

FUTURES EXPLORED, INC.

REPORT ON AUDITS OF
FINANCIAL STATEMENTS

for the years ended June 30, 2007 and 2006

FUTURES EXPLORED, INC.

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Building your future

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, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BURR, PILGER & MAYER LLP

A handwritten signature in cursive script that reads 'Burr, Pilger & Mayer LLP'.

San Jose, California
August 31, 2007

Member of The Leading Edge Alliance

FUTURES EXPLORED, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

ASSETS

	2007	2006
Current Assets:		
Cash	\$ 66,148	\$ 36,964
Accounts receivable	449,398	368,855
Unconditional promises to give	-	120,000
Prepays	14,699	42,357
Total current assets	530,245	568,176
Land and building	1,094,779	1,094,779
Furniture and equipment	275,114	246,536
Vehicles	322,212	72,290
Building and leasehold improvements	651,387	452,435
Construction in progress	106,985	-
	2,450,477	1,866,040
Less accumulated depreciation	(800,350)	(647,808)
	1,650,127	1,218,232
Other Assets:		
Investments	171,293	152,684
Deposits	36,613	34,601
Escrow and loan fees, net	36,398	16,196
	244,304	203,481
Total assets	\$ 2,424,676	\$ 1,989,889
Current Liabilities:		
Line of credit, equipment	\$ 60,000	\$ -
Accounts payable	27,225	29,303
Accrued expenses	196,461	172,805
Deferred revenue	6,553	11,846
Current portion long-term debt	97,346	26,504
Total current liabilities	387,585	240,458
Long-term debt, less current portion	936,827	708,371
Commitments and contingencies	-	-
Net Assets:		
Unrestricted	906,938	831,525
Temporarily restricted	106,926	123,135
Permanently restricted	86,400	86,400
	1,100,264	1,041,060
Total liabilities and net assets	\$ 2,424,676	\$ 1,989,889

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

FUTURES EXPLORED, INC.
STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2007 and 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007	(For Comparative Purposes Only) Total 2006
Revenues:					
Regional Center income	\$ 4,679,999	\$ -	\$ -	\$ 4,679,999	\$ 3,635,063
Dept. of Rehabilitation	50,197	-	-	50,197	35,911
Community revenue	566,941	-	-	566,941	513,435
Contribution income	78,599	68,365	-	146,964	180,005
Investment income	17,155	-	-	17,155	10,819
Miscellaneous income	29,835	-	-	29,835	19,107
Total revenues	5,422,726	68,365	-	5,491,091	4,394,340
Net Assets Released from Restrictions	84,574	(84,574)	-	-	-
Total Support and Revenue	5,507,300	(16,209)	-	5,491,091	4,394,340
Expenses:					
Program Services:					
Lafayette	1,054,701	-	-	1,054,701	788,587
Garden	1,086,055	-	-	1,086,055	597,286
ALIVE	1,458,261	-	-	1,458,261	1,159,076
Supported Employment	470,270	-	-	470,270	637,434
Social Recreation	52,826	-	-	52,826	41,827
Nifty Thrift	190,284	-	-	190,284	184,426
VTE	555,158	-	-	555,158	461,704
Total program services	4,867,555	-	-	4,867,555	3,870,340
Supporting Services:					
Administration	543,183	-	-	543,183	446,211
Fund Development	21,149	-	-	21,149	-
Total supporting services	564,332	-	-	564,332	446,211
Total expenses	5,431,887	-	-	5,431,887	4,316,551
Changes in net assets	75,413	(16,209)	-	59,204	77,789
Net assets, beginning of year	831,525	123,135	86,400	1,041,060	963,271
Net assets, end of year	\$ 906,938	\$ 106,926	\$ 86,400	\$ 1,100,264	\$ 1,041,060

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

FUTURES EXPLORED, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007

	Program Services				Total Program Services	Supporting Services			Total Supporting Services	2007 Total Expenses	2006 Total Expenses*	
	LaVerne	Garden	ALIVE	Supported Employment		Social Recreation	Nifty Thrift	VTE				Administration
Personnel Expenses	\$ 778,319	\$ 696,131	\$ 1,150,475	\$ 349,339	\$ 40,841	\$ 39,473	\$ 390,257	\$ 567,688	\$ 10,533	\$ 378,221	\$ 3,823,056	\$ 3,082,035
Community Contract Expenses	73,940	7,426	65,527	78,882	-	37,803	108,215	-	-	-	371,793	296,092
Occupancy Expenses	160,472	323,917	191,319	20,186	554	83,909	23,654	56,604	-	56,604	860,615	648,953
Communications	12,102	25,888	20,944	5,618	1,252	6,323	12,159	43,446	2,791	46,237	130,523	111,948
Outside Services	2,407	10,456	847	-	1,154	21,903	-	44,775	7,825	52,600	89,367	51,706
Travel, Conferences and Training	8,016	11,467	6,015	16,080	992	-	18,554	27,665	-	27,665	88,739	62,453
Program Expenses	19,445	10,770	23,134	215	8,033	873	2,319	3,005	-	3,005	67,794	63,364
Total	\$ 1,054,701	\$ 1,086,055	\$ 1,459,261	\$ 470,270	\$ 52,826	\$ 190,284	\$ 555,158	\$ 543,183	\$ 21,149	\$ 564,332	\$ 5,431,887	\$ 4,316,551

* Note: 2006 Total Expenses presented for comparative purposes only.

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

FUTURES EXPLORED, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	\$ 59,204	\$ 77,789
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	155,245	103,689
Loss on fixed asset disposal	-	(1,434)
Gain on investments	(8,218)	(3,152)
Dividends and interest reinvested	(8,937)	(7,783)
(Increase) decrease in operating assets:		
Accounts receivable	39,457	(150,712)
Prepaid expenses	27,658	(33,827)
Deposits	(2,012)	(9,382)
Escrow and loan fees	(20,202)	(9,390)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,078)	17,526
Accrued expenses	23,656	49,907
Deferred revenue	(5,293)	11,846
Total adjustments	199,276	(32,712)
Net cash provided by operating activities	258,480	45,077
Cash Flows from Investing Activities:		
Acquisition of equipment, vehicles and leasehold improvements	(587,140)	(200,845)
Proceeds from investments	48,546	150,000
Purchases of investments	(50,000)	(11,336)
Net cash (used) by investing activities	(588,594)	(62,181)
Cash Flows from Financing Activities:		
Gross borrowings on line of credit, West America	781,331	1,843,300
Repayments on line of credit, West America	(555,791)	(1,843,300)
Gross borrowings on equipment, line of credit, Mt. Diablo National	60,000	-
Gross borrowings on line of credit, Mt. Diablo National Bank	1,374,805	-
Repayments on line of credit, Mt. Diablo National Bank	(1,374,805)	-
Principal payments on long term debt	(33,923)	(22,218)
Gross borrowings on long term debt	107,681	-
Net cash provided (used) by financing activities	359,298	(22,218)
Net (decrease) in cash	29,184	(39,322)
Cash, beginning of year	36,964	76,286
Cash, end of year	\$ 66,148	\$ 36,964

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

FUTURES EXPLORED, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

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:

	2007	2006
Interest	\$ 66,160	\$ 33,789

3. Schedule of non-cash investing transactions:

Fixed asset acquisitions	\$ (587,140)	\$ (546,845)
Less financing of acquisitions	-	346,000
	\$ (587,140)	\$ (200,845)
Gross repayment of long-term debt	\$ (402,717)	\$ (22,218)
Less amount refinanced	368,794	-
Repayment of long-term debt	\$ (33,923)	\$ (22,218)
Gross repayment of line of credit, West America	\$ (781,331)	\$ (1,843,300)
Less amount refinanced	225,540	-
Repayment of long-term debt	\$ (555,791)	\$ (1,843,300)

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

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2007 and 2006

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.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2007 and 2006

1. **Business Description and Summary of Significant Accounting Policies (Continued)**

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.

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, 2006, 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.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2007 and 2006

1. **Business Description and Summary of Significant Accounting Policies (Continued)**

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 June 30, 2007 and 2006. The Organization has recorded \$9,490 and \$5,990 in accumulated depreciation on these assets as of June 30, 2007 and 2006, 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.

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.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2007 and 2006

1. **Business Description and Summary of Significant Accounting Policies (Continued)**

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 no unconditional promises to give in 2007. There were two pledges which amounted to \$120,000 made in 2006. 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.

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.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2007 and 2006

**1. Business Description and Summary of Significant Accounting Policies
(Continued)**

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.

2. Investments

Investments at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Mutual Funds	\$ 113,500	\$ 98,953
Certificate of Deposit	49,856	49,742
Money Market Funds	7,937	3,989
	\$ 171,293	\$ 152,684
 Total Dividend and Interest Income	 \$ 8,937	 \$ 7,667
 Total Unrealized Gain	 \$ 8,218	 \$ 3,152

The certificate of deposit matures August 2007 and yield is 4.85%.

3. Note Payable, West America Bank

The Organization had 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%. The line is secured by accounts receivables and general intangibles. The Organization did not renew this line of credit agreement in June 30, 2007.

During the fiscal year, the Organization established a credit line agreement with Mt. Diablo National Bank. Under this agreement, Futures Explored has available a \$250,000 line of credit due October 2007 with interest at prime plus .5% (currently 8.75%). The line is secured by a commercial security agreement. The Organization did not have outstanding borrowings on the line at June 30, 2007.

In addition, the Organization established an equipment line of credit with Mt. Diablo National Bank. Under this agreement, Futures Explored, Inc. has available a \$90,000 line of credit. The outstanding borrowings on the line at June 30, 2007 were \$60,000. In the fiscal year June 30, 2008, when the borrowings are approximately \$90,000 the borrowings will convert to a term loan, that is payable in monthly principal installments of \$1,875 plus interest at prime.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2007 and 2006

4. Long-Term Debt

Long-term debt at June 30, 2007 and June 30, 2006 consist of the following:

	2007	2006
Mt. Diablo National Bank, payable in monthly payments of \$4,433 including interest of 7.38%, with a final payment of \$483,016, secured by a commercial security agreement, due October 2016	\$ 593,788	\$ -
Mt. Diablo National Bank, two notes, payable in monthly principal payments of \$833 and \$1,875 plus interest at prime (currently 8.25%), secured by vehicles, due through November 2011	88,287	-
WestAmerica Bank, payable in monthly installments of \$2,034 including interest of 6.6%, with a final payment of \$232,593, secured by real property, due March 2016	289,721	294,557
WestAmerica Bank, payable in monthly installments of \$3,350 including interest of 7.23%, secured by real property, refinanced during the 2007 fiscal year	-	373,091
Note payable, interest only payments at 8%, secured by real property, due September 2007	50,000	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	5,396	7,574
Note payable, due in monthly installments of \$302 including interest of 7.99%, secured by vehicle, due July 2009	6,981	9,653
	\$ 1,034,173	\$ 734,875
Less current portion	(97,346)	(26,504)
	\$ 936,827	\$ 708,371

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2007 and 2006

4. Long-Term Debt, Continued

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

Year Ending <u>June 30,</u>		\$
2008		168,899
2009		112,166
2010		105,203
2011		91,304
2012 and thereafter		1,096,655
		1,574,227
Less amount representing interest		(540,054)
		\$ 1,034,173

5. Lease Commitments

The Organization leases various facilities under non-cancelable operating leases with expiration dates ranging from 2008 to 2011.

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

2008		\$ 354,780
2009		226,490
2010		213,397
2011		72,654
2012		27,160
		\$ 894,481

Total rent expense for facility leases amounted to approximately \$388,000 at June 30, 2007 and \$309,000 at June 30, 2006.

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. Prior to June 30, 2007, the Organization exercised its option to purchase the facility. Total payments of \$12,800 were made under this lease to related parties during the year and are included in rent expense.

Continued

FUTURES EXPLORED, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2007 and 2006

5. Lease Commitments

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:

2008	\$	9,530
2009		9,576
2010		9,576
2011		1,596
		1,596
	\$	30,278

6. Significant Funding Source

The Organization had two funding sources that generated approximately 85% and 84% of the overall revenue for the years ended June 30, 2007 and 2006, respectively. The Organization had approximately 93% and 68% of accounts receivable from these sources as of June 30, 2007 and 2006, respectively.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2007		2006
Huckleberry To-Go	\$ 102,176	\$	45,000
Memorial Fund	3,135		3,135
GARDEN Tri-Valley	1,500		75,000
Scholarship Fund	115		-
Total temporarily restricted net assets	\$ 106,926	\$	123,135

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restriction accomplished:

		2007
GARDEN Tri-Valley	\$	75,000
Huckleberry To-Go		9,574
Total restrictions released	\$	84,574

8. 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.