

WATCH RESOURCES, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018



Robert A. Hawks, Jr., CPA

• 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, 2019 and 2018, 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, 2019 and 2018, 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 12, 2019

Robert A. Hawks, Jr.
Certified Public Accountant

WATCH RESOURCES, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
2018 STATEMENT OF FUNCTIONAL EXPENSES	6
2017 STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9

WATCH RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets		
Cash	\$ 1,190,919	\$ 1,118,371
Accounts Receivable	258,905	232,579
Prepaid Expenses & Deposits	19,945	12,270
	1,469,769	1,363,220
Property and Equipment		
Land, Building & Improvements	1,026,695	1,026,695
Vehicles and Equipment	858,906	853,834
Accumulated Depreciation	(938,075)	(800,262)
	947,526	1,080,267
Other Assets		
Reserve for Unemployment	40,424	46,028
Deposits, Facility Rentals	4,450	4,525
	44,874	50,553
TOTAL ASSETS	\$ 2,462,169	\$ 2,494,040
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued Paid Time Off	\$ 162,702	\$ 146,161
Accrued Payroll Expenses	93,870	79,456
Accrued Shared Responsibility Payment	153,850	87,150
Accounts Payable	23,065	22,921
Current Portion of Long Term Debt	24,873	23,443
	458,360	359,131
Long Term Liabilities		
	389,013	413,883
	847,373	773,014
NET ASSETS		
Temporarily Restricted	178,748	271,710
Unrestricted	1,436,048	1,449,316
	1,614,796	1,721,026
TOTAL LIABILITIES AND NET ASSETS	\$ 2,462,169	\$ 2,494,040

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
UNRESTRICTED NET ASSETS		
Revenues and Support		
Program Service Fees	\$ 2,457,763	\$ 2,447,299
Thrift Shop Sales	301,473	295,302
Production Income (Day Program)	156,229	168,487
Contributions	67,416	107,679
Management fees	13,104	13,104
Other Income	13,081	20,106
Investment Income	983	803
Net Assets Released From Restrictions:		
Satisfaction of Program Restrictions	90,724	90,883
TOTAL SUPPORT AND OTHER REVENUE	3,100,773	3,143,663
Expenses		
Program Services		
Supported Employment	71,389	61,745
Day Program (Work Training Program)	1,171,956	1,229,810
Supported Living	258,027	223,936
HI-GEAR (Games, Entertainment, Arts, Recreation)	91,587	102,252
Goldstrike (Residential Living Assistance)	324,744	267,869
Transportation Services	497,912	503,648
Thrift Shop	250,432	256,022
Supportive Services		
Fundraising	5,686	6,467
Management and General	444,546	398,130
TOTAL EXPENSES	3,116,279	3,049,879
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(15,506)	93,784
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Grants	-	10,000
Net Assets Released From Restrictions	(90,724)	(90,883)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(90,724)	(80,883)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(106,230)	12,901
NET ASSETS AT BEGINNING OF YEAR	1,721,026	1,708,125
NET ASSETS AT END OF YEAR	\$ 1,614,796	\$ 1,721,026

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
TOTAL EXPENSES	\$ 71,389	\$ 1,171,956	\$ 258,027	\$ 91,587	\$ 324,744	\$ 250,432	\$ 497,912	\$ 2,666,047	\$ 450,232	\$ 3,116,279

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

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	\$ 54,717	\$ 842,333	\$ 194,523	\$ 83,203	\$ 191,485	\$ 134,818	\$ 301,009	\$ 1,802,088	\$ 273,570	\$ 2,075,658
Other Employee Expenses	668	16,474	2,444	1,116	4,133	2,794	7,644	35,273	175	35,448
Consumer Compensation	-	126,331	-	-	-	31,916	-	158,247	-	158,247
Equipment Expenses	50	2,720	150	50	-	-	200	3,170	200	3,370
Vehicle Operating	-	-	-	-	-	-	61,636	61,636	-	61,636
Depreciation	586	31,523	1,759	586	-	-	103,950	138,404	3,867	142,271
Transportation Expense	87	62,732	2,412	-	34,643	2,026	-	101,900	78	101,978
Occupancy Expense	2,163	74,832	6,988	2,065	-	67,079	18,261	171,388	15,946	187,334
Insurance	488	13,088	1,732	788	2,783	3,532	4,409	26,820	4,429	31,249
Dues and Subscriptions	539	-	-	-	-	-	560	1,099	4,806	5,905
Office	28	2,565	495	28	18	193	112	3,439	22,973	26,412
Supplies	87	15,037	439	13,167	31,117	-	346	60,193	1,354	61,547
Fees and Outside Services	335	7,653	1,227	560	1,468	7,127	2,759	21,129	8,822	29,951
Staff Travel and Training	1,558	650	10,450	250	2,222	-	1,006	16,136	3,475	19,611
Advertising	-	-	-	-	-	545	-	545	29	574
Production Expenses	-	11,475	-	-	-	5,992	-	17,467	-	17,467
Miscellaneous	-	-	-	-	-	-	-	-	10	10
Fundraising Expenses	-	-	-	-	-	-	-	-	6,467	6,467
Interest Expense	439	22,397	1,317	439	-	-	1,756	26,348	1,756	28,104
Shared Responsibility Costs	-	-	-	-	-	-	-	-	56,640	56,640
TOTAL EXPENSES	\$ 61,745	\$ 1,229,810	\$ 223,936	\$ 102,252	\$ 267,869	\$ 256,022	\$ 503,648	\$ 2,645,282	\$ 404,597	\$ 3,049,879

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase in Net Assets	\$ (106,230)	\$ 12,901
Adjustments to Reconcile Decrease in Net Assets to Net cash used by operating activities:		
Depreciation and Amortization	137,813	142,271
(Increase) Decrease in Assets:		
Accounts Receivable	(26,327)	7,740
Prepaid Expenses	(7,675)	5,025
Reserve for Unemployment	5,604	638
Deposits	75	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(919)	(5,333)
Accrued Expenses	98,719	69,801
	101,060	233,043
Net Cash Provided by Operating Activities	101,060	233,043
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:		
Purchase of Property & Equipment	(5,071)	(32,504)
Net Cash Used by Investing Activities	(5,071)	(32,504)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:		
Loan Payments	(23,441)	(22,046)
Net Cash Used by Financing Activities	(23,441)	(22,046)
NET INCREASE IN CASH	72,548	178,493
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,118,371	939,878
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,190,919	\$ 1,118,371
Cash Paid for Interest During the Year:	\$ 26,708	\$ 28,104
Cash Paid for Income Taxes During the Year:	\$ -	\$ -

See Accompanying Notes to Financial Statements

**WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

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 all programs and activities.

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, 2019 AND 2018

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

Basis of Presentation

WATCH reports financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets: unrestricted revenues, support, and assets. This is the equity that is available for operations.

Temporarily restricted net assets: contributions restricted by donors for specific purposes and for which such restrictions have not been satisfied. When restrictions are satisfied, the resources are presented in the Statement of Activity as being released.

Permanently restricted net assets: contributions with donor stipulations that they are to be used for a specific purpose, preserved, or invested to provide a permanent source of income. WATCH has no permanently restricted net assets.

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, 2019 and 2018, the uninsured balances were \$760,154 and \$749,838, respectively.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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.

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, 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. During the fiscal year June 30, 2018, WATCH received \$5,067 from the current and former members of the Board of Directors and related organizations. This represents approximately 0.16 percent of support and revenue for fiscal year end June 30, 2018.

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, 2019 and 2018, 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, 2019 and 2018, the maximum recognized loss would be \$258,905 and \$232,579, respectively.

During the years ended June 30, 2019 and 2018, pledges of \$56,924 and \$73,359 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, 2019 AND 2018

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)

Prepaid Expenses

Prepaid expenses consist of the following:

	<u>2019</u>	<u>2018</u>
Insurance	\$ 4,637	\$ 4,522
Rent	4,747	4,711
Operating Expenses	<u>10,561</u>	<u>3,037</u>
Total	<u>\$ 19,945</u>	<u>\$ 12,270</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, 2019:

	<u>Balance</u> <u>6/30/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/19</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	591,080	-	-	591,080
Vehicles - Unrestricted	144,064	-	-	144,064
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	(339,370)	(90,724)	-	(430,094)
Vehicles - Unrestricted	(108,047)	(8,825)	-	(116,872)
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>

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – NOTES ON SPECIFIC ACCOUNTS (continued)

The following table summarizes the changes in the property and equipment accounts as of June 30, 2018:

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
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	919,644	6,395	-	926,039
Vehicles - Restricted	591,080	-	-	591,080
Vehicles - Unrestricted	138,463	25,547	(19,946)	144,064
Equipment - Restricted	32,678	-	-	32,678
Equipment - Unrestricted	85,450	562	-	86,012
Total Capital Assets being depreciated	<u>1,767,315</u>	<u>32,504</u>	<u>(19,946)</u>	<u>1,779,873</u>
Less Accumulated Depreciation:				
Buildings	\$ (206,769)	\$ (37,532)	\$ -	\$ (244,301)
Vehicles - Restricted	(250,124)	(89,246)	-	(339,370)
Vehicles - Unrestricted	(117,263)	(10,730)	19,946	(108,047)
Equipment - Restricted	(31,041)	(1,637)	-	(32,678)
Equipment - Unrestricted	(72,740)	(3,126)	-	(75,866)
Total Accumulated Depreciation	<u>(677,937)</u>	<u>(142,271)</u>	<u>19,946</u>	<u>(800,262)</u>
Net Capital Assets being depreciated	<u>\$ 1,089,378</u>	<u>\$ (109,767)</u>	<u>\$ -</u>	<u>\$ 979,611</u>
Total Net Capital Assets	<u>\$ 1,190,034</u>	<u>\$ (109,767)</u>	<u>\$ -</u>	<u>\$ 1,080,267</u>

Accrued Expenses

Accrued expenses consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accrued Paid Time Off	\$ 162,702	\$ 146,161
Accrued Payroll Expenses	93,870	79,456
Accrued Shared Responsibility Payment	153,850	87,150
Total	<u>\$ 410,422</u>	<u>\$ 312,767</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, 2019 AND 2018

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, 2019 and 2018, the remaining balance of these assets in temporary restricted assets totaled \$178,748 and \$271,710, 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, 2019 and 2018, the remaining balance of these assets in temporary restricted assets totaled \$20,000 and \$10,000, respectively.

As of June 30, 2019 and 2018, the total balance of temporary restricted assets was \$271,710 and \$352,593, 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, 2019 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.

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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, 2018 is \$275 plus sales taxes, operation, and miscellaneous other charges.

Minimum future lease payments under this agreement are:

Year Ending June 30,	
2019	\$ 3,300
2020	3,300
2021	3,300
2022	3,300
2023	<u>3,025</u>
Total	<u>\$ 16,225</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, 2019 and 2018, the monthly rent was \$872 for each year. Total rent expense for the years ended June 30, 2019 and 2018, was \$10,469 and \$10,469, respectively.

A five year operating lease agreement was signed to commence April 1, 2014 and terminate March 31, 2019 for the facility used by the Good Stuff Thrift Store. Per the agreement rental payments are \$3,800 per month with a security deposit of \$3,800, and first month rent free. WATCH as lessee is responsible for utilities and insurance. Total rent expense for the years ended June 30, 2019 and 2018, was \$45,600 and \$45,600, respectively.

Minimum Future Lease payments are as follow:

Year Ending June 30,	
2019	<u>\$ 34,200</u>
Total	<u>\$ 34,200</u>

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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.	\$ 10,074	\$ 296,031
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.	2,572	83,235
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.	12,333	9,747
Total	<u>\$ 24,979</u>	<u>\$ 389,013</u>

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

<u>Year Ending June 30,</u>	
2020	24,979
2021	23,162
2022	14,292
2023	15,228
2024	16,179
Later Years	<u>295,173</u>
	<u>\$ 389,013</u>

WATCH RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 7 – DONATED SERVICES

During the years ended June 30, 2019 and 2018, 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, 2019 and 2018, approximately eighty-one percent (81.7%) and seventy-nine percent (79.9%), 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 – 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.