

WATCH RESOURCES, INC.

**AUDITED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

**WATCH RESOURCES, INC.**

**TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
2020 STATEMENT OF FUNCTIONAL EXPENSES	6
2019 STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



## 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

We have audited the accompanying financial statements of WATCH Resources, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WATCH Resources, Inc., as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

October 22, 2020

Hawks and Associates CPAs, Inc.

WATCH RESOURCES, INC.  
STATEMENTS OF FINANCIAL POSITION  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,766,542	\$ 1,190,919
Accounts Receivable	291,685	258,905
Prepaid Expenses & Deposits	10,965	19,945
Total Current Assets	2,069,192	1,469,769
Property and Equipment		
Land, Building & Improvements	1,026,695	1,026,695
Vehicles and Equipment	659,611	858,906
Accumulated Depreciation	(875,172)	(938,075)
Net Property and Equipment	811,134	947,526
Other Assets		
Reserve for Unemployment	31,093	40,424
Deposits, Facility Rentals	5,590	4,450
Total Other Assets	36,683	44,874
<b>TOTAL ASSETS</b>	<b>\$ 2,917,009</b>	<b>\$ 2,462,169</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accrued Paid Time Off	\$ 163,949	\$ 162,702
Accrued Payroll Expenses	99,423	93,870
Accrued Shared Responsibility Payment	159,027	153,850
Accounts Payable	26,819	23,065
Current Portion of Long Term Debt	114,484	24,873
Total Current Liabilities	563,702	458,360
Long Term Liabilities	685,336	389,013
Total Liabilities	1,249,038	847,373
<b>NET ASSETS</b>		
With Donor Restrictions	129,849	178,748
Without Donor Restrictions	1,538,122	1,436,048
Total Net Assets	1,667,971	1,614,796
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,917,009</b>	<b>\$ 2,462,169</b>

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Support		
Program Service Fees	\$ 2,489,376	\$ 2,457,763
Thrift Shop Sales	266,245	301,473
Production Income (Day Program)	115,225	156,229
Contributions	58,291	67,416
Management fees	13,104	13,104
Other Income	12,772	13,081
Investment Income	1,193	983
Net Assets Released From Restrictions:		
Satisfaction of Program Restrictions	95,015	90,724
TOTAL SUPPORT AND OTHER REVENUE	3,051,221	3,100,773
Expenses		
Program Services		
Supported Employment	72,916	71,389
Day Program (Work Training Program)	1,186,745	1,171,956
Supported Living	385,635	258,027
HI-GEAR (Games, Entertainment, Arts, Recreation)	94,159	91,587
Goldstrike (Residential Living Assistance)	296,650	324,744
Transportation Services	216,666	497,912
Swirlz	3,370	-
Thrift Shop	238,039	250,432
Supportive Services		
Fundraising	-	5,686
Management and General	441,126	444,546
TOTAL EXPENSES	2,935,306	3,116,279
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	115,915	(15,506)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and Restricted Donations	32,275	-
Net Assets Released From Restrictions	(95,015)	(90,724)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(62,740)	(90,724)
TOTAL INCREASE (DECREASE) IN NET ASSETS	53,175	(106,230)
NET ASSETS AT BEGINNING OF YEAR	1,614,796	1,721,026
NET ASSETS AT END OF YEAR	\$ 1,667,971	\$ 1,614,796

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR YEAR ENDING JUNE 30, 2020

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	\$ 65,351	\$ 880,288	\$ 351,715	\$ 85,133	\$ 247,717	\$ 134,090	\$ 1,725	\$ 67,185	\$ 1,833,204	\$ 320,175	\$ 2,153,379
Other Employee Expenses	1,178	21,217	6,490	1,522	5,455	3,962	54	3,223	43,101	25	43,126
Consumer Compensation	-	100,959	-	-	-	23,217	-	-	124,176	-	124,176
Equipment Expenses	57	2,908	171	57	-	-	-	229	3,422	229	3,651
Vehicle Operating	-	-	-	-	-	-	-	41,979	41,979	-	41,979
Depreciation	526	28,306	1,577	526	-	375	-	70,278	101,588	3,626	105,214
Transportation Expense	647	10,825	3,460	835	2,869	2,130	30	1,439	22,235	13	22,248
Occupancy Expense	2,133	63,635	5,347	1,850	643	61,349	1,414	15,689	152,060	11,876	163,936
Insurance	657	13,100	3,370	860	3,935	3,794	60	2,470	28,246	5,986	34,232
Dues and Subscriptions	-	-	375	-	-	-	-	620	995	5,680	6,675
Office	30	3,464	115	31	-	512	-	124	4,276	24,214	28,490
Supplies	133	25,077	345	2,360	30,824	-	-	434	59,173	1,431	60,604
Fees and Outside Services	455	7,675	2,438	589	2,021	6,219	21	1,014	20,432	12,147	32,579
Staff Travel and Training	1,353	321	9,044	-	3,175	-	-	-	13,893	5,229	19,122
Advertising	-	-	-	-	-	150	-	-	150	-	150
Production Expenses	-	8,762	-	-	-	2,227	66	-	11,055	-	11,055
Fundraising Expenses	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	396	20,208	1,188	396	11	14	-	1,750	23,963	1,816	25,779
Loss on Disposal of Assets	-	-	-	-	-	-	-	10,232	10,232	-	10,232
Shared Responsibility Costs	-	-	-	-	-	-	-	-	-	48,679	48,679
<b>TOTAL EXPENSES</b>	<u>\$ 72,916</u>	<u>\$ 1,186,745</u>	<u>\$ 385,635</u>	<u>\$ 94,159</u>	<u>\$ 296,650</u>	<u>\$ 238,039</u>	<u>\$ 3,370</u>	<u>\$ 216,666</u>	<u>\$ 2,494,180</u>	<u>\$ 441,126</u>	<u>\$ 2,935,306</u>

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR YEAR ENDING JUNE 30, 2019

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	\$ 58,855	\$ 851,102	\$ 229,462	\$ 80,120	\$ 244,212	\$ 137,954	\$ 290,946	\$ 1,892,651	\$ 283,444	\$ 2,176,095
Other Employee Expenses	542	12,839	2,212	877	2,545	1,985	5,443	26,443	77	26,520
Consumer Compensation	-	96,317	-	-	-	28,447	-	124,764	-	124,764
Equipment Expenses	57	2,911	171	57	-	-	228	3,424	228	3,652
Vehicle Operating	-	-	-	-	-	-	70,712	70,712	-	70,712
Depreciation	548	29,163	1,645	548	-	313	101,743	133,960	3,853	137,813
Transportation Expense	44	48,899	1,102	-	35,742	1,725	-	87,512	166	87,678
Occupancy Expense	2,013	65,831	6,152	1,905	424	63,146	16,408	155,879	16,189	172,068
Insurance	591	11,774	2,099	769	3,730	3,658	4,824	27,445	6,287	33,732
Dues and Subscriptions	6,780	500	750	-	-	-	590	8,620	5,183	13,803
Office	29	2,054	374	29	-	451	118	3,055	23,104	26,159
Supplies	74	12,522	355	6,266	31,894	-	295	51,406	585	51,991
Fees and Outside Services	459	7,601	1,658	588	2,086	7,393	3,198	22,983	34,208	57,191
Staff Travel and Training	980	223	10,795	11	4,111	-	1,738	17,858	2,853	20,711
Advertising	-	-	-	-	-	680	-	680	-	680
Production Expenses	-	8,936	-	-	-	4,680	-	13,616	-	13,616
Fundraising Expenses	-	-	-	-	-	-	-	-	5,686	5,686
Interest Expense	417	21,284	1,252	417	-	-	1,669	25,039	1,669	26,708
Shared Responsibility Costs	-	-	-	-	-	-	-	-	66,700	66,700
<b>TOTAL EXPENSES</b>	<b>\$ 71,389</b>	<b>\$ 1,171,956</b>	<b>\$ 258,027</b>	<b>\$ 91,587</b>	<b>\$ 324,744</b>	<b>\$ 250,432</b>	<b>\$ 497,912</b>	<b>\$ 2,666,047</b>	<b>\$ 450,232</b>	<b>\$ 3,116,279</b>

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 53,175	\$ (106,230)
Adjustments to Reconcile Decrease in Net Assets to Net cash used by operating activities:		
Depreciation and Amortization	105,214	137,813
Gain or Loss on Disposal of Fixed Assets	10,232	-
(Increase) Decrease in Assets:		
Accounts Receivable	(32,780)	(26,327)
Prepaid Expenses	8,980	(7,675)
Reserve for Unemployment	9,331	5,604
Deposits	(1,140)	75
Increase (Decrease) in Liabilities:		
Accounts Payable	3,754	(919)
Accrued Expenses	193,040	98,719
	349,806	101,060
Net Cash Provided by Operating Activities		
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:		
Purchase of Property & Equipment	(6,054)	(5,071)
Cash Receipts from the Sale of Fixed Assets	27,000	-
	20,946	(5,071)
Net Cash Used by Investing Activities		
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:		
Loan Payments	204,871	(23,441)
	204,871	(23,441)
Net Cash Used by Financing Activities		
NET INCREASE IN CASH	575,623	72,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,190,919	1,118,371
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,766,542	\$ 1,190,919
Cash Paid for Interest During the Year:	\$ 25,779	\$ 26,708
Cash Paid for Income Taxes During the Year:	\$ -	\$ -

See Accompanying Notes to Financial Statements and Auditor's Report



**WATCH RESOURCES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2020 AND 2019**

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**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 2012.

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 will discontinue 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.

**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**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**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, 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, 2020 and 2019, the uninsured balances were \$1,289,671 and \$762,072, respectively.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**NOTE 1B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(continued)**

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, 2020 and 2019, is \$31,093 and \$40,424, 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.

Related-Party Transactions

WATCH receives significant support from members of the Board of Directors and related organizations. During the fiscal year June 30, 2020, WATCH received \$18,500 from the current and former members of the Board of Directors and related organizations. This represents approximately .60 percent of support and revenue. During the fiscal year June 30, 2019, WATCH received \$2,765 from the current and former members of the Board of Directors and related organizations. This represents approximately 0.10 percent of support and revenue for the fiscal year ended June 30, 2019

**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, 2020 and 2019, 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, 2020 and 2019, the maximum recognized loss would be \$291,685 and \$258,905, respectively.

During the years ended June 30, 2020 and 2019, pledges of \$28,265 and \$56,924 were received respectively. These pledges were not recognized based on WATCH's policy to consider pledges tentative until fulfilled.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)**

Prepaid Expenses

Prepaid expenses consist of the following:

	<u>2020</u>	<u>2019</u>
Insurance	\$ 3,221	\$ 4,637
Rent	6,262	4,747
Operating Expenses	<u>1,482</u>	<u>10,561</u>
Total	<u>\$ 10,965</u>	<u>\$ 19,945</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, 2020:

	<u>Balance 6/30/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/20</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	-	-	926,039
Vehicles - Restricted	601,429	-	(205,349)	396,080
Vehicles - Unrestricted	133,715	-	-	133,715
Equipment - Restricted	32,678	-	-	32,678
Equipment - Unrestricted	91,084	6,054	-	97,138
Total Capital Assets being depreciated	<u>1,784,945</u>	<u>6,054</u>	<u>(205,349)</u>	<u>1,585,650</u>
Less Accumulated Depreciation:				
Buildings	\$ (279,397)	\$ (33,600)	\$ -	\$ (312,997)
Vehicles - Restricted	(432,681)	(55,783)	168,117	(320,347)
Vehicles - Unrestricted	(114,285)	(12,393)	-	(126,678)
Equipment - Restricted	(32,678)	-	-	(32,678)
Equipment - Unrestricted	(79,034)	(3,438)	-	(82,472)
Total Accumulated Depreciation	<u>(938,075)</u>	<u>(105,214)</u>	<u>168,117</u>	<u>(875,172)</u>
Net Capital Assets being depreciated	<u>\$ 846,870</u>	<u>\$ (99,160)</u>	<u>\$ (37,232)</u>	<u>\$ 710,478</u>
Total Net Capital Assets	<u>\$ 947,526</u>	<u>\$ (99,160)</u>	<u>\$ (37,232)</u>	<u>\$ 811,134</u>

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

**NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)**

The following table summarizes the changes in the property and equipment accounts as of June 30, 2019:

	Balance 6/30/18	Additions	Deletions	Balance 6/30/19
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	-	-	926,039
Vehicles - Restricted	601,429	-	-	601,429
Vehicles - Unrestricted	133,715	-	-	133,715
Equipment - Restricted	32,678	-	-	32,678
Equipment - Unrestricted	<u>86,012</u>	<u>5,072</u>	<u>-</u>	<u>91,084</u>
Total Capital Assets being depreciated	<u>1,779,873</u>	<u>5,072</u>	<u>-</u>	<u>1,784,945</u>
Less Accumulated Depreciation:				
Buildings	\$ (244,301)	\$ (35,096)	\$ -	\$ (279,397)
Vehicles - Restricted	(342,137)	(90,724)	-	(432,681)
Vehicles - Unrestricted	(105,460)	(8,825)	-	(114,285)
Equipment - Restricted	(32,678)	-	-	(32,678)
Equipment - Unrestricted	<u>(75,866)</u>	<u>(3,168)</u>	<u>-</u>	<u>(79,034)</u>
Total Accumulated Depreciation	<u>(800,262)</u>	<u>(137,813)</u>	<u>-</u>	<u>(938,075)</u>
Net Capital Assets being depreciated	<u>\$ 979,611</u>	<u>\$ (132,741)</u>	<u>\$ -</u>	<u>\$ 846,870</u>
Total Net Capital Assets	<u>\$ 1,080,267</u>	<u>\$ (132,741)</u>	<u>\$ -</u>	<u>\$ 947,526</u>

Accrued Expenses

Accrued expenses consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accrued Paid Time Off	\$ 163,949	\$ 162,702
Accrued Payroll Expenses	99,423	93,870
Accrued Shared Responsibility Payment	<u>159,027</u>	<u>153,850</u>
Total	<u>\$ 422,399</u>	<u>\$ 410,422</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.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)**

Temporarily Restricted Net Assets

Temporarily restricted assets 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, 2020 and 2019, the remaining balance of these assets in temporary restricted assets totaled \$75,733 and \$168,748, respectively.

Temporarily restricted donations represent the net book value of cash and cash equivalents donated with donor-imposed restrictions limiting their use. As of June 30, 2020 and 2019, the remaining balance of these assets in temporary restricted assets totaled \$40,275 and \$10,000, respectively.

As of June 30, 2020 and 2019, the total balance of temporary restricted assets was \$116,008 and \$178,748, 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, 2020 and 2019, 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, 2020 is \$296 plus sales taxes, operation, and miscellaneous other charges.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**NOTE 5 – LEASES(continued)**

Minimum future lease payments under this agreement are:

Year Ending June 30,	
2021	3,550
2022	3,550
2023	<u>3,550</u>
Total	<u>\$ 10,650</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 \$650 is held by the landlord. For the fiscal year ending June 30, 2020 and 2019, the monthly rent was \$928 and \$892. Total rent expense for the years ended June 30, 2020 and 2019, was \$11,137 and \$10,704, 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, 2020 and 2019, 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 total rent expense incurred for Swirlz as of June 30, 2020 was \$1,414.

Minimum Future Lease payments are as follows:

Year Ending June 30,	
2021	<u>\$ 9,090</u>
Total	<u>\$ 9,090</u>

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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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>
<p>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.</p>	\$ 10,843	\$ 285,188
<p>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.</p>	2,572	80,663
<p>Note payable to the Kopyn 1994 Revocable Trust, secured by empty real estate lot located on Cabezut Rd. Sonora, CA. The term of the note is ten years with interest fixed at 6% per year. Monthly payments are \$1,110.21. Maturity due date is March 28, 2021.</p>	9,741	-
<p>Note payable to WATCH Resources, loan of 410,813 funded by the Small Business Association under the Paycheck Protection Program. The terms of the note are as fallowed. Interest will accrue on the unpaid principle balance of the loan beginning on the date the proceeds for the loan are disbursed, the rate applied is 1.00% annually. Originally Monthly payments are \$23,123.42 starting November 10, 2020; but due to Amendment PPF A payback periods were deferred up to 10 months., beginning on the date March 10, 2020. The maturity date of the loan is April 10, 2022.</p>	91,328	319,485
Total	\$ 114,394	\$ 695,336



**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**NOTE 6 – LONG TERM DEBT(continued)**

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

<u>Year Ending June 30,</u>	
2021	114,394
2022	289,839
2023	59,256
2024	16,179
2025	18,430
Later Years	<u>301,722</u>
	<u>\$ 799,820</u>

**NOTE 7 – DONATED SERVICES**

During the years ended June 30, 2020 and 2019, 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, 2020 and 2019, approximately eighty-one percent (81.6%) and (81.7%), 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.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

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**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, 2020 and 2019.

Financial Assets	6/30/2020	6/30/2019
Cash and Cash Equivalents	\$ 1,766,542	\$ 1,190,919
Contributions and Other Receivables	291,685	258,905
Total Financial Assets	2,058,227	1,449,824
Less Those Unavailable for General Expenditure		
Within One Year Due to:		
Board Designations	-	-
Donor Restrictions	40,275	10,000
Total Assets Unavailable for General Expenditures	40,275	10,000
Financial Assets Available to Meet Cash Needs		
For Expenditures Within One Year	\$ 2,017,952	\$ 1,439,824

**NOTE 10 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the auditors' report, the date on which the financial statements were available to be issued.