

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

JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR-ENDED JUNE 30, 2021)

WATCH RESOURCES, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	5
STATEMENTS OF ACTIVITIES	6
2022 STATEMENT OF FUNCTIONAL EXPENSES	7
2021 STATEMENT OF FUNCTIONAL EXPENSES	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10



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, 2022, 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, 2022, 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 January 18, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

March 11, 2023



Hawks and Associates CPAs, Inc.

WATCH RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2021)

	2022	2021
ASSETS		
Current Assets		
Cash	\$ 1,618,594	\$ 1,836,329
Accounts Receivable	310,864	232,971
Prepaid Expenses & Deposits	16,044	14,929
Total Current Assets	1,945,502	2,084,229
Property and Equipment		
Land, Building & Improvements	1,218,243	1,026,695
Vehicles and Equipment	645,574	636,212
Accumulated Depreciation	(1,008,589)	(930,840)
Net Property and Equipment	855,228	732,067
Other Assets		
Reserve for Unemployment	18,895	13,245
Work in Progress	-	63,579
Deposits, Facility Rentals	4,450	5,450
Total Other Assets	23,345	82,274
TOTAL ASSETS	\$ 2,824,075	\$ 2,898,570
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued Paid Time Off	\$ 135,089	\$ 185,287
Accrued Payroll Expenses	25,790	109,324
Accrued Shared Responsibility Payment	207,529	177,289
Accounts Payable	13,713	23,450
Current Portion of Long Term Debt	15,229	14,565
Total Current Liabilities	397,350	509,915
Long Term Liabilities	336,330	351,287
Total Liabilities	733,680	861,202
NET ASSETS		
With Donor Restrictions	48,523	57,281
Without Donor Restrictions	2,041,872	1,980,087
Total Net Assets	2,090,395	2,037,368
TOTAL LIABILITIES AND NET ASSETS	\$ 2,824,075	\$ 2,898,570

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

WATCH RESOURCES, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2021)

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Support		
Program Service Fees	\$ 2,301,026	\$ 2,374,785
Product Sales	295,730	342,782
Production Income (Day Program)	119,951	112,572
Contributions	135,232	32,994
Management fees	13,146	13,104
Other Income	5,268	7,781
Investment Income	1,459	1,692
Net Assets Released From Restrictions:		
Satisfaction of Program Restrictions	29,296	164,302
TOTAL SUPPORT AND OTHER REVENUE	2,901,108	3,050,012
Expenses		
Program Services		
Supported Employment	86,135	82,684
Day Program (Work Training Program)	887,109	1,218,340
Supported Living	377,568	462,473
HI-GEAR (Games, Entertainment, Arts, Recreation)	91,750	87,100
Goldstrike (Residential Living Assistance)	251,913	359,574
Transportation Services	208,573	98,978
Swirlz	1,000	86,566
Thrift Shop	257,357	247,574
Supportive Services		
Fundraising	6,122	2,000
Management and General	671,796	373,570
TOTAL EXPENSES	2,839,323	3,018,859
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	61,785	31,153
OTHER INCOME (EXPENSES)		
Debt Forgiveness - SBA PPP Loan	-	410,812
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and Restricted Donations	20,538	71,734
Reallocation of Prior Year Donation	-	20,000
Net Assets Released From Restrictions	(29,296)	(164,302)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(8,758)	(72,568)
TOTAL INCREASE (DECREASE) IN NET ASSETS	53,027	369,397
NET ASSETS AT BEGINNING OF YEAR	2,037,368	1,667,971
NET ASSETS AT END OF YEAR	\$ 2,090,395	\$ 2,037,368

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	Swirlz	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.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDING JUNE 30, 2021

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	\$ 73,439	\$ 874,630	\$ 421,724	\$ 77,164	\$ 300,598	\$ 154,939	\$ 47,950	\$ 33,560	\$ 1,984,004	\$ 251,352	\$ 2,235,356
Other Employee Expenses	200	7,772	605	100	568	283	94	349	9,971	3,548	13,519
Consumer Compensation	-	101,468	-	-	-	12,139	-	-	113,607	-	113,607
Equipment Expenses	60	3,081	181	60	-	-	287	30	3,699	242	3,941
Vehicle Operating	-	-	-	-	-	-	-	30,925	30,925	-	30,925
Depreciation	526	39,558	5,838	526	7,148	386	-	24,710	78,692	3,405	82,097
Transportation Expense	-	13,516	5,330	-	8,946	13	-	-	27,805	47	27,852
Occupancy Expense	2,192	66,289	6,025	1,856	3,298	63,068	23,538	6,703	172,969	12,145	185,114
Insurance	108	5,735	405	131	1,670	1,256	982	462	10,749	22,953	33,702
Dues and Subscriptions	505	1,270	1,613	506	171	506	505	592	5,668	302	5,970
Office	45	5,019	197	45	-	-	-	22	5,328	22,953	28,281
Supplies	142	38,781	711	495	31,095	-	9,409	71	80,704	566	81,270
Fees and Outside Services	340	4,045	1,930	337	1,279	7,723	622	261	16,537	29,341	45,878
Staff Travel and Training	286	407	7,959	-	410	10	15	-	9,087	3,906	12,993
Advertising	-	-	-	-	-	150	-	-	150	-	150
Production Expenses	-	10,081	-	-	-	3,808	3,164	-	17,053	-	17,053
Miscellaneous	-	-	-	-	-	-	-	-	-	1,480	1,480
Fundraising Expenses	-	-	-	-	-	-	-	-	-	2,000	2,000
Interest Expense	391	19,948	1,173	391	-	-	-	195	22,098	1,565	23,663
Loss on Disposal of Assets	-	395	-	-	-	-	-	-	395	-	395
Shared Responsibility Costs	4,391	26,345	8,782	5,489	4,391	3,293	-	1,098	53,789	19,765	73,554
Bad debt	59	-	-	-	-	-	-	-	59	-	59
TOTAL EXPENSES	\$ 82,684	\$ 1,218,340	\$ 462,473	\$ 87,100	\$ 359,574	\$ 247,574	\$ 86,566	\$ 98,978	\$ 2,643,289	\$ 375,570	\$ 3,018,859

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

WATCH RESOURCES, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2021)

	2022	2021
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 53,027	\$ 369,397
Adjustments to Reconcile Decrease in Net Assets to Net cash used by operating activities:		
Depreciation and Amortization	77,749	82,097
Gain or Loss on Disposal of Fixed Assets	-	395
(Increase) Decrease in Assets:		
Accounts Receivable	(77,893)	58,714
Prepaid Expenses	(1,115)	(11,051)
Reserve for Unemployment	(5,650)	12,398
Work in Process	63,579	(52,429)
Deposits	1,000	1,527
Increase (Decrease) in Liabilities:		
Accounts Payable	(9,737)	(1,547)
Accrued Expenses	(103,492)	47,679
	(2,532)	507,180
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:		
Purchase of Property & Equipment	(200,910)	(3,575)
Cash Receipts from the Sale of Fixed Assets	-	150
	(200,910)	(3,425)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:		
Extinguishment of Debt	-	(410,812)
Loan Payments	(14,293)	(23,156)
	(14,293)	(433,968)
NET INCREASE IN CASH	(217,735)	69,787
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,836,329	1,766,542
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,618,594	\$ 1,836,329
Cash Paid for Interest During the Year:	\$ 22,536	\$ 23,663
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, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)**

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 2013.

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), and provides participants with door to door transportation for their programs and activities, starting July 1, 2019 WATCH discontinued providing transportation support for their day programs, the transportation will be taken over by independent carries supplied through the regional office.

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.

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.

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:

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)**

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

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, 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, 2022 and 2021, the uninsured balances were \$1,242,668 and \$1,457,151, 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, 2022 and 2021, is \$18,895 and \$13,245, respectively.

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.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

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

Related-Party Transactions

WATCH receives significant support from members of the Board of Directors and related organizations. 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. During the fiscal year June 30, 2021, WATCH received \$6,000 from the current and former members of the Board of Directors and related organizations. This represents approximately .20 percent of support and revenue for the fiscal year then ended.

Comparative Data

The amounts shown for the year ended June 30, 2021 in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 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, 2021, from which the summarized information was derived.

NOTE 1C – RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In July 2015, FASB voted to defer the effective date of ASU 2014-09 for one year. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to its customers. ASU 2014-09 will be effective for the Organization beginning in the year ended December 31, 2020, though early adoption is permitted.

ASU 2014-09 replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. At June 30, 2021, WATCH Resources Inc. has evaluated the following impact the pronouncement may have on the financial statements.

We have 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 Organizations contract services contain a single delivery element and revenue is recognized at a single point in time when the performance obligations of providing the services are met.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

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, 2022 and 2021, 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, 2022 and 2021, the maximum recognized loss would be \$310,864 and \$232,971, respectively.

During the years ended June 30, 2022 and 2021, pledges of \$63,398 and \$10,577 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>2022</u>	<u>2021</u>
Insurance	\$ 10,199	\$ 4,919
Rent	4,785	4,785
Operating Expenses	<u>1,059</u>	<u>5,225</u>
Total	<u>\$ 16,043</u>	<u>\$ 14,929</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, 2022:

	<u>Balance 6/30/21</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/22</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	926,039	191,548	-	1,117,587
Vehicles - Unrestricted	527,445	-	-	527,445

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)

Equipment - Restricted	29,290	-	-	29,290
Equipment - Unrestricted	<u>79,477</u>	<u>9,362</u>	<u>-</u>	<u>88,839</u>
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	<u>(64,774)</u>	<u>(3,947)</u>	<u>-</u>	<u>(68,721)</u>
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	<u>63,579</u>	<u>-</u>	<u>63,579</u>	<u>-</u>
Total Net Capital Assets	<u>\$ 795,646</u>	<u>\$ 123,161</u>	<u>\$ 63,579</u>	<u>\$ 855,228</u>

The following table summarizes the changes in the property and equipment accounts as of June 30, 2021:

	Balance 6/30/20	Additions	Deletions	Balance 6/30/21
Capital Assets not being depreciated:				
Land	<u>\$ 100,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,656</u>
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	-	-	926,039
Vehicles - Restricted	396,080	-	(396,080)	-
Vehicles - Unrestricted	133,715	396,080	(2,350)	527,445
Equipment - Restricted	32,678	-	(3,388)	29,290
Equipment - Unrestricted	<u>97,138</u>	<u>3,575</u>	<u>(21,236)</u>	<u>79,477</u>
Total Capital Assets being depreciated	<u>1,585,650</u>	<u>399,655</u>	<u>(423,054)</u>	<u>1,562,251</u>
Less Accumulated Depreciation:				
Buildings	\$ (312,997)	\$ (31,859)	\$ -	\$ (344,856)
Vehicles - Restricted	(320,347)	-	320,347	-
Vehicles - Unrestricted	(126,678)	(367,047)	1,805	(491,920)
Equipment - Restricted	(32,678)	-	3,388	(29,290)
Equipment - Unrestricted	<u>(82,472)</u>	<u>(3,538)</u>	<u>21,236</u>	<u>(64,774)</u>
Total Accumulated Depreciation	<u>(875,172)</u>	<u>(402,444)</u>	<u>346,776</u>	<u>(930,840)</u>

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)**

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)

Net Capital Assets being depreciated	\$ 710,478	\$ (2,789)	\$ (76,278)	\$ 631,411
Construction in Progress	-	63,579	-	63,579
Total Net Capital Assets	<u>\$ 811,134</u>	<u>\$ 60,790</u>	<u>\$ (76,278)</u>	<u>\$ 795,646</u>

Accrued Expenses

Accrued expenses consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accrued Paid Time Off	\$ 135,089	\$ 185,287
Accrued Payroll Expenses	25,790	109,324
Accrued Shared Responsibility Payment	<u>207,529</u>	<u>177,289</u>
Total	<u>\$ 368,408</u>	<u>\$ 471,900</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.

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, 2022 and 2021, 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, 2022 and 2021, the remaining balance of these assets in net assets with donor restriction assets totaled \$48,523 and \$57,281, respectively.

As of June 30, 2022 and 2021, the total balance of net assets with donor restriction assets was \$48,523 and \$57,281, 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.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

NOTE 3 – RELATED TRANSACTIONS – AFFILIATES (continued)

For the years ended June 30, 2022 and 2021, 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.

NOTE 5 – LEASES

Equipment Lease

WATCH leases copier system equipment under an operating lease. The 60-month lease commenced on June 2018 and ends May 2023. Unless cancelled 30 days prior to the last payment due date, the lease automatically renews for one month at 100% of the current monthly payment. WATCH is required to insure the equipment and is responsible for maintenance. The monthly payment as of June 30, 2022 is \$296 plus sales taxes, operation, and miscellaneous other charges.

Minimum future lease payments under this agreement are:

Year Ending June 30,

2023	\$ 3,550
Total	<u>\$ 3,550</u>

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, 2022 and 2021, the monthly rent was \$985 and \$928. Total rent expense for the years ended June 30, 2022 and 2021, was \$11,584 and \$11,582, 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, 2022 and 2021, was \$45,600 and \$45,600, respectively.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

NOTE 5 – LEASES (continued)

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, 2021 year end. The total rent expense incurred for Swirlz as of June 30, 2022 and 2021 was \$1,000 and \$12,120 respectively.

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.	\$ 12,429	\$261,151
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>2,800</u>	<u>75,179</u>
Total	<u>\$ 15,229</u>	<u>\$336,330</u>

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

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

NOTE 6 – LONG TERM DEBT (continued)

<u>Year Ending June 30,</u>	
2023	\$ 15,229
2024	16,514
2025	17,587
2026	18,731
2027	19,641
Later Years	<u>263,585</u>
	<u>\$ 351,287</u>

NOTE 7 – DONATED SERVICES

During the years ended June 30, 2022 and 2021, 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, 2022 and 2021, approximately seventy-seven and eighty-one percent (76.7%) and (80.9%), 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 WATCH's liquidity as of June 30, 2022 and 2021.

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)**

NOTE 9– LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Financial Assets:	June 30, 2022	June 30, 2021
Cash and Cash Equivalents	\$ 1,615,268	\$ 1,836,329
Contributions and Other Receivables	310,864	232,971
Total Financial Assets	1,926,132	2,069,300
Less Those Unavailable for General Expenditure		
Within One Year Due To:		
Board Designations	-	-
Donor Restrictions	48,523	57,281
Total Unavailable for General Expenditure	48,523	57,281
Financial Assets Available to Meet Cash Needs		
For Expenditures Within One Year	\$ 1,877,609	\$ 2,012,019

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 6, 2023, which is the date the financial statements were available to be issued.