

OPPORTUNITY VILLAGE ARC

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015



HOULDSWORTH, RUSSO & COMPANY

8675 S. Eastern Avenue | Las Vegas, Nevada 89123 | P: 702.269.9992 | F: 702.269.9993 | www.trustHRC.com

OPPORTUNITY VILLAGE ARC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Opportunity Village Association for Retarded Citizens ("Opportunity Village ARC"), which comprise the statements of financial position as of June 30, 2016, 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 misstatements, 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 audit 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.

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, 2016, 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.

Certified Public Accountants
20 YEARS & COUNTING

Report on Summarized Comparative Information

We have previously audited Opportunity Village ARC's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it was derived.

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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 to 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of Opportunity Village ARC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Opportunity Village ARC's internal control over financial reporting and compliance.

Hmedsmth, Russo & Company, P.C.

Las Vegas, Nevada
September 23, 2016

OPPORTUNITY VILLAGE ARC

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 912,606	\$ 789,385
Investments	401,179	397,526
Accounts receivable, net of allowance	2,060,287	2,505,621
Employee receivable, current	9,772	8,136
Unconditional promises to give, current	75,166	75,166
Inventory	184,659	220,922
Prepaid expenses and other	283,501	246,698
	<u>3,927,170</u>	<u>4,243,454</u>
Property and equipment:		
Land	1,671,898	350,000
Buildings and improvements	36,561,375	35,441,401
Furniture, fixtures and equipment	9,112,941	8,375,123
Vehicles	1,046,702	1,350,308
Construction in progress	-	351,328
Accumulated depreciation	(19,895,099)	(18,723,596)
	<u>28,497,817</u>	<u>27,144,564</u>
Other noncurrent assets:		
Deposits and other	920,993	1,032,743
Employee receivable, long-term	27,200	26,680
Unconditional promises to give, net	2,034,504	2,038,499
Down payment assistance receivable	229,351	254,351
	<u>3,212,048</u>	<u>3,352,273</u>
Total assets	<u>\$ 35,637,035</u>	<u>\$ 34,740,291</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 291,324	\$ 587,498
Accrued expenses	970,913	1,315,121
Due to Opportunity Village Foundation	2,909,306	452,205
Deferred income	71,869	53,379
Current portion of capital lease obligations	73,089	67,768
	<u>4,316,501</u>	<u>2,475,971</u>
Long-term liabilities:		
Deferred compensation	419,363	421,276
Capital lease obligations	168,726	224,327
	<u>588,089</u>	<u>645,603</u>
	<u>4,904,590</u>	<u>3,121,574</u>
Net assets:		
Unrestricted	28,622,775	29,505,052
Temporarily restricted	2,109,670	2,113,665
	<u>30,732,445</u>	<u>31,618,717</u>
Total liabilities and net assets	<u>\$ 35,637,035</u>	<u>\$ 34,740,291</u>

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Unrestricted activities		
Revenues, gains and support:		
Government support for services	\$ 9,857,110	\$ 10,124,258
Contributions	1,497,021	1,120,032
Federal grant revenue	1,846,586	153,414
Service contracts	7,193,250	7,455,519
Thrift store sales, net	1,092,558	1,019,399
General contract sales	3,938,784	4,821,731
Vehicle sales, net	17,775	35,875
Interest income	-	5,786
Realized and unrealized gain on investments	-	13,184
Other	5,545	88,199
Gain on disposal of assets	63,036	900,078
Grants from Opportunity Village Foundation	2,298,210	3,552,930
Release of restrictions	3,995	3,862
Total revenues, gains and support	<u>27,813,870</u>	<u>29,294,267</u>
Expenses:		
Program services:		
Service contracts	7,236,363	7,373,409
Thrift store	1,231,302	1,245,419
Work-training and adult development	14,854,605	16,352,146
Support services:		
Management and general	5,373,877	5,253,962
Total expenses	<u>28,696,147</u>	<u>30,224,936</u>
Change in unrestricted net assets	<u>(882,277)</u>	<u>(930,669)</u>
Temporarily restricted activities		
Release of restrictions	(3,995)	(3,862)
Change in temporarily restricted net assets	<u>(3,995)</u>	<u>(3,862)</u>
Decrease in net assets	(886,272)	(934,531)
Net assets, beginning of year	31,618,717	32,553,248
Net assets, end of year	<u>\$ 30,732,445</u>	<u>\$ 31,618,717</u>

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Program Services					
	Service Contracts	Thrift Store	Work-training	Total Program Services	Management and General	Total 2015
	\$	\$	\$	\$	\$	\$
Salaries, taxes and benefits	3,202,924	488,403	8,198,679	11,890,006	3,590,965	16,014,569
Payments to clients	2,868,419	283,444	1,149,265	4,301,128	145,978	4,015,570
Depreciation and amortization	106,057	36,953	1,816,397	1,959,407	352,592	2,498,474
Subcontracts and consulting	462,289	6,692	779,668	1,248,649	124,824	1,671,476
Utilities and telephone	94,112	91,102	627,074	812,288	231,759	1,112,154
Supplies	270,258	22,707	452,765	745,730	74,058	925,255
Rent	-	176,118	416,451	592,569	93,956	673,999
Repairs and maintenance	26,889	17,868	379,889	424,646	72,236	601,873
Contract services and freight	-	487	359,133	359,620	-	570,298
Transportation expenses	48,028	69,633	335,482	453,143	26,997	530,918
Professional fees	-	-	-	-	269,346	430,309
Bank fees and interest	12,319	15,770	43,582	71,671	12,882	281,843
Insurance	79,297	13,961	101,770	195,028	47,779	237,272
Advertising	4,834	1,203	12,891	18,928	9,527	131,126
Recruitment	30,713	4,712	82,662	118,087	-	117,437
Staff training and development	8,320	1,264	22,315	31,899	17,323	83,936
Bad debt expense	-	-	-	-	9,195	81,758
Conferences, travel and meals	768	16	7,642	8,426	83,104	73,477
Dues and subscriptions	4,110	50	7,662	11,822	194,874	63,981
Uniforms	16,206	919	6,768	23,893	4,148	42,265
Customer relations	286	-	21,820	22,106	5,284	36,275
Postage	534	-	32,690	33,224	7,050	30,671
Total expenses	\$ 7,236,363	\$ 1,231,302	\$ 14,854,605	\$ 23,322,270	\$ 5,373,877	\$ 30,224,936

OPPORTUNITY VILLAGE ARC

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Cash flow from operating activities:		
Decrease in net assets	\$ (886,272)	\$ (934,531)
Adjustments to reconcile decrease in net assets to net cash:		
Depreciation and amortization expense	2,311,999	2,498,474
(Gain)/loss on disposal of assets	(63,036)	(900,078)
Forgiveness of amount due to Opportunity Village Foundation	-	(1,300,000)
Donated assets	(4,158)	(10,602)
Donated expenses	75,166	75,165
Bad debt expense	6,881	81,758
Unrealized (gain)/loss on investments	(5,566)	(13,184)
Change in present value discount	(71,171)	(71,304)
Other	-	(4,406)
Changes in operating assets and liabilities:		
Accounts receivable	460,722	(30,493)
Employee receivable	(2,156)	(13,896)
Prepaid expenses and other	112,367	261,530
Accounts payable	(296,174)	65,889
Accrued expenses and other	(325,717)	124,599
Due to Opportunity Village Foundation	2,459,832	(165,033)
Net cash provided by/(used in) operating activities	<u>3,772,717</u>	<u>(336,112)</u>
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	76,797	1,008,827
Purchase of property and equipment	(3,656,549)	(537,593)
Net cash provided by/(used in) investing activities	<u>(3,579,752)</u>	<u>471,234</u>
Cash flows from financing activities:		
Payments on capital lease obligations	(69,744)	(75,521)
Net cash used in financing activities	<u>(69,744)</u>	<u>(75,521)</u>
Net increase in cash	123,221	59,601
Cash, beginning of year	789,385	729,784
Cash, end of year	<u>\$ 912,606</u>	<u>\$ 789,385</u>
Supplemental disclosures:		
Assets acquired through capital lease obligations	\$ 19,464	\$ -
Imputed interest on capital lease obligations	\$ 13,561	\$ 16,507

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2016 and 2015

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”) Codification. Under the FASB Codification, 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 collectability of receivables and the estimated useful lives for fixed 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.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

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, 2016 and 2015, the allowance for doubtful accounts was \$46,000 and \$112,066, respectively. All amounts recorded are expected to be received within one year. As of and for the year ended June 30, 2016, one customer made up 35% of accounts receivable and one customer made up 22% of contract revenue.

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 market, if purchased, and approximate fair value at the date of donation, if donated. Costs are determined using the first-in, first-out method.

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 Codification, 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, 2016 and 2015.

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.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

Revenue Recognition

Opportunity Village ARC accounts for contributions in accordance with the FASB Codification. 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.

Opportunity Village ARC receives a substantial amount of donated clothing and furniture that is held-for-sale 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, 2016 and 2015, expenses under this agreement were \$781,865 and \$709,489, respectively.

Advertising

Opportunity Village ARC expensed all of its advertising costs as they were incurred. Advertising costs totaled \$28,455 and \$131,126 during the years ended June 30, 2016 and 2015, respectively.

Donated Services

Donated services are recognized as contributions in accordance with the FASB Codification, 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.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

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 Codification. Accordingly, such information should be read in conjunction with Opportunity Village ARC's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Additionally, certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

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 September 23, 2016, which is the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consist of the following:

	As of June 30,	
	2016	2015
Equity mutual funds	\$ 388,299	\$ 387,061
Equity securities	12,880	10,465
Total investments	<u>\$ 401,179</u>	<u>\$ 397,526</u>

Investment holdings at June 30, 2016 and 2015 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, 2016 and 2015 were valued using Level 1 inputs.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	As of June 30,	
	2016	2015
Land lease (1)	<u>\$ 6,514,367</u>	<u>\$ 6,589,533</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>6,063,372</u>	<u>6,138,538</u>
Total unconditional promises to give	<u>\$ 6,514,367</u>	<u>\$ 6,589,533</u>
Less: unamortized discount (2)	<u>4,404,697</u>	<u>4,475,868</u>
Net unconditional promises to give	<u>2,109,670</u>	<u>2,113,665</u>
Less: current portion	<u>75,166</u>	<u>75,166</u>
Net long-term unconditional promises to give	<u>\$ 2,034,504</u>	<u>\$ 2,038,499</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 7.

(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. Additionally, the entire amount of the loan will be forgiven after 15 years. At June 30, 2016 and 2015, the receivable balance outstanding under this program was \$229,351 and \$254,351, respectively.

5. 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 owns the solar panel assets, and Opportunity Village ARC has 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. As of June 30, 2016 and 2015, the balance of this credit was \$1,005,588 and \$1,118,643, respectively.

Opportunity Village ARC has the option to purchase the solar panels at the end of five years for fair value. If Opportunity Village ARC opts to purchase the solar energy panels, or if Opportunity Village ARC terminates the agreement before the end of the 20-year term, the remaining credit will be forfeited.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

6. DEFERRED COMPENSATION

Opportunity Village ARC has deferred compensation agreements with select employees of the organization. As of June 30, 2016, 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 employee's 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 beneficiary at the employee's departure, disability or death based on the payout structure of the contract. As of June 30, 2016 and 2015, the Board has designated \$419,363 and \$421,276, respectively, of unrestricted cash and investments to pay the deferred compensation liability when it comes due.

7. 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,	
	2016	2015
Office equipment	\$ 159,940	\$ 156,796
Vehicles	268,173	268,173
	428,113	424,969
Less: accumulated depreciation	(193,105)	(74,756)
Total assets under capital lease obligations	<u>\$ 235,008</u>	<u>\$ 350,213</u>

Future minimum lease payments under these capital lease obligations are:

Fiscal year ending June 30,	
2017	\$ 83,453
2018	75,466
2019	57,186
2020	47,475
2021	1,110
	<u>264,690</u>
Less: amount representing interest	(22,875)
Less: current portion	(73,089)
Long-term capital lease obligations	<u>\$ 168,726</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, 2016 and 2015 was \$552,977 and \$565,884, respectively.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

Future minimum payments under these operating leases are:

Fiscal year ending June 30,	
2017	\$ 415,751
2018	386,919
2019	232,546
2020	223,473
2021	193,237
Thereafter	157,503
	<hr/>
	\$ 1,609,429

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, NV. 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 forty-nine (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 \$20,112 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 ninety-nine (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 \$63,552 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.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

8. 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 of \$2,109,670 and \$2,113,665 as of June 30, 2016 and 2015, respectively, are available for the residential land lease, discussed in Note 3, and are held solely in unconditional promises to give.

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, 2016 and 2015, 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, 2016 and 2015 were \$68,174 and \$74,145, respectively.

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, 2016 and 2015 were \$396,523 and \$380,368, respectively.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

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 was \$16,400,000 for both years ended as of June 30, 2016 and 2015. 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.

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 \$16,610,279, which consists of \$16,400,000 principal plus \$210,279, which represents 39 days of accrued interest at the maximum rate of 12% per annum. The letter of credit expires in February 2017. As part of the agreement under the letter of credit, the Foundation, combined with Opportunity Village ARC, 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, 2016, Opportunity Village ARC was in compliance with these requirements. No amount was drawn on this letter of credit as of June 30, 2016.

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%. The credit line is unsecured and expired on June 2, 2016. No amount was drawn on this credit line at its expiration date.

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.

OPPORTUNITY VILLAGE ARC

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2016 and 2015

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 \$5,300,000 and \$3,200,000 for the years ended June 30, 2016 and 2015, respectively, to Opportunity Village ARC to cover operating shortfalls and construction costs related to a park.

Opportunity Village ARC recognized grant income from the Foundation totaling \$2,298,210 and \$3,552,930 for the years ended June 30, 2016 and 2015, 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,	
	2016	2015
Scholarships	\$ 1,141,921	\$ 966,845
Donations and interest income related to programs	446,672	1,202,421
In-kind rent (1)	83,664	83,664
Forgiveness of intercompany debt (2)	-	1,300,000
Capacity building	625,953	-
Total grant income from the Foundation	<u>\$ 2,298,210</u>	<u>\$ 3,552,930</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 7. As the assets and buildings of the Oakey Campus and Engelstad Campus are owned by Opportunity Village ARC, Opportunity Village ARC recognized \$83,664 in in-kind rent expense for each of the years ended June 30, 2016 and 2015.
- (2) Opportunity Village ARC had an amount due to the Foundation of \$2,909,306 and \$452,205 as of June 30, 2016 and 2015, 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 construction costs and transfers of property and equipment. These balances are monitored by the Boards of each respective organization and may be forgiven by each organization as necessary. During the year ended June 30, 2015, the Foundation forgave \$1,300,000 of receivables due from Opportunity Village ARC. No amounts were forgiven for the year ended June 30, 2016.

During the year ended June 30, 2015, the Foundation transferred assets with a fair value of \$538,811 to Opportunity Village ARC. The asset transfer was used to reduce a portion of the intercompany balance owed to Opportunity Village ARC and was not considered a grant to Opportunity Village ARC. The Foundations' Board of Directors relinquished all interests in these fixed assets. No asset transfers occurred in the year ended June 30, 2016.

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 \$67,065 and \$56,193 for the years ended June 30, 2016 and 2015, respectively.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

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 Opportunity Village Association for Retarded Citizens ("Opportunity Village ARC") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2016.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Opportunity Village ARC's financial statements are free of 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*.

Certified Public Accountants
20 YEARS & COUNTING

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hmedsmoth, Russo & Company, P.C.

Las Vegas, Nevada
September 23, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Opportunity Village Association for Retarded Citizen's ("Opportunity Village ARC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Opportunity Village ARC's major federal program for the year ended June 30, 2016. Opportunity Village ARC's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Opportunity Village ARC's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Opportunity Village ARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 Opportunity Village ARC's compliance.

Opinion on Each Major Federal Program

In our opinion, Opportunity Village ARC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Certified Public Accountants
20 YEARS & COUNTING

Report on Internal Control Over Compliance

Management of Opportunity Village ARC 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 Opportunity Village ARC's 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 the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Opportunity Village ARC's 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.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ahmedsmoth, Russo & Company, P.C.

Las Vegas, Nevada
September 23, 2016

OPPORTUNITY VILLAGE ARC

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016 AND 2015**

<u>Federal Grantor/Pass Through Grantor</u>	<u>Program Title</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Passed through Clark County, Nevada:				
U.S. Department of Housing and Urban Development	Community Development Block Grant	N/A	14.218	<u>\$ 1,846,586</u>

See accompanying notes to financial statements

OPPORTUNITY VILLAGE ARC

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of federal expenditures of federal awards includes federal award activity of Opportunity Village ARC under programs of the federal government for the year ended June 30, 2016. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule only presents a selected portion of the operations of Opportunity Village ARC, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of Opportunity Village ARC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, "*Cost Principles for Non-Profit Organizations*," wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. PASS-THROUGH AWARDS

Opportunity Village ARC received federal financial assistance from pass-through awards of the pass-through entity listed on the schedule of expenditures of federal awards.

OPPORTUNITY VILLAGE ARC

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Opportunity Village ARC.
2. No instances of significant deficiencies or material weaknesses related to the audit of the financial statements of Opportunity Village ARC, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of Opportunity Village ARC, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance.
5. The auditor's report on compliance for the major program for Opportunity Village ARC expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the U.S. Department of Housing and Urban Development, Community Development Block Grant, CFDA Number 14.218.
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Opportunity Village ARC does not qualify as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

FINDINGS AND QUESTIONED COSTS-FINANCIAL STATEMENT AUDIT

None.

OPPORTUNITY VILLAGE ARC

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

PRIOR YEAR FINDINGS-FINANCIAL STATEMENT AUDIT

None.

PRIOR YEAR FINDINGS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.