

FUTURES EXPLORED, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

September 14, 2005

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, 2005, 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.

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, 2005, 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.

BRACH, NEAL, DANNEY & SPENCE, LLP

Brach, Neal, Danney & Spence, LLP

FUTURES EXPLORED, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2005

ASSETS

Current Assets:	
Cash	\$ 76,286
Accounts receivable	338,143
Prepays	8,530
Total current assets	422,959
Land and building	639,779
Furniture and equipment	230,679
Vehicles	70,265
Building and leasehold improvements	379,906
	1,320,629
Less accumulated depreciation	(546,987)
	773,642
Other Assets:	
Investments	280,413
Deposits	25,219
Escrow and loan fees, net	6,806
	312,438
Total assets	\$ 1,509,039
Current Liabilities:	
Accounts payable	\$ 11,777
Accrued expenses	122,898
Current portion long-term debt	18,762
Total current liabilities	153,437
Long-term debt, less current portion of \$18,762	392,331
Commitments and contingencies	-
Net Assets:	
Unrestricted	887,571
Temporarily restricted	-
Permanently restricted	75,700
	963,271
Total liabilities and net assets	\$ 1,509,039

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

FUTURES EXPLORED, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Regional Center income	\$ 3,258,123	\$ -	\$ -	\$ 3,258,123
Dept. of Rehabilitation	45,585	-	-	45,585
Community revenue	503,878	-	-	503,878
Contribution income	35,746	-	13,000	48,746
Miscellaneous income	58,940	-	-	58,940
Total revenues	3,902,272	-	13,000	3,915,272
Net Assets Released from Restrictions	18,000	(18,000)	-	-
Total Support and Revenue	3,920,272	(18,000)	13,000	3,915,272
Expenses:				
Program Services:				
Lafayette	746,978	-	-	746,978
Garden	417,843	-	-	417,843
ALIVE	1,118,858	-	-	1,118,858
Supported Employment	535,826	-	-	535,826
Social Recreation	46,605	-	-	46,605
Nifty Thrift	186,766	-	-	186,766
VTE	461,495	-	-	461,495
Total program services	3,514,371	-	-	3,514,371
Supporting Services:				
Administration	474,075	-	-	474,075
Total supporting services	474,075	-	-	474,075
Total expenses	3,988,446	-	-	3,988,446
Changes in net assets	(68,174)	(18,000)	13,000	(73,174)
Net assets, beginning of year	955,745	18,000	62,700	1,036,445
Net assets, end of year	\$ 887,571	\$ -	\$ 75,700	\$ 963,271

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

FUTURES EXPLORED, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005

	Lafayette	Garden	ALIVE	Supported Employment	Social Recreation	Nifty Thrift	VTE	Administration	Total
Personnel Expenses	\$ 573,820	\$ 305,121	\$ 906,632	\$ 383,890	\$ 37,158	\$ 46,956	\$ 334,604	\$ 362,102	\$ 2,950,283
Community Contract Expenses	20,187	-	1,894	110,069	-	44,204	77,000	-	253,354
Occupancy Expenses	127,508	91,006	168,551	23,066	576	81,208	19,450	37,294	548,659
Communications	8,785	9,341	19,119	5,964	5,050	6,526	13,789	34,950	103,524
Outside Services	(50)	(400)	286	(50)	130	7,743	1,866	15,714	25,239
Travel, Conferences and Training	3,025	1,587	2,431	12,355	399	-	12,396	22,597	54,790
Program Expenses	13,703	11,188	19,945	532	3,292	129	2,390	1,418	52,597
Total	\$ 746,978	\$ 417,843	\$ 1,118,858	\$ 535,826	\$ 46,605	\$ 186,766	\$ 461,495	\$ 474,075	\$ 3,988,446

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

FUTURES EXPLORED, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Cash Flows from Operating Activities:	
Change in net assets	\$ (73,174)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:	
Depreciation and amortization	105,459
Dividends and interest reinvested	(9,266)
(Increase) decrease in operating assets:	
Accounts receivable	(40,726)
Prepaid expenses	11,743
Deposits	5,734
Increase (decrease) in operating liabilities:	
Accounts payable	14,749
Accrued expenses	<u>(22,463)</u>
Total adjustments	<u>65,230</u>
Net cash (used) by operating activities	(7,944)
Cash Flows from Investing Activities:	
Acquisition of equipment	(50,527)
Proceeds from investments	100,000
Purchases of investments	<u>(73,000)</u>
Net cash (used) by investing activities	<u>(23,527)</u>
Cash Flows from Financing Activities:	
Gross borrowings on line of credit	1,075,314
Repayments on line of credit	(1,075,314)
Proceeds from the issuance of new debt	-
Principal payments on long term debt	<u>(16,373)</u>
Net cash (used) by financing activities	<u>(16,373)</u>
Net (decrease) in cash	(47,844)
Cash, beginning of year	<u>124,130</u>
Cash, end of year	<u><u>\$ 76,286</u></u>

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

FUTURES EXPLORED, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 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:

Interest	\$	28,780
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3. Schedule of non-cash investing transactions:

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

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

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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 reach their optimal level of individual potential by delivering a broad range of resources and ongoing guidance.

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.

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.

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

Futures Explored Day Program - 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.

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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

Business Description (Continued)

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 - 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 - Offers supported employment and community activities in Yolo and Sacramento Counties.

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. The Organization has recorded \$5,990 in accumulated depreciation on these assets.

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.

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 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.:

Donated supplies	<u>\$ 3,450</u>
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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 cost 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, less an allowance for uncollectible amounts, are recognized as revenues in the period received and 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 no promises to give at June 30, 2005.

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

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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

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:

	2005
Certificate of Deposit	\$ 49,886
Mutual Funds	83,664
Money Market Funds	146,863
	\$ 280,413
 Total Dividend and Interest Income	 \$ 8,312

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 7.5%. The line is secured by all chattel paper, accounts receivables and general intangibles. The Organization did not have any outstanding borrowings on the line at June 30, 2005.

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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

West America Bank, payable in monthly installments of \$3,350 including interest of 7.23% per annum, secured by real property, due January 2012	\$ 385,447
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	13,255
Note payable, due in monthly installments of \$302 including interest of 7.99% per annum, secured by vehicle, due July 2009	<u>12,391</u>
	\$ 411,093
Less current portion	<u>(18,762)</u>
	<u>\$ 392,331</u>

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

Year Ending June 30,	
2006	\$ 49,077
2007	49,077
2008	49,077
2009	45,307
2010 and thereafter	<u>386,537</u>
	579,075
Less amount representing interest	<u>(167,982)</u>
	<u>\$ 411,093</u>

FUTURES EXPLORED, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 5: Lease Commitments - The Organization leases various facilities under non-cancelable operating leases through 2008.

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

<u>Year Ending</u> <u>June 30,</u>	
2005	\$ 107,852
2006	85,816
2007	77,574
2008	12,992
	<u>\$ 284,234</u>

Total rent expense for facility leases amounted to approximately \$234,270.

Note 6: Significant Funding Source - The Organization had one funding source during the year that generated approximately 83% of the overall revenue. As of June 30, 2005, the Organization has approximately 93% of accounts receivable from this source.

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.

Note 8: Net Assets Released from Restrictions - During the year ended June 30, 2005, \$18,000 was released from restrictions by incurring \$18,000 for kitchen improvements.