



Financial Report

June 30, 2018

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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 statement of financial position as of June 30, 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.

Auditors' 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 Digital NEST, Inc. as of June 30, 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.

Hutchinson and Bloodgood LLP

November 8, 2018

DIGITAL NEST, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	621,482
Contributions receivable		371,500
Accounts receivable		11,315
Prepaid expenses		1,962
		<hr/>
Total current assets		1,006,259

PROPERTY AND EQUIPMENT, at cost

Equipment		272,974
Furniture		64,390
Leasehold improvements		125,768
		<hr/>
		463,132
Less accumulated depreciation		150,896
		<hr/>
		312,236
		<hr/>
	\$	1,318,495

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	17,234
Accrued expenses		84,143
Current portion of capital lease (Note 7)		4,770
		<hr/>
Total current liabilities		106,147

LONG-TERM LIABILITIES

Capital lease, less current portion (Note 7)		4,769
		<hr/>
		110,916

COMMITMENTS (NOTE 6)

NET ASSETS

Unrestricted		428,638
Temporarily restricted		778,941
		<hr/>
		1,207,579
		<hr/>
	\$	1,318,495

The notes to financial statements are an integral part of this statement.

DIGITAL NEST, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	\$ 606,039	\$ 765,619	\$ --	\$ 1,371,658
Other revenue	41,911	--	--	41,911
Interest income	1,416	--	--	1,416
Net assets released from restrictions	891,600	(891,600)	--	--
Total revenue	<u>1,540,966</u>	<u>(125,981)</u>	<u>--</u>	<u>1,414,985</u>
EXPENSES				
Program services	1,221,782	--	--	1,221,782
Management and general	182,384	--	--	182,384
Development	127,574	--	--	127,574
Total expenses	<u>1,531,740</u>	<u>--</u>	<u>--</u>	<u>1,531,740</u>
Increase (decrease) in net assets	9,226	(125,981)	--	(116,755)
Net assets, beginning	<u>419,412</u>	<u>904,922</u>	<u>--</u>	<u>1,324,334</u>
Net assets, ending	<u>\$ 428,638</u>	<u>\$ 778,941</u>	<u>\$ --</u>	<u>\$ 1,207,579</u>

DIGITAL NEST, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 691,732	\$ 75,313	\$ 91,318	\$ 858,363
Payroll taxes and benefits	128,871	14,441	17,268	160,580
Depreciation	67,873	3,824	4,780	76,477
Rent	46,711	2,631	3,290	52,632
Professional fees	2,379	134	168	2,681
Licenses and fees	3,731	199	249	4,179
Travel	17,921	120	120	18,161
Repairs and maintenance	3,189	180	225	3,594
Supplies	22,328	9,384	501	32,213
Telephone	1,480	7,553	104	9,137
Insurance	5,163	290	364	5,817
Professional development	4,415	113	--	4,528
Training and development	4,711	265	332	5,308
Dues and subscriptions	2,001	113	141	2,255
Printing	5,227	295	368	5,890
Postage	1,177	47	57	1,281
Advertising	4,801	412	141	5,354
Event expense	8,812	166	388	9,366
Incentives	15,476	23	--	15,499
Office	23,722	9,324	348	33,394
Software	6,364	7,376	189	13,929
Parking	1,438	81	101	1,620
Member expenses	5,883	362	--	6,245
Outside services	146,377	49,738	7,122	203,237
	<u>\$ 1,221,782</u>	<u>\$ 182,384</u>	<u>\$ 127,574</u>	<u>\$ 1,531,740</u>

DIGITAL NEST, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (116,755)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	76,477
Contributions of equipment	(124,254)
(Increase) decrease in:	
Contributions receivable	65,310
Accounts receivable	(11,315)
Prepaid expenses	(1,824)
Increase (decrease) in:	
Accounts payable	(8,451)
Accrued expenses	51,030
Capital lease	(4,474)
	<hr/>
Net cash used by operating activities	(74,256)
Cash and Cash Equivalents, beginning	<hr/> 695,738
Cash and Cash Equivalents, ending	<hr/> <hr/> \$ 621,482

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

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 Accounting: The Organization uses the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. To date, there have been no permanently restricted assets received. Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations. Temporarily restricted net assets include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting period.

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.
- **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.

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Programs (continued):

- **bizzNEST:** A digital creative agency providing video, graphic design, web design, and photography services to business and nonprofits.
- **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.
- **wellNEST:** With a focus on workplace wellness, wellNEST brings new foods and cooking methods into our kitchen and provides classes on nutrition, mindfulness, and yoga. Educates how a healthy diet and good self-care help become reliable and productive employees, and healthy members of the community.
- **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.

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 unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (continued): 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

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 year ended June 30, 2018 were \$5,354.

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 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, 2018, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Upcoming accounting pronouncements: In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this ASU will have on its financial statements.

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming accounting pronouncements (continued): In May 2014, the FASB issued ASE 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. 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, 2019, 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 currently evaluating the impact of the pending adoption of the new standard on the financial statements.

NOTE 2. CONCENTRATION OF REVENUE

For the year ended June 30, 2018, approximately 24% of the Organization's contribution revenue came from one individual. At June 30, 2018, a balance of \$200,000 was included in contributions receivable from this individual.

NOTE 3. 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.

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

NOTE 4. 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.

NOTE 5. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets: For the year ended June 30, 2018, activity in temporarily restricted net assets was as follows:

	Beginning 6/30/2017	Additions	Satisfied	Ending 6/30/2018
Administration	\$ 682,241	\$ 273,420	\$ 510,405	\$ 445,256
bizzNEST	--	25,000	8,289	16,711
Digital Arts + Technology	27,500	90,000	71,963	45,537
NESTBot	--	3,449	--	3,449
NESTFlight	--	46,500	2,500	44,000
People Projects + Leadership	--	15,000	13,513	1,487
Salinas	177,728	270,000	255,132	192,596
wellNEST	17,453	42,250	29,798	29,905
	<u>\$ 904,922</u>	<u>\$ 765,619</u>	<u>\$ 891,600</u>	<u>\$ 778,941</u>

NOTE 6. 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 year ended June 30, 2018 totaled \$52,632.

The future minimum rental payments required under this lease as of June 30, 2018 are as follows:

2019	\$ 53,636
2020	54,648
2021	<u>18,328</u>
	<u>\$ 126,612</u>

DIGITAL NEST, INC.

Notes to Financial Statements
Year Ended June 30, 2018

NOTE 7. CAPITAL LEASE

Equipment under capital leases consists of various Apple equipment with a combined capitalized cost of \$14,556. Accumulated depreciation in the statement of financial position included \$6,113 relating to these leased items. Depreciation expense reported in the statement of activities includes \$5,628 for the equipment under capital lease. The lease includes the option to purchase the equipment at fair market value at the end of the lease period. Future minimum lease payments are as follows:

2019	\$	4,770
2020		<u>4,769</u>
	\$	<u>9,539</u>

The imputed interest necessary to reduce the net minimum lease payments to present value is considered immaterial.

NOTE 8. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2018 financial statements for subsequent events through November 8, 2018, the date of issuance of the financial statements. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.