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INDEPENDENT AUDITORS' REPORT

Board of Directors
Modest Needs Foundation
New York, New York

We have audited the accompanying statement of financial position of Modest Needs Foundation ("Modest Needs") as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Modest Needs' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Modest Needs' as of and for the year ended December 31, 2007 were audited by another auditor whose report dated May 2, 2008 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of Modest Needs Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Eisner LLP

New York, New York
April 13, 2009

MODEST NEEDS FOUNDATION**Statements of Financial Position**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 286,231	\$ 464,907
Investments	3,927	1,028
Contributions receivable		20,433
Other receivables		10,659
Prepaid expenses and other assets	27,259	10,360
Security deposits	32,028	29,525
Property and equipment, net	<u>120,699</u>	<u>50,168</u>
	<u>\$ 470,144</u>	<u>\$ 587,080</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 27,841	\$ 18,365
Grants payable	<u>2,745</u>	<u>335</u>
	30,586	18,700
Net assets - unrestricted	<u>439,558</u>	<u>568,380</u>
	<u>\$ 470,144</u>	<u>\$ 587,080</u>

MODEST NEEDS FOUNDATION

Statements of Activities

Year Ended December 31,

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 1,372,243	\$ 1,289,500	\$ 2,661,743	\$ 1,328,338	\$ 730,837	\$ 2,059,175
Special event contributions	33,571		33,571			
Investment income	2,795		2,795	556		556
Support and revenue before release from restrictions	1,408,609	1,289,500	2,698,109	1,328,894	730,837	2,059,731
Net assets released from restrictions	1,289,500	(1,289,500)	0	730,837	(730,837)	0
Total support and revenue	2,698,109	0	2,698,109	2,059,731	0	2,059,731
Expenses:						
Self-sufficiency grants to individuals	1,100,977		1,100,977	575,320		575,320
Independent living grants to individuals	169,194		169,194	227,692		227,692
Back-to-work grants to individuals	21,356		21,356	47,922		47,922
Bridge grants	1,441		1,441	25,049		25,049
Gulf Coast renewal grants to individuals				9,007		9,007
Grants to other organizations	176,063		176,063	600,524		600,524
Program services	1,057,985		1,057,985			
Total program expenses	2,527,016		2,527,016	1,485,514		1,485,514
General and administrative	166,773		166,773	46,724		46,724
Fund-raising	133,142		133,142	74,220		74,220
Total expenses	2,826,931		2,826,931	1,606,458		1,606,458
Change in net assets	(128,822)		(128,822)	453,273		453,273
Net assets - January 1	568,380	0	568,380	115,107	0	115,107
Net assets - December 31	\$ 439,558	\$ 0	\$ 439,558	\$ 568,380	\$ 0	\$ 568,380

See notes to financial statements

MODEST NEEDS FOUNDATION

Statement of Functional Expenses

Year Ended December 31, 2008

(with summarized financial information for 2007)

	Program Services	Management And General	Fund- raising	Total Expenses	
				2008	2007
Grants:					
Self-sufficiency grants to individuals	\$ 1,100,977			\$ 1,100,977	\$ 575,320
Independent living grants to individuals	169,194			169,194	227,692
Back-to-work grants to individuals	21,356			21,356	47,922
Bridge grants	1,441			1,441	
Gulf Coast renewal grants to individuals					25,049
Grants to other organizations	<u>176,063</u>			<u>176,063</u>	<u>9,007</u>
Total grants	1,469,031			1,469,031	884,990
Other salaries and wages	340,158	\$ 34,724	\$ 15,212	390,094	208,867
Compensation of officers	223,069	40,223	36,680	299,972	94,000
Employee benefits	121,156	14,904	9,201	145,261	30,569
Travel	63,495	14,085	23,735	101,315	77,286
Rent	51,934	7,582	2,077	61,593	37,875
Payroll taxes	40,039	5,254	3,719	49,012	25,381
Special events	18,701		16,400	35,101	
Staff development	20,771	7,020	1,294	29,085	17,144
Professional fees	16,188	7,037	5,775	29,000	104,366
Office supplies	22,163	3,773	1,086	27,022	18,017
Bank and merchant account fees	22,926	2,700	1,349	26,975	15,739
Telephone	22,804	2,702	1,320	26,826	10,664
Conferences, conventions, and meetings	13,765	8,895	3,628	26,288	4,344
Equipment rental and maintenance	22,280	68	35	22,383	10,657
Depreciation	18,321	2,155	1,078	21,554	17,204
Advertising	9,573	30	8,632	18,235	16,090
Books, subscriptions, and references	9,686	1,313	539	11,538	4,306
Insurance	5,564	2,534	211	8,309	1,281
Accounting		5,750		5,750	4,222
Utilities	4,371	826	206	5,403	2,267
Printing and copying	3,594	204	560	4,358	8,367
Miscellaneous expenses	1,597	2,326	77	4,000	3,164
Postage and shipping	2,788	540	143	3,471	3,174
Filing fees	1,938	575	120	2,633	636
Legal fees	1,104	465	65	1,634	5,611
Payroll processing		820		820	
Interest		268		268	237
Total expenses	<u>\$ 2,527,016</u>	<u>\$ 166,773</u>	<u>\$ 133,142</u>	<u>\$ 2,826,931</u>	<u>\$ 1,606,458</u>

MODEST NEEDS FOUNDATION**Statement of Functional Expenses
Year Ended December 31, 2007**

	<u>Program Services</u>	<u>Management And General</u>	<u>Fund-raising</u>	<u>Total Expenses</u>
Grants:				
Self-sufficiency grants to individuals	\$ 575,320			\$ 575,320
Independent living grants to individuals	227,692			227,692
Back-to-work grants to individuals	47,922			47,922
Gulf Coast renewal grants to individuals	25,049			25,049
Grants to other organizations	<u>9,007</u>			<u>9,007</u>
Total grants	884,990			884,990
Other salaries and wages	208,867			208,867
Compensation of officers	79,900	\$ 9,400	\$ 4,700	94,000
Employee benefits	24,244	4,265	2,060	30,569
Travel	57,943	6,497	12,846	77,286
Rent	32,194	3,788	1,893	37,875
Payroll taxes	24,192	763	426	25,381
Staff development	17,068	76		17,144
Professional fees	67,169	535	36,662	104,366
Office supplies	14,668	2,292	1,057	18,017
Bank and merchant account fees	9,698	5,503	538	15,739
Telephone	8,594	1,656	414	10,664
Conferences, conventions, and meetings	1,920	1,021	1,403	4,344
Equipment rental and maintenance	10,657			10,657
Depreciation	12,042	1,721	3,441	17,204
Advertising	11,117		4,973	16,090
Books, subscriptions, and references	3,955	111	240	4,306
Insurance		1,281		1,281
Accounting		4,222		4,222
Utilities	1,899	253	115	2,267
Printing and copying	6,120		2,247	8,367
Miscellaneous expenses	506	2,438	220	3,164
Postage and shipping	2,160	217	797	3,174
Filing fees		448	188	636
Legal fees	5,611			5,611
Interest		<u>237</u>		<u>237</u>
Total expenses	<u>\$ 1,485,514</u>	<u>\$ 46,724</u>	<u>\$ 74,220</u>	<u>\$ 1,606,458</u>

MODEST NEEDS FOUNDATION**Statements of Cash Flows**

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (128,822)	\$ 453,273
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	21,554	17,204
Unrealized gains on investments	(329)	
Donated securities	(2,570)	(1,028)
Changes in operating assets and liabilities:		
Contribution receivable	20,433	(20,433)
Other receivables	10,659	(10,659)
Prepaid expenses and other assets	(16,899)	(1,190)
Security deposits	(2,503)	(19,170)
Accounts payable and accrued expenses	9,476	18,365
Grants payable	<u>2,410</u>	<u>335</u>
Net cash (used in) provided by operating activities	<u>(86,591)</u>	<u>436,697</u>
Cash flows from investing activities:		
Donations of equipment to assist individuals		3,135
Purchases of property and equipment	<u>(92,085)</u>	<u>(45,374)</u>
Net cash (used in) investing activities	<u>(92,085)</u>	<u>(42,239)</u>
Net change in cash and cash equivalents	(178,676)	394,458
Cash and cash equivalents at January 1, 2008	<u>464,907</u>	<u>70,449</u>
Cash and cash equivalents at December 31, 2008	<u>\$ 286,231</u>	<u>\$ 464,907</u>

MODEST NEEDS FOUNDATION

Notes to Financial Statements December 31, 2008 and 2007

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Modest Needs Foundation ("Modest Needs") is a not-for-profit corporation formed on January 3, 2007. Modest Needs was originally formed in Tennessee in 2002 but merged its operations with a new corporation created in Delaware for that specific purpose.

The mission of Modest Needs is to provide emergency relief to generally self-sufficient individuals and families who encounter a temporary financial crisis through no immediate fault of their own, thereby bolstering the ability of Modest Needs' clients to continue to provide for themselves, while lessening the burden of the state and federal agencies charged with the care of the truly indigent.

Modest Needs is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying financial statements of Modest Needs have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

(b) Cash and cash equivalents:

Cash and cash equivalents include all highly-liquid investments available for use with initial maturity of three months or less.

(c) Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

(d) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

(e) Investments:

Investments in marketable securities with readily determinable market values are reported at their fair values in the accompanying statements of financial position.

MODEST NEEDS FOUNDATION

Notes to Financial Statements December 31, 2008 and 2007

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(f) Net assets:

(i) *Unrestricted:*

Unrestricted net assets are the remaining net assets of Modest Needs that are used to carry out its mission and are not subject to donor restrictions.

(ii) *Temporarily restricted:*

Temporarily restricted net assets include gifts, pledges, and trusts that can be expended, but for which the donors' restrictions have not yet been met. Temporary restrictions are removed either through the passage of time or because certain actions are taken by Modest Needs that fulfill the restrictions. During both 2008 and 2007, all donor restrictions were met and the funds were fully released.

(g) Revenue recognition:

Contributions:

Contributions, including unconditional promises to give to Modest Needs, are recognized as revenue in the period received. Contributions and other receivables not expected to be collected within a year are reported at their discounted present values.

Special event:

Modest Needs sponsored a special event during 2008, whereby it paid \$35,101 to rent a restaurant's facilities. This amount represented the direct benefit to donors. The cost of food and drink was donated by the restaurant. Guests were provided receipts which showed the tax deductible portion of their payment.

(h) Advertising costs:

Advertising costs are expensed as incurred.

(i) Reclassifications:

Certain prior-year amounts in the accompanying financial statements have been reclassified to conform to the current year's presentation.

[3] Property and equipment:

Property and equipment are reported at their costs at the dates of acquisition or at their fair values at the dates of donation. Depreciation of furniture and equipment is provided using the straight-line method over estimated useful lives from seven to five years, and software is depreciated over three years.

MODEST NEEDS FOUNDATION

Notes to Financial Statements December 31, 2008 and 2007

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Grants payable:

Grant expenses are considered to be incurred at the time of approval for payment. Grants outstanding at the end of each fiscal year are expected to be paid in the following fiscal year.

[5] New accounting pronouncements:

In July 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 establishes for all financial enterprises, including not-for-profit organizations to the extent applicable, a requirement for financial-statement recognition of any benefits that the enterprise may expect to receive as the result of a position taken with regard to income taxes, as well as for expanded tax-related disclosures. A subsequent FASB release has permitted deferral of the application of FIN 48; management evaluates any material uncertain tax positions on an ongoing basis and has elected to defer application of FIN 48 to 2009. The adoption of FIN 48 is not expected to have a material effect on Modest Needs' financial statements.

In September 2006, the FASB also released Statement of Financial Accounting Standards No. 157, "Fair Value Measurement" ("SFAS No. 157"), which establishes a framework for the measurement of the fair value of an enterprise's assets and liabilities in various circumstances, and enhances disclosures about fair-value measurements. Modest Needs adopted SFAS 157 effective January 1, 2008, and it did not have a material effect on the accompanying financial statements.

NOTE B - INVESTMENTS

At each fiscal year-end, investments consisted of readily marketable securities which had been donated to Modest Needs. In the past, Modest Needs' policy was to immediately sell any donated security that was received; however in 2007, Modest Needs decided to retain securities in order to begin an investment portfolio. With regard to SFAS No. 157, these would be considered Level I investments, which is defined as the category whereby quoted prices for identical instruments in active markets are readily available. Fair value of investments as of December 31, 2008 and 2007 was \$3,927 and \$1,028, respectively.

NOTE C - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Office equipment	\$ 169,381	\$ 100,193
Software	13,815	10,151
Furniture and fixtures	<u>20,901</u>	<u>2,563</u>
	204,097	112,907
Less accumulated depreciation	<u>(83,398)</u>	<u>(62,739)</u>
	<u>\$ 120,699</u>	<u>\$ 50,168</u>

During 2008, fully depreciated equipment and software of \$895 were written off.

MODEST NEEDS FOUNDATION

Notes to Financial Statements December 31, 2008 and 2007

NOTE D - COMMITMENTS

Lease agreements:

Modest Needs rents office spaces in New York City and San Francisco under operating lease agreements. The New York City lease was renewed during 2008 and now expires in December 2011. The San Francisco office lease expires in September 2011. In addition, Modest Needs rents an apartment in San Francisco, under a one-year commitment that will terminate in August 2009. For this lease, the entire year's worth of rent expense was paid in advance. For the other two leases, the lease requires minimum lease payments, plus escalation charges. Rent expense for fiscal-years 2008 and 2007 was approximately \$62,000 and \$38,000, respectively. The minimum annual future obligations under this lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 56,149
2010	57,867
2011	<u>53,229</u>
Total	<u>\$167,245</u>

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, releases of temporarily restricted net assets were comprised of the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Capacity-building	\$ 336,500	\$ 200,000
Staffing and training		41,000
Grant-making	<u>953,000</u>	<u>489,837</u>
	<u>\$1,289,500</u>	<u>\$ 730,837</u>

NOTE F - CONCENTRATION OF CREDIT RISK

Modest Needs deposits its cash with a major bank in amounts which may occasionally be in marginal excess of federal insurance limits. Management believes that there is no significant risk of loss on these accounts relating to the failure of the banking institution.

NOTE G - CONCENTRATION OF REVENUE SOURCES

During 2008 and 2007, approximately 38% and 33%, respectively, of Modest Needs' total support was provided by one donor.

NOTE H - GRANTS MADE TO INDIVIDUALS

During 2008, Modest Needs received approximately \$1,044,000 in contributions from individuals. During the same year, Modest Needs granted approximately \$1,469,000 to assist individuals. The difference is funded from Modest Needs' operating funds.