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# OPPORTUNITY VILLAGE

# FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2008

HOULDSWORTH
RUSSO & CO., P.C.
certified public accountants

AN INDEPENDENT MEMBER OF
BDO SEIDMAN
ALLIANCE

**OPPORTUNITY VILLAGE FOUNDATION**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Opportunity Village Foundation

We have audited the accompanying statement of financial position of Opportunity Village Foundation ("Foundation") as of June 30, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 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 audit provides 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 the Foundation as of June 30, 2008 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.

Houldsworth, Russo & Company

Henderson, Nevada
November 3, 2008

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**OPPORTUNITY VILLAGE FOUNDATION**
**STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2008**

| | | |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ | 17,015,391 |
| Investments | | 20,234,740 |
| Interest receivable | | 27,244 |
| Unconditional promises to give, current | | 5,576,423 |
| Prepaid expenses and other | | 75,818 |
| Event supplies inventory | | 95,669 |
| | | 43,025,285 |
| **Property and equipment:** | | |
| Automobiles and trucks | | 24,765 |
| Buildings and improvements | | 911,625 |
| Machinery and equipment | | 736,768 |
| Carousel | | 254,613 |
| Construction in progress | | 11,310,036 |
| Accumulated depreciation | | (1,282,017) |
| | | 11,955,790 |
| **Other noncurrent assets:** | | |
| Investments, permanently restricted | | 2,778,337 |
| Deposits | | 59,015 |
| Deferred bond issuance costs, net | | 647,766 |
| Deferred compensation | | 60,942 |
| Unconditional promises to give, net of current portion | | 5,265,294 |
| | | 8,811,354 |
| | $ | 63,792,429 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities:** | | |
| Accounts payable | $ | 1,922,298 |
| Accrued expenses | | 259,872 |
| Due to Opportunity Village | | 34,396 |
| Deferred income | | 263,012 |
| Current portion of long-term debt | | 320,000 |
| | | 2,799,578 |
| **Long-term liabilities:** | | |
| Long-term debt, net of current portion | | 19,705,000 |
| | | 22,504,578 |
| **Net assets:** | | |
| Unrestricted | | 17,503,310 |
| Temporarily restricted | | 21,006,204 |
| Permanently restricted | | 2,778,337 |
| | | 41,287,851 |
| | $ | 63,792,429 |

**OPPORTUNITY VILLAGE FOUNDATION**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2008**

| | | |
|---|---|---|
| **Change in unrestricted net assets** | | |
| Revenues, gains, and support: | | |
| Organization and individual contributions | $ | 1,228,454 |
| Other revenues: | | |
| Fundraising revenues | | 4,800,306 |
| Interest, dividends, and other | | 650,225 |
| Loss on investments | | (1,107,250) |
| Gain on sale of assets | | 136 |
| Net assets released from restriction due to satisfaction of program and time restrictions | | 9,382,096 |
| | | 13,725,513 |
| | | 14,953,967 |
| Expenses and losses: | | |
| Program | | 1,608,430 |
| Support services: | | |
| Fundraising | | 3,432,162 |
| Management and general | | 794,608 |
| | | 5,835,200 |
| Increase in unrestricted net assets | | 9,118,767 |
| **Change in temporarily restricted net assets** | | |
| Revenues, gains, and support: | | |
| Organization and individual contributions | | 1,115,614 |
| Contributions to capital campaign | | 9,055,600 |
| Net assets released from restriction due to satisfaction of program and time restrictions | | (9,382,096) |
| **Increase in temporarily restricted net assets** | | 789,118 |
| **Increase in net assets** | | 9,907,885 |
| **Net assets, beginning of year** | | 29,591,952 |
| **Prior period adjustment** | | 1,788,014 |
| **Net assets, beginning of year, restated** | | 31,379,966 |
| **Net assets, end of year** | $ | 41,287,851 |

See accompanying notes to financial statements

**OPPORTUNITY VILLAGE FOUNDATION**
**STATEMENT OF FUNCTIONAL EXPENSES**
**YEAR ENDED JUNE 30, 2008**

| | | Support Services | | |
|---|---|---|---|---|
| | Program | Fundraising | Management and General | Total |
| Grants to Opportunity Village ARC | $ 1,608,430 | $ - | $ - | $ 1,608,430 |
| Staff salaries | - | 709,479 | - | 709,479 |
| Payroll taxes | - | 50,828 | - | 50,828 |
| Employee health insurance | - | 36,331 | - | 36,331 |
| Bank fees | - | 497,909 | - | 497,909 |
| Utilities | - | - | 19,592 | 19,592 |
| Bad debt | - | - | 30,025 | 30,025 |
| Depreciation | - | 178,808 | - | 178,808 |
| Amortization | - | - | 22,662 | 22,662 |
| Supplies | - | 184,753 | - | 184,753 |
| Insurance and taxes | - | 35,909 | - | 35,909 |
| Transportation | - | 14,382 | - | 14,382 |
| Event in-kind donations | - | 1,595,895 | - | 1,595,895 |
| Advertising and publications | - | 77,762 | - | 77,762 |
| Telephone | - | - | 20,417 | 20,417 |
| Conferences | - | - | 13,595 | 13,595 |
| Rent | - | - | 39,440 | 39,440 |
| Repairs and maintenance | - | - | 57,750 | 57,750 |
| Retirement expenses | - | 20,850 | - | 20,850 |
| Professional fees | - | - | 333,988 | 333,988 |
| Volunteer activities | - | 12,040 | - | 12,040 |
| Postage | - | 17,216 | - | 17,216 |
| Employee relations | - | - | 3,572 | 3,572 |
| Facilities overhead allocation for services provided by Opportunity Village ARC | - | - | 12,235 | 12,235 |
| Administrative overhead allocation for services provided by Opportunity Village ARC | - | - | 241,332 | 241,332 |
| **Total** | $ 1,608,430 | $ 3,432,162 | $ 794,608 | $ 5,835,200 |

See accompanying notes to financial statements

**OPPORTUNITY VILLAGE FOUNDATION**
**STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2008**

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Increase in net assets | $ | 9,907,885 |
| Depreciation and amortization expense | | 201,470 |
| Gain on disposal of assets | | (136) |
| Donated assets | | 448,787 |
| Bad debt expense | | 30,025 |
| Change in present value discount | | (472,826) |
| Opportunity Village ARC receivable forgiven | | 1,178,074 |
| Unrealized loss on investments | | 749,229 |
| (Increase) decrease in: | | |
| Accrued interest receivable | | 81,300 |
| Pledges receivable | | 456,489 |
| Grants receivable | | 167,846 |
| Due from Opportunity Village ARC | | (450,000) |
| Prepaid expenses and other assets | | 145,426 |
| Donated inventory | | (46,953) |
| Deposits | | (59,015) |
| Increase (decrease) in: | | |
| Accounts payable | | (106,661) |
| Accrued expenses | | (152,829) |
| Deferred income | | 151,162 |
| Due to Opportunity Village ARC | | 34,396 |
| **Net cash provided by operating activities** | | 12,263,669 |
| **Cash flows from investing activities:** | | |
| Expenditures for property, plant, and equipment | | (8,344,796) |
| Cash paid for investments | | (66,953,140) |
| Proceeds from sale of investments | | 57,509,680 |
| **Net cash used in investing activities** | | (17,788,256) |
| **Cash flows from financing activities:** | | |
| Principal payments on long term debt | | (4,250,000) |
| **Net cash used in financing activities** | | (4,250,000) |
| **Net decrease in cash and cash equivalents** | | (9,774,587) |
| **Cash and cash equivalents, beginning of year** | | 26,789,978 |
| **Cash and cash equivalents, end of year** | $ | 17,015,391 |
| **Supplemental information:** | | |
| Interest expense capitalized | $ | 668,878 |
| Interest expense paid | $ | 717,476 |
| Construction in progress acquired through accounts payable | $ | 1,867,010 |

See accompanying notes to financial statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Opportunity Village Foundation (the "Foundation") is 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 Foundation is supported primarily through donor contributions, grants from donors and organizations, and fundraising events held in the Southern Nevada Region.

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

The Foundation 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 Foundation 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at market value in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.*

Property and Equipment

The Foundation capitalizes all expenditures for property and equipment in excess of $1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 5 years for automobiles, 3 to 10 years for furniture and equipment, 15 years for the carousel, and 5 to 30 years for buildings and improvements.

Revenue Recognition

The Foundation 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, including bequests and unconditional promises to give, at their estimated net realizable value. Bequests are recognized at the time the Foundation's right to them is established by a court and to the extent the value of proceeds is subject to reasonable estimation.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other 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.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The estimated fair value of unrecorded donated services, which principally consist of non-professional volunteers, was approximately $637,392 for the year ended June 30, 2008. These amounts are not included in the in-kind donations listed in the statements of activities and changes in net assets.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Management and general expenses are allocated between the Foundation and Opportunity Village Association for Retarded Citizens ("Opportunity Village"), a not-for-profit organization operated to assist and train adults with severe intellectual disabilities through vocational training, employment and similarly organized activities. The allocation is based on a percentage of total salaries for the entity.

Deferred Revenue

The Foundation received pre-payments for future fundraising events that are scheduled for fiscal year 2009. Accordingly, the amounts have been recorded as deferred income and will be recognized as revenue when the events occur.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 could differ from those estimates. Significant estimates include collectibility of pledges receivable and grants receivable, unamortized discount of pledges receivable, and valuation of contributions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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.

The Foundation records an allowance to estimate uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. The allowance as of June 30, 2008 was $25,000.

Impairment of Long-Lived Assets

The Foundation 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 assets.

The Foundation believes that no adjustment for impairment is necessary at June 30, 2008.

Capitalization of Interest Costs on Borrowings

The Foundation follows the provisions of SFAS No. 62, *Capitalization of Interest Cost in Situation Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants.* The Foundation offsets interest income against capitalized interest cost on borrowing incurred during the new construction or upgrade of qualifying assets financed with the proceeds of tax-exempt borrowings for which the funds are restricted to finance the acquisition of the qualifying assets or the servicing of the related debt. The amounts are offset to the cost of the underlying assets from the date of the borrowing until the assets are ready for their intended use, at which time they are amortized over the useful lives of the assets. For the year ended June 30, 2008, the Foundation capitalized $668,878 of interest expense, which was offset by $668,244 in interest income in connection with the Variable Rate Demand Economic Development Revenue Bonds (Opportunity Village Foundation Project) Series 2007. Total net capitalized interest income and expense from the acquisition of the qualifying assets through June 30, 2008 was $(126,032).

## 2. ADVERTISING

The Foundation expensed all of its advertising costs as they were incurred. Advertising costs totaled $77,762 during the year ended June 30, 2008.

## 3. INVESTMENTS

Equity securities with readily determinable fair value and all debt securities are reported at estimated fair value based on quoted market prices. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. A substantial portion of endowment funds is presently invested in corporate bonds and mutual funds. The net change in the fair market value of these investments (in aggregate) at June 30, 2008 was $(752,470). Since their market values are not readily determinable on open markets, the Real Estate Investment Trusts (REIT's) are stated at market values as provided by the investment manager. Investments consist of the following at June 30, 2008:

| | |
|---|---|
| Corporate bonds and bond funds | $ 272,553 |
| Mutual funds | 19,616,307 |
| Equity Securities | 2,615,467 |
| REIT's | 508,750 |
| Total | 23,013,077 |
| Current | 20,234,740 |
| Long term | $ 2,778,337 |

## 4. NATURE AND AMOUNT OF NET ASSETS

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can by fulfilled and removed by actions of the Foundation pursuant to those stipulations. Permanently restricted net assets are restricted by the donor for investment in perpetuity, the income from which is available to support any activity of the Foundation.

Temporarily restricted net assets are available for the following purposes at June 30, 2008:

| | |
|---|---|
| Recreation program | $ 1,619,986 |
| Capital Campaign Drive | 15,235,599 |
| Carousel and train maintenance | 115,404 |
| Walters campus expansion | 835,000 |
| Arvis Forrest Endowment | 18,903 |
| Donor imposed program restrictions | 356,498 |
| Arts and Enrichment program | 26,044 |
| Other unconditional promises to give | 778,961 |
| Unconditional promises to give for land leases | 2,019,809 |
| Total temporarily restricted net assets | $ 21,006,204 |

## 4. NATURE AND AMOUNT OF NET ASSETS (Continued)

The assets restricted for temporarily restricted net assets are as follows:

| | | |
|---|---|---|
| Investments | $ | 10,164,487 |
| Unconditional promises to give, net | | 10,841,717 |
| Total temporarily restricted assets | $ | 21,006,204 |

Permanently restricted net assets consist of the following purposes at June 30, 2008:

| | | |
|---|---|---|
| Lied Foundation Endowment | $ | 2,229,088 |
| Carousel maintenance | | 150,000 |
| Forrest Endowment | | 399,249 |
| Total permanently restricted net assets | $ | 2,778,337 |

## 5. PROPERTY AND EQUIPMENT

During the year ended June 30, 2008, the Foundation transferred a total of $16,710 of fixed assets as grants to Opportunity Village. The Foundation's Board of Directors relinquished all interests in these fixed assets.

## 6. IN-KIND CONTRIBUTIONS

In-kind contributions principally consist of donated supplies and professional services for support and fundraising events. The estimated fair value of recognized donated supplies and services included the following at June 30, 2008:

| | | |
|---|---|---|
| Fundraising | $ | 1,985,544 |

Donated services for the various fundraising events and the construction of the Southwest Campus were provided totaling $1,679,579, of which $389,649 was capitalized as part of the construction of the Southwest Campus.

## 7. CONCENTRATIONS

The Foundation 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. The Foundation has not experienced any losses in such accounts and believes it is not exposed to a significant credit risk to cash.

## 8. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30, 2008:

| | | |
|---|---|---|
| Unconditional promises to give related to the capital campaign | $ | 7,531,143 |
| Unconditional promise to give for gasoline | | 904,987 |
| Pledged land | | 835,000 |
| Oakey land lease | | 1,014,885 |
| Southwest land lease | | 6,026,419 |
| Total unconditional promises to give | $ | 16,312,434 |
| Receivable in less than one year | $ | 5,576,423 |
| Receivable in one to five years | | 2,778,674 |
| Receivable in more than five years | | 7,957,337 |
| Total unconditional promises to give | | 16,312,434 |
| Less unamortized discount | | (5,445,717) |
| Less allowance for doubtful accounts | | (25,000) |
| Net unconditional promises to give | | 10,841,717 |
| Current | | 5,576,423 |
| Long term | $ | 5,265,294 |

Unconditional promises to give are reflected at the present value of estimated future cash flows using a discount rate of 4% in 2008. Amounts are recorded as temporarily restricted net assets until released from restriction. Approximately 31% and $3,212,735 of the unconditional promises to give related to the capital campaign at June 30, 2008 was from two donors.

## 9. LEASES

The Foundation's leasing arrangements consist primarily of the leasing of equipment under operating leases with noncancelable terms that expire up to 2011.

In November 1990, the Foundation entered into an agreement with the State of Nevada to lease land, upon which the Foundation constructed the Walters Campus, which was completed and donated to Opportunity Village in May 2000. The term of the land lease is for forty-nine (49) years with no rental payments and will expire on October 31, 2040. The fair value of donated rent to be received under this lease has been estimated at $32,390 a year and has been recorded as an unconditional promise to give, net of present value discount. The related expenses are recorded as grants to Opportunity Village.

In May 2004, the Foundation entered into an agreement with Clark County to lease land, upon which the Foundation is currently constructing the Southwest Campus. The term of the land lease was amended in September 2006 to be granted to the Foundation 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 $63,547 a year and has been recorded as an unconditional promise to give, net of present value discount. The related expenses are recorded as grants to Opportunity Village.

## 9. LEASES (Continued)

The total expense incurred under the leases for the year ended June 30, 2008 was $2,378. Future minimum payments under the operating lease as of June 30, 2008 are as follows:

| Fiscal Year Ending June 30, | | |
|---|---|---|
| 2009 | $ | 2,378 |
| 2010 | | 2,378 |
| 2011 | | 1,495 |
| 2012 | | 1,200 |
| 2013 | | 1,200 |
| Thereafter | | 107,800 |
| | $ | 116,451 |

## 10. 403(B) RETIREMENT PLAN

The Foundation 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 year ending June 30, 2008 the Foundation matched 50% of an employee's contribution to the plan up to $2,000 per year. Retirement plan expense was $20,850.

## 11. DEFERRED COMPENSATION AGREEMENT

The Foundation entered into an agreement with a key employee in September 1998, which was amended during the year ended June 30, 2006. The Foundation agreed to establish a deferred compensation account and annually credit two equal installments of $7,000 on the last day of August and February during the continuance of the employee's employment. The employee is fully vested on all funds placed into 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 employee or beneficiary at the employee's departure, disability or death. The total amount contributed by the Foundation under this agreement for the year ended June 30, 2008 was $14,000.

## 12. LONG-TERM DEBT

In January 2007, Opportunity Village 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 Foundation Project) Series 2007 were issued in the amount of $24,275,000. The funds are restricted for the use of the various construction projects. The funds will be used to finance the costs of construction of a building to be located on land leased from Clark County at the intersection of Buffalo and Patrick in Clark County, Nevada. The funds will also be used for the renovation and improvement of the Foundation's existing administrative facilities located in the City of Las Vegas, Nevada. Upon completion, the project will be used as administrative headquarters and as employment and training facilities to assist, train and employ intellectually handicapped adults. The amount of restricted debt proceeds not yet expended at June 30, 2008 was $14,934,018.

## 12. LONG-TERM DEBT (Continued)

The obligation of the loan repayment is with the Foundation and the related debt is recorded on the books of the Foundation. However, the loan agreement requires that substantially all of the unrestricted assets of Opportunity Village be pledged as collateral for the repayment of the obligation. The leasehold improvements at the intersection of Buffalo and Patrick in Clark County, Nevada is recorded on the Foundation's books until completion of the project, at which time the asset will be transferred as a grant from the Foundation to Opportunity Village and the Foundation's Board of Directors will relinquish all interests in these assets. Additionally, the Foundation must meet various financial covenants at June 30, 2008, including maintaining a cash minimum balance to debt ratio of at least 0.65:1 and receive capital campaign pledges of at least 110% of the outstanding bond debt at year end.

The following is a summary of long-term debt at June 30, 2008:

| | |
|---|---|
| Clark County, Nevada Variable Rate Demand Economic Development Revenue Bonds with varying annual principal payments due through January 1, 2037, including interest at variable rates, collateralized by: all monies held by the bond trustee, Bank of New York; The Thrift Store property recorded on Opportunity Village's books; leasehold improvements on the 10.9 acres of real property located at the northeast corner of Buffalo Drive and Patrick Lane, Clark County, Nevada (APN 163-34-201-013); Gross revenues and all deposit accounts of Opportunity Village and the Foundation; Leases on the Thrift Store property. | $ 20,025,000 |

Scheduled maturities of long-term debt at June 30, 2008 are as follows:

| Fiscal Year Ending June 30, | |
|---|---|
| 2009 | $ 320,000 |
| 2010 | 335,000 |
| 2011 | 355,000 |
| 2012 | 370,000 |
| 2013 | 390,000 |
| Thereafter | 18,255,000 |
| | $ 20,025,000 |

## 13. LETTER OF CREDIT

At January 1, 2007, a standby letter of credit of approximately $25 million was issued under an agreement, expiring January 25, 2011, which is being maintained as security for performance and advances received on the Variable Rate Demand Economic Development Revenue Bonds (Opportunity Village Foundation Project) Series 2007 that were issued in the amount of $24,275,000 and as security for debt service payments under industrial revenue bond loan agreements. The agreement provides a maximum commitment for a letter of credit of $24,586,253, requires an annual commitment fee of 1.65% of the maximum commitment charged quarterly, and is collateralized by deeds of trust to the leasehold improvements at the intersection of Buffalo and Patrick in Clark County, Nevada and on the thrift store property recorded on Opportunity Village's books.

## 14. COMMITMENTS AND CONTINGENCIES

On January 28, 2008, Opportunity Village and Opportunity Village Foundation entered in to a line of credit that they share and for which they are both liable. The line of credit was secured for $1,250,000 with an interest rate of prime plus one half percent (prime rate at June 30, 2008 was 5%). The line of credit matures on January 5, 2009. Opportunity Village is required to maintain tangible net worth not to exceed total liabilities. The line of credit is collateralized by all inventory, accounts receivable, and equipment. At June 30, 2008, there is no outstanding balance.

The Foundation 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 the Foundation's financial position, results of operations, or liquidity.

For the construction of the Southwest Campus, Opportunity Village and the Foundation entered into a contract with the general contractor for a maximum of $12,415,918. The remaining amount on the contract at June 30, 2008 is $3,654,986. The Foundation incurred expenses under this contract totaling $8,760,932 under the construction contract for the Southwest Campus for to two vendors.

## 15. RELATED PARTY TRANSACTIONS

Opportunity Village is financially dependent 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 interest of individuals with intellectual disabilities. This support totaled $1,608,430 for the year ended June 30, 2008. The Foundation grant revenue recognized consists of $240,085 in cash grants, $190,271 in in-kind services, and $1,178,074 in forgiven debt, of which $728,074 was presented at June 30, 2008. The Foundation received a promise in the current year for in-kind gasoline, in which Opportunity Village utilized $94,434. Additionally, the Foundation has been granted the right to use the land on which the Oakey Campus was built and the Southwest Campus is being constructed. These land leases are recorded as promises to give of the Foundation. As the campuses were constructed on these parcels of land, Opportunity Village recognized $95,837 in in-kind rent expense. The Foundation had an amount due to Opportunity Village of $34,396 for the year ended June 30, 2008.

During the year ended June 30, 2008 the Foundation transferred assets with a fair market value of $16,710 to Opportunity Village. The Foundation's Board of Directors relinquished all interests in these fixed assets.

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

The Foundation utilizes Morrissey Insurance as a broker for employee health and life insurance where a board member is President. Commissions paid to Morrissey Insurance totaled $3,089 for the year ended June 30, 2008. Morrissey Insurance financially supports a number of the fundraising events.

The Foundation utilizes Eckelkamp Retirement Planning as an investment broker where an Opportunity Village board member is President. Those investments totaled approximately $22,537,140 at June 30, 2008. Fees paid to Eckelkamp Retirement Planning totaled $80,862 for the year ended June 30, 2008. Eckelkamp Retirement Planning financially supports a number of the fundraising events.

The Foundation utilizes JMA Architecture Studios for various architectural services where a board member is President. Fees paid to JMA totaled $87,984 for the year ended June 30, 2008. JMA donates a significant portion of those fees back to the Foundation and financially supports a number of fundraising events.

## 15. RELATED PARTY TRANSACTIONS (Continued)

The Foundation utilizes R&R Partners for various advertising services where a board member is Executive Vice President. Fees paid to R&R Partners totaled $34,281 for the year ended June 30, 2008. R&R Partners financially supports a number of fundraising events.

Many board members financially support a number of fundraising events and provide general donations. For the year ended June 30, 2008, board members provided $1,786,538 in revenue, representing 13% of total revenue recognized. At June 30, 2008, the capital campaign promise to give balance consisted of promises from board members totaling $1,418,829, representing 18% of the gross promises to give related to the capital campaign.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

The Foundation entered into an interest rate swap arrangement effective April 2007 with its bank that effectively fixes the interest rate on a portion of the Variable Rate Demand Economic Development Revenue Bonds (Opportunity Village Foundation Project) Series 2007 at 3.58%. The Foundation's purpose in entering into this swap arrangement was to hedge against the risk of interest rate increases on the related variable debt. The notional amount of the contract as of June 30, 2008 was $12,275,000 and it matures April 2017.

The Foundation entered into a second interest rate swap arrangement effective January 2008 with its bank that effectively fixes the interest rate on a portion of the Variable Rate Demand Economic Development Revenue Bonds (Opportunity Village Foundation Project) Series 2007 at 3.05%. The Foundation's purpose in entering into this swap arrangement was to hedge against the risk of interest rate increases on the related variable debt. The notional amount of the contract as of June 30, 2008 was $6,000,000 and it matures January 2018.

## 17. PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in an understatement of net assets as of June 30, 2007 were discovered in the current year. The following is a summary of the adjustments made:

| | | |
|---|---|---|
| Previously reported net assets as of June 30, 2007 | $ | 29,591,952 |
| Overstatement of promises to give related to capital campaign | | (90,000) |
| Promises to give related to land leases | | 2,029,629 |
| Overstatement of grants receivable | | (7,000) |
| Understatement of accumulated depreciation | | (32,215) |
| Understatement of accrued expenses | | (112,400) |
| Total net assets | $ | 31,379,966 |