



Financial Report

Years ended June 30, 2020 and 2019

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities, 2020	4
Statement of Activities, 2019	5
Statement of Functional Expenses, 2020	6
Statement of Functional Expenses, 2019	7
Statements of Cash Flows	8
Notes to Financial Statements	9-16



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Digital NEST, Inc.
Watsonville, California

We have audited the accompanying financial statements of Digital NEST, Inc. (a nonprofit organization), 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 years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Digital NEST, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

November 12, 2020

DIGITAL NEST, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,015,483	\$ 428,524
Contributions receivable, current portion	513,899	666,660
Accounts receivable	135,060	26,448
Promised use of building, current portion	96,000	--
Prepaid expenses	4,281	3,561
	<u>1,764,723</u>	<u>1,125,193</u>
PROPERTY AND EQUIPMENT, at cost		
Equipment	318,086	272,974
Furniture	64,390	64,390
Leasehold improvements	125,768	125,768
	<u>508,244</u>	<u>463,132</u>
Less accumulated depreciation	309,047	243,401
	<u>199,197</u>	<u>219,731</u>
LONG-TERM ASSETS		
Contributions receivable, less current portion	--	435,000
Promised use of building, long-term portion	99,989	--
	<u>99,989</u>	<u>435,000</u>
	<u>\$ 2,063,909</u>	<u>\$ 1,779,924</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 88,202	\$ 37,689
Accrued expenses	175,955	105,110
Refundable advance	269,890	--
Capital lease	--	4,770
	<u>534,047</u>	<u>147,569</u>
COMMITMENTS (NOTE 8)		
NET ASSETS		
Without donor restrictions	736,584	434,700
With donor restrictions	793,278	1,197,655
	<u>1,529,862</u>	<u>1,632,355</u>
	<u>\$ 2,063,909</u>	<u>\$ 1,779,924</u>

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

DIGITAL NEST, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 1,689,690	\$ 453,470	\$ 2,143,160
Program services	203,253	--	203,253
Other revenue	10,819	--	10,819
Interest income	924	--	924
Net assets released from restrictions	857,847	(857,847)	--
Total revenue	<u>2,762,533</u>	<u>(404,377)</u>	<u>2,358,156</u>
EXPENSES			
Program services	1,745,415	--	1,745,415
Management and general	321,630	--	321,630
Development	393,604	--	393,604
Total expenses	<u>2,460,649</u>	<u>--</u>	<u>2,460,649</u>
Increase (decrease) in net assets	301,884	(404,377)	(102,493)
Net assets, beginning	<u>434,700</u>	<u>1,197,655</u>	<u>1,632,355</u>
Net assets, ending	<u>\$ 736,584</u>	<u>\$ 793,278</u>	<u>\$ 1,529,862</u>

DIGITAL NEST, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 404,295	\$ 1,866,300	\$ 2,270,595
Program services	78,159	--	78,159
Other revenue	3,780	--	3,780
Interest income	1,147	--	1,147
Net assets released from restrictions	1,447,586	(1,447,586)	--
Total revenue	1,934,967	418,714	2,353,681
EXPENSES			
Program services	1,404,449	--	1,404,449
Management and general	313,672	--	313,672
Development	210,784	--	210,784
Total expenses	1,928,905	--	1,928,905
Increase in net assets	6,062	418,714	424,776
Net assets, beginning	428,638	778,941	1,207,579
Net assets, ending	\$ 434,700	\$ 1,197,655	\$ 1,632,355

DIGITAL NEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 965,631	\$ 247,191	\$ 201,616	\$ 1,414,438
Payroll taxes and benefits	203,258	21,491	39,137	263,886
Depreciation	40,051	11,494	14,101	65,646
Rent	62,682	16,044	19,691	98,417
Licenses and fees	6,033	972	7,712	14,717
Travel	17,728	853	4,167	22,748
Repairs and maintenance	1,739	499	612	2,850
Supplies	24,380	1,307	1,759	27,446
Telephone	5,816	471	1,120	7,407
Insurance	8,709	2,500	3,066	14,275
Professional development	4,745	--	--	4,745
Training and development	628	181	221	1,030
Dues and subscriptions	1,714	492	603	2,809
Printing	1,402	248	1,845	3,495
Postage	279	76	576	931
Advertising	2,205	306	1,076	3,587
Event expense	10,017	708	6,023	16,748
Incentives	43,372	--	--	43,372
Office	93,961	2,076	3,017	99,054
Software	15,401	2,889	10,547	28,837
Member expenses	11,489	--	--	11,489
Outside services	224,175	11,832	76,715	312,722
	<u>\$ 1,745,415</u>	<u>\$ 321,630</u>	<u>\$ 393,604</u>	<u>\$ 2,460,649</u>

DIGITAL NEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 779,431	\$ 184,614	\$ 149,914	\$ 1,113,959
Payroll taxes and benefits	149,432	31,499	14,969	195,900
Depreciation	59,296	22,599	10,610	92,505
Rent	37,224	13,528	6,352	57,104
Licenses and fees	4,289	1,266	594	6,149
Travel	21,234	1,090	512	22,836
Repairs and maintenance	3,313	1,264	593	5,170
Supplies	24,951	2,359	1,107	28,417
Telephone	2,711	1,002	471	4,184
Insurance	9,057	3,452	1,621	14,130
Professional development	4,564	--	--	4,564
Training and development	6,402	2,439	1,146	9,987
Dues and subscriptions	1,530	584	274	2,388
Printing	5,088	1,467	688	7,243
Postage	872	232	109	1,213
Advertising	7,671	265	125	8,061
Event expense	19,204	2,090	1,077	22,371
Incentives	18,605	--	--	18,605
Office	27,145	3,737	1,754	32,636
Software	21,548	5,129	2,408	29,085
Parking	2,099	800	376	3,275
Member expenses	12,512	--	--	12,512
Outside services	186,271	34,256	16,084	236,611
	<u>\$ 1,404,449</u>	<u>\$ 313,672</u>	<u>\$ 210,784</u>	<u>\$ 1,928,905</u>

DIGITAL NEST, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	2020	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS		
FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (102,493)	\$ 424,776
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	65,646	92,505
Promised use of building change in value	76,011	--
In-kind donation - promised use of building	(308,000)	--
In-kind rent - promised use of building	36,000	--
(Increase) decrease in:		
Contributions receivable	587,761	(730,160)
Accounts receivable	(108,612)	(15,133)
Prepaid expenses	(720)	(1,599)
Increase (decrease) in:		
Accounts payable	50,513	20,455
Accrued expenses	70,845	20,967
Net cash provided (used) by operating activities	<u>366,951</u>	<u>(188,189)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase property and equipment	<u>(45,112)</u>	<u>--</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease	(4,770)	(4,769)
Proceeds from Paycheck Protection Program Loan	<u>269,890</u>	<u>--</u>
Net cash provided (used) by financing activities	<u>265,120</u>	<u>(4,769)</u>
Net increase (decrease) in cash and cash equivalents	586,959	(192,958)
Cash and Cash Equivalents, beginning	<u>428,524</u>	<u>621,482</u>
Cash and Cash Equivalents, ending	<u>\$ 1,015,483</u>	<u>\$ 428,524</u>

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Digital NEST, Inc. (the Organization) was incorporated as a California nonprofit corporation in 2014. Modeled after successful technology companies such as Google and Facebook, the Organization is a hip, cool, and colorful spot that inspires its members to be creative, innovative, and self-sufficient. This technology workforce development center strengthens the community by preparing young people to be technology leaders in Santa Cruz County and beyond. Through training, peer collaboration and professional mentorship, youth are supported in mastering the technological skills they need to pursue higher education and careers in our globally connected world. Organization members work with state-of-the-art technology in a safe and learning-focused environment.

Accounting Policies: The accounting policy relative to the carrying value of property and equipment is indicated in a caption on the statement of financial position. Other significant accounting policies are:

Basis of Presentation: The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Contributions and Accounts Receivable: Contributions and accounts receivable are stated at face value since probable uncollectible amounts are immaterial.

Contributions: Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. All property and equipment is stated at cost, or if donated, at estimated fair value on the date of donation. When property is retired or otherwise disposed, the cost of the property and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation is computed on a declining balance method over the useful lives of the assets as follows:

Equipment	5-7 years
Furniture	7 years
Leasehold improvements	7-15 years

Refundable Advance: The Organization received \$269,890 in Payroll Protection Program (PPP) funding on April 7, 2020. The terms of the funding agreement indicate that the Organization must utilize the proceeds to fund/offset qualifying expenses over a twenty-four-week period. The terms of the agreement specify that the Organization must repay the principal of the loan back plus interest, which accrues at 1% semi-annually and matures in two years. The loan may be forgiven if the Organization fulfills the agreed to terms. The Organization's management believes they have met the terms of forgiveness and therefore has recorded the funding as a refundable advance and will recognize the full amount of the PPP funding as a contribution if forgiven by the lender.

Use of Estimates: Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs: Advertising costs are expensed when incurred. Total advertising costs for the years ended June 30, 2020 and 2019 were \$3,587 and \$8,061, respectively.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services on the basis of management estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Programs: The Organization's program services are made up of the following programs:

- **Digital Arts + Technology (DAT):** DAT builds skills and experiences related to graphic design and art, video production, photography, and music production. Provides the insight and tools necessary to become a multimedia specialist while creating a portfolio to show potential employers and clients.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Programs (continued):

- **Web + Information Technology (WIT):** WIT provides education about computer science and engineering – including coding, software configuration, and data science. WIT provides exposure to careers in web design and development and IT and systems administration.
- **People Projects + Leadership (PP+L):** PP+L gives hands-on experience managing projects and building teams – valuable skills that can lead to careers in project management, event coordination, human resources, and marketing.
- **bizzNEST:** Digital NEST’s youth-staffed multimedia-creation agency. Our advanced students are hired to Earn-and-Learn as they work on web, video, and graphic design media projects for regional businesses. Students apply and increase their technical knowledge and skills, refine their soft skills (time- and task-management, problem-solving, teamwork, communication and leadership), develop a portfolio of professional work, gain experience working directly with real clients, build a competitive resume, practice interviewing and networking skills, and build social capital to launch their careers in related fields.
- **Community:** The NEST is an inspiring and safe space designed to meet our young people’s needs and invest in their full potential. Youth may come to the NEST to access the internet, but what they find is much more world-class facilities, healthy food, and family who will always have their back, inspire them to dream bigger, and feed their desire for a purpose-driven career and life.
- **Salinas:** The Organization opened a Salinas center in April 2017, and experienced a more rapid initial growth than the Watsonville center, with currently more than 170 members. The Salinas center currently offers WIT focus area trainings to Salinas members, but future plans include building out other training areas, similar to the Watsonville center. The Salinas center is identified by the City of Salinas as an agriculture tech training center for the industry’s future workers.
- **NEST Flight:** Nest Flight is an invitation-only youth workforce conference packed with inspiring speakers, hands-on workshops, powerful panel discussions and one of a kind networking opportunities. All crafted to help students propel their careers, no matter where they are in their job exploration.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes: The Organization is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code and from state franchise tax under Revenue and Taxation Code Section 23701(d).

The Financial Accounting Standards Board (FASB) issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of June 30, 2020, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. U.S. GAAP guidance requires the use of more estimates and judgments than the present standards, along with additional disclosures. The guidance will be effective for the Organization for annual reporting periods beginning after December 15, 2018. However, the effective date has since been extended to December 31, 2019. The Organization is assessing the impact this ASU will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is assessing the impact this ASU will have on its financial statements.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,015,483	\$ 428,524
Contributions receivable	513,899	1,101,660
Accounts receivable	<u>135,060</u>	<u>26,448</u>
 Total financial assets	 1,664,442	 1,556,632
 Less amounts not available to be used within one year:		
Subject to appropriation and satisfaction of donor restrictions	<u>793,278</u>	<u>1,197,655</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 871,164</u>	 <u>\$ 358,977</u>

The Organization strives to maintain financial assets, consisting of cash and short-term investments, equal to one month of average recurring operating costs.

NOTE 3. CONCENTRATION OF REVENUE

For the year ended June 30, 2020, approximately 45% of the Organization's contribution revenue came from three individuals. At June 30, 2020, a balance of \$340,000 was included in contributions receivable from these individuals.

For the year ended June 30, 2019, approximately 57% of the Organization's contribution revenue came from one individual. At June 30, 2019, a balance of \$870,000 was included in contributions receivable from this individual.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 513,899	\$ 666,660
One to five years	<u> --</u>	<u>435,000</u>
	<u>\$ 513,899</u>	<u>\$ 1,101,660</u>

NOTE 5. CONCENTRATION OF CREDIT RISK

The Organization maintains balances in cash and interest-bearing deposit accounts at one financial institution and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

NOTE 6. ACCRUED PAID TIME OFF

The Organization's personnel policies provide for paid time off (PTO) benefits, which are earned at various rates dependent on length of employment. Upon termination, employees are paid for any earned but unused PTO hours.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2020, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2019	Additions	Satisfied	Ending 6/30/2020
Administration	\$ 1,101,844	\$ --	\$ 569,927	\$ 531,917
COVID-19	--	20,470	18,548	1,922
Digital Arts + Technology	260	--	260	--
NESTBot	27,920	--	27,920	--
People Projects + Leadership	--	75,000	11,550	63,450
Salinas	50,000	50,000	100,000	--
wellNEST	17,631	--	17,631	--
Promised use of building, net of unamortized discount	--	308,000	112,011	195,989
	<u>\$ 1,197,655</u>	<u>\$ 453,470</u>	<u>\$ 857,847</u>	<u>\$ 793,278</u>

For the year ended June 30, 2019, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2018	Additions	Satisfied	Ending 6/30/2019
Administration	\$ 417,336	\$ 1,649,300	\$ 964,792	\$ 1,101,844
bizzNEST	16,711	--	16,711	--
Digital Arts + Technology	45,537	53,500	98,777	260
NESTBot	31,369	--	3,449	27,920
NESTFlight	44,000	36,000	80,000	--
People Projects + Leadership	1,487	--	1,487	--
Salinas	192,596	120,000	262,596	50,000
wellNEST	29,905	7,500	19,774	17,631
	<u>\$ 778,941</u>	<u>\$ 1,866,300</u>	<u>\$ 1,447,586</u>	<u>\$ 1,197,655</u>

NOTE 8. LEASE COMMITMENTS

Effective November 1, 2015, the Organization entered into an agreement to lease office space in Watsonville. The term of the lease is for 5 years ending October 29, 2020. The lease requires monthly payments of \$4,243 and provides for an annual increase in the base rent. Rent expense incurred for the years ended June 30, 2020 and 2019 totaled \$55,560 and \$53,620, respectively. The Organization is currently in the process of extending the lease.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 9. CAPITAL LEASE

Equipment under capital leases consisted of various Apple equipment with a combined capitalized cost of \$14,556. Accumulated depreciation in the statement of financial position includes \$11,516 relating to these leased items. Depreciation expense reported in the statement of activities includes \$2,026 for the equipment under capital lease. The lease was paid in full and the equipment was purchased for fair market value during the year ended June 30, 2020.

NOTE 10. PROMISED USE OF BUILDING

The Organization entered into a lease agreement in February 2020 for a location in Salinas. The term of the lease is for 3 years, ending April 30, 2023 at a cost of \$1 per year. The Organization is responsible for all costs associated with real and personal property taxes, maintenance and repairs and utilities. The estimated fair value of the rent of leased facilities exceeds the Organization's contractual cost, and the difference is recorded as a contribution and discounted to present value over the life of the lease using a discount rate of 2% which is based on the risk-free U.S. Treasury rate at the time of the contribution. In-kind rent expense recognized for the year ended June 30, 2020 totaled \$36,000.

The promised use of building is presented as follows as of June 30, 2020

Remaining promised use of building	\$ 272,000
Less discount to present value	<u>76,011</u>
Promised use of building	195,989
Less current portion	<u>96,000</u>
Promised use of building	<u>\$ 99,989</u>

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2020 financial statements for subsequent events through November 12, 2020, the date of issuance of the financial statements. On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The pandemic in the United States and throughout the world has resulted in substantial volatility in financial markets, which could lead to an adverse impact on the Organizations future financial results.