

FINANCIAL STATEMENTS

NEST, INC.

December 31, 2019

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May 29, 2020

Board of Trustees
Nest, Inc.
New York, New York

Independent Auditor's Report

We have audited the accompanying financial statements of Nest, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nest, Inc. as of December 31, 2019, and the its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hill, Barth & King LLC

Certified Public Accountants

STATEMENT OF FINANCIAL POSITION

NEST, INC.

December 31, 2019

<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 3,097,357
Accounts receivable	158,881
TOTAL CURRENT ASSETS	<u>3,256,238</u>
<u>NON-CURRENT ASSETS</u>	
Property and equipment:	
Computers	6,396
Furniture	10,753
	<u>17,149</u>
Accumulated depreciation	(12,775)
Net property and equipment	<u>4,374</u>
Security deposits	20,162
Investment in Craftsperson Development PVT LTD	280,053
TOTAL NON-CURRENT ASSETS	<u>304,589</u>
TOTAL ASSETS	<u>\$ 3,560,827</u>
 <u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 73,408
Deferred revenue	216,543
TOTAL LIABILITIES	<u>289,951</u>
<u>NET ASSETS</u>	
Without donor restrictions	1,952,025
With donor restrictions	1,318,851
TOTAL NET ASSETS	<u>3,270,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,560,827</u>

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES

NEST, INC.

Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>REVENUE AND SUPPORT</u>			
Foundation support	\$ 16,837	\$ 1,325,887	\$ 1,342,724
Corporate philanthropy	158,865	-	158,865
Product sales (net of expenses of \$4,500)	5,235	-	5,235
Earned revenue from program services	923,000	-	923,000
Individual contributions	413,308	-	413,308
Trip	144,780	-	144,780
Events (net of expenses of \$77,735)	23,529	-	23,529
In-kind revenue	374,030	-	374,030
Other	11,131	-	11,131
Interest revenue	48,797	-	48,797
Net assets released from restrictions	1,492,742	(1,492,742)	-
TOTAL REVENUE AND SUPPORT	<u>3,612,254</u>	<u>(166,855)</u>	<u>3,445,399</u>
<u>EXPENSES</u>			
Program services:			
Nest Guild	1,212,755	-	1,212,755
Handworker Sector Consulting	954,269	-	954,269
Research and advocacy	548,902	-	548,902
Total program services	<u>2,715,926</u>	<u>-</u>	<u>2,715,926</u>
Supporting services:			
Management and general	208,524	-	208,524
Fundraising	308,689	-	308,689
Total supporting services	<u>517,213</u>	<u>-</u>	<u>517,213</u>
TOTAL EXPENSES	<u>3,233,139</u>	<u>-</u>	<u>3,233,139</u>
CHANGE IN NET ASSETS	379,115	(166,855)	212,260
<u>NET ASSETS</u>			
Beginning of year	1,572,910	1,485,706	3,058,616
End of year	<u>\$ 1,952,025</u>	<u>\$ 1,318,851</u>	<u>\$ 3,270,876</u>

See accompanying notes to financial statements

STATEMENT OF FUNCTIONAL EXPENSES

NEST, INC.

Year Ended December 31, 2019

	<u>Program Services</u>			<u>Supporting Services</u>		Total Functional Expenses	
	Nest Guild	Handworker Sector Consulting	Research and Advocacy	Total	Management and General		Fund Raising
<u>FUNCTIONAL EXPENSES</u>							
Payroll and employee benefits	\$ 326,901	\$ 761,330	\$ 448,523	\$ 1,536,754	\$ 99,913	\$ 252,564	\$ 1,889,231
Payroll taxes	21,101	49,142	28,951	99,194	5,143	15,864	120,201
Contracted services	-	-	-	-	4,191	-	4,191
Site expenses	442,154	138,506	-	580,660	-	-	580,660
Marketing and fundraising	-	-	10,858	10,858	-	17,029	27,887
Travel and entertainment	3,144	5,291	15,170	23,605	-	9,218	32,823
Office expenses	45,400	-	45,400	90,800	85,181	-	175,981
Insurance	-	-	-	-	7,906	-	7,906
In-kind professional services	374,030	-	-	374,030	-	-	374,030
State filing fees	-	-	-	-	4,522	-	4,522
Service charges	25	-	-	25	210	14,014	14,249
Depreciation	-	-	-	-	1,458	-	1,458
	<u>1,212,755</u>	<u>954,269</u>	<u>548,902</u>	<u>2,715,926</u>	<u>208,524</u>	<u>308,689</u>	<u>3,233,139</u>
Event expense	-	-	-	-	-	77,735	77,735
Product sales expense	4,500	-	-	4,500	-	-	4,500
TOTAL FUNCTIONAL EXPENSES	<u><u>\$ 1,217,255</u></u>	<u><u>\$ 954,269</u></u>	<u><u>\$ 548,902</u></u>	<u><u>\$ 2,720,426</u></u>	<u><u>\$ 208,524</u></u>	<u><u>\$ 386,424</u></u>	<u><u>\$ 3,315,374</u></u>

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

NEST, INC.

Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 212,260
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,458
(Increase) decrease in operating assets:	
Accounts receivable	(46,398)
Prepaid expense	5,000
Increase (decrease) in operating liabilities:	
Accounts payable	22,214
Deferred revenue	11,647
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>206,181</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in Craftsperson Development PVT LTD	<u>(93,037)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(93,037)</u>

NET INCREASE IN CASH 113,144

CASH

Beginning of year	<u>2,984,213</u>
End of year	<u>\$ 3,097,357</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NEST, INC.

December 31, 2019

NOTE A – NATURE OF BUSINESS

Nest, Inc. (the “Organization”) identifies and collaborates with responsible artisan businesses through the provision of customized capacity building programs to enable each enterprise to become profitable and have a significant positive social impact. The Organization has searched globally to identify a network of existing artisanal workshops that have strong leadership, are scalable, and can transform their communities in one of three ways: alleviate poverty, empower women, and promote peace. Through their participatory model, the Organization works with the artisans to provide the services they need to both preserve and enhance artistic traditions and increase their ability to meet the capacity and quality demands of the exporting marketplace.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Standards:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, Other Assets and Deferred Costs- Contracts with Customers, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Organization refers to the new Topic 606 and Subtopic 340-40 as the “new guidance.”

The organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method. The adoption of the new guidance did not have a material impact on the organization’s financial statements.

The FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update is designed to assist in (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional.

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits and certain investments with maturities of three months or less when purchased. The Organization had no cash equivalents at December 31, 2019.

Receivables:

Accounts receivable are recorded at cost. On a periodic basis, the Organization evaluates its receivables to determine if any portion is uncollectible. Based on historical experience, management deems no allowance for doubtful accounts to be necessary as of December 31, 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEST, INC.

December 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue:

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, 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. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Long-Lived Assets:

In accordance with accounting principles generally accepted in the United States of America, long-lived tangible assets subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceed their fair value as determined by an estimate of undiscounted future cash flow.

Losses on assets held for disposal are recognized when management has approved and committed to a plan to dispose of the assets, and the assets are available for disposal.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The principle rates for computing depreciation by major asset categories are as follows:

<u>Description</u>	<u>Asset Life (Years)</u>
Computers	3 – 5
Furniture	7 – 10

In-Kind Contributions:

The Organization received various donations of professional services for its programs, which are recorded at their fair market value on the date of donation. In-kind contributions of \$374,030 for the year ended December 31, 2019 are included in revenue and as program expense in the accompanying financial statements.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEST, INC.

December 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets:

The Organization is required to report 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 trustees..

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 are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Income Tax Status:

The Organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

Functional Expenses:

The costs of providing the Organization's programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Payroll and employee benefits	Time and effort
Payroll taxes	Time and effort
Contracted services	Direct cost
Site expenses	Direct cost
Marketing	Direct cost
Travel and entertainment	Direct cost
Office expense	Units of service
Insurance	Direct cost
In-kind professional services	Direct cost
State filing fees	Direct cost
Depreciation	Direct cost

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEST, INC.

December 31, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events:

The Organization has evaluated subsequent events through May 29, 2020, the date these financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes with the exception of the following instance described below.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of many businesses. It has also caused significant layoffs and unemployment. This event has not affected the Organization in this way up to this point. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the economic effect. Therefore, the Organization expects this matter to impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

NOTE C – CONCENTRATION OF CREDIT RISK

For the year ended December 31, 2019, two sources accounted for 22% of total revenue.

At various times during the year, the Organization's cash in bank exceeded the federally insured limits. At December 31, 2019, the Organization had an uninsured cash balance of \$2,614,211.

NOTE D – DONATED SERVICES

The Organization relies on volunteers as an integral part of its program service operations. The value of these services for the years ended December 31, 2019 was \$374,030.

NOTE E – EMPLOYEE PENSION PLAN

On April 25, 2012, the Organization adopted a simplified employee pension plan. An employee is eligible to participate in the plan if he/she has reached the age of twenty-one and has received compensation for the plan year of at least \$550. Employer contributions are based on a discretionary contribution formula. Contributions to the plan for the year ended December 31, 2019 were \$149,681.

NOTE F – RELATED PARTY TRANSACTIONS

On January 29, 2015, the Organization filed a Certificate of Incorporation for Craftsperson Development PVT LTD ("the Company"), a private limited company registered in India. The Company was registered as a means for the Organization to acquire land in India to be used in its operations. The Organization has a 99% ownership interest in the Company. The Organization is currently seeking to transition the Company to a Section 25 business, a for-profit entity with a charitable mission. During the year ended December 31, 2018, the Organization had an additional net investment in the Company of \$58,380 and wrote off land with a fair market value of \$129,611. During the year ended December 31, 2019, the Organization had an additional investment in the Company of \$93,037.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEST, INC.

December 31, 2019

NOTE G – COMMITMENTS

Effective June 1, 2017, the Organization entered into a non-cancelable, three-year lease agreement to rent office space in New York, New York. Rent expense related to the lease of the office space included in the office expenses in the statement of functional expenses amounted to \$119,504 for the year ended December 31, 2019.

Minimum future lease payments for the remaining term are as follows:

Years ending	
<u>December 31,</u>	
2020	<u>\$ 40,324</u>

NOTE H – LIQUIDITY AND AVAILABILITY

The Organization's goal is generally to maintain financial assets to meet 150-180 days of operating expenses (approximately \$1.6 million). As part of its liquidity plan, excess cash is invested in safe, liquid short-term investments, including money market accounts and treasury bills.

The following represents the financial assets at December 31, 2019:

Cash	\$ 3,097,357
Accounts receivable	<u>158,881</u>
TOTAL FINANCIAL ASSETS	3,256,238
Less amounts not available to be used within one year:	
Donor restricted net assets	<u>1,318,851</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES OVER THE NEXT TWELVE MONTHS	<u>\$ 1,937,387</u>

NOTE I – CONDITIONAL GRANT AWARD

In 2018, the Organization was awarded a conditional grant of \$749,379 from Oak Foundation for the project "Skill Development: Nest Fellowship & Accelerator Program".

Per the terms of the agreement, the Organization has received \$509,302 as of December 31, 2019, with the remaining balance of \$240,077 to be paid in 2020 when certain conditions are met.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEST, INC.

December 31, 2019

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets received with donor restrictions consisted of the following as of December 31, 2019:

Technology / M&E / Convenings / US Incubator / Government Strategy	\$ 389,271
Supply Chain Transparency for Homeworkers and Small Workshops	344,415
Artisan Accelerator Program	311,060
Fellowship/Guild activities	233,232
360 Degree Support / Artisans Accelerator Program	31,340
American Artisan Incubator / Austin	6,600
Professional development	2,933
TOTAL	<u>\$ 1,318,851</u>

Net assets released from donor restrictions by satisfying the purpose or time restrictions specified by the donors are as follows for the year ended December 31, 2019:

Supply Chain Transparency for Homeworkers and Small Workshops	\$ 296,913
Fellowship/Guild activities	265,225
American Artisan Incubator / Birmingham	257,680
360 Degree Support / Artisans Accelerator Program	215,083
Homework in Supply Chain	199,322
Artisan Accelerator Program	105,524
Technology / M&E / Convenings / US Incubator / Government Strategy	85,729
American Artisan Incubator / Austin	43,400
SOLD trafficking	10,000
Bhutan Market Entry Analysis into US and UK	7,000
Professional development	5,866
Tech for Digital Learning Platform	1,000
TOTAL	<u>\$ 1,492,742</u>