EARN, INC.

DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

EARN, Inc.

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
EARN, INC.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **EARN, INC. (the Corporation)** which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, 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.

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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 EARN, Inc. as of December 31, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Corporation's December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
September 20, 2016

EARN, Inc.

Statement of Financial Position

December 31, 2015 (with comparative totals for 2014)	2015	2014
Assets		
Cash and cash equivalents	$ 2,687,893	$ 4,340,473
Grants, contributions and accounts receivable	767,615	141,799
Prepaid expenses and other current assets	37,733	36,509
Property and equipment, net	41,249	42,556
	$ 3,534,490	$ 4,561,337
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 262,298	$ 135,822
Funds held for others	585,022	1,016,811
Grants payable	133,543	737,790
Deferred revenue	459,378	748,198
Total liabilities	1,440,241	2,638,621
Net Assets:		
Unrestricted:		
Board designated	1,000,000	1,000,000
Undesignated	452,447	370,480
Total unrestricted net assets	1,452,447	1,370,480
Temporarily restricted	641,802	552,236
Total net assets	2,094,249	1,922,716
	$ 3,534,490	$ 4,561,337

See accompanying notes to financial statements.

EARN, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015			
	Unrestricted	Temporarily Restricted	Total	2014 Total
Support and Revenue:				
Contributions	$ 1,130,510	$ 1,547,475	$ 2,677,985	$ 2,348,299
Other income	177,030		177,030	22,104
Net assets released from restrictions	1,457,909	(1,457,909)	-	-
Total support and revenue	2,765,449	89,566	2,855,015	2,370,403
Expenses:				
Program services	1,826,424		1,826,424	2,187,670
Supporting services	423,856		423,856	547,085
Fundraising	433,202		433,202	686,160
Total expenses	2,683,482	-	2,683,482	3,420,915
Change in Net Assets	81,967	89,566	171,533	(1,050,512)
Net Assets, beginning of year	1,370,480	552,236	1,922,716	2,973,228
Net Assets, end of year	$ 1,452,447	$ 641,802	$ 2,094,249	$ 1,922,716

See accompanying notes to financial statements.

EARN, Inc.

Statement of Functional Expenses

Year Ended December 31, 2015 (with comparative totals for 2014)

	Program Services	Supporting Services	Fundraising	2015 Total	2014 Total
Matching grants to savers	$ 58,574			$ 58,574	$ 566,584
Depreciation and					
Depreciation and amortization	9,191	$ 1,405	$ 3,076	13,672	24,123
Dues, memberships and subscriptions	1,150	763		1,913	6,010
Program research and services	8,175	1,115	4,553	13,843	133,472
Events and fundrasing	84,049	4,097	93,094	181,240	103,910
Insurance	8,214	1,256	2,750	12,220	9,203
Legal, consulting and professional	525,927	176,430	31,848	734,205	742,480
Miscellaneous	5,363	47,873	3,386	56,622	17,297
Postage and delivery	6	919	1,623	2,548	2,637
Printing and production		438		438	1,726
Rent	126,191	19,294	42,238	187,723	181,591
Salaries, payroll taxes and benefits	975,088	162,712	231,088	1,368,888	1,585,104
Supplies and office expenses	2,393	366	801	3,560	8,801
Telephone, internet, communication	20,600	3,150	6,895	30,645	18,703
Travel expenses	1,503	4,038	11,850	17,391	19,274
	$ 1,826,424	$ 423,856	$ 433,202	$ 2,683,482	$ 3,420,915

See accompanying notes to financial statements.

EARN, Inc.

Statement of Cash Flows

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	$ 171,533	$ (1,050,512)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	13,672	24,123
Changes in assets and liabilities:		
Grants, contributions and accounts receivable	(625,816)	21,189
Prepaid expenses and other current assets	(1,224)	24,978
Accounts payable and accrued expenses	126,476	(11,040)
Grants payable	(604,247)	(539,606)
Deferred revenue	(288,820)	(768,656)
Funds held for others	(431,789)	247,672
Net cash used by operating activities	(1,640,215)	(2,051,852)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(12,365)	(9,879)
Net cash used by investing activities	(12,365)	(9,879)
Net Change in Cash and Cash Equivalents	(1,652,580)	(2,061,731)
Cash and Cash Equivalents, beginning of year	4,340,473	6,402,204
Cash and Cash Equivalents, end of year	$ 2,687,893	$ 4,340,473

See accompanying notes to financial statements.

Note 1 - Organization:

EARN, Inc. (the Corporation), formerly known as Earned Assets Resource Network, is a nonprofit organization incorporated in the State of California in December 2001. The Board of Directors voted to approve the change to the organization's name in February 2014. The Corporation provides low-income adults and families with tools to build wealth, achieve financial goals, and develop a habit of saving for the future. The Corporation provides its services nationwide through a matched savings program and an innovative technology-based platform.

Note 2 - Summary of Significant Accounting Policies:

a. <u>Basis of Accounting</u>

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

b. <u>Use of Estimates</u>

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. These estimates and assumptions affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

c. <u>Description of Net Assets</u>

The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. As of December 31, 2015 and 2014, the Board has designated $1,000,000 of these net assets for operating reserves and future program development.

Temporarily Restricted Net Assets - the portion of net assets the use of which by the organization is limited by donor-imposed stipulations that either can be fulfilled or removed by actions of the Corporation or expire by passage of time.

Permanently Restricted Net Assets - the portion of net assets the use of which by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation. There are no permanently restricted net assets at December 31, 2015.

d. Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give. Contributions that are restricted by the donor, and grants and contracts are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are 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.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received.

Government grants and contracts are recognized as revenue when allowable activities or expenditures under the respective awards are substantially completed or incurred. Amounts received in advance are recorded as deferred revenue until earned.

The Corporation uses the allowance method to account for uncollectible receivables based on previous experience and management's analysis of specific promises made. At December 31, 2015 and 2014, there was no allowance for uncollectible receivables deemed necessary by management.

e. Cash and Cash Equivalents

Cash and cash equivalents consists primarily of cash and money market funds. The Corporation considers all unrestricted highly liquid investments with an intial maturity of three months or less to be cash equivalents.

f. Funds Held for Others

The Corporation receives and distributes assets under certain intermediary arrangements. The Corporation holds such funds as funds held in trust. Distributions of such funds are managed by the Corporation according to the guidelines of the specific programs. These funds are held in cash accounts.

g. Property and Equipment

Property and equipment purchased by the Corporation is stated at cost. Property and equipment donated to the Corporation is recorded at estimated fair value as of the date of the gift. The cost of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets of three years. Leasehold improvements are amortized over the remaining term of the lease.

h. Income Taxes

The Corporation is a tax-exempt organization under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code, Section 23701(d). Accordingly, no provision for federal and state income taxes has been reflected in these financial statements.

Management evaluated the Corporation's tax positions and concluded that the Corporation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

i. Functional Allocation of Expenses

The costs of providing the Corporation's various programs and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the estimates of employees' time and on usage of resources.

j. Comparative Information

The accompanying financial statements include certain comparative information for which the prior year information is summarized in total. In particular, prior year information is not disclosed by net asset class on the accompanying Statement of Activities and Changes in net Assets. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United Statements of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2014, from which the summarized information is derived.

k. Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS), FASB issued an update related to the revenue recognition from contracts. The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The update provides alternative methods of initial adoption and is effective for annual periods beginning after December 15, 2018. Early adoption is not permitted. The Corporation is currently evaluating the impact on this guidance.

In February 2016, the FASB issued an update related to accounting for leases. As part of the update, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The update is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Corporation is currently evaluating the impact on this guidance.

In August 2016, the FASB issued an update related to the presentation of financial statements of not-for-profit entities. The amendments make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments are effective for fiscal years beginning after December 15, 2017 and early application is permitted. The Corporation is currently evaluating the impact on this guidance.

l. Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on the change in net assets as previously reported.

m. Subsequent Events

Management has evaluated subsequent events through September 20, 2016, the date these financial statements were available to be issued. Except as discussed in Note 6, there were no material subsequent events that required recognition or additional disclosures in these financial statements.

Note 3 - Grants, Contributions and Accounts Receivable:

Grants, contributions and accounts receivable as of December 31 are summarized as follows:

	2015	2014
Grants and contributions receivable	$ 758,865	$ 133,049
Other accounts receivable	8,750	8,750
	$ 767,615	$ 141,799

The majority of these receivables are expected to be collected within one year.

Note 4 - Property and Equipment:

Property and equipment consist of the following at December 31:

	2015	2014
Computer equipment	$ 167,184	$ 154,819
Software (Website and Database)	368,381	368,381
Office equipment	39,708	39,708
Leasehold improvements	52,239	52,239
	627,512	615,147
Less: accumulated depreciation and amortization	(586,263)	(572,591)
	$ 41,249	$ 42,556

Depreciation and amortization expense amounted to $13,672 and $24,123 for the years ended December 31, 2015 and 2014, respectively.

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at December 31:

	2015	2014
Time restrictions	$ 622,430	
Purpose restrictions - financial services and operations	19,372	$ 552,236
	$ 641,802	$ 552,236

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes, or by occurrences of other events specified by donors, as follows:

	2015	2014
Matching grants to savers		$ 310,302
Financial services and operations	$ 575,239	1,062,957
Time restrictions	882,670	
	$ 1,457,909	$ 1,373,259

Note 6 - Commitments and Contingencies:

Grants and Contracts

Amounts received and expended by the Corporation under federal funded programs are subject to audit by cognizant governmental agencies. The Corporation's management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on the financial statements.

Commitments to Match Saver's Deposits

At December 31, 2015 and 2014, the Corporation had commitments of approximately $65,000 and $281,000, respectively, to provide matching grants to savers who are in the process of saving but have not yet met their goals or the program requirements.

Lease Commitments

The Corporation leases office space and equipment under non-cancelable operating leases expiring through June 30, 2016. Future minimum annual lease payments are approximately $94,900 in 2016. On June 30, 2016, the Corporation entered into a new lease through 2022.

Rent expense for the years ended December 31, 2015 and 2014 were $187,723 and $181,591, respectively.

Note 7 - Retirement Plan:

All full-time employees are eligible to participate in a qualified 401(k) retirement plan (the "Plan"). Employees are eligible to contribute to the Plan on their dates of hire. The Corporation's contributions, which cover employees who complete three months of service, are discretionary. Employees' contributions are fully vested at all times, whereas the Corporation's contributions vest in three years. The Corporation contributed $56,837 and $70,261 on behalf of employees participating in the plan for the years ended December 31, 2015 and 2014, respectively.

Note 8 - Concentration of Risk:

Financial instruments which subject the Corporation to concentrations of credit risk consist principally of cash deposits, grants and donations receivable.

The Corporation has maintained cash deposits with financial institutions in operation and money market accounts in excess of federally insured limits.

Grants and donations receivable consist of unsecured amounts due from individuals and foundations.