squarmilner

Certified Public Accountants
and Financial Advisors

EARN, INC.
Financial Statements
December 31, 2018

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Earn, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Earn, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2018, 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 Earn, Inc. as of December 31, 2018, 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

The financial statements of Earn, Inc. as of December 31, 2017 and for the year then ended, were audited by other auditors whose report dated July 17, 2018, expressed an unmodified audit opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

SQUAR MILNER LLP

Squar Milner LLP

San Francisco, California
July 19, 2019

EARN, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018
(with summarized comparative totals at December 31, 2017)

ASSETS

	2018	2017
Cash and cash equivalents	$ 1,898,362	$ 2,328,705
Grants and contributions receivable	260,441	311,929
Accounts receivable	40,790	126,842
Prepaid expenses and other current assets	109,331	48,185
Property and equipment - net	11,538	15,620
Intangible assets - net	737,320	746,365
Total assets	$ 3,057,782	$ 3,577,646

LIABILITIES AND NET ASSETS

	2018	2017
Liabilities		
Accounts payable and accrued expenses	$ 314,008	$ 435,971
Saver incentives payable	78,743	76,706
Deferred revenue	27,500	459,378
Total liabilities	420,251	972,055
Net Assets		
Net assets without donor restrictions:		
Board designated	990,000	890,000
Undesignated	836,715	732,824
Total net assets without donor restrictions	1,826,715	1,622,824
Net assets with donor restrictions	810,816	982,767
Total net assets	2,637,531	2,605,591
Total liabilities and net assets	$ 3,057,782	$ 3,577,646

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

EARN, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
(with summarized comparative totals for the year ended December 31, 2017)

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	2018 Total	2017 Total
SUPPORT AND REVENUE:				
Contributions	$ 3,024,642	$ 1,045,185	$ 4,069,827	$ 3,852,889
Program service fees	197,476	-	197,476	173,264
In -kind contributions	86,238	-	86,238	-
Net assets released from restrictions	1,217,136	(1,217,136)	-	-
Total support and revenue	4,525,492	(171,951)	4,353,541	4,026,153
EXPENSES:				
Program services	3,570,375	-	3,570,375	3,013,444
Supporting services	366,997	-	366,997	349,541
Fundraising	384,229	-	384,229	347,850
Total expenses	4,321,601	-	4,321,601	3,710,835
Change in net assets	203,891	(171,951)	31,940	315,318
Net Assets - beginning of year	1,622,824	982,767	2,605,591	2,290,273
Net Assets - end of year	$ 1,826,715	$ 810,816	$ 2,637,531	$ 2,605,591

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

EARN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(with summarized comparative totals for the year ended December 31, 2017)

	Program Services	Supporting Services	Fundraising	2018 Total	2017 Total
Personnel, Payroll Taxes, and Benefits	$ 1,094,694	$ 146,371	$ 286,777	$ 1,527,842	$ 1,488,250
Depreciation and Amortization	542,431	771	1,637	544,839	267,607
Technology	534,696	-	-	534,696	218,000
Saver Incentives	393,497	-	-	393,497	153,020
Grant Expense	350,787	-	-	350,787	748,915
Consulting and Professional Fees	100,561	123,892	12,144	236,597	297,827
Facilities	164,872	19,322	41,004	225,198	229,955
Web-Based Services	141,726	15,044	4,739	161,509	71,925
Marketing, Website, and Social media	117,827	9,479	7,910	135,216	91,081
In- Kind Legal Expense	86,238	-	-	86,238	-
Miscellaneous	9,383	26,902	4,349	40,634	33,533
Travel Expenses	11,822	14,658	8,096	34,576	16,499
Supplies and Office Expenses	12,483	9,332	11,217	33,032	69,832
Insurance	9,108	1,066	2,265	12,439	10,269
Events	250	160	4,091	4,501	14,122
Total	$ 3,570,375	$ 366,997	$ 384,229	$ 4,321,601	$ 3,710,835

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

EARN, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018
(with summarized comparative totals for the year ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 31,940	$ 315,318
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	544,839	267,607
Changes in assets and liabilities:		
Grants and contributions receivable	51,488	(88,847)
Accounts receivable	86,052	(69,920)
Prepaid expenses and other current assets	(61,146)	22,678
Accounts payable and accrued expenses	(121,963)	100,787
Saver incentives payable	2,037	61,666
Deferred revenue	(431,878)	-
Net cash provided by operating activities	101,369	609,289
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(4,909)	(12,435)
Acquisition of intangible assets	(526,803)	(519,000)
Net cash used in investing activities	(531,712)	(531,435)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(430,343)	77,854
CASH AND CASH EQUIVALENTS - beginning of year	2,328,705	2,250,851
CASH AND CASH EQUIVALENTS - end of year	$ 1,898,362	$ 2,328,705

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

1. ORGANIZATION

Earn, Inc. (the "Organization"), is a nonprofit organization incorporated in the State of California in December 2001. The Organization provides low-income adults and families with tools to build wealth, achieve financial goals, and develop a habit of saving. The Organization provides its services nationwide through an innovative technology-based platform.

The Organization's programs are funded primarily through contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated $990,000 of these net assets for operating reserves and future program development.

Net assets with donor restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When net assets subject to donor imposed restrictions are received and then subsequently released in the same year they are classified as net assets without donor restrictions.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

Program service fees represent amounts earned by providing services to savers. Amounts paid in advance of services performed are classified as deferred revenue.

Government 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 Organization uses the allowance method to account for uncollectible receivables based on previous experience and management's analysis of specific promises made. At December 31, 2018, there was no allowance for uncollectible receivables deemed necessary by management.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment purchased by the Organization is stated at cost. 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 life. Leasehold improvements are amortized over the remaining term of the lease.

Intangible Assets

Intangible assets include purchased technology for use on the Organization's SaverLife platform ("SaverLife"). Intangible assets purchased by the Organization is stated at cost. The costs for additions and major improvements associated with SaverLife after the preliminary project stage has been completed are capitalized. Once SaverLife reaches implementation, costs are expensed as incurred. Other costs such as maintenance and repairs and training are expensed as incurred. All major upgrades and enhancements are capitalized. SaverLife is amortized using the straight-line method over the estimated useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Rent

The Organization's lease agreement for their office building provide for rent escalations during the lease term. The Organization records rent expense on a straight-line basis over the term of the lease. Accordingly, deferred rent is recorded to the extent that rent expense exceeds actual rent payments. At December 31, 2018, accrued rent amounted to $55,285 and is included in accounts payable and accrued expenses on the Statement of Activities.

Income Taxes

The Organization 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 Organization's tax positions and concluded that the Organization 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.

Functional Allocation of Expenses

The costs of providing the Organization'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.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. The reclassifications have no impact on previously reported change in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The new standard is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The new standard will be effective for the Organization for the year ending December 31, 2019. The Organization is currently evaluating its impact on its financial statements.

The FASB also issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") for lease accounting to increase transparency and comparability among companies by requiring the recognition of lease assets and lease liabilities by lessees. The new standard will be effective for the Organization for the fiscal year ending December 31, 2020. The Organization is currently evaluating the timing of its adoption and its impact on its financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The amendments should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional. The new ASU does not apply to transfers of assets from governments to businesses.

ASU 2018-08 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2018 for entities that serves as a resource recipient, and years beginning after December 15, 2019 for entities that serve as a resource provider.

The Organization is currently assessing the potential impact of this guidance on its financial statements.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through July 19, 2019.

3. CHANGE IN ACCOUNTING ESTIMATE

In 2016, the Organization introduced SaverLife 1.0, their technology platform, for use in its program services. SaverLife is amortized using the straight-line method over the estimated useful life of three years. At the beginning of 2019, the Organization began to develop SaverLife version 2.0 with an expected roll out at the end of 2019. As a result, the Company elected to accelerate amortization expense for SaverLife 1.0 with an updated expected useful life expiring at December 31, 2019. The amount of adjustment to depreciation expense for the year ended December 31, 2018 was $109,000 and was recorded on the statement of activities.

4. NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the summarized comparative period presented. The new standards change the following aspects of the Organization's financial statements:

1. The unrestricted net asset class has been renamed net assets without donor restrictions.
2. The temporarily restricted net asset class has been renamed net assets with donor restrictions.
3. The notes to the financial statements include a new disclosure about liquidity and availability of resources (Refer to note 5).

The changes have the following effect on net assets at December 31, 2018:

	Before Adoption of ASU 2016-14	After Adoption of ASU 2016-14
Unrestricted net assets	$ 1,826,715	$ -
Net assets without donor restrictions	-	1,826,715
Temporarily restricted net assets	810,816	-
Net assets with donor restrictions	-	810,816
Total net assets	$ 2,637,531	$ 2,637,531

5. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management monitors levels of available financial assets to anticipate cash requirements for general expenditures as obligations come due on a monthly basis, at a minimum. The Organization has a $1,000,000 line of credit, which it could draw upon in the event of a liquidity need. No funds have been previously borrowed from this line of credit, which was secured in February 2019. Board designated net assets of $990,000, which are designated for operating reserves and future program development, are included in cash and cash equivalents, and per the Board designated reserve policy can be used for cash flow.

5. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditures are as follows:

Cash and cash equivalents	$	1,898,362
Grants and contributions receivable		260,441
Accounts receivable		40,790
Total financial assets available within one year	$	2,199,593

6. GRANTS AND CONTRIBUTIONS RECEIVABLE

At December 31, 2018, grants and contributions receivable amounted to $260,441. All grants and contributions receivable are expected to be collected within one year.

7. PROPERTY AND EQUIPMENT

At December 31, 2018, property and equipment consisted of the following:

Computer equipment	$	34,715
Office equipment		2,993
		37,708
Less: accumulated depreciation		(26,170)
	$	11,538

Depreciation expense amounted to $8,992 for the year ended December 31, 2018.

8. INTANGIBLE ASSETS

At December 31, 2018, intangible assets consisted of the following:

Technology platform	$	1,564,928
Less: accumulated amortization		(827,608)
	$	737,320

Amortization expense amounted to $535,847 for the year ended December 31, 2018.

8. INTANGIBLE ASSETS (continued)

At the beginning of 2019, the Organization began to develop SaverLife version 2.0 with an expected roll out at the end of 2019. As a result, the Company elected to accelerate amortization expense for SaverLife 1.0 with an updated expected useful life expiring at December 31, 2019 (refer to Note 3). The remaining net intangibles is expected to be fully amortized by December 31, 2019.

9. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018, net assets with donor restrictions consist of the following:

Time restrictions	$ -
Purpose restrictions - financial services and operations	810,816
	$ 810,816

In the year ended December 31, 2018, net assets were released from restrictions by incurring expenditures satisfying the restricted purposes, or by occurrences of other events specified by donors, as follows:

Saver incentives	$ 650,686
Financial services and operations	366,450
Time restrictions	200,000
	$ 1,217,136

10. COMMITMENTS

Commitments to Match Saver's Deposits

At December 31, 2018, the Organization had commitments of approximately $78,743 to provide incentives to savers who are in the process of saving but have not yet met program requirements.

10. COMMITMENTS (continued)

Lease Commitments

The Organization leases office space and equipment under non-cancelable operating leases expiring through March 1, 2022. Future minimum annual lease payments approximate the following:

Year ended December 31,		
2019	$	230,746
2020		237,668
2021		244,798
2022		42,024
Total	$	755,236

Rent expense for the year ended December 31, 2018 was $225,198.

11. 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 Organization's contributions, which cover employees who complete three months of service, are discretionary. Contributions are fully vested at all times. The Organization contributed $69,011 on behalf of employees participating in the plan for the year ended December 31, 2018.

12. CONCENTRATION OF RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently $250,000 per depositor).

At December 31, 2018, two donors accounted for 61% of total grants and contributions receivable.

13. SUBSEQUENT EVENT

In February 2019, the Organization entered into a revolving line of credit with a maximum borrowing amount of $1,000,000.