

MODEST NEEDS FOUNDATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

**MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Modest Needs Foundation (a Tennessee not for profit corporation) as of December 31, 2005 and the related statements of activity and changes in fund balance, cash flows and functional expense for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of Modest Needs Foundation as of December 31, 2005 and results of its operations and changes in fund balance and cash flows for the year ended December 31, 2005 in conformity with generally accepted accounting principles.

Iris B. Rosken, CPA, LLC

May 1, 2006

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

BALANCE SHEET

AT DECEMBER 31, 2005

Assets

Current Assets

Cash and Cash Equivalents (Note 3)	\$102,940
Undeposited Funds	5,393
Total Current Assets	108,333

Fixed Assets (Note 2)

Office Equipment	40,324
Furniture and Fixtures	651
Less: Accumulated Depreciation	(14,266)
Net Fixed Assets	26,709

Other Assets

Deposits (Note 4)	10,570
Total Other Assets	10,570

Total Assets **\$145,612**

Liabilities and Fund Balance

Fund Balance	145,612
Total Liabilities and Fund Balance	\$145,612

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

STATEMENT OF ACTIVITY AND
CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2005

Revenue

Direct Public Support (Note 5) \$545,203

Total Revenue 545,203

Expenses

Specific Assistance to Individuals (Note 6) 250,498

Programs service expenses 120,402

Management and general expenses 46,718

Fundraising expenses 16,364

Total Expenses 433,982

Revenue over Expenses 111,221

Fund Balance at the Beginning of the Year 34,391

Fund Balance at the End of the Year \$145,612

MODEST NEEDS FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Services	Management and General	Fundraising	Total
Specific Assistance to Individuals (Note 6)				
Aid to Hurricane Katrina Evacuees (Note 7)	\$ 97,734	\$ -	\$ -	\$ 97,734
Emergency Housing Assistance	48,021	-	-	48,021
Emergency Transportation Assistance	44,399	-	-	44,399
Emergency Medical Assistance	27,810	-	-	27,810
Other Types of Assistance to Individuals	19,488	-	-	19,488
Job Training Assistance	13,046	-	-	13,046
Total Assistance to Individuals	250,498	-	-	250,498
Operating Expenses				
Compensation of Officers (Note 8)	47,778	13,378	2,548	\$ 63,704
Payroll Taxes	10,279	4,547	548	15,374
Rent (Note 4)	10,786	2,515	-	13,301
Equipment Rental and Maintenance	10,591	165	-	10,756
Travel	4,964	1,282	3,520	9,766
Other Salaries and Wages	9,000	-	-	9,000
Production Costs (Note 9)	4,485	608	3,607	8,700
Bank & Merchant Account Fees	136	8,124	-	8,260
Depreciation	7,485	-	-	7,485
Conferences, Conventions and Meetings	1,631	3,339	1,882	6,852
Supplies	2,364	1,543	2,049	5,956
Office Expenses	110	4,771	399	5,280
Telephone	3,782	945	-	4,727
Printing and Publications	2,424	617	833	3,874
Employee Benefits	2,241	1,193	-	3,434
Accounting	-	2,052	-	2,052
Postage and Shipping	840	692	978	2,510
Insurance Premiums	1,506	377	-	1,883
Filing Fees	-	570	-	570
Total Operating Expenses	120,402	46,718	16,364	183,484
Total Expenses	\$370,900	\$ 46,718	\$ 16,364	\$433,982

**MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

Cash Flow from Operating Activities:

Net Income	\$111,221
Increase in security deposits	(8,400)
Increase in depreciation	7,485
Increase in undeposited funds	(3,770)

Net cash provided by operating activities 106,536

Cash Flow from Investing Activities:

Increase in acquisition of furniture, fixtures and equipment	(19,708)
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Net cash used in investing activities (19,708)

Cash and Cash Equivalents at January 1, 2005 16,112

Cash and Cash Equivalents at December 31, 2005 \$102,940

**MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Note 1 - Organization and Operations

Modest Needs Foundation (the "Organization") is a Tennessee not for profit organization formed on May 1, 2002. The Organization is a Section 501(c)(3) organization and exempt from federal income taxes under Section 501(a) as described in the Internal Revenue Code of 1986.

The purpose of the Organization is to provide emergency financial assistance 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 the Organization's clients to continue to provide for themselves while lessening the burden of state and federal agencies charged with the care of the truly indigent.

The Organization records its revenue and expenses on a cash basis.

Note 2 - Summary of Significant Accounting Policies

Financial Statements of Not-for-Profit Organizations (FASB No. 117):

The Organization has adopted these rules for its reporting purposes. Contributions and net assets must be separated into three categories based solely on donor imposed restrictions. The three categories are "unrestricted", "temporarily restricted" and "permanently restricted". Currently, the Organization has no temporarily or permanently restricted net assets.

Accounting for Contributions Received and Contributions Made (FASB No. 116):

This standard requires contributions received, including unconditional promises, to be recognized as revenues in the period received. They should be recorded as increases in assets or decrease in liabilities and either as restricted support or unrestricted revenue. All contributions made to the Organization are classified as unrestricted revenue.

Fixed Assets and Accumulated Depreciation:

Fixed assets are carried at cost for financial statement purposes. Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable asset.

Functional Expense Allocation:

In accordance with generally accepted accounting principles, expenses that are identifiable with assisting individuals or families directly or indirectly are charged as program expenses.

Note 3 - Cash and Cash Equivalents at December 31, 2005

On December 31, 2005, the Organization had on hand cash and cash equivalents totaling \$102,940. This balance is comprised of a \$5,000 grant from the Christopher Reeve Paralysis Foundation, \$69,678 remaining from Omidyar Network Fund ("Omidyar") (Note 5); and \$28,262 in donations from individuals.

Note 4 - Rent and Deposits

The offices of the Organization were located at 150 West 22nd Street, Fifth Floor, New York, NY 10011 from August 1, 2004 until December 31, 2005. The monthly rent was \$795. The security deposit, one month's rent, has been refunded to the Organization in full as of March 2, 2006.

Effective January 1, 2006, the Organization's new location is at 115 East 30th Street, FL 1 New York, NY 10016. The lease term is through December 31, 2008. Since the Organization is a non-profit charitable organization, the landlord is giving the Organization a credit of \$200 per month off the rent. The monthly base rent before the credit is \$3,000 per month for 2006, \$3,090 per month for 2007 and \$3,183 per month for 2008. The rent does not include utilities. The security deposit of \$8,400 is comprised of three month's rent less the monthly credit. The renewal option before the credit for 2009, 2010 and 2011 is \$3,278, \$3,377 and \$3,478, respectively.

Note 5 - Direct Public Support

During 2005, the Organization received three separate grants: \$5,000 from the Christopher Reeve Paralysis Foundation, \$10,000 from the Vain & Harry Fish Foundation and \$150,000 from Omidyar.

The grant from the Vain & Harry Fish Foundation, made November 15, 2005, is a non-restricted grant. The purpose of the grant was to defray the costs associated with the production and distribution of a short promotional film detailing the Organization's fieldwork with persons affected by Hurricane Katrina during October 2005 (Note 9). Any remaining grant funds were designated for the creation of a brochure promoting the work of the Organization. This grant was spent in its entirety in 2005.

The grant from Omidyar made on March 21, 2005, is a non-restricted grant and covers a three-year investment period. The purpose of this grant is for the general operating expenses associated with the growth of the Organization. The conditions of the grant require the Organization to notify Omidyar if it becomes clear that the Organization will not spend the full amount of the grant during the investment period. Such contact, if

necessary, must be made at least sixty days prior to the investment's initial date of maturity.

In 2005, the Omidyar grant paid officer salaries, as well as all expenses associated with travel, conferences, and meetings. The total amount charged to the grant in 2005 was \$80,332, leaving a grant balance of \$69,768 as of December 31, 2005.

The balance of the donations came from individuals via checks, credit cards or paypal. All donations are recognized as income in the period received.

There have been no restrictions placed on donations or grants except as noted in the above paragraph.

Note 6 – Specific Assistance to Individuals

In accordance with its exempt purpose, the Organization offers three types of grants to individuals: 'Self-sufficiency Grants,' which are made for an emergency expense to otherwise self-sufficient people; 'Back-to-Work Grants,' which are awarded for small expenses that will allow a temporarily unemployed individual to return to work; and 'Independent Living Grants,' which are awarded to people who, though permanently unable to work, are living independently on limited incomes and are faced with an unexpected expense that cannot be covered by any other means.

The types of assistance offered to individuals by the Organization via these three types of grants can be further classified into the following, more specific grant categories:

- Aid to Hurricane Katrina Evacuees (Note 7)
- Emergency Housing Assistance
- Emergency Transportation Assistance
- Emergency Medical Assistance
- Other Types of Assistance to Individuals
- Job Training Assistance

Applicants for assistance from the Organization must complete a three-step application and review process. The first step involves submitting an application for assistance, either online via the Organization's website (<http://www.modestneeds.org>) or by mail. Applicants who appear to qualify for assistance from the Organization are then asked to submit multiple pieces of documentation to support their applications, including income statements, proof of identity and location, and copies of the actual bills with which they have requested assistance.

Once an applicant has provided adequate documentation and the Organization's staff has performed due diligence, that application becomes viewable to supporters of the Organization in an anonymous format via the Organization's website. Supporters of the Organization help to set funding priorities for the Organization by 'scoring' each pre-qualified application on a scale from 0-9, with the Organization offering assistance to

those persons whose applications receive the highest priority during this phase of the Organization's application and review process.

Successful applicants do not receive cash assistance directly from the Organization. Rather, the Organization remits payment for a single, specific expense on behalf of a successful applicant, directly to a creditor. The Organization does not promise to assist any specific individual and remains the final decision-making authority in all matters related to the disbursement of exempt-purpose funds. Further, the Organization has in place a lifetime limit of two funded grant applications per registered household.

In 2005, specific assistance to individuals through the Organization's general programs totaled \$250,498 of which \$97,734 was allocated to individuals affected by Hurricane Katrina (Note 7).

Note 7 – Public Assistance to Hurricane Katrina Victims

In August 2005, the Organization launched a special program designed to assist those persons throughout the United States who had opened their homes to friends and family members who had been displaced by Hurricane Katrina. The goal of this program was to defray the cost of housing hurricane evacuees by such persons, most of whom did not qualify for other types of related assistance.

As is the case with its ongoing programs, applicants for this special program were required to apply for assistance either online via the Organization's website, or by mail. The Organization assisted those persons who provided adequate documentation to support their applications for help, as permitted by the Organization's budget.

The Organization gave supporters the opportunity to donate money specifically to this special program. Donations to the Organization's Hurricane Relief program totaled \$94,387 for 2005. During the same period, the Organization disbursed \$97,734 in specific assistance to individuals and families targeted by this program.

Note 8 – Compensation of Officers

The Organization's Board of Directors approved the compensation package of Dr. Keith P. Taylor, the president and executive director of the Organization, to be commensurate with the president's duties and service to the Organization. In 2005, the cost of the president's compensation package was borne in its entirety by grants from foundations made to the Organization in part for this purpose. The Organization's individual donors bore no part of the cost of the president's compensation package.

Note 9 – Production Costs

In order to show its donors the difference Modest Needs makes through its small grants to individuals and families in need, the Organization, with the help of a videographer, documented a trip to Mississippi and Louisiana. From the resulting documentary footage,

the Organization produced two public service announcements and one twenty-minute short film documenting the Organization's work in the areas affected by Hurricane Katrina. These pieces are available for viewing on the Organization's website to showcase the Organization's work and the impact it has on the lives of people whom the Organization is able to assist.

The cost of these video productions in 2005 totaled \$8,700 and was borne in full by a grant made from the Vain & Harry Fish Foundation for this purpose. The Organization's individual donors bore no part of the costs involved with the production of these documentary pieces.

Note 10 - Subsequent Events

As of January 1, 2006, the Organization is the beneficiary of a substantial grant made to the Organization by a private foundation that has opted to remain anonymous at this time. Under this grant, recurring gifts made by individuals to the Organization are being matched, dollar for dollar, throughout 2006, each time the recurring gift is made. The grant has a maximum value to the organization of \$300,000 in matching funds in 2006.

As of 2006, Fulbright & Jaworsky will legally represent the Organization on a pro-bono basis regarding the Organization's intellectual property and corporate matters.

The Organization will expand internationally through the launch of Modest Needs Foundation – Canada. Modest Needs Foundation – Canada will be a separately chartered, independently governed not-for-profit corporation in Canada and will offer the Organization's current programs to Canadian citizens for the first time. The Organization intends to launch Modest Needs Foundation – Canada on December 1, 2006.