



Financial Report

Years ended June 30, 2021 and 2020

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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 statements of financial position as of June 30, 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.

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, 2021 and 2020, 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 11, 2021

DIGITAL NEST, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

| | 2021 | 2020 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,896,451 | \$ 1,015,483 |
| Contributions receivable, current portion | 351,655 | 513,899 |
| Accounts receivable | 38,262 | 135,060 |
| Promised use of building, current portion | 96,000 | 96,000 |
| Prepaid expenses | 14,985 | 4,281 |
| Total current assets | <u>5,397,353</u> | <u>1,764,723</u> |
| PROPERTY AND EQUIPMENT, at cost | | |
| Equipment | 318,086 | 318,086 |
| Furniture | 64,390 | 64,390 |
| Leasehold improvements | 125,768 | 125,768 |
| | <u>508,244</u> | <u>508,244</u> |
| Less accumulated depreciation | <u>363,063</u> | <u>309,047</u> |
| | <u>145,181</u> | <u>199,197</u> |
| LONG-TERM ASSETS | | |
| Contributions receivable, less current portion | 80,000 | -- |
| Promised use of building, long-term portion | 27,871 | 99,989 |
| | <u>107,871</u> | <u>99,989</u> |
| | <u>\$ 5,650,405</u> | <u>\$ 2,063,909</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 52,773 | \$ 88,202 |
| Accrued expenses | 248,253 | 175,955 |
| Refundable advance | -- | 269,890 |
| Total current liabilities | <u>301,026</u> | <u>534,047</u> |
| COMMITMENTS (NOTE 8) | | |
| NET ASSETS | | |
| Without donor restrictions | 4,572,435 | 736,584 |
| With donor restrictions | 776,944 | 793,278 |
| | <u>5,349,379</u> | <u>1,529,862</u> |
| | <u>\$ 5,650,405</u> | <u>\$ 2,063,909</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, 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 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 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 |
| Event expense | 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 expenses | 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.

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.

STATEMENTS OF CASH FLOWS Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---------------------|---------------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS | | |
| FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 3,819,517 | \$ (102,493) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation | 54,016 | 65,646 |
| Promised use of building change in value | (23,882) | 76,011 |
| In-kind donation - promised use of building | -- | (308,000) |
| In-kind rent - promised use of building | 96,000 | 36,000 |
| Forgiveness of Paycheck Protection Program Loan | (269,890) | -- |
| (Increase) decrease in: | | |
| Contributions receivable | 82,244 | 587,761 |
| Accounts receivable | 96,798 | (108,612) |
| Prepaid expenses | (10,704) | (720) |
| Increase (decrease) in: | | |
| Accounts payable | (35,429) | 50,513 |
| Accrued expenses | 72,298 | 70,845 |
| Net cash provided by operating activities | <u>3,880,968</u> | <u>366,951</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid to purchase property and equipment | <u>--</u> | <u>(45,112)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease | -- | (4,770) |
| Proceeds from Paycheck Protection Program Loan | <u>--</u> | <u>269,890</u> |
| Net cash provided by financing activities | <u>--</u> | <u>265,120</u> |
| Net increase in cash and cash equivalents | 3,880,968 | 586,959 |
| Cash and Cash Equivalents, beginning | <u>1,015,483</u> | <u>428,524</u> |
| Cash and Cash Equivalents, ending | <u>\$ 4,896,451</u> | <u>\$ 1,015,483</u> |

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

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

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.

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.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs: Advertising costs are expensed when incurred. Total advertising costs for the years ended June 30, 2021 and 2020 were \$9,833 and \$3,587, 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. The Organization's management believes they have met the terms of forgiveness and therefore have 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.

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, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 is expected to open 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.
- **NESTCorps:** 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.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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, 2021, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

New Accounting Pronouncement: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP. The change in accounting principle was adopted on July 1, 2020 with no financial statement impact.

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming accounting pronouncements (continued): 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, 2021 and 2020, 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>2021</u> | <u>2020</u> |
|---|-------------------------|-----------------------|
| Financial assets at year end: | | |
| Cash and cash equivalents | \$ 4,896,451 | \$ 1,015,483 |
| Contributions receivable | 431,655 | 513,899 |
| Accounts receivable | <u>38,262</u> | <u>135,060</u> |
| Total financial assets | 5,366,368 | 1,664,442 |
| Less amounts not available to be used within one year: | | |
| Subject to appropriation and satisfaction of donor restrictions | <u>776,944</u> | <u>793,278</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 4,589,424</u> | <u>\$ 871,164</u> |

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

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

NOTE 3. CONCENTRATION OF REVENUE

For the year ended June 30, 2021, approximately 69% of the Organization's contribution revenue came from one individual.

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.

NOTE 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------|-------------------|-------------------|
| Less than one year | \$ 351,655 | \$ 513,899 |
| One to five years | <u>80,000</u> | <u>--</u> |
| | <u>\$ 431,655</u> | <u>\$ 513,899</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, 2021 and 2020

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

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 | \$ 350,000 | \$ 544,020 | \$ 337,897 |
| 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 | -- | 290,000 | 105,000 | 185,000 |
| 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> |

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> |

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

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, 2021 and 2020 totaled \$56,304 and \$55,560, respectively.

The future minimum rental payments required under this lease as of June 30, 2021 are as follows:

| | | |
|------|----|----------------|
| 2022 | \$ | 54,984 |
| 2023 | | 55,664 |
| 2024 | | 56,684 |
| 2025 | | 67,378 |
| 2026 | | <u>19,008</u> |
| | \$ | <u>253,718</u> |

Subsequent to year end, the Organization entered into a 3 year agreement to lease additional office space in Watsonville. The lease is effective July 1, 2021, and requires monthly payments of \$2,094.

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 the years ended June 30, 2021 and 2020 totaled \$96,000 and \$36,000, respectively.

The promised use of building is presented as follows as of June 30, 2021:

| | | |
|-------------------------------------|----|---------------|
| Remaining promised use of building | \$ | 176,000 |
| Less discount to present value | | <u>52,129</u> |
| Promised use of building | | 123,871 |
| Less current portion | | <u>96,000</u> |
| Promised use of building, long-term | \$ | <u>27,871</u> |

DIGITAL NEST, INC.

Notes to Financial Statements
Years ended June 30, 2021 and 2020

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2021 and 2020 financial statements for subsequent events through November 11, 2021, 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.