

WATCH RESOURCES, INC.

**AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDING JUNE 30, 2017

**WATCH RESOURCES, INC.**

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## 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 statement of financial position as of June 30, 2017, 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, 2017, 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, 2017

Robert A. Hawks, Jr.  
Certified Public Accountant

WATCH RESOURCES, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017

ASSETS

Current Assets

Cash	\$ 939,878
Accounts receivable	240,319
Prepaid expenses & deposits	<u>17,295</u>

Total Current Assets	<u>1,197,492</u>
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Property and Equipment

Land, building & improvements	1,020,300
Vehicles and equipment	847,671
Accumulated depreciation	<u>(677,937)</u>

Net Property and Equipment	<u>1,190,034</u>
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Other Assets

Reserve for unemployment	46,666
Deposits, facility rentals	<u>4,525</u>

Total Other Assets	<u>51,191</u>
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TOTAL ASSETS	<u><u>\$2,438,717</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accrued expenses	\$ 242,966
Accounts payable	28,254
Current portion of long term debt	<u>22,045</u>

Total Current Liabilities	293,265
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Long Term Liabilities	<u>437,327</u>
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Total Liabilities	730,592
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NET ASSETS

Temporarily Restricted	352,593
Unrestricted	<u>1,355,532</u>

Total Net Assets	<u>1,708,125</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$2,438,717</u></u>
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See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENT OF ACTIVITIES  
JUNE 30, 2017

UNRESTRICTED NET ASSETS

Revenues and Support	
Program service fees	\$2,524,419
Thrift shop sales	316,584
Production income (Day program)	157,698
Contributions	53,736
Management fees	13,104
Other income	24,875
Investment income	612
Gain on sale of assets	3,260
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>86,284</u>
 TOTAL SUPPORT AND OTHER REVENUE	 <u>3,180,572</u>

Expenses

Program Services	
Supported employment	57,433
Day Program (work training program)	1,216,732
Supported living	198,870
HI-GEAR (games, entertainment, arts, recreation)	119,161
Goldstrike (residential living assistance)	316,702
Transportation services	495,723
Thrift shop	253,341
Support Service	
Fundraising	5,498
Management and general	<u>362,624</u>
 TOTAL EXPENSES	 <u>3,026,084</u>

INCREASE IN UNRESTRICTED NET ASSETS	154,488
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Grants	10,000
Net assets released from restrictions	<u>(86,284)</u>

DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(76,284)
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TOTAL INCREASE IN NET ASSETS	78,204
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NET ASSETS AT BEGINNING OF YEAR	<u>1,629,921</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 1,708,125</u></u>
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See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR YEAR ENDING JUNE 30. 2017

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	\$ 50,445	\$ 844,520	\$ 169,172	\$ 94,339	\$ 255,587	\$ 137,289	\$ 310,006	\$ 1,861,358	\$ 254,669	\$ 2,116,027
Other employee expenses	547	11,725	1,735	1,069	2,974	2,285	5,384	25,719	146	25,865
Contracted employees	-	-	-	-	-	-	-	-	12,615	12,615
Consumer compensation	-	122,766	-	-	-	30,820	-	153,586	-	153,586
Equipment expenses	-	4,219	155	55	-	-	566	4,995	597	5,592
Vehicle Operating	-	-	-	-	-	-	58,455	58,455	-	58,455
Depreciation	577	31,723	1,842	651	-	-	93,923	128,716	3,442	132,158
Transportation expense	12	57,832	2,223	-	25,446	1,777	-	87,290	24	87,314
Occupancy expense	2,015	69,602	7,380	2,196	1,805	63,980	16,981	163,959	11,227	175,186
Insurance	485	12,118	1,673	985	3,462	3,342	4,649	26,714	3,598	30,312
Dues and subscriptions	-	-	-	-	-	-	535	535	6,035	6,570
Office	28	2,115	265	32	-	341	125	2,906	18,835	21,741
Supplies	105	16,220	526	18,597	22,939	-	388	58,775	2,919	61,694
Fees and outside services	347	7,704	1,207	719	1,861	6,992	2,967	21,797	12,094	33,891
Staff travel and training	2,412	1,046	11,225	-	2,568	-	52	17,303	3,540	20,843
Advertising	-	-	-	-	-	1,048	-	1,048	-	1,048
Production expenses	-	11,699	-	-	-	5,467	-	17,166	-	17,166
Miscellaneous	-	-	-	-	60	-	-	60	534	594
Fundraising expenses	-	-	-	-	-	-	-	-	5,498	5,498
Interest expense	460	23,443	1,467	518	-	-	1,692	27,580	1,839	29,419
Penalties	-	-	-	-	-	-	-	-	30,510	30,510
TOTAL EXPENSES	<u>\$ 57,433</u>	<u>\$ 1,216,732</u>	<u>\$ 198,870</u>	<u>\$ 119,161</u>	<u>\$ 316,702</u>	<u>\$ 253,341</u>	<u>\$ 495,723</u>	<u>\$ 2,657,962</u>	<u>\$ 368,122</u>	<u>\$ 3,026,084</u>

See Accompanying Notes to Financial Statements and Auditor's Report

WATCH RESOURCES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDING JUNE 30, 2017

CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:	
Increase in net assets	\$ 78,204
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation and amortization	132,158
Gain on sale of assets	(3,260)
(Increase) decrease in assets:	
Accounts receivable	23,623
Prepaid expenses	15,542
Reserve for unemployment	(9,284)
Deposits	(75)
Increase (decrease) in liabilities:	
Accounts payable	2,654
Accrued expenses	<u>73,929</u>
Net cash provided by operating activities	313,491
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:	
Proceeds from sale of assets	3,260
Purchase of property & equipment	<u>(28,772)</u>
Net cash used by investing activities	(25,512)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:	
Loan payments	<u>(20,733)</u>
Net cash used by financing activities	<u>(20,733)</u>
NET INCREASE IN CASH	267,246
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>672,632</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 939,878</u></u>

Cash paid for interest during the year: \$ 29,419

Cash paid for income taxes during the year: \$ -

See Accompanying Notes to Financial Statements

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**NOTE 1 – 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 developmentally disabled adults 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 issued new 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 developmental disabilities (consumers) 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 consumers with door to door transportation for all programs and activities.

Revenues are received from contracts with regional centers for consumer 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 2 – 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**  
**YEAR ENDED JUNE 30, 2017**

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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 unlimited insurance coverage up to \$250,000 per financial institution on all bank accounts. At June 30, 2017, uninsured balances were \$413,045.

Reserve for Unemployment

Amount reported represents the value of a trust account maintained for WATCH to reimburse the State of California for unemployment claims.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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Program Service Fees

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

Production Revenue

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

**NOTE 3 – NOTES ON SPECIFIC ACCOUNTS**

Accounts Receivable

Receivables represent uncollateralized credit extended for services rendered. Management closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectable. As of June 30, 2016 the company considered all remaining account receivable to be fully collectible. Accordingly, there is no allowance for doubtful accounts. In the unlikely event that all uncollected receivables due failed to be collected, the maximum recognized loss would be \$240,319.

Prepaid Expenses

Prepaid expenses consist of the following:

Insurance	\$ 7,490
Rent	4,684
Operating expenses	<u>5,121</u>
Total	<u><u>\$ 17,295</u></u>

Property and Equipment

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

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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The following table summarizes the changes in the property and equipment accounts:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Land & Building	\$ 1,009,141	\$ 11,159	\$ -	\$ 1,020,300
Vehicles	784,041	10,349	(64,847)	729,543
Equipment	110,864	7,264	-	118,128
	<u>1,904,046</u>	<u>28,772</u>	<u>(64,847)</u>	<u>1,867,971</u>
Accumulated depreciation:				
Land & Building	\$ (169,835)	\$ (36,934)	\$ -	\$ (206,769)
Vehicles	(342,337)	(89,897)	64,847	(367,387)
Equipment	(98,454)	(5,327)	-	(103,781)
	<u>(610,626)</u>	<u>(132,158)</u>	<u>64,847</u>	<u>(677,937)</u>
Net Property and Equipment	<u>\$ 1,293,420</u>	<u>\$ (125,105)</u>	<u>\$ -</u>	<u>\$ 1,293,420</u>

Accrued Expenses

Accrued expenses consist of the following:

Accrued paid time off	\$ 134,050
Accrued payroll expenses	78,406
Accrued shared responsibility payment	<u>30,510</u>
Total	<u>\$ 242,966</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.

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 would have to be returned to Caltrans in the event that WATCH wanted to retire the equipment before their useful depreciable life. As of June 30, 2017 remaining balance in temporary restricted assets totaled \$342,593.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**NOTE 4 – 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 year ending June 30, 2017 WATCH billed a management fee to CASA for \$8,928. Kelso was billed \$4,176 during the same period.

**NOTE 5 – 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 6 – LEASES**

Equipment Lease

WATCH leases copier system equipment under an operating lease. The 60-month lease commenced on June 2013 and ends May 2018. Unless cancelled 120 days prior to the last payment due date, the lease automatically renews for one year at 90% of the current monthly payment. WATCH is required to insure the equipment and is responsible for maintenance.

The monthly payment is \$235 plus sales taxes, operation, and miscellaneous other charges.

Minimum future lease payments under this agreement are:

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Year Ending June 30,	
2018	<u>2,585</u>
Total	<u>\$ 2,585</u>

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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Operating Leases: Facilities

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 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, 2017 the monthly rent was \$866. Total rent expense for the year ended June 30, 2017 was \$10,218.

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 year ended June 30, 2017 was \$45,600.

Future Lease payments are as follow:

Year Ending June 30,	
2018	45,600
2019	<u>34,200</u>
Total	<u>\$ 79,800</u>

**NOTE 7 – 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.	\$ 8,838	\$315,567

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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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.

2,265                      88,063

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.

10,942                      33,697

Total

\$ 22,045                      \$437,327

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

Year Ending June 30,

2018                      22,045

2019                      23,443

2020                      25,641

2021                      23,162

2022                      14,292

Later Years                      350,789

\$ 459,372

**NOTE 8 – DONATED SERVICES**

During the year ended June 30, 2017, 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 management, general and fundraising activities, but these services do not meet the criteria for recognition as contributed services.

**WATCH RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**NOTE 9 – CURRENT VULNERABILITY DUE TO A CONCENTRATION**

Seventy-nine percent (78.9%) 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 10 – PENSION PLAN**

A defined contribution plan under Internal Revenue Code §403(b) is maintained for eligible employees. An eligible employee is an employee that has worked for the organization for at least one year and provided at least one thousand hours of service in the year the organization makes a contribution to the plan. The contribution for the plan year is subject to an election for funding by the Board of Directors. For the fiscal year ended June 30, 2017, the Board of Directors did not elect to make a contribution to the plan. The defined contribution plan was discontinued as of December 31, 2016.

**NOTE 11 – 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.