

WATCH RESOURCES, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR-ENDED JUNE 30, 2022)

WATCH RESOURCES, INC.

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Hawks & Associates CPAs , Inc

• *think BOLDLY* • *plan CAREFULLY* • *execute PRECISELY* •

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
WATCH Resources, Inc.
Sonora, California

Opinion

We have audited the accompanying financial statements of WATCH Resources, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WATCH Resources, Inc. as of June 30, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WATCH Resources, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about WATCH Resources, Inc's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 WATCH Resources, Inc's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WATCH Resources, Inc's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited WATCH Resources, Inc's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 11, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



November 27, 2023

Hawks and Associates CPAs, Inc.

WATCH RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
ASSETS		
Current Assets		
Cash	\$ 823,822	\$ 1,618,594
Short-Term Investments	242,465	-
Accounts Receivable	263,960	310,864
Prepaid Expenses & Deposits	10,563	16,044
Total Current Assets	1,340,810	1,945,502
Property and Equipment		
Land, Building & Improvements	1,236,720	1,218,243
Vehicles and Equipment	596,972	645,574
Accumulated Depreciation	(1,008,166)	(1,008,589)
Net Property and Equipment	825,526	855,228
Other Assets		
Reserve for Unemployment	32,664	18,895
Investments	752,717	-
Deposits, Facility Rentals	4,450	4,450
Total Other Assets	789,831	23,345
TOTAL ASSETS	\$ 2,956,167	\$ 2,824,075
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued Paid Time Off	\$ 147,271	\$ 135,089
Accrued Payroll Expenses	33,191	25,790
Accrued Shared Responsibility Payment	212,357	207,529
Accounts Payable	22,623	13,713
Current Portion of Long Term Debt	16,427	15,229
Total Current Liabilities	431,869	397,350
Long Term Liabilities	319,921	336,330
Total Liabilities	751,790	733,680
NET ASSETS		
With Donor Restrictions	10,291	48,523
Without Donor Restrictions	2,194,086	2,041,872
Total Net Assets	2,204,377	2,090,395
TOTAL LIABILITIES AND NET ASSETS	\$ 2,956,167	\$ 2,824,075

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

WATCH RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Support		
Program Service Fees	\$ 2,412,330	\$ 2,301,026
Product Sales	345,331	295,730
Production Income (Day Program)	98,888	119,951
Contributions	67,700	135,232
Management fees	13,176	13,146
Other Income	4,040	5,268
Investment Income	305	1,459
Gain on Sale of Assets	220	-
Net Assets Released From Restrictions:		
Satisfaction of Program Restrictions	24,397	29,296
TOTAL SUPPORT AND OTHER REVENUE	2,966,387	2,901,108
Expenses		
Program Services		
Supported Employment	101,567	86,135
Day Program (Work Training Program)	1,038,149	887,109
Supported Living	400,323	377,568
HI-GEAR (Games, Entertainment, Arts, Recreation)	101,507	91,750
Goldstrike (Residential Living Assistance)	371,505	251,913
Transportation Services	77,288	208,573
Swirlz	-	1,000
Thrift Shop	288,275	257,357
Supportive Services		
Fundraising	6,021	6,122
Management and General	455,320	671,796
TOTAL EXPENSES	2,839,955	2,839,323
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	126,432	61,785
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and Restricted Donations	14,224	20,538
Reallocation of Prior Year Donation	-	-
Net Assets Released From Restrictions	(24,397)	(29,296)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(10,173)	(8,758)
TOTAL INCREASE (DECREASE) IN NET ASSETS	116,259	53,027
NET ASSETS AT BEGINNING OF YEAR	2,090,395	2,037,368
PRIOR PERIOD ADJUSTMENT	(2,277)	-
NET ASSETS AT END OF YEAR	\$ 2,204,377	\$ 2,090,395

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

WATCH RESOURCES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDING JUNE 30, 2023

FUNCTIONAL EXPENSES

	<i>Program Services</i>									
	Supported Employment	Day Program	Supported living	Hi-Gear	Goldstrike	Thrift Shop	Transportation	Total Program Services	Supportive Services	Total Functional Expenses
Personnel Expenses	\$ 96,203	\$ 733,446	\$ 377,335	\$ 94,152	\$ 323,485	\$ 163,613	\$ 33,045	\$ 1,821,279	\$ 295,051	\$ 2,116,330
Other Employee Expenses	148	330	734	175	403	201	64	2,055	19,840	21,895
Consumer Compensation	73	69,403	144	73	-	37,486	641	107,820	729	108,549
Equipment Expenses	35	2,754	70	35	-	-	70	2,964	354	3,318
Vehicle Operating	-	20,594	944	-	14,469	35	26,936	62,978	194	63,172
Depreciation	466	38,329	925	466	-	375	924	41,485	4,087	45,572
Transportation Expense	-	-	-	-	-	-	-	-	-	-
Occupancy Expense	2,333	76,461	5,470	1,769	1,296	70,708	12,967	171,004	24,431	195,435
Insurance	38	3,020	77	65	916	1,034	579	5,729	26,040	31,769
Dues and Subscriptions	-	17	-	-	-	-	715	732	5,368	6,100
Office	-	3,445	208	24	-	133	47	3,857	25,217	29,074
Supplies	145	32,462	242	2,814	28,817	8	227	64,715	1,209	65,924
Fees and Outside Services	9	4,773	18	9	-	10,880	83	15,772	35,250	51,022
Staff Travel and Training	1,661	452	12,079	104	1,795	-	140	16,231	9,847	26,078
Advertising	-	-	-	-	-	150	-	150	529	679
Production Expenses	-	11,335	-	-	-	3,652	-	14,987	-	14,987
Miscellaneous	-	76	-	-	9	-	-	85	7	92
Fundraising Expenses	-	-	-	-	-	-	-	-	6,021	6,021
Interest Expense	231	17,857	497	231	-	-	-	18,816	2,306	21,122
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Bank Service Charge	-	-	-	-	315	-	-	315	32	347
Shared Responsibility Costs	-	-	-	-	-	-	-	-	4,829	4,829
Bad debt	225	23,395	1,580	1,590	-	-	850	27,640	-	27,640
TOTAL EXPENSES	\$ 101,567	\$ 1,038,149	\$ 400,323	\$ 101,507	\$ 371,505	\$ 288,275	\$ 77,288	\$ 2,378,614	\$ 461,341	\$ 2,839,955

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

WATCH RESOURCES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDING JUNE 30, 2022

FUNCTIONAL EXPENSES

	<i>Program Services</i>										
	Supported Employment	Day Program	Supported living	Hi-Gear	Goldstrike	Thrift Shop	Swirtz	Transportation	Total Program Services	Supportive Services	Total Functional Expenses
Personnel Expenses	\$ 75,191	\$ 751,880	\$ 365,080	\$ 87,397	\$ 216,663	\$ 142,786	\$ -	\$ 81,888	\$ 1,720,885	\$ 289,806	\$ 2,010,691
Other Employee Expenses	324	1,031	184	183	-	-	-	144	1,866	28,721	30,587
Consumer Compensation	-	79,877	-	-	-	32,076	-	-	111,953	-	111,953
Equipment Expenses	-	-	-	-	-	-	-	71	71	3,606	3,677
Vehicle Operating	-	-	-	-	-	-	-	77,647	77,647	-	77,647
Depreciation	-	2,127	-	-	-	375	-	35,524	38,026	39,723	77,749
Transportation Expense	-	-	-	-	-	-	-	-	-	-	-
Occupancy Expense	969	2,614	2,048	744	1,245	66,663	1,000	11,789	87,072	104,090	191,162
Insurance	-	-	-	24	1,288	1,746	-	860	3,918	26,892	30,810
Dues and Subscriptions	5,750	-	500	-	-	-	-	650	6,900	4,627	11,527
Office	283	1,628	229	-	-	119	-	-	2,259	25,444	27,703
Supplies	-	29,543	-	3,392	30,681	-	-	-	63,616	12,229	75,845
Fees and Outside Services	-	3,860	-	-	-	9,682	-	-	13,542	75,762	89,304
Staff Travel and Training	1,368	115	9,527	10	2,036	14	-	-	13,070	8,102	21,172
Advertising	-	-	-	-	-	150	-	-	150	-	150
Production Expenses	-	14,434	-	-	-	3,690	-	-	18,124	-	18,124
Miscellaneous	-	-	-	-	-	56	-	-	56	18	74
Fundraising Expenses	-	-	-	-	-	-	-	-	-	6,122	6,122
Interest Expense	-	-	-	-	-	-	-	-	-	22,536	22,536
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-
Shared Responsibility Costs	-	-	-	-	-	-	-	-	-	30,240	30,240
Bad debt	2,250	-	-	-	-	-	-	-	2,250	-	2,250
TOTAL EXPENSES	\$ 86,135	\$ 887,109	\$ 377,568	\$ 91,750	\$ 251,913	\$ 257,357	\$ 1,000	\$ 208,573	\$ 2,161,405	\$ 677,918	\$ 2,839,323

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

WATCH RESOURCES, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 116,259	\$ 53,027
Adjustments to Reconcile Decrease in Net Assets to Net cash used by operating activities:		
Depreciation and Amortization	45,572	77,749
Gain or Loss on Disposal of Fixed Assets	(220)	-
Unrealized Gain or Loss on Investments	6,022	-
(Increase) Decrease in Assets:		
Accounts Receivable	44,627	(77,893)
Prepaid Expenses	5,482	(1,115)
Reserve for Unemployment	(13,768)	(5,650)
Work in Process	-	63,579
Deposits	-	1,000
Increase (Decrease) in Liabilities:		
Accounts Payable	8,910	(9,737)
Accrued Expenses	24,411	(103,492)
	237,295	(2,532)
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:		
Purchase of Property & Equipment	(15,872)	(200,910)
Purchase of Securities	(1,001,204)	-
Cash Receipts from the Sale of Fixed Assets	220	-
	(1,016,856)	(200,910)
Net Cash Used by Investing Activities		
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:		
Loan Payments	(15,211)	(14,293)
	(15,211)	(14,293)
Net Cash Used by Financing Activities		
NET DECREASE IN CASH	(794,772)	(217,735)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,618,594	1,836,329
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 823,822	\$ 1,618,594
Cash Paid for Interest During the Year:	\$ 21,122	\$ 22,536
Cash Paid for Income Taxes During the Year:	\$ -	\$ -

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

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)**

NOTE 1A – ORGANIZATION AND NATURE OF ACTIVITIES

Organization

WATCH Resources, Inc. (WATCH) was incorporated in 1972 as a California non-profit public benefit corporation to provide services to intellectual disabled adult participants in Tuolumne County. It began providing services to Calaveras County in subsequent years.

WATCH is tax-exempt under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code 23701d and is registered as a charitable organization with the California Attorney General's Office. The Financial Accounting Standards Board has issued guidance on accounting for uncertainty in income taxes. Management evaluated the Organization's tax position and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. Accordingly, no provision has been made for federal or state income taxes. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years before 2015.

Nature of Activities

WATCH's services aim to increase the independence and community integration of adults with intellectual disabilities (participants) by providing employment support, work training in the community (Day program and Supported Employment), daily living skills instruction and support (Supported Living), arts and recreation (HI-GEAR), residential living assistance (Goldstrike).

Revenues are received from contracts with regional centers for participant programs and activities, Day program services, HUD home management, HUD home maintenance cost reimbursements, and investment interest.

Support is received from contributions, special events fundraising, and grants.

NOTE 1B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of WATCH are prepared on the accrual basis of accounting, which is in accordance with Generally Accepted Accounting Principles (GAAP). Under this method, revenues are recognized when earned and expenses are recognized in the accounting year in which the liability is incurred.

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)**

NOTE 1B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

WATCH reports financial position and activities according classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: unrestricted revenues, support, and assets. This is the equity that is available for operations, not subjected to donor stipulations.

Net Assets With Donor Restrictions: contributions and net assets subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, receivables, accounts payable, accrued expenses and current maturities of long-term obligations, approximate fair value.

Cash and Cash Equivalents

Cash is maintained in savings, money market, checking accounts (both interest and non-interest bearing), change funds, Certificates of Deposits, and petty cash funds. The Federal Deposit Insurance Company (FDIC) provides insurance coverage up to \$250,000 per financial institution on all bank accounts. At June 30, 2023 and 2022, the uninsured balances were \$564,369 and \$1,242,668, respectively.

Reserve for Unemployment

The amount reported in Other Assets represents the value of a trust account maintained for WATCH to reimburse the State of California for unemployment claims. The value of the trust at June 30, 2023 and 2022, is \$32,664 and \$18,895 respectively.

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)**

NOTE 1B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program Service Fees

Revenues received from contracts for providing program services and activities to participants.

Production Revenue

Amounts billed for work performed by participants in the Day program and thrift store sales.

Related-Party Transactions

WATCH receives significant support from members of the Board of Directors and related organizations. During the fiscal year June 30, 2023, WATCH received \$9,649 from the current and former members of the Board of Directors and related organizations. This represents approximately .003 percent of support and revenue for the fiscal year then ended. During the fiscal year June 30, 2022, WATCH received \$8,570 from the current and former members of the Board of Directors and related organizations. This represents approximately .003 percent of support and revenue for the fiscal year then ended.

Comparative Data

The amounts shown for the year ended June 30, 2022 in the accompanying financial statements are included to provide a basis for comparison with 2023 and present summarized totals only. Accordingly, the 2022 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

NOTE 1C – RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS

Accounts Receivable

Receivables represent uncollateralized credit extended for services rendered. The direct write-off method is used for bad debts in which individual accounts are expensed as they become uncollectible. As of June 30, 2023 and 2022, the company considered all remaining accounts receivable to be fully collectible. Accounting principles generally accepted in the United States of America require that accounts receivable be presented net of an allowance for uncollectible accounts. The difference between these two methods is not material to these financial statements. In the unlikely event that all uncollected receivables due failed to be collected during the fiscal years ended June 30, 2023 and 2022, the maximum recognized loss would be \$263,960 and \$310,864, respectively.

During the years ended June 30, 2023 and 2022, pledges of \$36,991 and \$63,398 were received respectively. These pledges were not recognized based on WATCH's policy to consider pledges tentative until fulfilled.

Prepaid Expenses

Prepaid expenses consist of the following:

	<u>2023</u>	<u>2022</u>
Insurance	\$ 4,386	\$ 10,199
Rent	4,834	4,785
Operating Expenses	<u>1,343</u>	<u>1,060</u>
Total	<u>\$ 10,563</u>	<u>\$ 16,044</u>

Investments

Investments as of June 30, 2023 are as follows:

	<u>COST</u>	<u>Fair Market Value</u>	<u>Carrying Value</u>
Without Donor Restrictions			
Cash and Cash Equivalents held as Short-Term Investments	\$ 246,873	\$ 246,338	\$ 246,338
CDs held as Long-Term Investments	734,000	728,513	728,513
Mutual Funds	<u>24,204</u>	<u>24,204</u>	<u>24,204</u>
TOTAL	<u>\$ 1,005,077</u>	<u>\$ 999,055</u>	<u>\$ 999,055</u>

The Organization did not have Investments for the year ended June 30, 2022.

Investments are carried at fair value as determined by national market exchange provided by third-party broker, a level one measurement.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS(continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the twelve months ended June 30, 2023 and 2022:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Without Donor Restrictions		
Interst and Dividends	\$ 5,076	\$ -
Realized Gain/(Loss), Net	-	-
Unrealized Gain/(Loss), Net	(6,022)	-
Investment Expense	-	-
TOTAL	<u>(946)</u>	<u>-</u>

Property and Equipment

Vehicles and equipment with a life expectancy greater than one year and cost of greater than \$1,000 are capitalized at cost or fair value if donated. Depreciation is computed using the straight-line method over the estimated useful lives of these assets.

The following table summarizes the changes in the property and equipment accounts as of June 30, 2023:

	<u>Balance 6/30/22</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/23</u>
Capital Assets not being depreciated:				
Land	\$ 100,656	\$ -	\$ -	\$ 100,656
Total Capital Assets not being depreciated	<u>100,656</u>	<u>-</u>	<u>-</u>	<u>100,656</u>
Capital Assets being depreciated:				
Buildings	1,117,587	18,477	-	1,136,064
Vehicles - Unrestricted	527,445	-	(12,500)	514,945
Equipment - Restricted	29,290	-	(16,197)	13,093
Equipment - Unrestricted	<u>88,839</u>	<u>4,648</u>	<u>(24,553)</u>	<u>68,934</u>
Total Capital Assets being depreciated	<u>1,763,161</u>	<u>23,125</u>	<u>(53,250)</u>	<u>1,733,036</u>
Less Accumulated Depreciation:				
Buildings	\$ (383,133)	\$ (48,169)	\$ -	\$ (431,302)
Vehicles - Unrestricted	(527,445)	-	12,500	(514,945)
Equipment - Restricted	(29,290)	-	16,197	(13,093)
Equipment - Unrestricted	<u>(68,721)</u>	<u>(4,040)</u>	<u>23,935</u>	<u>(48,826)</u>
Total Accumulated Depreciation	<u>(1,008,589)</u>	<u>(52,209)</u>	<u>52,632</u>	<u>(1,008,166)</u>
Net Capital Assets being depreciated	<u>\$ 754,572</u>	<u>\$ (29,084)</u>	<u>\$ (618)</u>	<u>\$ 724,870</u>
Total Net Capital Assets	<u>\$ 855,228</u>	<u>\$ (29,084)</u>	<u>\$ (618)</u>	<u>\$ 825,526</u>

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022)

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS(continued)

The following table summarizes the changes in the property and equipment accounts as of June 30, 2022:

	Balance 6/30/21	Additions	Deletions	Balance 6/30/22
Capital Assets not being depreciated:				
Land	\$ 100,656	\$ -	\$ -	\$ 100,656
Total Capital Assets not being depreciated	<u>100,656</u>	<u>-</u>	<u>-</u>	<u>100,656</u>
Capital Assets being depreciated:				
Buildings	926,039	191,548	-	1,117,587
Vehicles - Unrestricted	527,445	-	-	527,445
Equipment - Restricted	29,290	-	-	29,290
Equipment - Unrestricted	79,477	9,362	-	88,839
Total Capital Assets being depreciated	<u>1,562,251</u>	<u>200,910</u>	<u>-</u>	<u>1,763,161</u>
Less Accumulated Depreciation:				
Buildings	\$ (344,856)	\$ (38,277)	\$ -	\$ (383,133)
Vehicles - Unrestricted	(491,920)	(35,524)	-	(527,445)
Equipment - Restricted	(29,290)	-	-	(29,290)
Equipment - Unrestricted	(64,774)	(3,947)	-	(68,721)
Total Accumulated Depreciation	<u>(930,840)</u>	<u>(77,749)</u>	<u>-</u>	<u>(1,008,589)</u>
Net Capital Assets being depreciated	\$ 631,411	\$ 123,161	\$ -	\$ 754,572
Construction in Progress	63,579	-	63,579	-
Total Net Capital Assets	<u>\$ 795,646</u>	<u>\$ 123,161</u>	<u>\$ 63,579</u>	<u>\$ 855,228</u>

Accrued Expenses

Accrued expenses consist of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Accrued Paid Time Off	\$ 147,271	\$ 135,089
Accrued Payroll Expenses	33,191	25,790
Accrued Shared Responsibility Payment	<u>212,357</u>	<u>207,529</u>
Total	<u>\$ 392,819</u>	<u>\$ 368,408</u>

Effective January 1, 2017, WATCH elected to terminate its health benefit plan in order to provide employees with more flexibility in seeking their own coverage. As a result of this decision, WATCH has accrued an estimated "Shared Responsibility Payment for Failure to Offer Minimum Essential Coverage" as shown above.

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NOTE 2 – NOTES ON SPECIFIC ACCOUNTS(continued)

Revenue Recognition

WATCH has analyzed the provisions of the FASB's ASC Topic 606, Revenue from Contracts with Customers, and have concluded that no changes are necessary to conform with the new standard. The Organization's sales contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer.

Net Assets with Donor Restrictions

Net assets with donor restrictions represent the net book value of assets purchased with grants prohibiting the sale or disposal of the assets before their depreciable life. The grants stipulate that the equipment must be returned to Caltrans in the event that WATCH wanted to retire the equipment before their useful depreciable life. As of June 30, 2023 and 2022, the remaining balance of these assets in net assets with donor restrictions totaled \$0 and \$0, respectively.

Net assets with donor restricted donations represent the net book value of cash and cash equivalents donated with donor-imposed restrictions limiting their use. As of June 30, 2023 and 2022, the remaining balance of these assets in net assets with donor restriction assets totaled \$10,291 and \$48,523, respectively.

NOTE 3 – RELATED TRANSACTIONS - AFFILIATES

WATCH is the HUD Certified Managing Agent for two HUD home projects: Project No. 136-EH011, Calaveras Abode in San Andreas, Inc. (CASA), and Project No. 135-HD001, Kelso Court, Inc. (Kelso). WATCH has neither ownership nor voting interest in either corporation; however, as managing agent, WATCH has responsibility for operating results and significantly influences each corporation's board of directors.

For the years ended June 30, 2023 and 2022, WATCH billed a management fee to CASA for \$8,928 each year. Kelso was billed \$4,176 each year as well.

NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain transportation and management and general costs have been allocated to program services and fundraising.

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NOTE 5 – LEASES

WATCH leases certain buildings and equipment. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. WATCH has determined that the following operating leases do not need to be adjusted to conform with the new accounting standard, due to the operating leases being a short term lease.

Leases: Equipment

WATCH leases copier system equipment under an operating lease. The 60-month lease commenced on June 2018 and ended May 2023. In June 2023, WATCH had chosen to end the leasing arrangement and purchase the copier for its fair value of \$3,448. Total rent expense for the years ended June 30, 2023 and 2022, was \$3,319 and 3,606, respectively.

Operating Leases: Facilities

The Sonora Industrial Center bus and vehicle storage and maintenance facility is subject to an operating-type lease. WATCH as lessee is responsible for utilities and insurance. The current lease expired on June 30, 2009 and rental is now month-to-month. A non-interest-bearing security deposit of \$790 is held by the landlord. For the fiscal year ending June 30, 2023 and 2022, the monthly rent was \$985 and \$928. Total rent expense for the years ended June 30, 2023 and 2022, was \$12,112 and \$11,584, respectively.

The facility used by the Good Stuff Thrift Store is subject to an operating-type lease. WATCH as lessee is responsible for utilities and insurance. The original lease expired on March 31, 2019 and now the lease terms are on a month-to-month basis. Per the agreement rental payments are \$3,800 per month with a security deposit of \$3,800. Total rent expense for the years ended June 30, 2023 and 2022, was \$45,600 and \$45,600, respectively.

During the 2020 fiscal year WATCH was donated the "Swirlz Yogurt and Smoothie Shop" with all its assets and inventory as of mid-June. During this time WATCH had to enter a temporary operating lease to continue Swirlz operations and activities. The lease began June 13, 2020 and will continue until December 13, 2020. Per the agreement rental payments are \$1,515 per month with a security deposit of \$1,000. The shop was closed before June 30, 2022 year end. The total rent expense incurred for Swirlz as of June 30, 2023 and 2022 was \$0 and \$1,000 respectively.

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NOTE 6 – LONG TERM DEBT

The organization obtained three long term loans in the acquisition of the real estate purchased for its operations. The loans consist of the following:

	<u>Current</u>	<u>Long Term</u>
Note payable to Oak Valley Community Bank, secured by real property located at 12801 Cabezut Rd., Sonora, Ca. The note is guaranteed by the United States Department of Agriculture. Interest on note is computed using the 365/360 basis which results in a higher effective interest rate than the numeric interest rate stated on the note. The current stated interest rate is 6.75% with payment of \$2,578.11 per month. Interest rate is variable but will not change more often than five years. Future applicable interest rate will be based on the weekly average yield on the United States Treasury securities adjusted to a constant maturity of five years plus a margin of 3.75 percentage points, not to exceed 10% per annum. Future monthly payments may be adjusted to ensure loan will be paid off by its maturity due date of March 5, 2036.	\$ 13,505	\$ 247,646
Note payable to the United States Department of Agriculture Rural Development, secured by the property located at 12801 Cabezut Rd. Sonora, Ca. The term of the note is thirty years with interest rate fixed at 4.25% per year. Monthly payments are \$505. Maturity due date is February 28, 2041.	<u>2,922</u>	<u>72,275</u>
Total	<u>\$ 16,427</u>	<u>\$ 319,921</u>

The following is summary of principal maturities of long-term debts:

<u>Year Ending June 30.</u>	
2024	\$ 16,427
2025	17,587
2026	18,731
2027	19,641
2028	19,763
Later Years	<u>244,199</u>
	<u>\$ 336,348</u>

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NOTE 7 – DONATED SERVICES

During the years ended June 30, 2023 and 2022, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, volunteers, including the Board of Directors have donated significant amounts of time in program, management, general and fundraising activities, but these services do not meet the criteria for recognition as contributed services.

NOTE 8 – CURRENT VULNERABILITY DUE TO A CONCENTRATION

During the years ended June 30, 2023 and 2022, approximately seventy-nine and seventy-seven percent (79.4%) and (76.7%), respectively, of total unrestricted revenue and support was for program service fees charged to Valley Mountain Regional Center. Valley Mountain Regional Center is primarily funded by the State of California. The State of California funding is subject to the administrative directives, rules, and regulations. Changes to these administrative directives, rules, and regulations may result in a financial impact with little notice.

NOTE 9– LIQUIDITY AND AVAILABILITY OF RESOURCES

WATCH RESOURCES monitor its liquidity so that it is able to meet its operating needs. The below table reflects WATCH's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets are considered to be unavailable for general expenditure when they are illiquid or not convertible to cash within one-year, board designations, and assets with donor-imposed restrictions. The following is a table that summarizes Watches liquidity as of June 30, 2023 and 2022.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Financial Assets		
Cash and Cash Equivalents	\$ 823,822	\$ 1,615,268
Short-Term Investments	242,465	-
Contributions and Other Receivables	<u>263,960</u>	<u>310,864</u>
Total Financial Assets	1,330,247	1,926,132
Less Those Unavailable For General Expenditures		
Within One Year Due To:		
Donor Restrictions	<u>10,291</u>	<u>48,523</u>
Total Unavailable for General Expenditure	10,291	48,523
Financial Assets Available to Meet Cash Needs		
For Expenditures Within One Year	<u>\$ 1,319,956</u>	<u>\$ 1,877,609</u>

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NOTE 10 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market

data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs that are unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured on a nonrecurring basis as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 24,204	\$ -	\$ -	\$ 24,204
CDs Held as Short-Term Investments	242,465	-	-	242,465
CDs held as Long-Term Investments	<u>728,513</u>	-	-	<u>728,513</u>
TOTAL	<u>\$ 995,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 995,182</u>

The Organization did not have any assets measured at fair value for the period ended June 30, 2022.

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NOTE 11 – PRIOR PERIOD ADJUSTMENT

WATCH RESOURCES had Invoiced \$1,067 on April 30, 2022 and \$1,210 on May 31, 2022 for services to V.M.R.C. WATCH did not have the authorization to provide said services causing an overstatement of receivables and revenue for the previous year ended June 30, 2022.

WATCH has reconciled accounts receivable resulting in a decrease of \$2,277 to unrestricted net assets.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 27, 2023, which is the date the financial statements were available to be issued.