EARNED ASSETS RESOURCE NETWORK

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Earned Assets Resource Network

Independent Auditors' Report
and Financial Statements

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HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
EARNED ASSETS RESOURCE NETWORK
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **EARNED ASSETS RESOURCE NETWORK (EARN)** which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets 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.

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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 Earned Assets Resource Network as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, EARN changed its method of accounting for the recognition of revenue from government grant awards and corrected certain components of net asset balances at the beginning of the year ended December 31, 2012. We audited the adjustments described in Note 6 that were applied to restate the net assets at the beginning of the year ended December 31, 2012. In our opinion, such adjustments are appropriate and have been properly applied.

Hood & Strong LLP

San Francisco, California
September 11, 2013

Earned Assets Resource Network

Statement of Financial Position

December 31, 2012

Assets		
Cash and cash equivalents	$	7,953,545
Grants, contributions and accounts receivable		849,685
Prepaid expenses and other current assets		74,512
Property and equipment, net		111,823
	$	8,989,565
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	278,085
Funds held for others		855,304
Grants payable		1,051,168
Deferred revenue		1,315,866
Total liabilities		3,500,423
Net Assets:		
Unrestricted:		
Board designated		1,000,000
Undesignated		1,067,058
Total unrestricted net assets		2,067,058
Temporarily restricted		3,422,084
Total net assets		5,489,142
	$	8,989,565

The accompanying notes are an integral part of this statement.

Earned Assets Resource Network

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions	$ 833,351	$ 2,651,253	$ 3,484,604
Government grants	486,647		486,647
Other income	5,476		5,476
Net assets released from restrictions	4,175,119	(4,175,119)	-
Total support and revenue	5,500,593	(1,523,866)	3,976,727
Expenses:			
Program services	4,641,662		4,641,662
Supporting services	310,325		310,325
Fundraising	514,444		514,444
Total expenses	5,466,431	-	5,466,431
Change in Net Assets	34,162	(1,523,866)	(1,489,704)
Net Assets, beginning of year as restated (Note 6)	2,032,896	4,945,950	6,978,846
Net Assets, end of year	$ 2,067,058	$ 3,422,084	$ 5,489,142

The accompanying notes are an integral part of this statement.

Earned Assets Resource Network

Statement of Cash Flows

Year Ended December 31, 2012

Cash Flows from Operating Activities:		
Change in net assets	$	(1,489,704)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation		103,732
Loss from asset disposal		1,021
Changes in assets and liabilities:		
Grants, contributions and accounts receivable		83,993
Prepaid expenses and other current assets		39,486
Accounts payable and accrued expenses		(392,480)
Grants payable		405,949
Deferred revenue		(486,648)
Funds held for others		250,191
Net cash used by operating activities		(1,484,460)
Cash Flows from Investing Activities:		
Acquisition of property and equipment		(30,827)
Net cash provided by investing activities		(30,827)
Net Decrease in Cash and Cash Equivalents		(1,515,287)
Cash and Cash Equivalents, beginning of year		9,468,832
Cash and Cash Equivalents, end of year	$	7,953,545

The accompanying notes are an integral part of this statement.

Earned Assets Resource Network

Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services	Supporting Services	Fundraising	Total
Matching grants to savers	$ 1,636,913	$ -	$ -	$ 1,636,913
Financial services	637,495			637,495
Bad debts			1,500	1,500
Depreciation and amortization	75,134	14,723	13,875	103,732
Dues, memberships and subscriptions	10,181	557	3,150	13,888
Fundraising and events	127,356	2,699	77,349	207,404
Insurance	7,721	674	1,523	9,918
Legal, consulting and professional	421,976	85,309	40,528	547,813
Meetings and conferences	37,724	5,327	13,999	57,050
Miscellaneous	10,814	1,740	2,900	15,454
Postage and delivery	7,695	397	915	9,007
Printing and production	8,078	357	657	9,092
Rent	150,473	12,963	17,430	180,866
Salaries, payroll taxes and benefits	1,474,456	181,713	333,978	1,990,147
Supplies and office expenses	10,699	1,665	2,548	14,912
Telephone, internet, communication	24,947	2,201	4,092	31,240
	$ 4,641,662	$ 310,325	$ 514,444	$ 5,466,431

The accompanying notes are an integral part of this statement.

Note 1 - Organization:

Earned Assets Resource Network (EARN) is a nonprofit organization incorporated in the State of California in December 2001. EARN provides low-wage adults and families the tools to build wealth and achieve financial goals such as saving for college, buying a first home or starting a small business. EARN provides its services in the San Francisco Bay Area through innovative financial products including matched savings accounts, checking accounts for the unbanked, and financial coaching.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

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

b. 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. 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. Description of Net Assets

EARN 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. 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 EARN or expire by passage of time.

Permanently Restricted Net Assets - the portion of net assets the use of which by EARN is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of EARN. There are no permanently restricted net assets at December 31, 2012.

d. Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to EARN. 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.

EARN has determined that all receivables are fully collectible, and no allowance for uncollectible accounts has been recorded. EARN uses the allowance method to account for uncollectible receivables based on previous experience and management's analysis of specific promises made.

e. Cash and Cash Equivalents

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

f. Funds Held for Others

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

g. Property and Equipment

Property and equipment purchased by EARN is stated at cost. Property and equipment donated to EARN 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 five years. Leasehold improvements are amortized over the remaining term of the lease.

h. Income Taxes

EARN 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 EARN's tax positions and concluded that EARN 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. With few exceptions, EARN is no longer subject to income tax examinations by federal or state authorities for years ended before 2009 and 2008, respectively.

i. Functional Allocation of Expenses

The costs of providing EARN'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. Recent Accounting Pronouncements

Adopted

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. EARN has adopted these amendments beginning January 1, 2012 and determined that the adoption did not have a material impact on its financial statements.

Pronouncements Effective in the Future

In October 2012, the Financial Accounting Standards Board (FASB) issued an update which requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in such case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, then proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for fiscal years or interim periods beginning after June 15, 2013. EARN is currently evaluating the impact of this pronouncement on its financial statements.

k. Subsequent Events

Management has evaluated subsequent events through September 11, 2013, the date these financial statements were available to be issued. 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, 2012 are summarized as follows:

Grants and contributions receivable	$	813,236
Other accounts receivable		36,449
	$	849,685

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

Note 4 - Property and Equipment:

Property and equipment consist of the following at December 31, 2012:

Computer equipment	$ 141,758
Software (Website and Database)	368,381
Office equipment	39,167
Leasehold improvements	52,239
	601,545
Less: accumulated depreciation and amortization	(489,722)
	$ 111,823

Depreciation and amortization expense amounted to $103,732 for the year ended December 31, 2012.

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at December 31, 2012:

Matching grants available to savers	$ 2,080,171
Financial services and operations	1,341,913
	$ 3,422,084

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

Matching grants to savers	$ 1,150,265
Financial services and operations	3,024,854
	$ 4,175,119

Note 6 - Restatement of Net Assets at the Beginning of Year:

In 2012, EARN made certain accounting changes and restated the net assets at the beginning of the year. Following is a description of these changes:

Government Grant Awards:

EARN had previously considered government grant awards to be contribution revenue by recording the entire amount received as temporarily restricted contribution revenue. As expenditures were incurred, the revenue was released from restriction. EARN reviewed this policy and determined that the awards are exchange transactions as opposed to contribution revenue and therefore, should be recorded as unrestricted revenue, when earned.

Recognition of Matching Grant Obligation:

EARN had previously recognized matching grant expense upon executing payments to the savers who had met their savings goal or satisfied the program requirements and released the related temporarily restricted net assets that funded the respective matching grant expense. EARN reviewed this policy and determined that matching grant expense and related liability should be recognized when a saver meets the savings goal or satisfies the program requirement as opposed to when a payment is made.

Recognition of a Prior Year's Net Assets Release of Restrictions:

During 2012, it was discovered that a temporarily restricted grant fund, for which donor restrictions were met in the previous year, was not released in the previous year. EARN restated the net assets at the beginning of year by reclassifying a portion of temporarily restricted net assets to unrestricted net assets.

The effect of these accounting changes on the 2012 financial statements is as follows:

	2012 Total Prior to Change	Effect of Change	2012 Total After Change
Statement of Financial Position			
Matching grants payable	$ -	$ 1,051,168	$ 1,051,168
Deferred revenue	-	1,315,866	1,315,866
Statement of Activities and Changes in Net Assets			
Government grants	$ -	$ 486,647	$ 486,647
Net assets released from restrictions	4,409,985	(234,866)	4,175,119
Statement of Functional Expenses			
Matching grants to savers	$ 1,230,964	$ 405,949	$ 1,636,913

Following is the net assets classification as restated as of January 1, 2012 is as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Net assets, beginning of year - as originally reported	$ 1,878,729	$ 7,547,850	$ 9,426,579
<u>Restatement - Government Grant Awards:</u>			
Reclassification of temporarily restricted net assets to deferred revenue	-	(2,228,193)	(2,228,193)
<u>Restatement - Accrual of Matching Grant Liability:</u>			
Accrual of matching grant liability	(645,220)	-	(645,220)
Recognition of related government grant revenue	425,680	-	425,680
Release of funds temporarily restricted for matching	219,540	(219,540)	-
<u>Restatement – Recognition of a Prior Year's Net Assets Release of Restrictions:</u>			
Release of a temporarily restricted grant fund to unrestricted net assets	154,167	(154,167)	-
Net assets, beginning of year – as restated	$ 2,032,896	$ 4,945,950	$ 6,978,846

Note 7 - Commitments and Contingencies:

<u>Grants and Contracts</u>

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

<u>Commitments to Match Saver's Deposits</u>

At December 31, 2012, EARN has committed approximately $1,160,000 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

EARN leases office space and equipment under non-cancelable operating leases expiring through April 2016. Future minimum annual lease payments are approximately as follows:

Year ended December 31,	
2013	$ 176,000
2014	168,000
2015	165,000
2016	56,000
	$ 565,000

Rent expense for the year ended December 31, 2012 was $180,866.

Note 8 - Retirement Plan:

All full-time EARN 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. EARN's contributions, which cover employees who complete six months of service, are discretionary. Employees' contributions are fully vested at all times, whereas EARN's contributions vest in three years EARN contributed $83,159 on behalf of employees participating in the plan for the year ended December 31, 2012.

Note 9 - Concentration of Risk:

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

EARN has maintained cash deposits with financial institutions in operation and money market accounts in excess of federally insured limit.

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