations	<u>\$ 434,108</u>	<u>\$ 541,826</u>

Future minimum lease payments under these capital lease obligations are:

Fiscal year ending June 30,	
2021	\$ 117,108
2022	117,018
2023	110,931
2024	92,400
2025	<u>22,761</u>
	460,218
Less: amount representing interest	(23,200)
Less: current portion	<u>(107,210)</u>
Long-term capital lease obligations	<u>\$ 329,808</u>

Operating Leases: Opportunity Village ARC leases assets and equipment under long-term agreements that are classified as operating leases. The expense incurred under these leases for the years ended June 30, 2020 and 2019 was \$892,564 and \$716,379, respectively.

Future minimum payments under these operating leases are:

Fiscal year ending June 30,	
2021	\$ 407,156
2022	209,398
2023	54,489
2024	<u>57,214</u>
	<u>\$ 728,257</u>

Land Leases: In March 2014, Opportunity Village ARC entered into an agreement with Clark County to lease two parcels of land to be used for the construction, operation, and maintenance of Betty's Village, a residential housing program. The term of the land lease is for 89 years with annual rental payments of \$1,200 and will expire on February 28, 2103. The fair value of donated rent to be received under this lease has been estimated at \$75,166 per year and has been recorded as an unconditional promise to give, net of present value discount on the books of Opportunity Village ARC.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

8. LEASES (CONTINUED)

In July 2010, Opportunity Village ARC entered into an agreement to lease land adjacent to the Walters Family Campus, located in Henderson, Nevada. The term of the land lease is for an indefinite amount of time with a base rent of \$1 per month. The fair value of donated rent to be received under this lease has been estimated at \$68,137 per year, which is recorded as an in-kind operating expense as the lease does not have a maturity date. During December 2019, this land was donated to Opportunity Village Foundation. Opportunity Village Foundation continued to donate use of the land to Opportunity Village and the estimated fair value of donated rent was unchanged. During the year ended June 30, 2020, Opportunity Village recognized approximately \$34,068 in donated rent from Opportunity Village Foundation for the use of this land.

In November 1990, the Foundation entered into an agreement with the State of Nevada to lease land, upon which the Foundation constructed a campus to serve people with disabilities, known as the "Oakey Campus", which building was donated to Opportunity Village ARC. The term of the land lease was amended in July 2009 to 49 years with no rental payments and will expire on June 30, 2058. The fair value of donated rent to be received under this lease has been estimated at \$20,041 per year and is recorded as an unconditional promise to give, net of present value discount on the books of the Foundation. The related expenses are recorded as grants to Opportunity Village ARC. As the Foundation is the lessee under this agreement, the land is not recorded by Opportunity Village ARC, however the Oakey Campus is constructed on this land, and the buildings associated with the Oakey Campus are recorded as assets of Opportunity Village ARC.

In May 2004, the Foundation entered into an agreement with Clark County to lease land, upon which the Foundation constructed a campus to serve people with disabilities, known as the "Engelstad Campus", which was completed and donated to Opportunity Village ARC in October 2009. The term of the land lease was amended in September 2006 for 99 years with annual rental payments of \$1,200 and will expire on April 30, 2103. The fair value of donated rent to be received under this lease has been estimated at \$63,933 per year and has been recorded as an unconditional promise to give, net of present value discount, on the books of the Foundation. The related expenses are recorded as grants to Opportunity Village ARC. As the Foundation is the lessee under this agreement, the land is not recorded by Opportunity Village ARC, however the Engelstad Campus is constructed on this land, and the buildings associated with the Engelstad Campus are recorded as assets of Opportunity Village ARC.

9. RETIREMENT PLAN

Opportunity Village ARC has a 403(b) plan that covers all employees meeting certain eligibility requirements into which employees may make contributions on a pre-tax basis. The annual matching contribution is discretionary as determined by the Board of Directors. During the years ended June 30, 2020 and 2019, Opportunity Village ARC matched 50% of employees' contributions to the plan, up to \$2,000 per year. Employer matched contributions to the retirement plan for the years ended June 30, 2020 and 2019 were \$88,906 and \$110,202, respectively.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

9. RETIREMENT PLAN (CONTINUED)

Opportunity Village ARC provides services under several AbilityOne federal contracts, which are subject to the McNamara-O'Hara Service Contract Act of 1965 (the "Service Contract Act"), as amended. The Service Contract Act requires that a contractor pay no less than applicable direct labor wages and provide certain fringe benefits in accordance with geographically specific Wage Determinations issued on no less than an annual basis by the Department of Labor. One of the Service Contract Act's fringe benefits is the provision of Health and Welfare funds. The Health and Welfare rate is paid per hour up to 40 hours in a week or 2,080 hours in a year. To comply with the fringe benefit requirement for Health and Welfare, an employer must calculate and track the Health and Welfare benefit due to each employee subject to the Act and discharge the obligation in one of two ways: 1) apply the funds to a bona fide benefits program for the employee or 2) pay the benefit in cash to the employee on their regular pay day. Health and Welfare funds paid to an employee in cash must be tracked and recorded separate from wages. Opportunity Village ARC has elected to offer employees subject to the Service Contract Act the opportunity to participate in the bona fide health insurance benefit. Health and Welfare funds are applied to the employee's premium for participation in the health plan. In the event that the Health and Welfare funds exceed the premium due, the remainder is applied to a retirement account for the employee, also a bona fide benefit. In the event of a shortfall in the Health and Welfare funds and the premium due, the remainder is then requested from the employee. Employees may elect to waive the health insurance benefit. Should an employee waive health insurance benefits, 100% of the Health and Welfare funds due are applied to their retirement account. Employer contributions to the retirement plan in addition to the matched contributions stated above for the years ended June 30, 2020 and 2019 were \$231,102 and \$326,234, respectively.

10. COMMITMENTS AND CONTINGENCIES

Revenue Bonds: In January 2007, Opportunity Village ARC and the Foundation entered into an agreement to borrow funds from the proceeds of the sale of bonds issued by Clark County, Nevada. The Variable Rate Demand Economic Development Revenue Bonds (Opportunity Village ARC Foundation Project) Series 2007 were issued in the amount of \$24,275,000. The debt is recorded on the books of the Foundation as the Foundation has the obligation for repayment. The funds were restricted to various construction projects and were used to finance the costs of construction of the Engelstad Campus and the renovation and improvement of the administrative facilities located at the Oakey Campus.

No principal payments are due on the bonds until their maturity date of January 1, 2037. Interest only payments are due monthly, and the variable interest rate is determined by the bond remarketing agent not to exceed 12%. The overall effective rate of interest on the bonds for fiscal year 2020 was 1.30%.

Attached to the bond is a mandatory letter of credit with a separate bank, which is the only collateral for the bonds. The letter of credit is in the amount of the bond proceeds plus 39 days accrued interest. The original letter of credit was replaced with a subsequent letter of credit effective February 10, 2011, which expires April 2021. The subsequent letter of credit of \$14,078,225 consists of \$13,900,000 principal plus \$178,225, which represents 39 days of accrued interest at the maximum rate of 12% per annum. As part of the agreement under the letter of credit, Opportunity Village ARC, combined with the Foundation, must maintain a ratio of unrestricted cash and investments to debt of at least 1.25 to 1.00 at June 30 of each year.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of June 30, 2020 and 2019, Opportunity Village ARC was in compliance with these requirements. No amount was drawn on this letter of credit as of June 30, 2020 or 2019.

Line of credit: The Foundation and Opportunity Village ARC collectively secure a \$3,000,000 revolving line of credit. Advances on the credit line are payable on demand and carry an interest rate equal to the prime rate plus 3.25%. The credit line is unsecured and expires on April 13, 2021. No amount was drawn on this credit line as of June 30, 2020 and 2019.

Opportunity Village ARC may become involved in legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Opportunity Village ARC's financial position, results of operations, or liquidity.

11. RELATED PARTIES

Opportunity Village ARC has historically relied on the Foundation to provide grants and cash to cover operational shortfalls. However, Opportunity Village ARC is independent for financial reporting purposes as the entities are not under common control. The Foundation transferred cash balances totaling \$3,900,000 and \$4,000,000 for the years ended June 30, 2020 and 2019, respectively, to Opportunity Village ARC to cover operating shortfalls through grants and forgiveness of debt. Opportunity Village ARC transferred cash balances totaling \$150,000 for the year ended June 30, 2020, to the Foundation in payment of balances due to the Foundation.

Opportunity Village ARC recognized grant receipts from Foundation totaling \$1,619,036 and \$2,337,513 for the years ended June 30, 2020 and 2019, respectively. Included in these grant receipts are the following items:

	For the year ended June 30,	
	2020	2019
Scholarships	\$ 41,604	\$ 23,811
Donations and interest income related to programs	108,356	239,136
In-kind rent (1)	85,174	85,174
Forgiveness of debt due to Foundation (2)	1,164,682	1,646,396
Capacity building	219,220	342,996
Total grant income from the Foundation	<u>\$ 1,619,036</u>	<u>\$ 2,337,513</u>

- (1) The Foundation has been granted by Clark County the right to use the land on which the Oakey Campus and Engelstad Campus were constructed. The land leases are recorded as unconditional promises to give by the Foundation. For additional information, see Note 8. As the assets and buildings of the Oakey Campus and Engelstad Campus are owned by Opportunity Village ARC, Opportunity Village ARC recognized \$85,174 and \$85,174 in in-kind rent expense for the years ended June 30, 2020 and 2019, respectively.
- (2) Opportunity Village ARC had an amount due to the Foundation of \$0 as of June 30, 2020 and 2019, respectively. Opportunity Village ARC had an amount due from the Foundation of \$0 as of June 30, 2020 and 2019. Related-party receivables and payables are the result of cash payments by the Foundation to Opportunity Village ARC for management services as described in Note 1, transfers of cash to cover operational shortfalls, and transfers of property and equipment. These balances are monitored by the Board of Directors of each respective organization and may be forgiven by each organization as necessary.

Opportunity Village ARC utilizes Morrissey Insurance as a broker for employee health and life insurance, where a Foundation board member is the owner. Commissions paid to Morrissey Insurance totaled \$105,914 and \$84,417 for the years ended June 30, 2020 and 2019, respectively.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2020 AND 2019

12. PAYCHECK PROTECTION PROGRAM LOAN

On April 15, 2020, Opportunity Village ARC (the “Borrower”) qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the “PPP Lender”), for an aggregate principal amount of \$5,583,900 (the “PPP Loan”). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal and accrued interest of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the organization’s request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the organization. The organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum and commencing the earlier of (1) the date that SBA remits the Borrower’s loan forgiveness amount to the Lender or (2) 10 months after the end of the Borrower’s loan forgiveness covered period of 24-weeks, principal and interest payments will be required through the maturity date in April 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

Opportunity Village ARC has accounted for the PPP loan as a financial liability in accordance with FASB ASC 470 and accrued interest in accordance with the interest method under FASB ASC 835-30. The loan will be recognized as revenue if loan forgiveness is provided by the SBA.

13. WORLDWIDE PANDEMIC

In March of 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Opportunity Village ARC, COVID-19 may impact various parts of its future operations and financial results. Management believes Opportunity Village ARC is taking appropriate actions to mitigate the potential negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.