



Financial Report

Years ended June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Digital NEST, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Hatcher and Bloodgood LLP". The signature is written in a cursive, flowing style.

November 5, 2022

DIGITAL NEST, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 442,550	\$ 4,896,451
Contributions receivable, current portion	501,796	351,655
Accounts receivable	54,630	38,262
Promised use of building, current portion	80,000	96,000
Prepaid expenses	4,610	14,985
	<u>1,083,586</u>	<u>5,397,353</u>
Total current assets		
PROPERTY AND EQUIPMENT, at cost		
Equipment	318,086	318,086
Furniture	152,295	64,390
Leasehold improvements	169,473	125,768
	<u>639,854</u>	<u>508,244</u>
Less accumulated depreciation	413,492	363,063
	<u>226,362</u>	<u>145,181</u>
LONG-TERM ASSETS		
Other investments	2,546,511	--
Contributions receivable, less current portion	200,000	80,000
Promised use of building, long-term portion	--	27,871
	<u>2,746,511</u>	<u>107,871</u>
	<u>\$ 4,056,459</u>	<u>\$ 5,650,405</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 85,996	\$ 52,773
Accrued expenses	209,517	248,253
Line of credit	300,000	--
	<u>595,513</u>	<u>301,026</u>
Total current liabilities		
COMMITMENTS (NOTE 8)		
NET ASSETS		
Without donor restrictions	2,800,776	4,572,435
With donor restrictions	660,170	776,944
	<u>3,460,946</u>	<u>5,349,379</u>
	<u>\$ 4,056,459</u>	<u>\$ 5,650,405</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, 2022

	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 1,747,674	\$ 683,400	\$ 2,431,074
Program services	120,334	--	120,334
Other revenue	650	--	650
Investment loss	(2,012)	--	(2,012)
Net assets released from restrictions	800,174	(800,174)	--
Total revenue	<u>2,666,820</u>	<u>(116,774)</u>	<u>2,550,046</u>
EXPENSES			
Program services	2,418,343	--	2,418,343
Management and general	1,483,349	--	1,483,349
Development	536,787	--	536,787
Total expenses	<u>4,438,479</u>	<u>--</u>	<u>4,438,479</u>
Decrease in net assets	(1,771,659)	(116,774)	(1,888,433)
Net assets, beginning	<u>4,572,435</u>	<u>776,944</u>	<u>5,349,379</u>
Net assets, ending	<u>\$ 2,800,776</u>	<u>\$ 660,170</u>	<u>\$ 3,460,946</u>

DIGITAL NEST, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 6,121,654	\$ 860,450	\$ 6,982,104
Forgiveness of Paycheck Protection Program Loan	269,890	--	269,890
Program services	91,836	--	91,836
Other revenue	2,622	--	2,622
Interest income	1,276	--	1,276
Net assets released from restrictions	876,784	(876,784)	--
Total revenue	7,364,062	(16,334)	7,347,728
EXPENSES			
Program services	2,239,185	--	2,239,185
Management and general Development	727,261	--	727,261
	561,765	--	561,765
Total expenses	3,528,211	--	3,528,211
Increase (decrease) in net assets	3,835,851	(16,334)	3,819,517
Net assets, beginning	736,584	793,278	1,529,862
Net assets, ending	\$ 4,572,435	\$ 776,944	\$ 5,349,379

DIGITAL NEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 1,475,091	\$ 749,143	\$ 333,342	\$ 2,557,576
Payroll taxes and benefits	262,569	170,623	60,254	493,446
Depreciation	35,860	12,499	2,070	50,429
Rent	57,005	86,947	41,646	185,598
Licenses and fees	6,284	2,759	1,562	10,605
Travel	6,287	5,260	2,217	13,764
Repairs and maintenance	27,044	29,480	13,144	69,668
Supplies	19,623	23,920	13,782	57,325
Telephone	17,954	9,209	2,292	29,455
Insurance	11,065	5,142	639	16,846
Professional development	3,176	2,723	3,067	8,966
Dues and subscriptions	250	9,037	1,809	11,096
Printing	1,018	1,925	1,135	4,078
Postage	1,437	1,187	498	3,122
Advertising	7,467	3,832	2,294	13,593
Events	6,001	8,288	16,338	30,627
Incentives	24,934	249	11	25,194
Office	29,679	21,399	10,136	61,214
Software	92,544	23,486	11,089	127,119
Outside services	332,051	158,938	19,213	510,202
Interest	1,004	470	249	1,723
Other	--	156,833	--	156,833
	<u>\$ 2,418,343</u>	<u>\$ 1,483,349</u>	<u>\$ 536,787</u>	<u>\$ 4,438,479</u>

DIGITAL NEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 1,313,882	\$ 338,519	\$ 314,478	\$ 1,966,879
Payroll taxes and benefits	262,022	21,767	70,041	353,830
Depreciation	30,634	15,697	7,685	54,016
Rent	138,701	19,118	9,393	167,212
Licenses and fees	3,141	744	8,210	12,095
Travel	5,721	197	1,688	7,606
Repairs and maintenance	30,585	428	209	31,222
Supplies	24,819	1,683	1,338	27,840
Telephone	13,071	1,227	1,521	15,819
Insurance	9,175	4,701	2,302	16,178
Professional development	6,976	--	--	6,976
Dues and subscriptions	2,636	1,073	525	4,234
Printing	2,200	991	1,898	5,089
Postage	1,982	668	864	3,514
Advertising	6,763	1,149	1,921	9,833
Events	1,266	218	1,638	3,122
Incentives	10,899	--	--	10,899
Office	50,515	2,494	8,859	61,868
Software	38,386	13,091	19,104	70,581
Parking	319	81	40	440
Member	3,328	--	--	3,328
Outside services	282,164	303,415	110,051	695,630
	<u>\$ 2,239,185</u>	<u>\$ 727,261</u>	<u>\$ 561,765</u>	<u>\$ 3,528,211</u>

DIGITAL NEST, INC.

STATEMENTS OF CASH FLOWS Years Ended June 30, 2022 and 2021

	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS		
FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (1,888,433)	\$ 3,819,517
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	50,429	54,016
Promised use of building change in value	(52,129)	(23,882)
In-kind rent - promised use of building	96,000	96,000
Forgiveness of Paycheck Protection Program Loan	--	(269,890)
Net investment loss	3,489	--
(Increase) decrease in:		
Contributions receivable	(270,141)	82,244
Accounts receivable	(16,368)	96,798
Prepaid expenses	10,375	(10,704)
Increase (decrease) in:		
Accounts payable	33,223	(35,429)
Accrued expenses	(38,736)	72,298
Net cash provided (used) by operating activities	<u>(2,072,291)</u>	<u>3,880,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid to purchase other investments	(3,000,000)	--
Cash received on liquidation of other investments	450,000	--
Cash paid to purchase property and equipment	(131,610)	--
Net cash used by investing activities	<u>(2,681,610)</u>	<u>--</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from draw on line of credit	<u>300,000</u>	<u>--</u>
Net increase (decrease) in cash and cash equivalents	(4,453,901)	3,880,968
Cash and Cash Equivalents, beginning	<u>4,896,451</u>	<u>1,015,483</u>
Cash and Cash Equivalents, ending	<u>\$ 442,550</u>	<u>\$ 4,896,451</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 1,723</u>	<u>\$ --</u>

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

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2022 and 2021

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.

Other Investments: Certificates of deposit with original maturities greater than three months are classified as other investments and stated at fair market value based on current yields. Investment income (loss) is included as an increase in net assets without donor restrictions.

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, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Services: Program services relate to web, video, and graphic design media projects for regional businesses. Revenue is recognized when the performance obligations of providing the services are met, upon completion of the project. Payment terms vary based on each service agreement. Amounts received in advance are deferred to the applicable period.

Advertising Costs: Advertising costs are expensed when incurred. Total advertising costs for the years ended June 30, 2022 and 2021 were \$13,593 and \$9,833, respectively.

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. In December 2020, the Organization received full forgiveness of the loan and therefore recorded the funding as revenue for the year ending June 30, 2021.

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.

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.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- **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 Community 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 & Gilroy Centers:** The Organization opened a Salinas center in April 2017, and experienced a more rapid initial growth than the Watsonville center, with currently more than 111 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 ag-tech training center for the industry's future workers. The Gilroy center opened in the Spring of 2022.
- **NEST Flight:** NEST Flight is an invitation-only youth workforce conference packed with inspiring speakers, hands-on workshops, powerful panel discussions, job fairs, and one-of-a-kind networking opportunities with mentors from the professional communities attendees are most interested in — 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, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **NEST Corps:** Members work on an average of three community projects per year that are planned and managed by three paid project lead interns (one project each). In the Fall, the teams work on their research project to figure out what the most pressing community issue is and what the progress on certain issues has been thus far. Based on the research, the team creates a plan of action and showcases it to key stakeholders and community members in the Spring. In the Summer, the team implements its plan of action.
- **NEST Studios:** Members bring their previous knowledge and learn new skills while they participate in planning and executing one collaborative narrative film production once a year. The planning process begins during the Fall session and production occurs every Summer. More advanced-level members direct the film. Intermediate-level and seasoned members take on Co-Department Head Lead positions and mentor the beginner level members. Beginner-level members play various production assistant roles and join the production a second year to advance into other roles. The film is edited by members who have advanced in the editing pathway in the Fall of the following year. Every January, the final film is submitted to the Watsonville Film Festival and is showcased at the event in March.
- **Tech Squad:** Members work IT on projects year-round and take them on according to their capacity and skill level. Beginner-level members start by doing personal or internal-facing projects and managing the tech inventory for members in the space. Intermediate and Advanced level members lead internal projects, mentor younger youth, and lead community-based projects.
- **E-Unit:** Members work on an event once a season and the scale of the event increases every season. Members can join at any time and collaborate and take on tasks according to their capacity and skill level. Advanced level members support the overall project management of the event. Intermediate-level members mentor younger youth and lead a logistics team or a marketing team. Beginner-level members start by taking on tasks assigned by a leader from the logistics team or the marketing team.

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, 2022, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2022 and 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming accounting pronouncements: 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.

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 442,550	\$ 4,896,451
Contributions receivable	701,796	431,655
Accounts receivable	54,630	38,262
Other investments	<u>2,546,511</u>	<u>--</u>
Total financial assets	3,745,487	5,366,368
Less amounts not available to be used within one year:		
Subject to appropriation and satisfaction of donor restrictions	<u>660,170</u>	<u>776,944</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,085,317</u>	<u>\$ 4,589,424</u>

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2022 and 2021

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

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

NOTE 3. CONCENTRATION OF REVENUE

For the year ended June 30, 2022, approximately 25% of the Organization's contribution revenue came from one individual. At June 30, 2022, a balance of \$400,000 was included in contributions receivable from this individual.

For the year ended June 30, 2021, approximately 69% of the Organization's contribution revenue came from one individual. At June 30, 2021, a balance of \$0 was included in contributions receivable from this individual.

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 501,796	\$ 351,655
One to five years	<u>200,000</u>	<u>80,000</u>
	<u>\$ 701,796</u>	<u>\$ 431,655</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, 2022 and 2021

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2022, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2021	Additions	Satisfied	Ending 6/30/2022
Administration	\$ 287,897	\$ --	\$ 287,897	\$ --
People Projects + Leadership	15,000	21,600	34,718	1,882
Salinas	5,000	120,800	61,383	64,417
Watsonville	--	1,000	--	1,000
Gilroy	--	25,000	25,000	--
Shared	15,000	65,000	15,000	65,000
Capacity Building	95,176	--	95,176	--
Time Restriction	235,000	450,000	185,000	500,000
Promised use of building, net of unamortized discount	123,871	--	96,000	27,871
	<u>\$ 776,944</u>	<u>\$ 683,400</u>	<u>\$ 800,174</u>	<u>\$ 660,170</u>

For the year ended June 30, 2021, activity in net assets with donor restrictions was as follows:

	Beginning 6/30/2020	Additions	Satisfied	Ending 6/30/2021
Administration	\$ 531,917	\$ 300,000	\$ 544,020	\$ 287,897
BizzNEST	--	50,000	50,000	--
COVID-19	1,922	6,000	7,922	--
People Projects + Leadership	63,450	15,000	63,450	15,000
Salinas	--	5,000	--	5,000
Development	--	5,568	5,568	--
Shared	--	15,000	--	15,000
Capacity Building	--	100,000	4,824	95,176
Time Restriction	--	340,000	105,000	235,000
Promised use of building, net of unamortized discount	195,989	23,882	96,000	123,871
	<u>\$ 793,278</u>	<u>\$ 860,450</u>	<u>\$ 876,784</u>	<u>\$ 776,944</u>

DIGITAL NEST, INC.

Notes to Financial Statements
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NOTE 8. LEASE COMMITMENTS

Effective November 1, 2015, the Organization entered into a 5-year agreement to lease office space in Watsonville. During the year ended June 30, 2021, the lease was extended for another 5 years ending October 29, 2025. The lease requires monthly payments of \$4,582 and provides for an annual increase in the base rent. Rent expense incurred for the years ended June 30, 2022 and 2021 totaled \$54,984 and \$56,304, respectively.

Effective July 1, 2021, the Organization entered into a 3-year agreement to lease office space in Watsonville. The lease requires monthly payments of \$2,094. Rent expense incurred for the year ended June 30, 2022 totaled \$23,037.

The future minimum rental payments required under these leases as of June 30, 2022 are as follows:

2023	\$	80,796
2024		81,816
2025		67,378
2026		<u>19,008</u>
	\$	<u>248,998</u>

NOTE 9. 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 each of the years ended June 30, 2022 and 2021 totaled \$96,000. The remaining promised use of building of \$80,000 will be recognized during the year ended June 30, 2023.

NOTE 10. FAIR VALUE MEASUREMENT

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

DIGITAL NEST, INC.

Notes to Financial Statements
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NOTE 10. FAIR VALUE MEASUREMENT (Continued)

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money accounts and certificates of deposit	<u>\$ 2,546,511</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,546,511</u>

NOTE 11. LINE OF CREDIT

The Organization had a line of credit of \$300,000 at Santa Cruz County Bank that matured on July 27, 2022. The interest rate at June 30, 2022 was 3.25%. There was a \$300,000 balance on this credit line at June 30, 2022. The balance was paid in full subsequent to year end.

NOTE 12. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2022 and 2021 financial statements for subsequent events through November 5, 2022, the date of issuance of the financial statements. The Organization is not aware of any additional subsequent events that would require recognition or disclosure in the financial statements.