**Tentative Draft**
**Subject to Change**

# EARN, Inc.

## Statement of Financial Position

| *December 31, 2016 (with comparative totals for 2015)* | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 2,250,851 | $ 2,687,893 |
| Grants, contributions and accounts receivable | 280,004 | 767,615 |
| Prepaid expenses and other current assets | 70,863 | 37,733 |
| Property and equipment, net | 498,158 | 41,249 |
| | $ 3,099,876 | $ 3,534,490 |
| **Liabilities and Net Assets** | | |
| **Liabilities:** | | |
| Accounts payable and accrued expenses | $ 335,185 | $ 262,298 |
| Funds held for others | - | 585,022 |
| Grants payable | 15,040 | 133,543 |
| Deferred revenue | 459,378 | 459,378 |
| Total liabilities | 809,603 | 1,440,241 |
| **Net Assets:** | | |
| Unrestricted: | | |
| Board designated | 820,000 | 1,000,000 |
| Undesignated | 760,314 | 452,447 |
| Total unrestricted net assets | 1,580,314 | 1,452,447 |
| Temporarily restricted | 709,959 | 641,802 |
| Total net assets | 2,290,273 | 2,094,249 |
| | $ 3,099,876 | $ 3,534,490 |

See accompanying notes to financial statements.

# EARN, Inc.

## Statement of Activities and Changes in Net Assets

*December 31, 2016 (with comparative totals for 2015)*

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | 2015 Total |
| **Support and Revenue:** | | | | |
| Contributions | $ 1,944,456 | $ 817,360 | $ 2,761,816 | $ 2,677,985 |
| Other income | 111,755 | 100,000 | 211,755 | 177,030 |
| Net assets released from restrictions | 849,203 | (849,203) | - | - |
| Total support and revenue | 2,905,414 | 68,157 | 2,973,571 | 2,855,015 |
| **Expenses:** | | | | |
| Program services | 1,865,235 | | 1,865,235 | 1,826,424 |
| Supporting services | 553,060 | | 553,060 | 423,856 |
| Fundraising | 359,252 | | 359,252 | 433,202 |
| Total expenses | 2,777,547 | - | 2,777,547 | 2,683,482 |
| **Change in Net Assets** | 127,867 | 68,157 | 196,024 | 171,533 |
| **Net Assets**, beginning of year | 1,452,447 | 641,802 | 2,094,249 | 1,922,716 |
| **Net Assets**, end of year | $ 1,580,314 | $ 709,959 | $ 2,290,273 | $ 2,094,249 |

See accompanying notes to financial statements.

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# EARN, Inc.

## Statement of Functional Expenses

*December 31, 2016 (with comparative totals for 2015)*

| | Program Services | Supporting Services | Fundraising | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| Personnel, payroll taxes and benefits | $ 881,168 | $ 201,346 | $ 214,610 | $ 1,297,124 | $ 1,368,888 |
| Consulting and professional fees | 352,811 | 142,561 | 23,291 | 518,663 | 685,544 |
| Grant expense | 332,947 | 37,869 | - | 370,816 | - |
| Facilities | 140,368 | 38,622 | 39,577 | 218,567 | 218,368 |
| Depreciation and amortization | 33,469 | 8,864 | - | 42,333 | 13,672 |
| Web-based services | 38,574 | 13,108 | 6,842 | 58,524 | 72,454 |
| Marketing, website, and social media | 17,576 | 17,407 | 150 | 35,133 | 62,803 |
| Travel expenses | 22,633 | 336 | 11,666 | 34,635 | 17,391 |
| Events | (356) | - | 30,865 | 30,509 | 73,978 |
| Supplies and office expenses | 9,340 | 70,747 | 4,983 | 85,070 | 35,034 |
| Miscellaneous | 15,940 | 12,014 | 3,268 | 31,222 | 64,556 |
| Incentives paid to savers | 20,765 | - | - | 20,765 | 58,574 |
| Insurance | - | 10,186 | - | 10,186 | 12,220 |
| Bad debt expense | - | - | 24,000 | 24,000 | - |
| | $ 1,865,235 | $ 553,060 | $ 359,252 | $ 2,777,547 | $ 2,683,482 |

See accompanying notes to financial statements.

**Tentative Draft**
**Subject to Change**

# EARN, Inc.

## Statement of Cash Flows

| *December 31, 2016 (with comparative totals for 2015)* | 2016 | 2015 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Change in net assets | $ 196,024 | $ 171,533 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 42,333 | 13,672 |
| Loss on disposal of property and equipment | 26,868 | |
| Changes in assets and liabilities: | | |
| Grants, contributions and accounts receivable | 487,611 | (625,816) |
| Prepaid expenses and other current assets | (33,130) | (1,224) |
| Accounts payable and accrued expenses | 72,887 | 126,476 |
| Grants payable | (118,503) | (604,247) |
| Deferred revenue | - | (288,820) |
| Funds held for others | (585,022) | (431,789) |
| Net cash provided by (used by) operating activities | 89,068 | (1,640,215) |
| **Cash Flows from Investing Activities:** | | |
| Acquisition of property and equipment | (526,110) | (12,365) |
| Net cash used by investing activities | (526,110) | (12,365) |
| **Net Change in Cash and Cash Equivalents** | (437,042) | (1,652,580) |
| **Cash and Cash Equivalents**, beginning of year | 2,687,893 | 4,340,473 |
| **Cash and Cash Equivalents**, end of year | $ 2,250,851 | $ 2,687,893 |

See accompanying notes to financial statements.

# EARN, Inc.

## 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 an innovative technology-based platform.

**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

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, 2016 and 2015, the Board has designated $820,000 and $1,000,000, respectively, 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, 2016.

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, 2016 and 2015, 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. Property and equipment are depreciated using the straight-line method over the estimated useful live. Leasehold improvements are amortized over the remaining term of the lease.

# EARN, Inc.

## Notes to Financial Statements

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, 2015, 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 2016 presentation. These reclassifications had no effect on the change in net assets as previously reported.

m. Subsequent Events

Management has evaluated subsequent events through [DATE], the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

**Note 3 - Grants, Contributions and Accounts Receivable:**

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

| | 2016 | 2015 |
|---|---|---|
| Grants and contributions receivable | $ 223,082 | $ 758,865 |
| Other accounts receivable | 56,922 | 8,750 |
| | $ 280,004 | $ 767,615 |

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:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Computer equipment | $ | 18,373 | $ | 167,184 |
| Software (Website and Database) | | - | | 368,381 |
| Technology platform | | 519,125 | | - |
| Office equipment | | 2,993 | | 39,708 |
| Leasehold improvements | | - | | 52,239 |
| | | 540,491 | | 627,512 |
| Less: accumulated depreciation and amortization | | (42,333) | | (586,263) |
| | $ | 498,158 | $ | 41,249 |

Depreciation and amortization expense amounted to $42,333 and $13,672 for the years ended December 31, 2016 and 2015, respectively.

**Note 5 - Temporarily Restricted Net Assets:**

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

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Time restrictions | $ | 77,000 | $ | 622,430 |
| Purpose restrictions - financial services and operations | | 632,959 | | 19,372 |
| | $ | 709,959 | $ | 641,802 |

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

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Saver incentives | $ | 6,884 | | |
| Financial services and operations | | 332,318 | $ | 575,239 |
| Time restrictions | | 510,000 | | 882,670 |
| | $ | 849,203 | $ | 1,457,909 |

**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, 2016 and 2015, the Corporation had commitments of approximately \$15,040 and \$65,000, respectively, to provide matching incentives 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 March 1, 2022. Future minimum annual lease payments are approximately \$187,793 in 2017. On June 30, 2016, the Corporation entered into a new lease through 2022.

Rent expense for the years ended December 31, 2016 and 2015 were \$187,448 and \$187,723, 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 \$47,752 and \$56,837 on behalf of employees participating in the plan for the years ended December 31, 2016 and 2015, 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.