

**FUTURES EXPLORED, INC.**

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**FINANCIAL STATEMENTS**

June 30, 2019



# FUTURES EXPLORED, INC.

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Futures Explored, Inc. (a nonprofit organization, the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Futures Explored, Inc. as of June 30, 2019, and the changes in its net assets (deficit) and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 2 to the financial statements, the Organization has negative working capital and has a net asset deficit as of June 30, 2019 that raises substantial doubt about its ability to continue to exist as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*BPM LLP*

Menlo Park, California  
March 12, 2020

**FUTURES EXPLORED, INC.**  
**STATEMENT OF FINANCIAL POSITION**

As of June 30, 2019

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 20,946
Accounts receivable, net of allowance for doubtful accounts of \$10,195	1,061,283
Prepaid expenses	25,899
Total current assets	1,108,128
Property and equipment:	
Land and building (held for sale)	1,572,529
Building and leasehold improvements	2,096,752
Furniture and equipment	215,779
Vehicles	820,720
	4,705,780
Less accumulated depreciation	(2,584,640)
Net property and equipment	2,121,140
Other assets:	
Investments, at fair value	16,843
Deposits and other assets	128,804
Escrow and loan fees, net	20,650
Total other assets	166,297
Total assets	\$ 3,395,565

**LIABILITIES AND NET ASSETS (DEFICIT)**

Current liabilities:	
Cash overdraft	\$ 35,904
Line of credit	199,718
Accounts payable	1,003,968
Accrued expenses	864,508
Deferred revenue	33,298
Current portion of long-term debt	330,341
Total current liabilities	2,467,737
Deferred rent	182,063
Long-term debt, less current portion	1,227,734
Total long-term liabilities	1,409,797
Total liabilities	3,877,534
Commitments (Note 7)	
Net assets (deficit):	
Without donor restriction	(1,028,393)
With donor restriction	546,424
Total net assets (deficit)	(481,969)
Total liabilities and net assets (deficit)	\$ 3,395,565

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

## FUTURES EXPLORED, INC.

### STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Revenue and other support:			
Regional Center (State of California)	\$ 10,283,218	\$ -	\$ 10,283,218
Department of Rehabilitation (State of California)	33,071	-	33,071
Community revenue	1,235,578	-	1,235,578
Contribution income	192,196	-	192,196
Investment gain (loss)	(8)	2,144	2,136
Loss on disposal of property and equipment	(1,134)	-	(1,134)
Other income	13,436	-	13,436
Total revenue and other support	11,756,357	2,144	11,758,501
Restrictions satisfied by payments	290,208	(290,208)	-
Total revenue and other support with restrictions satisfied by payments	12,046,565	(288,064)	11,758,501
Expenses:			
Program services:			
Garden	2,141,597	-	2,141,597
ALIVE	2,104,702	-	2,104,702
VTE	2,955,551	-	2,955,551
Lafayette	1,155,539	-	1,155,539
Film and Media	144,699	-	144,699
Business Enterprises	575,315	-	575,315
Supported Employment	2,065,282	-	2,065,282
Social Recreation	203,883	-	203,883
Total program services	11,346,568	-	11,346,568
Supporting services:			
Administration	1,457,187	-	1,457,187
Fund development	21,255	-	21,255
Total supporting services	1,478,442	-	1,478,442
Total expenses	12,825,010	-	12,825,010
Changes in net assets	(778,445)	(288,064)	(1,066,509)
Net assets (deficit), beginning of year	(249,948)	834,488	584,540
Net assets (deficit), end of year	\$ (1,028,393)	\$ 546,424	\$ (481,969)

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

**FUTURES EXPLORED, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2019

	Program Services							
	Garden	ALIVE	VTE	Lafayette	Film and Media	Business Enterprises	Supported Employment	Social Recreation
Personnel	\$ 1,529,825	\$ 1,656,192	\$ 2,022,650	\$ 875,798	\$ 111,170	\$ 101,419	\$ 1,140,323	\$ 71,139
Community contract	18,716	53,006	396,741	72,300	110	214,000	451,000	694
Occupancy	404,871	298,444	220,893	153,937	9,172	186,098	169,403	36,288
Communications	23,264	16,817	33,335	8,813	15,068	16,753	14,695	11,132
Outside services	8,375	41	7,592	2,504	-	21,823	17,149	443
Travel, conferences and training	15,474	14,660	100,729	12,836	9,074	13,963	21,674	16,286
Other	141,072	65,542	173,611	29,351	105	21,259	251,038	67,901
Total	<u>\$ 2,141,597</u>	<u>\$ 2,104,702</u>	<u>\$ 2,955,551</u>	<u>\$ 1,155,539</u>	<u>\$ 144,699</u>	<u>\$ 575,315</u>	<u>\$ 2,065,282</u>	<u>\$ 203,883</u>

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

**FUTURES EXPLORED, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED**

For the year ended June 30, 2019

	Total	Supporting Services		Total	
	Program	Fund		Supporting	
	Services	Administration	Development	Services	Total
Personnel	\$ 7,508,516	\$ 708,023	\$ 12,595	\$ 720,618	\$ 8,229,134
Community contract	1,206,567	10,688	-	10,688	1,217,255
Occupancy	1,479,106	255,532	-	255,532	1,734,638
Communications	139,877	138,033	-	138,033	277,910
Outside services	57,927	194,329	8,660	202,989	260,916
Travel, conferences and training	204,696	39,772	-	39,772	244,468
Other	749,879	110,810	-	110,810	860,689
Total	\$ 11,346,568	\$ 1,457,187	\$ 21,255	\$ 1,478,442	\$ 12,825,010

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

# FUTURES EXPLORED, INC.

## STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

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Cash flows from operating activities:	
Changes in net assets	\$ (1,066,509)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Allowance for doubtful accounts	10,095
Depreciation and amortization	149,655
Investment income	(2,136)
Loss on disposal of property and equipment	1,134
Change in operating assets and liabilities:	
Accounts receivable	(22,051)
Unconditional promise to give receivable	489,000
Prepaid expenses	21,335
Deposits and other assets	70,616
Accounts payable	711,156
Accrued expenses	289,618
Deferred revenue	18,833
Deferred rent	(5,038)
Net cash provided by operating activities	<u>665,708</u>
Cash flows from investing activities:	
Acquisition of property and equipment	<u>(617,811)</u>
Net cash used in investing activities	<u>(617,811)</u>
Cash flows from financing activities:	
Net repayments on line of credit	(19,745)
Borrowings on long-term debt	117,500
Principal payments on long-term debt and capital leases	<u>(144,038)</u>
Net cash used in financing activities	<u>(46,283)</u>
Net increase in cash and cash equivalents	1,614
Cash, cash overdraft, and cash equivalents, beginning of year	<u>(16,572)</u>
Cash, cash overdraft and cash equivalents, end of year	<u>\$ (14,958)</u>

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



**FUTURES EXPLORED, INC.**  
**STATEMENT OF CASH FLOWS, CONTINUED**  
For the year ended June 30, 2019

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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 equivalents.”

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

Interest	<u>\$ 96,039</u>
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The accompanying notes are an integral part of these financial statements.

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**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 23701(d) 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.

***Basis of Accounting***

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

***Basis of Presentation***

The Organization reports information regarding its financial position and activities on an accrual basis according to two classes of net assets: without donor restrictions and with donor restrictions.

**Net Assets Without Donor Restrictions** – net assets available for use in general operations and not subject to donor or grantor imposed restrictions.

**Net Assets With Donor Restrictions** – net assets subject to donor or grantor imposed restrictions. The Organization receives contributions, at times, that fall within this net asset category. These net assets have time or purpose restrictions that are stipulated by the donor.

Net assets with donor restrictions represent the portion of net assets of which use is limited by donor-imposed stipulations. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

***Nature of Activities***

Futures Explored, Inc. offers eight programs to meet its mission of “dignity through work and community participation.”

**Garden**

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

**ALIVE**

The ALIVE (Actively Living and Involved in a Variety of Endeavors) program offers support to encourage individuals to be active in their community, develop skills to be more independent and have the ability 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.

**Vocational Training & Education (VTE)**

Vocation Training & Education (VTE) program offers a variety of employment, community college, school to work transition and community inclusion activities in Yolo and Sacramento Counties.

Continued

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

*Nature of Activities*, continued

**Futures Explored Day Program (Lafayette)**

The 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.

**Film and Media**

Practical Film and Media Workshop is a service that provides 20 week workshops to provide opportunities to learn all aspects of film making, including writing, acting, camera and lighting, editing, etc. The goal is to develop both an individual's technical skills, as well as provide some support in getting them paid or unpaid internship opportunities in the community. The Organization has a Futures Films production house that provides full service video and editing services to the general community and offers paid employment opportunities for current and former students.

**Business Enterprises**

The Nifty Thrift program runs four thrift stores. The thrift stores provide the ability to generate community funding and the opportunity to provide a vocational setting and proactive support to individuals. Huckleberry Kitchen is a full-service catering kitchen located in Lafayette, providing business meeting breakfast and lunch services, as well as individual job catering to the community. It is used as an employment training ground for individuals interested in employment in the food industry. The eWaste program operates three locations to collect eWaste. Those locations are then paid to recycle the eWaste by ECS Refining under California's eWaste recycling program.

**Supported Employment**

The Supported Employment program offers employment support to individuals who have chosen employment as their primary goal. Employment varies based on need from job placement, training and long-term support on both an individual and group basis. Due to the on-going 10% payment reduction since 2008 for Supported Employment Services, especially those provided to individuals working in Integrated Community Settings, the Organization's Board notified both Alta California Regional Center and the Regional Center of the East Bay that, effective November 1, 2014, the Organization would shelve (stop providing) Supported Employment Individual Placement Services. As of June 30, 2019, the State had not restored the funding for the service.

**Social Recreation**

The Futures & Friendships-Afternoon Club program 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. In 2011, the State of California during its budget process suspended Social Recreation services as a program option, unless it provides "day care" for adults who are living with their parents and both parents are working. The Inclusion Film Camp program is provided as an Out-of-Home respite activity for individuals with developmental disabilities, including Autism and Asperger's Syndrome, between the ages of 10 and 25. It is a two week-camp that uses film as a means to increase positive social interactions for individuals with disabilities.

Due to enactment of Assembly Bill (AB) X2-1, starting July 1, 2016 the Organization received a rate increase of 6.95% for service fees from the Regional Center for the purpose of enhancing wages and benefits for staff who spend at least 75 percent of their time providing direct services to consumers. Service providers who received the rate increase were required by statute to complete a survey by October 1, 2017 on how the rate increase was used. If the survey was not completed by this date, the providers would forfeit the rate increase. The Organization has completed the survey as of June 30, 2019.

Continued

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

***Concentration of Credit Risk***

The Organization maintains its cash and cash equivalents in commercial checking and money market accounts. Periodically throughout the year, cash is maintained at the bank in excess of the insured (FDIC) amount of \$250,000.

***Accounts Receivable and Allowance for Uncollectable Accounts***

Accounts receivable consists of client service fees for various services performed by the Organization as of June 30, 2019. The Organization receives fees from the Department of Rehabilitation, the Regional Center of the East Bay, as well as other agencies and private individuals.

The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is based on experience from prior years and management's analysis of specific accounts. Management has determined that an allowance for uncollectible accounts of \$10,095 was deemed necessary as of June 30, 2019.

***Investments***

The Organization carries investments in marketable equity securities with readily determinable fair values. Unrealized gains and losses are included in the statement of activities.

***Property and Equipment***

All acquisitions of property, equipment or improvements in excess of \$1,000 are recorded at cost. Donated property and equipment are recorded at fair market value. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	10-30 years
Building and leasehold improvements	5-25 years
Furniture and equipment	3-5 years
Vehicles	3-5 years

***Deferred Revenue***

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

***Endowment***

The State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these financial statements. Additional disclosures about the Organization's donor-restricted endowment funds and whether or not the Organization is subject to UPMIFA are described below and in Note 10.

Continued

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

*Endowments*, continued

**Interpretation of Relevant Law**

The Organization's Board has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

**Spending Policy**

In accordance with the State of California's enacted version of UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Organization and the endowment funds,
- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and the appreciation of investments,
- 6) Other resources of the Organization, and
- 7) The investment policies of the Organization.

**Investment Policy, Strategies, and Objectives**

The Organization has adopted investment and spending policies for endowment assets that attempt to maximize total return consistent with an acceptable level of risk, and to provide a predictable stream of funding to programs supported by its endowment. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the relevant index or indices (e.g., S&P 500 index) while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 3% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield.

Continued

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

*Endowments*, continued

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in net assets with donor restrictions were \$36,175 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of the restricted contributions.

***Fair Value Measurement—Definition and Hierarchy***

The Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Organization considers the principal or most advantageous market in which the Organization would transact and the market-based risk measurement or assumptions that market participants would use in pricing the assets or liability, such as inherent risk, transfer restrictions and credit risk.

The Organization applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

The fair value hierarchy consists of the following three levels:

- Level 1: instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- Level 2: significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: instrument valuations are obtained without observable market value and require a high level of judgment to determine the fair value.

***Revenue Recognition***

The Organization recognizes revenue on the accrual basis of accounting. Revenue from grants that 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**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

***Contributions***

Contributions including unconditional promises to give are recorded as net assets without donor restriction, or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reported in the Statement of Activities as net assets released from restrictions.

***Thrift Stores***

The Organization operates thrift stores that sell 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.

***eWaste***

The Organization receives donations of eWaste. Revenue from donated eWaste is recorded when the donations are transferred to ECS Refining and payment, per pound of eWaste, is received.

***Minimum Wage***

As of August 1, 2014, the Organization gave up its Federal 14-C Certificate that allowed them to pay individuals who were disabled for the job based on their productivity, which allowed individuals with minimal productivity to be paid less than the established minimum wage. Currently, all individuals with disabilities working on contracts to gain vocational experience are paid at minimum wage or better.

***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 proportionate to the salary and for occupancy expenses recorded for each function as determined by the Organization's management. 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.

The Organization's administration expenses are about 11% of total expenses for the year ended June 30, 2019.

***Income Taxes***

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Accordingly, no provision has been made for income taxes in the financial statements. There was no unrelated business income for the year ended June 30, 2019. The Organization believes that its tax position will, more-likely-than-not, be sustained based on their technical merits should there be an examination by a taxing authority.

Continued

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

**1. Business Description and Summary of Significant Accounting Policies, continued**

***Change in Accounting Principles***

During the year ended June 30, 2019, the Organization adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), required for annual reporting periods beginning after December 15, 2017. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability (see Note 2) has also been added. Underwater endowments recorded as unrestricted net assets were reclassified to net assets with donor restrictions. The Organization applied the new guidance retrospectively, with the exception of the liquidity and availability, which is only required to be included for the first year of adoption.

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ (286,123)	\$ -	\$ (286,123)
Temporarily restricted	-	784,263	784,263
Permanently restricted	-	86,400	86,400
Net assets, as previously presented	(286,123)	870,663	584,540
Reclassifications to implement ASU 2016-14:			
Reclassification of underwater endowments	36,175	(36,175)	-
Net assets, as reclassified	\$ (249,948)	\$ 834,488	\$ 584,540

***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard is effective for the Organization for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update create Topic 842, *Leases*, and supersede the leases requirements in Topic 840, *Leases*. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between previous U.S. GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The ASU is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Organization is currently evaluating the effects of adopting the standard.

Continued



**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**1. Business Description and Summary of Significant Accounting Policies, continued**

***Recent Accounting Pronouncements***, continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 for contributions received, and after December 15, 2019 for contributions made with early adoption permitted. The Organization is currently evaluating the impact of adoption on its financial statements.

***Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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.

**2. Liquidity and Availability/Going Concern**

The Organization's financial assets available for general expenditures within one year of the statement of financial position date are as follows as of June 30, 2019:

Cash and cash equivalents	\$	20,946
Investments, at fair value		<u>16,846</u>
Total financial assets		37,792
Less: amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions		<u>(546,424)</u>
Financial assets available to meet general expenditures within one year	\$	<u><u>(508,632)</u></u>

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability; maintaining adequate liquid assets to fund near-term operating needs; and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization also has a \$200,000 line of credit for liquidity needs (see Note 4), of which the Organization has borrowings of \$197,718 as of June 30, 2019.

The accompanying financial statements have been prepared in accordance with U.S. GAAP. For the year ended June 30, 2019, the Organization had a negative change in net assets of \$1,066,509 and as of June 30, 2019 had current liabilities in excess of current assets of \$1,359,609. Management is working to mitigate this condition by developing strategies to increase revenues, reduce expenses, and improve cash flows. The ability to strengthen the Organization's liquidity will depend upon successful implementation of management's plans. These factors raise substantial doubt about the ability to continue as a going concern and have a material adverse effect on the Organization's future financial results, financial position, and cash flows.

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**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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**3. Conditional Promises to Give**

In May 2017, the Organization received a grant towards the purchase of Automated External Defibrillators (“AEDs”). The Organization will be reimbursed by the grantor when the units are purchased and the Organization has requested reimbursement. The Organization has purchased some and has received partial reimbursement of the grant as of June 30, 2019. The remaining balance under the grant is expected to be received subsequent to June 30, 2019.

**4. Line of Credit**

The Organization has one line of credit agreement with Bank of the West. Under the agreement, the Organization has available a \$200,000 line of credit with a maturity date of October 2022 with interest at prime rate plus 1.10% currently (6.6%) and a minimum interest rate of 4%. The line is secured by a Deed of Trust, Assignment of Rents, and a Commercial Security agreements covering substantially all assets of the Organization. The Organization had borrowings outstanding of \$199,718 as of June 30, 2019.

In addition, the Organization has an unsecured Reserve Line of Credit agreement whereby borrowing limits are established by the lender; terms of the agreement call for interest at prime plus 1.5% or 7.0% as of June 30, 2019. The agreement can be cancelled at any time by either party. The reserve line of credit had an outstanding balance of \$13,063 as of June 30, 2019.

**5. Long-Term Debt**

A summary of long-term debt as of June 30, 2019 is as follows:

Bank of the West, payable in monthly installments of \$9,863 including interest at 5.09% per annum, secured by a Deed of Trust and Assignment of Rents, due August 2032.	\$ 1,128,962
California Health Facilities Financing Authority (CHFFA, Help II Program), (two separate notes) payable in monthly installments of \$2,783 and \$2,396, including interest at 3% per annum, secured by a Deed of Trust, due February 2023.	215,551
Related party (three notes), payable in monthly interest only installments of 4% per annum, unsecured, due on demand.	184,500
Options for All, payable in monthly installments of \$3,000 with no interest, unsecured, due December 2019.	16,000
Bank of the West, payable in monthly installments of \$1,030 including interest at prime plus 1.5% (currently 6.50%, with a floor of 4.00%), secured by a Commercial Security Agreement, due July 2020.	13,062
	1,558,075
Less: current portion	(330,341)
	\$ 1,227,734

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**FUTURES EXPLORED, INC.**  
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**5. Long-Term Debt**, continued

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

<u>Year Ending June 30,</u>	
2020	\$ 393,376
2021	181,543
2022	180,513
2023	159,796
2024	118,361
Thereafter	996,612
	<u>2,030,201</u>
Less: amount representing interest	(442,126)
	<u>\$ 1,588,075</u>

**6. Deferred Rent**

The Organization leases facilities in Concord, Livermore, Sacramento, McClellan and Brentwood, California, under lease agreements that provide for periodic rent escalations, which are being accrued by the Organization to provide that rent expense is recognized over the lease term on a straight-line basis. These leases expire in fiscal years through 2024. The minimum rental commitment (excluding variable common area expenses) and net rent expense under these leases are as follows:

<u>Year Ending June 30,</u>	<u>Minimum Lease Payment</u>	<u>(Amortization) of Deferred Rent</u>	<u>Net Lease Rent</u>
2020	\$ 617,160	\$ (38,618)	\$ 578,542
2021	377,064	(24,813)	352,251
2022	314,002	(29,115)	284,887
2023	325,811	(40,924)	284,887
2024	228,685	(31,292)	197,393
2025	121,080	(17,301)	103,779
	<u>\$ 1,983,802</u>	<u>\$ (182,063)</u>	<u>\$ 1,801,739</u>

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**7. Lease Commitments**

***Operating***

The Organization leases various facilities under non-cancelable, operating leases with expiration dates through September 2025. Additionally, the Organization leases vehicles under operating leases which expire through 2024.

The following is a schedule of the aggregated future minimum rental payments under operating leases that have lease terms in excess of one year.

<u>Year Ending June 30,</u>	Real Property Leases	Vehicle Leases	Total
2020	\$ 739,351	\$ 187,074	\$ 926,425
2021	520,599	159,231	679,830
2022	399,283	142,786	542,069
2023	412,767	93,146	505,913
2024	295,785	32,603	328,388
Thereafter	164,313	-	164,313
	\$ 2,532,098	\$ 614,840	\$ 3,146,938

Net rent expense under the real property leases was \$1,021,300 and rent expense under the vehicle leases was \$240,656 for the year ended June 30, 2019.

**8. Significant Funding Source**

The Organization had Regional Center funding (the pass through agent for the State of California and federal support for individuals with developmental disabilities) that generated approximately 87% of the overall revenue for the year ended June 30, 2019. The Organization had approximately 97% of accounts receivable from Regional Center funding as of June 30, 2019.

For the year ended June 30, 2019, the Organization also had two funding source that provided support of \$52,000 and \$38,353, which represents 27% and 20%, respectively of total contribution income.

**FUTURES EXPLORED, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**9. Net Assets With Donor Restriction**

Net assets with donor restriction are available for the following purposes as of June 30, 2019:

Purpose restricted:

Donor restricted endowment	\$	52,369
Stabilize Services for Individuals with Significant Deficiencies to Live, Work and Play		396,565
Building Community Connections and Employment Opportunities for Individual with I/DD		70,352
Adult education		17,547
Scholarship fund		4,155
Memorial fund		3,135
Hire Able		2,301
Total net assets with donor restriction	<u>\$</u>	<u>546,424</u>

Net assets with donor restriction released from donor restrictions by incurring expenses satisfying the purpose specified by donors are as follows during the fiscal year ended June 30, 2019:

Building Community Connections and Employment Opportunities for Individuals with I/DD	\$	89,300
Stabilize Services for Individuals with Significant Deficiencies to Live, Work and Play		58,430
State of California Department of Transportation		120,000
Adult education		22,478
	<u>\$</u>	<u>290,208</u>

**10. Endowment**

Endowment net asset composition by type of fund is as follows as of June 30, 2019:

	Under-Water (Deficiencies)	Corpus	Total Net Endowment Assets
Donor-restricted endowment funds	<u>\$ (34,031)</u>	<u>\$ 86,400</u>	<u>\$ 52,369</u>

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**FUTURES EXPLORED, INC.**  
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**10. Endowment, continued**

Changes in endowment net assets as of June 30, 2019 is as follows:

	Under-Water (Deficiencies)	Corpus	Total Net Endowment Assets
Endowment net assets, as of June 30, 2018	\$ (37,345)	\$ 86,400	\$ 49,055
Investment income	2,194	-	2,194
Net appreciation in fair value	1,120	-	1,120
Endowment net assets, as of June 30, 2019	<u>\$ (34,031)</u>	<u>\$ 86,400</u>	<u>\$ 52,369</u>

The amount classified as with donor restriction represents the amount of the endowment funds that must be retained in perpetuity in accordance with explicit donor stipulations.

The following table summarizes the Organization's financial assets measured at fair value on a recurring basis for June 30, 2019 as follows:

	Assets at Fair Value			
	(Level 1)	(Level 2)	(Level 3)	Total
Money market	\$ 10,116	\$ -	\$ -	\$ 10,116
Mutual fund	12,522	-	-	12,522
Common stock	4,321	-	-	4,321
	<u>\$ 26,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,959</u>

All assets have been measured at fair value. There were no changes in the valuation methodologies used as of June 30, 2019.

**11. Subsequent Events**

On November 13, 2019, the Organization sold a property in Lafayette, California for \$1,750,000. The proceeds were used to repay Bank of the West long-term debt and the line of credit, as well as delinquent health insurance premiums.

The Organization entered into a leaseback agreement for a portion of the Lafayette, California property commencing November 13, 2019 and ending March 31, 2020.

The Organization closed the Nifty Thrift Store in Lafayette, California in July 2019 and the Nifty As Is Store in Antioch, California in December 2019.

The Organization has been unable to pay payroll taxes to the Internal Revenue Service ("IRS") and the Employment Development Department. The total unpaid payroll taxes approximately \$675,000 as of March 2020. The Organization is currently in negotiation with the IRS to work out a payment plan related to unpaid payroll taxes.

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**11. Subsequent Events**, continued

In addition, the Organization has been unable to remit payments for the 403(b) Retirement Plan. Total unpaid 403(b) withholdings approximate \$42,245 as of March 2020.

The Organization evaluated subsequent events for recognition and disclosure through March 12, 2020, the date which these financial statements were available to be issued. Management concluded that, other than above, no material subsequent events have occurred since June 30, 2019 that require recognition or disclosure in such financial statements.