OPPORTUNITY VILLAGE ARC

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

HOULDSWORTH RUSSO & COMPANY
20 YEARS & COUNTING
Certified Public Accountants

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Houldsworth, Russo & Company, P.C.

Las Vegas, Nevada
November 8, 2018

OPPORTUNITY VILLAGE ARC

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,302,187	$ 655,511
Cash and cash equivalents, restricted	157,165	218,881
Investments	489,827	450,134
Accounts receivable, net of allowance	3,068,459	2,564,458
Employee receivable, current	9,353	9,815
Unconditional promises to give, current	75,166	75,166
Due from Opportunity Village Foundation	-	155,199
Inventory	199,609	153,882
Prepaid expenses and other	162,100	345,760
	5,463,866	4,628,806
Property and equipment:		
Land	1,671,898	1,671,898
Buildings and improvements	37,437,081	37,471,777
Furniture, fixtures and equipment	9,062,851	9,107,977
Vehicles	1,478,099	1,084,925
Accumulated depreciation	(23,939,627)	(22,058,702)
	25,710,302	27,277,875
Other noncurrent assets:		
Deposits and other	256,169	27,154
Employee receivable, long-term	9,860	17,720
Unconditional promises to give, net	2,026,100	2,030,373
Down payment assistance receivable	203,432	229,351
	2,495,561	2,304,598
Total assets	$ 33,669,729	$ 34,211,279

OPPORTUNITY VILLAGE ARC

STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 264,849	$ 319,582
Accrued expenses	988,645	806,868
Deferred income	10,500	20,000
Current portion of capital lease obligations	113,304	68,317
	1,377,298	1,214,767
Long-term liabilities:		
Deferred compensation	499,601	474,568
Capital lease obligations	606,869	100,409
Deposits	6,000	6,000
	1,112,470	580,977
	2,489,768	1,795,744
Net assets:		
Unrestricted	27,210,418	28,246,670
Temporarily restricted	3,969,543	4,168,865
	31,179,961	32,415,535
Total liabilities and net assets	$ 33,669,729	$ 34,211,279

OPPORTUNITY VILLAGE ARC

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Unrestricted activities		
Revenues, gains and support:		
Government support for services	$ 10,479,201	$ 10,103,448
Contributions	1,192,451	1,181,921
Federal grant revenue	-	25,000
Service contracts	7,854,421	7,310,538
Thrift store sales, net	1,066,929	976,930
General contract sales	4,603,638	4,028,465
Vehicle sales, net	15,445	23,858
Rental income	83,670	31,560
Other	29,793	14,571
Gain on disposal of assets	2,387	-
Gain on insurance proceeds	290,075	-
Grants from Opportunity Village Foundation	3,252,857	5,680,232
Release of restrictions	199,322	4,131
Total revenues, gains and support	29,070,189	29,380,654
Expenses:		
Program services:		
Service contracts	8,061,791	7,320,264
Thrift store	1,642,008	1,251,973
Work-training and adult development	14,948,946	14,467,274
Support services:		
Management and general	5,453,696	4,872,803
Total expenses	30,106,441	27,912,314
Change in unrestricted net assets	(1,036,252)	1,468,340
Temporarily restricted activities		
Contributions	-	218,881
Release of restrictions	(199,322)	(4,131)
Change in temporarily restricted net assets	(199,322)	214,750
Increase (decrease) in net assets	(1,235,574)	1,683,090
Net assets, beginning of year	32,415,535	30,732,445
Net assets, end of year	$ 31,179,961	$ 32,415,535

OPPORTUNITY VILLAGE ARC

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	Program Services						
	Service Contracts	**Thrift Store**	**Work-training and Adult Development**	**Total Program Services**	**Management and General**	**Total 2018**	**Total 2017**
Salaries, taxes and benefits	$ 3,899,754	$ 731,529	$ 8,772,789	$ 13,404,072	$ 4,114,080	$ 17,518,152	$ 15,811,230
Payments to clients	2,991,799	275,835	929,536	4,197,170	215,367	4,412,537	4,413,920
Depreciation and amortization	19,105	48,846	2,022,929	2,090,880	146,918	2,237,798	2,294,945
Subcontracts and consulting	562,746	62,445	323,493	948,684	115,005	1,063,689	741,920
Utilities and telephone	116,445	120,749	659,989	897,183	103,049	1,000,232	968,950
Supplies	245,813	55,027	429,888	730,728	63,794	794,522	683,437
Rent	-	194,179	443,856	638,035	95,055	733,090	703,114
Repairs and maintenance	29,073	29,020	308,632	366,725	83,960	450,685	412,167
Contract services and freight	-	10,975	442,471	453,446	-	453,446	430,780
Transportation expenses	26,981	52,222	322,451	401,654	26,959	428,613	426,959
Professional fees	-	-	-	-	80,352	80,352	173,562
Bank fees and interest	1,133	16,540	25,724	43,397	18,653	62,050	70,192
Insurance	92,584	18,067	85,225	195,876	35,798	231,674	230,881
Advertising	2,954	2,316	6,457	11,727	3,383	15,110	1,047
Recruitment	22,012	4,192	48,055	74,259	25,042	99,301	59,956
Staff training and development	17,868	3,425	37,774	59,067	25,445	84,512	81,355
Bad debt expense	18,689	-	1,035	19,724	-	19,724	22,256
Conferences, travel and meals	2,407	38	12,277	14,722	48,566	63,288	81,611
Dues and subscriptions	5,577	7,230	7,248	20,055	232,688	252,743	223,921
Uniforms	6,066	-	11,812	17,878	4,676	22,554	37,579
Customer relations	646	294	22,697	23,637	9,178	32,815	23,570
Postage	139	9,079	34,608	43,826	5,728	49,554	18,962
Total expenses	$ 8,061,791	$ 1,642,008	$ 14,948,946	$ 24,652,745	$ 5,453,696	$ 30,106,441	$ 27,912,314

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flow from operating activities:		
Increase (decrease) in net assets	$ (1,235,574)	$ 1,683,090
Adjustments to reconcile decrease in net assets to net cash:		
Depreciation and amortization expense	2,237,798	2,294,945
Noncash grants from Opportunity Village Foundation	(2,180,653)	(4,235,270)
Donated assets	(6,000)	-
Bad debt expense	2,252	22,256
Unrealized gain on investments	(39,693)	(48,955)
Change in present value discount	(70,892)	(71,035)
Changes in operating assets and liabilities:		
Accounts receivable	(506,253)	(526,427)
Employee receivable	8,322	9,437
Down payment assistance receivable	25,919	-
Unconditional promises to give	75,165	75,166
Prepaid expenses and other	183,660	(78,822)
Inventory	(45,727)	30,777
Deposits and other	(229,015)	-
Accounts payable	(54,733)	28,258
Accrued expenses	181,777	(164,045)
Deferred compensation	25,033	55,205
Deferred income	(9,500)	(51,869)
Due to Opportunity Village Foundation	2,335,852	1,170,765
Deposits	-	6,000
Net cash provided by operating activities	697,738	199,476
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	97,017	-
Purchase of property and equipment	(92,800)	(164,601)
Net cash provided by (used in) investing activities	4,217	(164,601)
Cash flows from financing activities:		
Payments on capital lease obligations	(116,995)	(73,089)
Net cash used in financing activities	(116,995)	(73,089)
Net increase (decrease) in cash	584,960	(38,214)
Cash and equivalents, beginning of year	874,392	912,606
Cash and equivalents, end of year	$ 1,459,352	$ 874,392

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Summary of cash accounts:		
Cash and equivalents	$ 1,302,187	$ 655,511
Cash and equivalents, restricted	157,165	218,881
	$ 1,459,352	$ 874,392
Supplemental disclosures:		
Assets acquired through capital lease obligations	$ 792,628	$ -
Assets acquired through energy credit conversion	$ -	$ 910,402
Imputed interest on capital lease obligations	$ 15,639	$ 11,496

See accompanying notes to financial statements

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The prior year comparative information has been summarized as derived from the prior year audited financial statements.

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.

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, 2018 and 2017, the allowance for doubtful accounts was $45,424 and $43,172, respectively. All amounts recorded are expected to be received within one year. As of June 30, 2018 and 2017, 28% and 29%, respectively, of the balance was due from one customer.

Long-Lived Assets

Opportunity Village ARC 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 of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Opportunity Village ARC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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, 2018 and 2017.

Property and Equipment

Opportunity Village ARC capitalizes all expenditures for property and equipment in excess of $2,500. 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:

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

Advertising

Opportunity Village ARC expensed all advertising costs as they were incurred. Advertising costs totaled $15,110 and $1,047 during the years ended June 30, 2018 and 2017, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Opportunity Village ARC accounts for contributions in accordance with the FASB ASC. As such, contributions are recognized as revenue when they are received or unconditionally pledged at their estimated net realizable value. Unrestricted contributions are reported as increases in unrestricted net assets. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

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

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. 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, 2018 and 2017, costs allocated to Foundation under this agreement were $965,929 and $851,826, respectively.

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.

Comparative Financial Information and Reclassifications

The statement of functional expenses includes certain prior year summarized comparative information in total but not by net asset class. 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, 2017, from which the summarized information was derived. Additionally, certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 November 8, 2018, which is the date the financial statements were available to be issued.

2. INVESTMENTS AND FAIR VALUE

Investments consist of the following:

	As of June 30,	
	2018	2017
Equity mutual funds	$ 227,432	$ 195,376
Equity securities	262,395	254,758
Total investments	$ 489,827	$ 450,134

Investment holdings at June 30, 2018 and 2017 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. Investment balances at June 30, 2018 and 2017 were valued using Level 1 inputs:

	Level 1	Level 2	Level 3	Total Fair Value
As of June 30, 2018				
Equity mutual funds	$ 227,432	$ -	$ -	$ 227,432
Equity securities	262,395	-	-	262,395
Total investments	$ 489,827	$ -	$ -	$ 489,827

	Level 1	Level 2	Level 3	Total Fair Value
As of June 30, 2017				
Equity mutual funds	$ 195,376	$ -	$ -	$ 195,376
Equity securities	254,758	-	-	254,758
Total investments	$ 450,134	$ -	$ -	$ 450,134

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	As of June 30,	
	2018	2017
Land lease (1)	$ 6,364,036	$ 6,439,201
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	5,913,041	5,988,206
Total unconditional promises to give	6,364,036	6,439,201
Less: unamortized discount (2)	4,262,770	4,333,662
Net unconditional promises to give	2,101,266	2,105,539
Less: current portion	75,166	75,166
Net long-term unconditional promises to give	$ 2,026,100	$ 2,030,373

(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 temporarily restricted net assets until released from restriction.

4. 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. At June 30, 2018 and 2017, the receivable balance outstanding under this program was $203,432 and $229,351, respectively.

5. DEFERRED COMPENSATION

Opportunity Village ARC has deferred compensation agreements with select employees of the organization. As of June 30, 2018, one employee had a deferred compensation agreement requiring $17,500 and two employees had deferred compensation agreements requiring $14,000 in employer contributions each fiscal year during the continuance of the 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 made withdrawals according to the payout structure of the contract. As of June 30, 2018 and 2017, the Board has designated $499,601 and $474,568, respectively, of unrestricted cash and investments to pay the deferred compensation liability when it comes due.

6. NATURE AND AMOUNT OF NET ASSETS

Temporarily restricted net assets represent contributions and other inflows of assets where use is limited by donor-imposed stipulations. These stipulations either expire by the passage of time or are fulfilled and removed by actions of Opportunity Village ARC.

Temporarily restricted net assets are available for the following purposes:

	As of June 30,	
	2018	2017
Job Discovery program	$ -	$ 28,947
Very Important Arts program	157,165	189,934
Life learning park (Sean's Park)	1,711,112	1,844,445
Residential land lease	2,101,266	2,105,539
	$ 3,969,543	$ 4,168,865

Temporarily restricted net assets are held as the following:

	As of June 30,	
	2018	2017
Cash	$ 157,165	$ 218,881
Property and equipment	1,711,112	1,844,445
Unconditional promises to give	2,101,266	2,105,539
	$ 3,969,543	$ 4,168,865

7. INCENTIVE INCOME – ENERGY CREDIT

Opportunity Village ARC received a grant of $1,500,000 during the year ended June 30, 2012 to install three solar panels on its property. Opportunity Village ARC assigned the grant monies to a third party, and the third party paid for and installed the solar panels. The third party owned the solar panel assets, and Opportunity Village ARC entered into an agreement to utilize the solar panels for 20 years. In exchange, Opportunity Village ARC received a credit of $1,500,000 to offset any future charges for solar energy use.

During the year ended June 30, 2017, Opportunity Village ARC exercised its option to purchase the solar panels at the end of five years for fair value. As a result, the remaining credit was forfeited in exchange for ownership of the solar panels, which had a fair market value of $910,402 on the date of the exchange.

8. LEASES

Capital Leases: Opportunity Village ARC leases assets under long-term agreements that are classified as capital leases. Amortization related to these assets is included in depreciation expense. Assets under capital lease obligations included in property and equipment are as follows:

	As of June 30,	
	2018	2017
Office equipment	$ 135,871	$ 159,940
Vehicles	677,721	268,173
	813,592	428,113
Less: accumulated amortization	(66,460)	(264,508)
Total assets under capital lease obligations	$ 747,132	$ 163,605

Future minimum lease payments under these capital lease obligations are:

Fiscal year ending June 30,	
2019	$ 130,308
2020	130,308
2021	130,308
2022	130,308
2023	124,147
Thereafter	132,000
	777,379
Less: amount representing interest	(57,206)
Less: current portion	(113,304)
Long-term capital lease obligations	$ 606,869

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, 2018 and 2017 was $650,678 and $559,949, respectively.

Future minimum payments under these operating leases are:

Fiscal year ending June 30,	
2019	$ 232,546
2020	223,473
2021	193,237
2022	157,503
	$ 806,759

8. LEASES (CONTINUED)

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.

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.

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 for 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 $63,932 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, 2018 and 2017, 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, 2018 and 2017 were $103,537 and $85,963, respectively.

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, 2018 and 2017 were $366,906 and $378,629, 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 balance of outstanding debt, net of unamortized debt issuance costs, was $13,650,056 and $14,636,607 as of June 30, 2018 and 2017, respectively. 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 2018 was 1.29%.

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 February 2019. 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. As of June 30, 2018,

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Opportunity Village ARC was in compliance with these requirements. No amount was drawn on this letter of credit as of June 30, 2018.

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 February 13, 2019. No amount was drawn on this credit line as of June 30, 2018 and 2017.

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 $4,700,000 and $2,800,000 for the years ended June 30, 2018 and 2017, respectively, to Opportunity Village ARC to cover operating shortfalls.

Opportunity Village ARC recognized grant income from the Foundation totaling $3,252,857 and $5,680,232 for the years ended June 30, 2018 and 2017, respectively. These amounts were charged to the related party debt due to the Foundation. Included are the following items.

	For the year ended June 30,	
	2018	2017
Scholarships	$ 26,360	$ 322,086
Donations and interest income related to programs	334,350	429,015
In-kind rent (1)	85,174	85,174
Noncash grants from the Foundation (2)	2,180,653	4,235,270
Capacity building	626,320	608,687
Total grant income from the Foundation	$ 3,252,857	$ 5,680,232

(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, 2018 and 2017, respectively.

(2) Opportunity Village ARC had an amount due to the Foundation of $0 and $0 as of June 30, 2018 and 2017, respectively. Opportunity Village ARC had an amount due from the Foundation of $0 and $155,199 as of June 30, 2018 and 2017, respectively. 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. During the year ended June 30, 2018 and 2017, respectively, the Foundation provided $2,180,653 and $4,235,270 in noncash grants.

11. RELATED PARTIES (CONTINUED)

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 $84,417 and $75,259 for the years ended June 30, 2018 and 2017, respectively.

12. PRIOR PERIOD RECLASSIFICATION

During the year ended June 30, 2018, Opportunity Village ARC determined that a reclassification between unrestricted and temporarily restricted net assets was required to bring the June 30, 2017 financial statements into conformity with accounting principles generally accepted in the United States. The result of this prior period reclassification was an increase to temporarily restricted net assets in the amount of $1,844,445 and decrease to unrestricted net assets of an equal amount at June 30, 2017. There was no effect on the balance of total net assets.

13. GAIN ON INSURANCE PROCEEDS

During the year ended June 30, 2018, Opportunity Village recognized a gain related to insurance proceeds received as reimbursement for legal expenses incurred in prior years.