

**FUTURES EXPLORED, INC.**

REPORT ON AUDITS OF  
FINANCIAL STATEMENTS

**for the years ended June 30, 2006 and 2005**

# FUTURES EXPLORED, INC.

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**BPM.**  
**BURR, PILGER & MAYER LLP**  
Accounting ■ Consulting ■ Wealth Management

INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Futures Explored, Inc.  
Lafayette, California

We have audited the accompanying statement of financial position of Futures Explored, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2005 financial statements were audited by Brach, Neal, Daney & Spence, LLP who merged with Burr, Pilger & Mayer LLP as of July 1, 2006. Their report dated September 14, 2005 issued an unqualified opinion on those statements.

We have 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 Futures Explored, Inc. as of June 30, 2006, 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.

BURR, PILGER & MAYER LLP

*Burr, Pilger & Mayer LLP*

San Jose, California  
September 27, 2006

FUTURES EXPLORED, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2006 and 2005

ASSETS

	2006	2005
Current Assets:		
Cash	\$ 36,964	\$ 76,286
Accounts receivable	368,855	338,143
Unconditional promises to give	120,000	-
Prepays	42,357	8,530
Total current assets	568,176	422,959
Land and building	1,094,779	639,779
Furniture and equipment	246,536	230,679
Vehicles	72,290	70,265
Building and leasehold improvements	452,435	379,906
	1,866,040	1,320,629
Less accumulated depreciation	(647,808)	(546,987)
	1,218,232	773,642
Other Assets:		
Investments	152,684	280,413
Deposits	34,601	25,219
Escrow and loan fees, net	16,196	6,806
	203,481	312,438
Total assets	\$ 1,989,889	\$ 1,509,039
Current Liabilities:		
Accounts payable	\$ 29,303	\$ 11,777
Accrued expenses	172,805	122,898
Deferred revenue	11,846	-
Current portion long-term debt	26,504	18,762
Total current liabilities	240,458	153,437
Long-term debt, less current portion of \$26,504 and \$18,762 in 2006 and 2005, respectively	708,371	392,331
Commitments and contingencies	-	-
Net Assets:		
Unrestricted	831,525	887,571
Temporarily restricted	123,135	-
Permanently restricted	86,400	75,700
	1,041,060	963,271
Total liabilities and net assets	\$ 1,989,889	\$ 1,509,039

See Independent Auditors' Report and accompanying notes to financial statements.

FUTURES EXPLORED, INC.  
STATEMENT OF ACTIVITIES  
For the Years Ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	(For Comparative Purposes Only) Total 2005
Revenues:					
Regional Center income	\$ 3,635,063	\$ -	\$ -	\$ 3,635,063	\$ 3,258,123
Dept. of Rehabilitation	35,911	-	-	35,911	45,585
Community revenue	513,435	-	-	513,435	503,878
Contribution income	46,170	123,135	10,700	180,005	48,746
Investment income	10,819	-	-	10,819	9,239
Miscellaneous income	19,107	-	-	19,107	49,701
<b>Total revenues</b>	<b>4,260,505</b>	<b>123,135</b>	<b>10,700</b>	<b>4,394,340</b>	<b>3,915,272</b>
Net Assets Released from Restrictions	-	-	-	-	-
<b>Total Support and Revenue</b>	<b>4,260,505</b>	<b>123,135</b>	<b>10,700</b>	<b>4,394,340</b>	<b>3,915,272</b>
Expenses:					
Program Services:					
Lafayette	788,587	-	-	788,587	746,978
Garden	597,286	-	-	597,286	417,843
ALIVE	1,159,076	-	-	1,159,076	1,118,858
Supported Employment	637,434	-	-	637,434	535,826
Social Recreation	41,827	-	-	41,827	46,605
Nifty Thrift	184,426	-	-	184,426	186,766
VTE	461,704	-	-	461,704	461,495
<b>Total program services</b>	<b>3,870,340</b>	<b>-</b>	<b>-</b>	<b>3,870,340</b>	<b>3,514,371</b>
Supporting Services:					
Administration	446,211	-	-	446,211	474,075
<b>Total supporting services</b>	<b>446,211</b>	<b>-</b>	<b>-</b>	<b>446,211</b>	<b>474,075</b>
<b>Total expenses</b>	<b>4,316,551</b>	<b>-</b>	<b>-</b>	<b>4,316,551</b>	<b>3,988,446</b>
Changes in net assets	(56,046)	123,135	10,700	77,789	(73,174)
Net assets, beginning of year	887,571	-	75,700	963,271	1,036,445
<b>Net assets, end of year</b>	<b>\$ 831,525</b>	<b>\$ 123,135</b>	<b>\$ 86,400</b>	<b>\$ 1,041,060</b>	<b>\$ 963,271</b>

See Independent Auditors' Report and accompanying notes to financial statements.

FUTURES EXPLORED, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2006

	Program Services							Total Program Services	Administration	2006 Total Expenses	2005 Total Expenses*
	Lafayette	Garden	ALIVE	Supported Employment	Social Recreation	Nifty Thrift	VTLE				
Personnel Expenses	\$ 610,650	\$ 403,348	\$ 944,087	\$ 424,320	\$ 34,705	\$ 43,206	\$ 305,172	\$ 2,765,488	\$ 316,547	\$ 3,082,035	\$ 2,950,283
Community Contract Expenses	22,764	75	1,107	146,406	108	48,092	77,540	296,092	-	296,092	253,354
Occupancy Expenses	125,936	170,855	170,881	40,816	611	75,015	26,362	610,476	38,477	648,953	548,659
Communications	9,440	13,080	18,915	7,916	1,381	6,285	19,294	76,311	35,637	111,948	103,524
Outside Services	1,415	1,562	199	-	87	10,933	-	14,196	37,510	51,706	25,239
Travel, Conferences and Training	2,642	2,223	2,530	17,862	258	8	19,436	44,959	17,494	62,453	54,790
Program Expenses	15,740	6,143	21,357	114	4,677	887	13,900	62,818	546	63,364	52,597
<b>Total</b>	<b>\$ 788,587</b>	<b>\$ 507,286</b>	<b>\$ 1,159,076</b>	<b>\$ 637,434</b>	<b>\$ 41,827</b>	<b>\$ 184,426</b>	<b>\$ 461,704</b>	<b>\$ 3,870,340</b>	<b>\$ 446,211</b>	<b>\$ 4,316,551</b>	<b>\$ 3,988,446</b>

\* Note: 2005 Total Expenses presented for comparative purposes only.

FUTURES EXPLORED, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Change in net assets	77,789	(73,174)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	103,689	105,459
Loss on fixed asset disposal	(1,434)	-
Gain on investments	(3,152)	-
Dividends and interest reinvested	(7,783)	(9,266)
(Increase) decrease in operating assets:		
Accounts receivable	(150,712)	(40,726)
Prepaid expenses	(33,827)	11,743
Deposits	(9,382)	5,734
Escrow and loan fees	(9,390)	-
Increase (decrease) in operating liabilities:		
Accounts payable	17,526	14,749
Accrued expenses	49,907	(22,463)
Deferred revenue	11,846	-
Total adjustments	(32,712)	65,230
Net cash provided (used) by operating activities	45,077	(7,944)
Cash Flows from Investing Activities:		
Acquisition of building and equipment	(200,845)	(50,527)
Proceeds from investments	150,000	100,000
Purchases of investments	(11,336)	(73,000)
Net cash (used) by investing activities	(62,181)	(23,527)
Cash Flows from Financing Activities:		
Gross borrowings on line of credit	1,843,300	1,075,314
Repayments on line of credit	(1,843,300)	(1,075,314)
Principal payments on long term debt	(22,218)	(16,373)
Net cash (used) by financing activities	(22,218)	(16,373)
Net (decrease) in cash	(39,322)	(47,844)
Cash, beginning of year	76,286	124,130
Cash, end of year	\$ 36,964	\$ 76,286

See Independent Auditors' Report and accompanying notes to financial statements.

FUTURES EXPLORED, INC.  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended June 30, 2006 and 2005

Supplemental Disclosure of Cash Flow Information

1. Accounting Policy - The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalent."

2. The following cash payments were made during the period for:

	2006	2005
Interest	\$ 33,789	\$ 28,780

3. Schedule of non-cash investing transactions:

Fixed asset acquisitions	\$ 546,845	\$ 70,446
Financing of acquisitions	(346,000)	(19,919)
Cash paid for fixed assets	\$ 200,845	\$ 50,527

See Independent Auditors' Report and accompanying notes to financial statements.



# FUTURES EXPLORED, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2006 and 2005

Note 1: Business Description and Summary of Significant Accounting Policies

Business Description - Futures Explored, Inc. (the Organization) is a California public benefit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Organization was incorporated in January 1964 for the purpose of providing life skills and work related training to adults with developmental disabilities. The purpose of the Organization is to support these individuals to reach their optimal level of individual potential by delivering a broad range of resources and ongoing guidance.

Futures Explored, Inc. currently offers six services to meet its mission of "Dignity through work and community participation":

Futures Explored Day Program (Lafayette) - Offers a variety of services and opportunities for individuals to be active in their community, such as small work groups, community outings, art and social activities, as well as educational and other opportunities.

Supported Employment Services - Offers employment support to individuals who have chosen employment as their primary goal. Employment supports vary based on need from Job Placement, training and support and long-term supports on both an individual and group basis.

ALIVE Program (Actively Living and Involved in a Variety of Endeavors) - Offers supports to encourage individuals to be active in their community, develop skills to be more independent and able to direct their activities. One aspect is the Community College Transition Program that supports individuals wanting to pursue additional academic endeavors after leaving high school.

Garden - Offers supports and activities to individuals with significant personal care, cognitive and physical disabilities, who often have some long-term medical conditions that need additional supports. The services focus on developing choices, sensory stimulation and involvement with others.

Futures & Friendships (Social Recreation) - This is a service that works with individuals to support their desire to develop social networks and enhanced independence to access their social and recreational needs outside of work and/or day activities.

Vocational Training & Education (VTE) - Offers supported employment and community activities in Yolo and Sacramento Counties.

The financial statements are prepared using the accrual basis of accounting and are in accordance with Statements of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made, and No. 117, Financial Statements of Not-for-Profit Organizations. Accordingly, the classification of the Organization's net assets and its revenues and expenditures is based on the existence or absence of donor-imposed restrictions. The provisions of these standards require amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in the Statement of Financial Position and the change in each of those classes of net assets be presented in the Statement of Activities.

Continued

# FUTURES EXPLORED, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2006 and 2005

Note 1: Business Description and Summary of Significant Accounting Policies (Continued)

Business Description (Continued)

Permanently restricted net assets represent a portion of funds that are not expendable, except for the interest earned on these funds. Unrestricted net assets represent the portion of expendable funds that are available for support at the Organization's operations. Temporarily restricted net assets include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting period. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the unrestricted net asset class.

The financial statements are presented on the accrual basis of accounting and reflect unrestricted, temporarily restricted, and permanently restricted net assets.

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

Concentration of Credit Risk - The Organization maintains its cash and cash equivalents in checking accounts and a Certificate of Deposit. Periodically throughout the year, cash is maintained at the bank in excess of the insured (FDIC) amount of \$100,000.

Accounts Receivable - The Organization utilizes the allowance method for recognizing bad debts. The allowance is based on experience in prior years and management analysis of specific accounts. Management has determined that no allowance for doubtful accounts is required at the financial statement date.

Investments - The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. Unrealized gains and losses are included in the change in net assets. The Organization's investments are in stocks and mutual funds which have readily determinable fair value.

Fixed Assets - Purchase of property, equipment or improvements costing more than \$500 are recorded at cost, and donated property and equipment at fair market value. Depreciation is computed using the straight-line method over the assets estimated useful life. Total fixed assets recorded under capital lease amount to \$17,500 for both December 31, 2005 and 2004. The Organization has recorded \$9,490 and \$5,990 in accumulated depreciation on these assets as of December 31, 2005 and 2004, respectively.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as exchange transactions and program fees are recognized as revenue in the period in which the service is provided.

Continued

# FUTURES EXPLORED, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2006 and 2005

Note 1: Business Description and Summary of Significant Accounting Policies (Continued)

Contributions - Contributions are reported in accordance with SFAS No. 116. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Contributions in-kind are recognized in accordance with the provisions of SFAS No. 116. Donated equipment and other donated goods are recorded at their estimated fair market value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The following in-kind contributions were recognized by Futures Explored, Inc.:

	2006	2005
Donated supplies	\$ -	\$ 3,450

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 that 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

The costs of providing the Organization's programs have been summarized on a functional basis in these financial statements. Based on management's estimates, costs have been allocated between programs and supporting services as they relate to those functions.

Promises to Give - Unconditional promises to give are recognized as revenues or gains in the period received as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were two pledges which amounted to \$120,000 made in 2006. The Organization did not have any promises to give in 2005. These pledges have been recorded as accounts receivable and are temporarily restricted assets. All unconditional promises to give recorded in these financial statements are receivable within one year of the financial statement date.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has determined that no allowance for uncollectible, unconditional promises to give is deemed necessary at June 30, 2006 and 2005.

Continued

**FUTURES EXPLORED, INC.**

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2006 and 2005

Note 1: Business Description and Summary of Significant Accounting Policies (Continued)

Deferred Revenue - Deferred revenue is recorded when fees for services are received in advance. Revenue is recognized at the time the services are provided.

Income Taxes - No provision has been made for income taxes as the agency is exempt under Internal Revenue Code Section 501(c)(3) and comparable laws of the State of California. The Organization is not classified as a private foundation.

Thrift Store - The Organization operates a thrift store that sells merchandise donated to the Organization. Donated merchandise has not been recorded as inventory as the value at the time of receipt of merchandise cannot be reasonably estimated. Revenue from donated merchandise is recorded when the merchandise is sold.

Expense Allocation - Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Note 2: Investments - The investments consisted of the following:

	2006	2005
Certificate of Deposit	\$ 49,742	\$ 49,886
Mutual Funds	98,953	83,664
Money Market Funds	3,989	146,863
	\$ 152,684	\$ 280,413
 Total Dividend and Interest Income	 \$ 7,667	 \$ 8,312
 Total Unrealized Gain	 \$ 3,152	 \$ 927

The certificate of deposit matures March 2007 and yield is 3.6%.

Note 3: Note Payable, West America Bank - The Organization has a credit line agreement with West America Bank. Under this agreement, Futures Explored, Inc. has available a \$200,000 line of credit due on demand with interest at prime plus 1.5% (currently 9.5%). The line is secured by accounts receivables and general intangibles. The Organization did not have any outstanding borrowings on the line at June 30, 2006 and 2005.

Continued

## FUTURES EXPLORED, INC.

### NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2006 and 2005

Note 4: Long-Term Debt - Long-term debt at June 30, 2005 is as follows:

	2006	2005
West American Bank, payable in monthly installments of \$3,350 including interest of 7.23% per annum, secured by real property, due January 2012	\$ 373,091	\$ 385,447
West American Bank, payable in monthly installments of \$2,034 including interest of 6.6% per annum, with a final payment of \$232,593, secured by real property, due March 2016	294,557	-
Note payable to third party, interest only payments at 8%, secured by real property, due September 2007	50,000	-
U.S. Bancorp, two leases, payable in monthly installments of \$303 and \$134 including interest at 15.85% and 20.55%, secured by equipment, due through May 2009	7,574	13,255
Note payable, due in monthly installments of \$302 including interest of 7.99% per annum, secured by vehicle, due July 2009	9,653	12,391
	734,875	411,093
Less current portion	(26,504)	(18,762)
	\$ 708,371	\$ 392,331

The aggregate maturities of long-term debt for the next five years and thereafter are as follows:

Year Ending June 30,	
2007	\$ 81,328
2008	124,280
2009	69,710
2010	64,910
2011 and thereafter	713,671
	1,053,899
Less amount representing interest	(319,024)
	\$ 734,875

Continued

## FUTURES EXPLORED, INC.

### NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2006 and 2005

Note 5: Lease Commitments - The Organization leases various facilities under non-cancelable operating leases with expiration dates ranging from 2007 to 2010.

The following is a schedule of the aggregate future minimum rental payments under the facility leases:

Year Ending <u>June 30,</u>			
2007	\$	326,839	
2008		298,609	
2009		173,503	
2010		108,268	
		\$ 907,219	

Total rent expense for facility leases amounted to approximately \$309,298.

The Organization also leases one of the facilities disclosed above from family members of the Executive Director. Under the terms of this agreement, the lease contains an option to purchase the facility, which begins one year from the date of the lease and expires after two years have lapsed. The purchase price of the facility shall be the lower of \$455,000, plus a 5% increase for each full year from the date of the lease date until the exercise of the option, or \$455,000 plus an increase by a percentage amount that is equivalent to the average percentage increase in appraised real property values in the City of Livermore from the date of the lease to the date of the exercise of the option. Total payments of \$12,800 were made under this lease to related parties during the year and are included in rent expense.

During 2006, the Organization subleased one of its facilities in Antioch, CA, under a five year non cancellable lease. The following minimum payments to be received by the Organization are as follows:

2007	\$	9,300
2008		9,300
2009		9,300
2010		9,300
		\$ 37,200

Note 6: Significant Funding Source - The Organization had one funding source that generated approximately 84% and 83% of the overall revenue for the years ended June 30, 2006 and 2005, respectively. The Organization had approximately 68% and 93% of accounts receivable from this source as of June 30, 2006 and 2005, respectively.

Note 7: Permanently Restricted Net Assets - The Organization has received various gifts which have been designated as permanently restricted. These amounts are classified as part of investments.