

**OPPORTUNITY VILLAGE
ASSOCIATION FOR RETARDED
CITIZENS, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
JUNE 30, 2006 AND 2005**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Opportunity Village Association for Retarded Citizens, Inc.

We have audited the accompanying statements of financial position of Opportunity Village Association for Retarded Citizens, Inc. ("Opportunity Village") as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2006. These financial statements are the responsibility of Opportunity Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Opportunity Village as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Opportunity Village is financially dependent on Opportunity Village Foundation, Inc. for its fundraising activities.

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September 21, 2006

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OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

ASSETS	2006	2005
Current assets:		
Cash	\$ 2,261	\$ 4,025
Accounts receivable, net	1,071,211	1,066,843
Government support receivable	402,705	362,725
Mortgage receivable	-	-
Inventory	166,143	169,513
Due from Opportunity Village Foundation, Inc.	29,022	-
Prepaid expenses and other	417,059	280,387
Total current assets	2,088,401	1,883,493
Property and equipment:		
Land	450,000	450,000
Buildings and improvements	10,478,614	10,064,163
Machinery and equipment	1,796,588	1,328,890
Automobiles and trucks	515,559	490,638
Work in process	114,277	142,086
Accumulated depreciation	(4,475,708)	(3,842,445)
Net property and equipment	8,879,330	8,633,332
Other assets	420,018	432,870
Total assets	\$ 11,387,749	\$ 10,949,695
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 385,250	\$ 405,970
Accrued payroll	575,319	623,808
Line of credit	1,128,516	6,663
Overdraft payable	361,282	482,468
Current portion of long-term debt	35,214	-
Total current liabilities	2,485,581	1,518,909
Long-term debt, less current portion	38,001	-
Total liabilities	2,523,582	1,518,909
Net assets:		
Unrestricted	8,564,167	9,130,786
Permanently restricted	300,000	300,000
Total net assets	8,864,167	\$ 9,430,786
Total liabilities and net assets	\$ 11,387,749	\$ 10,949,695

The accompanying notes are an integral part of these financial statements.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Changes in unrestricted net assets:		
Revenues, gains, and support:		
Government support	\$ 4,353,687	\$ 3,916,826
Other revenues:		
Service contracts	6,445,318	5,944,699
Thrift store sales	1,032,818	1,165,571
General contract sales	2,853,263	2,182,925
Other	34,209	67,151
Total unrestricted revenues, gains, and support	14,719,295	13,277,172
Expenses:		
Program services:		
Service contracts	6,034,802	5,901,903
Thrift store	1,190,217	1,124,968
Work-training and adult development	7,389,130	5,891,488
Support services:		
Management and general	1,933,193	1,567,538
Total expenses	16,547,342	14,485,897
Decrease in unrestricted net assets before grants and extraordinary items	(1,828,047)	(1,208,725)
Grants from the Foundation	1,261,428	2,202,654
Increase (decrease) in unrestricted net assets	(566,619)	993,929
Increase (decrease) in net assets	(566,619)	993,929
Net assets, beginning of year	9,430,786	8,436,857
Net assets, end of year	\$ 8,864,167	\$ 9,430,786

The accompanying notes are an integral part of these financial statements.

**OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005**

	Program Services			Total Program Services	Support Services		Totals (Memorandum Only)	
	Service Contracts	Thrift Store	Work-training and Adult Development		Management and General	2006	2005	
Staff salaries	\$ 2,439,373	\$ 387,210	\$ 3,211,653	\$ 6,038,236	\$ 1,074,417	\$ 7,112,653	\$ 6,241,340	
Client salaries	1,360,815	178,446	461,984	2,001,245	-	2,001,245	1,846,651	
Payroll taxes	491,272	50,558	364,876	906,706	86,176	992,882	973,630	
Employee benefits	678,430	43,957	429,816	1,152,203	113,643	1,265,846	1,088,693	
Staff training and development	8,388	-	9,766	18,154	9,840	27,994	53,935	
Utilities	16,621	81,841	300,082	398,544	7,694	406,238	327,621	
Rent	16,606	-	-	16,606	84,332	100,938	33,628	
Depreciation on purchased assets	58,191	45,720	185,104	289,015	95,069	384,084	304,602	
Depreciation on donated assets	2,323	18,490	267,818	288,631	101,508	390,139	357,722	
Cost of sales	-	-	958,950	958,950	280	959,230	935,152	
Supplies	246,015	12,587	106,915	365,517	48,119	413,636	434,087	
Insurance and taxes	43,359	22,246	85,608	151,213	10,879	162,092	170,471	
Transportation expenses	119,487	59,694	181,797	360,978	32,969	393,947	333,522	
Interest	-	-	-	-	22,571	22,571	36,094	
Commissions and bank fees	193,397	6,372	10,970	210,739	27,443	238,182	229,100	
Advertising and publications	2,155	181,464	161,205	344,824	19,020	363,844	331,565	
Provision for bad debts	3,659	-	8,958	12,617	-	12,617	4,662	
Telephone	50,864	13,740	75,679	140,283	75,663	215,946	167,371	
Conferences	18,295	1,766	18,967	39,028	15,090	54,118	79,094	
Repairs and maintenance	6,274	11,407	110,005	127,686	25,534	153,220	168,883	
Professional fees	162,652	48,744	224,350	435,746	137,580	573,326	367,023	
Shipping and freight	111	87	32,900	33,098	5,831	38,929	8,124	
Overhead allocated to Foundation	-	-	-	-	(123,689)	(123,689)	(247,955)	
Other	116,515	25,888	181,727	324,130	63,224	387,354	240,880	
Total expenses	\$ 6,034,802	\$ 1,190,217	\$ 7,389,130	\$ 14,614,149	\$ 1,933,193	\$ 16,547,342	\$ 14,485,897	

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The accompanying notes are an integral part of these financial statements.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ (566,619)	\$ 993,929
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Loss on disposal of assets	22,792	42,949
Depreciation and amortization expense	774,223	662,324
Donated items included in contributions and grants	(291,189)	(486,140)
(Increase) decrease in:		
Accounts receivable	(4,368)	(181,293)
Government support receivable	(39,980)	(74,160)
Mortgage receivable	-	9,241
Inventory	3,370	(32,222)
Due from Foundation	(29,022)	-
Prepaid expenses and other	(136,672)	(93,241)
Other assets	12,852	(49,283)
Increase (decrease) in:		
Accounts payable	(20,720)	(74,252)
Accrued payroll and related expenses	(169,675)	86,105
Net cash provided by (used in) operating activities	(445,008)	803,957
Cash Flows From Investing Activities:		
Proceeds from sale of property and equipment	27,140	-
Expenditures for acquisition of property and equipment	(673,322)	(564,367)
Net cash used in investing activities	(646,182)	(564,367)
Cash Flows From Financing Activities:		
Payments on long-term debt	(32,427)	(145,878)
Net proceeds (payments) on line of credit	1,121,853	(93,337)
Net cash provided by (used in) financing activities	1,089,426	(239,215)
Net increase (decrease) in cash	(1,764)	375
Cash, beginning of year	4,025	3,650
Cash, end of year	\$ 2,261	\$ 4,025

Supplemental information:

Cash paid for interest	\$ <u>22,571</u>	\$ <u>36,094</u>
Debt issued for the purchase of property, plant and equipment	\$ <u>105,641</u>	\$ <u>-</u>

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Valley Associates, a for-profit corporation, a subsidiary of Opportunity Village, will pursue business activities unrelated to benefiting the mentally disabled. Although the business enterprises of Valley Associates may employ disabled workers, its primary emphasis is to generate revenues to fund programs to benefit the mentally disabled. This entity had no activity during the years ended June 30, 2006 and 2005.

The following is a summary of significant accounting policies:

Basis of Presentation

Opportunity Village presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization 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.

Accounts Receivable, Net

Accounts receivable result from contracts for the services of Opportunity Village clients. Management reviews accounts receivable balances and performs credit evaluations of its customers in order to determine whether or not a provision for potential credit losses is necessary. At June 30, 2006 and 2005, the provisions were \$0. All amounts recorded are expected to be received within one year.

Inventory

Inventory consists of items used in the Employment and Training Center and materials used in work performed on various service contracts, and is stated at the lower of cost (determined by the first-in, first-out method) or market.

Advertising

Opportunity Village expensed all of its advertising costs as they were incurred. Advertising expense for the years ended June 30, 2006 and 2005 were \$339,459 and \$301,051, respectively.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Land, buildings and equipment are recorded at cost or, in the case of contributions, at fair value on the date of the gift. It is Management's policy to capitalize expenditures for these items in excess of \$1,000. Depreciation is provided for on the straight-line method over estimated useful lives of five years for automobiles, 3 to 10 years for furniture and equipment, 5 to 30 years for buildings and improvements, and 47 years for site improvements at the new facilities. The facility located on Oakey Boulevard was constructed on land owned by the State of Nevada. Opportunity Village has a license agreement with the State granting use of this land until October 2039.

Revenue Recognition

Opportunity Village accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

Opportunity Village reports gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restriction.

Opportunity Village receives a substantial amount of donated clothing and furniture that is held for sale through its thrift store outlet. The donated materials are not recorded as revenue until sold. All other assets unconditionally donated and retained by Opportunity Village are recorded at fair market value on the date of donation.

Government support is obtained from the State of Nevada to subsidize staffing and operating costs. Revenue is recorded and matched in the same period as the costs incurred. Government support receivable represents support pledged unconditionally by the State of Nevada. This support is expected to be collected within one year and has been reported at net realizable value.

Service contracts are obtained from various government agencies, including the National Industries for the Severely Handicapped ("NISH"), and other private agencies throughout the community. Revenue is recorded and matched in the same period as the costs are incurred.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Management and general expenses are shared and allocated between Opportunity Village and Opportunity Village Foundation, Inc. ("Foundation"), a not-for-profit organization organized to raise, invest, and distribute funds to promote the interests of persons with severe intellectual disabilities, and to promote capital campaign drives. The allocation of such expenses allocated to the Foundation is based on a maximum of ten percent of the Foundation's total monthly expenses. For the years ended June 30, 2006 and 2005, management and general expenses of \$123,689 and \$247,953, respectively, were allocated from Opportunity Village to the Foundation.

Total Columns on Combined Statement

Total columns in the statement of functional expenses are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Nonprofit Status

Opportunity Village is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not include a provision for income taxes.

Related Parties

Opportunity Village will occasionally conduct business with its board members. The following transactions are at arms length and at market value.

Opportunity Village is financially dependant on the Foundation to provide funds to cover grants and cash to cover operational shortfalls. The Foundation was organized as a not-for-profit corporation for the purpose of organizing fundraising events and capital campaigns in order to promote the interests of individuals with intellectual disabilities. This support totaled \$1,261,428 and \$2,202,654 for the years ended June 30, 2006 and 2005, respectively.

Opportunity Village purchases its advertising from the Las Vegas Review-Journal where a board member is employed as Director of Advertising. Those purchases totaled \$98,088 and \$68,969 for the years ended June 30, 2006 and 2005, respectively. The Las Vegas Review-Journal also donates a significant portion of advertising to Opportunity Village.

Opportunity Village maintains operating accounts and a \$1,500,000 line of credit with Wells Fargo Bank where a board member is employed as a Vice-President. Fees paid to Wells Fargo Bank totaled \$27,580 and \$16,753 for the years ended June 30, 2006 and 2005, respectively. Wells Fargo Bank supports Opportunity Village by contracting to provide document destructions services to approximately 89 Wells Fargo locations in the Las Vegas area.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Parties (continued)

Opportunity Village purchased a number of its vehicles from Desert Automotive Group where a Foundation board member is employed as Vice-President of Marketing. Those purchases totaled \$111,763 and \$37,811 for the years ended June 30, 2006 and 2005, respectively. Desert Automotive Group provides these vehicles at wholesale pricing and has spearheaded a major campaign to support our vehicle donation program.

Opportunity Village 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 \$25,967 and \$27,907 for the years ended June 30, 2006 and 2005, respectively.

Opportunity Village purchases custodial supplies from Waxie Sanitary Supply where a Foundation board member is employed as Vice-President and General Manager. Those purchases totaled \$226,516 and \$229,883 for the years ended June 30, 2006 and 2005, respectively. Waxie has provided Opportunity Village with a number of work center contracts, recruited volunteers for special projects, and spearheaded a campaign for new building signage.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant estimates used by Opportunity Village include the estimated useful lives for fixed assets. Actual results could differ from those estimates.

Impairment of Long-Lived Assets

Opportunity Village follows the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of*. SFAS No. 121 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 the assets.

Management of Opportunity Village believes that no adjustment for impairment is necessary at June 30, 2006 and 2005.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

2. PROPERTY AND EQUIPMENT

During the year ended June 30, 2006 and 2005, the Foundation transferred a total of \$298,970 and \$503,113, respectively, as grants to Opportunity Village for equipment and leasehold improvements. The Foundation's Board of Directors relinquished all interests in these fixed assets.

3. OTHER ASSETS

The following is a summary of other assets at June 30:

	<u>2006</u>	<u>2005</u>
License agreement	\$ 7,632	\$ 7,860
Investments for deferred compensation	139,689	116,562
Down payment - Home Choice Program	236,155	260,878
Down payment - Employer Assisted Housing Program	<u>36,542</u>	<u>47,570</u>
Total	<u>\$ 420,018</u>	<u>\$ 432,870</u>

4. LEASES

Opportunity Village's leasing arrangements consist primarily of the leasing of office equipment and rental space under operating leases with noncancelable terms that expire on various dates through 2011. The expense incurred under these leases for the year ended June 30, 2006 and 2005 was \$155,550 and \$42,570, respectively. Future minimum payments under these operating leases as of June 30, 2006 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2007	\$ 178,526
2008	101,714
2009	51,288
2010	24,958
2011	<u>5,625</u>
	<u>\$ 362,111</u>

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

5. LONG-TERM DEBT

The following is a summary of long-term debt at June 30:

	<u>2006</u>
Note payable, non-interest bearing, due \$2,934 monthly, maturing in fiscal year 2009, secured by a license agreement for software and maintenance support.	\$ 73,215
Less current portion	<u>(35,214)</u>
Total long-term debt, less current portion	<u>\$ 38,001</u>

Scheduled maturities of long-term debt at June 30, 2006 are as follows:

2007	\$ 35,214
2008	35,214
2009	<u>2,787</u>
	<u>\$ 73,215</u>

6. CONCENTRATION OF CREDIT RISK

Opportunity Village has concentrated its credit risk by maintaining deposits in financial institutions which at times may 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 has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

At June 30, 2006 and 2005, Opportunity Village had cash deposits in excess of federally insured limits of \$0.

7. LINE OF CREDIT

Opportunity Village and the Foundation, have available a line of credit with Wells Fargo Bank for \$1,500,000. Interest is at the bank's prime rate. The line of credit is secured by all assets of both organizations. At June 30, 2006 and 2005, the organizations had drawn \$1,128,516 and \$305,179, respectively, on the line of credit. At June 30, 2006 and 2005 Opportunity Village was obligated for \$1,128,516 and \$6,663, respectively.

The line of credit agreement requires the organizations to maintain certain financial covenants. The organizations have complied with the covenants as of June 30, 2006.

OPPORTUNITY VILLAGE ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006 AND 2005

8. 403(B) RETIREMENT PLAN

Opportunity Village 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 ending June 30, 2006 and 2005, Opportunity Village matched 50% of an employee's contribution to the plan up to \$2,000 per year. Retirement plan expenses were \$38,894 and \$17,571, respectively.

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of a grant provided by the Department of Housing and Urban Development to be used for Opportunity Village's Home Choice Program. The Program provides deferred payment loans to be used for down payment assistance and eligible closing costs to accomplish the objective of homeownership for disabled, low-income first-time homebuyers.

10. COMMITMENTS AND CONTINGENCIES

Opportunity Village 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's financial position, results of operations, or liquidity.

11. ITEMS RECLASSIFIED NOT SPECIFICALLY IDENTIFIED

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net assets.