

MODEST NEEDS FOUNDATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

CONTENTS

| | |
|---|------|
| Independent Auditor's Report | 3 |
| Balance Sheet | 4 |
| Statement of Activity and Changes in Fund Balance | 5 |
| Statement of Functional Expenses | 6 |
| Statement of Cash Flows | 7 |
| Notes to Financial Statements | 8-14 |

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, 2006 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, 2006 and results of its operations and changes in fund balance and cash flows for the year ended December 31, 2006 in conformity with generally accepted accounting principles.

Iris B. Rosken, CPA, LLC

Iris B. Rosken, CPA, LLC

May 7, 2007

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

BALANCE SHEET

AT DECEMBER 31, 2006

Assets

Current Assets

| | |
|------------------------------------|-----------|
| Cash and Cash Equivalents (Note 3) | \$ 44,013 |
| Undeposited Funds | 26,436 |

| | |
|----------------------|--------|
| Total Current Assets | 70,449 |
|----------------------|--------|

Fixed Assets (Note 2)

| | |
|------------------------|--------|
| Office Equipment | 63,259 |
| Furniture and Fixtures | 4,274 |

| | |
|--------------------------------|----------|
| Less: Accumulated Depreciation | (34,913) |
|--------------------------------|----------|

| | |
|------------------|--------|
| Net Fixed Assets | 32,620 |
|------------------|--------|

Other Assets

| | |
|-------------------|--------|
| Deposits (Note 5) | 10,355 |
| Travel Credits | 1,683 |

| | |
|--------------------|--------|
| Total Other Assets | 12,038 |
|--------------------|--------|

| | |
|---------------------|------------------|
| Total Assets | \$115,107 |
|---------------------|------------------|

Liabilities and Fund Balance

| | |
|--------------|---------|
| Fund Balance | 115,107 |
|--------------|---------|

| | |
|---|------------------|
| Total Liabilities and Fund Balance | \$115,107 |
|---|------------------|

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

STATEMENT OF ACTIVITY AND
CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

Revenue

| | |
|--------------------------------|-----------|
| Direct Public Support (Note 4) | \$806,571 |
| Interest | 80 |

Total Revenue **806,651**

Expenses

| | |
|---|---------|
| Specific Assistance to Individuals (Note 6) | 399,180 |
| Grants to other organizations (Note 6) | 2,783 |
| Programs service expenses | 344,869 |
| Management and general expenses | 35,256 |
| Fundraising expenses | 55,068 |

Total Expenses **837,156**

Expenses over Revenue **(30,505)**

Fund Balance at the Beginning of the Year 145,612

Fund Balance at the End of the Year **\$115,107**

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Program Services | Management and General | Fundraising | Total |
|--|---------------------|---------------------------|------------------|------------------|
| Specific Assistance to Individuals (Note 6) | | | | |
| Self-Sufficiency Grants to Individuals | \$ 252,962 | \$ - | \$ - | \$ 252,962 |
| Gulf Coast Renewal Grants to Individuals | 58,315 | - | - | 58,315 |
| Independent Living Grants to Individuals | 50,034 | - | - | 50,034 |
| Back-to-work Grants to Individuals | 37,869 | - | - | 37,869 |
| Total Assistance to Individuals | 399,180 | - | - | 399,180 |
| Grants to Other Organizations | 2,783 | - | - | 2,783 |
| Total Grants | 401,963 | - | - | 401,963 |
| Operating Expenses | | | | |
| Other Salaries and Wages | 83,123 | - | - | 83,123 |
| Compensation of Officers (Note 9) | 69,619 | 5,044 | 5,737 | 80,400 |
| Professional Fees | 26,354 | - | 18,696 | 45,050 |
| Production Costs (Note 10) | 19,311 | - | 13,406 | 32,717 |
| Rent (Note 5) | 28,132 | 1,914 | 2,394 | 32,440 |
| Travel | 13,397 | 3,295 | 3,856 | 20,548 |
| Depreciation | 17,554 | - | - | 17,554 |
| Equipment Rental and Maintenance | 12,290 | - | - | 12,290 |
| Printing and Publications | 8,594 | 1,048 | 2,514 | 12,156 |
| Advertising | 6,805 | - | 4,471 | 11,276 |
| Bank & Merchant Account Fees | - | 10,227 | - | 10,227 |
| Other Non-Personnel Expenses | 8,184 | 1,759 | - | 9,943 |
| Payroll Taxes | 8,571 | 583 | 729 | 9,883 |
| Supplies | 7,993 | 959 | 452 | 9,404 |
| Conferences, Conventions and Meetings | 6,939 | 448 | 1,953 | 9,340 |
| Telephone | 7,559 | 514 | 643 | 8,716 |
| Staff Development | 7,857 | - | - | 7,857 |
| Health Insurance Premiums | 4,748 | - | - | 4,748 |
| Accounting | - | 4,084 | - | 4,084 |
| Business Insurance | - | 3,364 | - | 3,364 |
| Subscription and Reference | 3,014 | - | - | 3,014 |
| Employee Benefits | 2,547 | - | - | 2,547 |
| Postage and Shipping | 1,945 | 109 | 217 | 2,271 |
| Temporary Contract Help | - | 1,463 | - | 1,463 |
| Filing Fees | - | 445 | - | 445 |
| Outside Computer Services | 333 | - | - | 333 |
| Total Operating Expenses | 344,869 | 35,256 | 55,068 | 435,193 |
| Total Expenses | \$746,832 | \$ 35,256 | \$ 55,068 | \$837,156 |

MODEST NEEDS FOUNDATION
(A Tennessee Not For Profit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Flow from Operating Activities:

| | |
|---------------------------------------|-------------|
| Expenses over Revenue | \$ (30,505) |
| Increase in undeposited funds | (21,043) |
| Increase in depreciation | 17,554 |
| Increase in travel credits | (1,683) |
| Decrease in security deposits | 215 |
| Net cash used by operating activities | (35,462) |

Cash Flow from Investing Activities:

| | |
|---|-----------------|
| Increase in acquisition of furniture, fixtures and equipment | (26,558) |
| Increase in donating equipment to specific assistance to individuals | 3,093 |
| Net cash used in investing activities | (23,465) |
| Cash and Cash Equivalents at January 1, 2006 | 102,940 |
| Cash and Cash Equivalents at December 31, 2006 | \$44,013 |

Modest Needs Foundation
(A Tennessee Not For Profit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 – Organization and Operation

Modest Needs Foundation (the “Organization”) is a Tennessee not-for-profit corporation 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

A. **Cash and Cash Equivalents** – For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

B. **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.

As of 31 December 2006, the organization has fully depreciated all items previously held as fixed assets but with original values of less than \$300.

C. **Financial Statement Presentation & Contributions** – The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116 “Accounting for Contributions Received and Contributions Made” and SFAS No. 117, “Financial Statements of Not-for-Profit Organizations.” SFAS No. 116 requires contributions received to be accounted for as increases to one of three classes of net assets depending on donor imposed restriction. Currently, the Organization has no temporarily or permanently restricted net assets. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net

assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- D. **Income Taxes** – The Organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as an other than private foundation. As such, the organization is not subject to income taxes on income earned from its exempt purpose.

- E. **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 – Composition of Cash & Cash Equivalents at December 31, 2006

On December 31, 2006, the Organization had on hand cash and cash equivalents totaling \$70,449.00. This balance is comprised of \$11,061 remaining from an unrestricted operating grant made by The Omidyar Network to the Organization in 2005 and reported in that year; \$21,685 in contributions from individuals earmarked for eligible applicants residing in the Gulf Coast in 2007; and \$37,703 in undesignated individual contributions received from individuals by the Organization in 2006 to be disbursed via Modest Needs ongoing grant programs in 2007. (See Note 8)

Note 4 – Direct Public Support

During 2006, the Organization received three major grants: \$300,000 from a private foundation that has elected to remain anonymous; \$40,000 from the Morton Meyerson Family Tzedakah Fund; and \$17,500 from the Vain and Harry Fish Foundation.

The grant from the Vain & Harry Fish Foundation, made October 20, 2006, is a non-restricted grant. The purpose of the grant was to defray the costs associated with the production and distribution of a public service announcement promoting the Organization's mission. (See Note 10) This grant was spent in its entirety in 2006.

The grant from the Morton Meyerson Family Tzedakah Fund (MMFTF), made August 15, 2006, is a non-restricted grant. The purpose of this grant was to assist individuals who had applied for assistance through the Organization's 'Gulf Coast Renewal' program. (See Note 8) The conditions of the grant require that the organization receive a report on the use of the grant, once it has been fully disbursed. This grant was spent in its entirety in 2006, and in accordance with the terms of the grant, a report detailing the use of these funds was forwarded to the MMFTF on November 22, 2006.

The anonymous \$300,000 grant, awarded in December 2005 and paid in multiple installments throughout 2006, is a non-restricted grant. The grant was configured as a 'challenge grant' and matched contributions made to the Organization in 2006 up to its

\$300,000 limit. The Organization received the entirety of the grant in 2006, and the grant was spent in full 2006 to defray the Organization's program and other expenses.

The balance of donations received by the Organization in 2006 came from three sources; grants from small foundations; corporate donations; and donations from individuals received via check, credit cards, or various online services, chiefly 'Network for Good' and '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 paragraphs.

Note 5 – Rent and Deposits

The organization's offices are located at 115 E 30th St, FL 1, New York, NY 10016. The lease term is through December 31, 2008. Because the Organization is a non-profit charitable organization, the landlord is giving the Organization a rental credit of \$200 per month. 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 is \$3,278 per month for 2009, \$3,377 per month for 2010, and \$3,478 per month for 2011.

The bulk of the Organization's office rental costs in 2006 were borne by an individual donor, who contributed \$24,000 (\$2,000 per month throughout 2006) to defray the Organization's rental costs.

In 2007 and going forward, the Organization itself will bear the costs of its monthly office rental and other occupancy costs.

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 Organization likewise occasionally offers grants of other types through its special programs.

Applicants for assistance from the Organization must complete a three-step application & 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 & 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 2006, the Organization funded \$401,963 to individuals who had applied for assistance from the Organization. In the same period, specific assistance to individuals from the Organization totaled \$399,180, as follows:

| <u>Grant Program</u> | <u>Amount Disbursed 2006</u> |
|-----------------------------|------------------------------|
| • Self-Sufficiency Grants | \$252,962.00 |
| • Back to Work Grants | \$ 37,869.00 |
| • Independent Living Grants | \$ 50,034.00 |
| • Gulf Coast Renewal Grants | \$ 58,315.00 |
| <u>Subtotal:</u> | <u>\$399,180.00</u> |

Additionally, the Organization occasionally provides small grants to other organizations. In 2006, the Organization provided three such grants totaling \$2,783.00, as follows:

| <u>Organization Name</u> | <u>Amount Disbursed 2006</u> |
|--|------------------------------|
| • Modest Needs Foundation -- Canada (See Note 11) | \$ 1,872.00 |
| • The Ziv Tzedakah Fund | \$ 811.00 |
| • Donorschoose | \$ 100.00 |
| <u>Subtotal:</u> | <u>\$ 2,783.00</u> |
| <u>Total 2006 Grants:</u> | <u>\$401,963.00</u> |

Note 7 – Assistance to Individuals via the Christopher Reeve Paralysis Foundation

At the conclusion of 2005, the Organization had on hand a \$5,000 grant made to the Organization by the Christopher Reeve Paralysis Foundation (CRPF) in furtherance of its 'Quality of Life' grant program.

The amount disbursed under the Organization's 'Independent Living Grant' program (See Note 6 above) includes \$5,645 disbursed under CRPF's 'Quality of Life' grant program. This sum represents the entirety of the CRPF 'Quality of Life' grant awarded to the Organization in December 2005, and an additional \$645 contributed by individuals to the Organization in 2006.

Note 8 – Assistance to Persons Affected by Hurricane Katrina

In August 2006, the Organization received a \$40,000 'matching grant' from the MMFTF designed to further the Organization's 'Gulf Coast Renewal' Grant Program. The purpose of this program was primarily to provide assistance to individuals seeking help both to defray the costs of returning to the Gulf Coast from areas of the United States to which they had been previously evacuated, and to defray the cost of minor home repairs incurred by individuals living in the Gulf Coast for which no other type of assistance was readily available. (See Note 4)

The Organization's donors provided the \$40,000 necessary to qualify for the full match, and in 2006, the Organization disbursed \$58,315 under this program. This amount represents the entirety of the MMFTF grant and \$18,315 of donations made by individuals to the Organization and earmarked for that purpose.

For various reasons, the Organization opted to discontinue its Gulf Coast Renewal program in December 2006 but continues to consider applications for assistance from persons affected by Hurricanes Katrina and Rita under its standing grant programs.

At December 31 2006, of the \$70,449 the Organization had cash on hand, \$21,685 was earmarked by the Organization for this purpose. (See Note 3) The Organization anticipates that it will disburse these funds to qualified applicants in their entirety in 2007.

Note 9 – Compensation of Officers

The compensation of Dr. Keith P. Taylor, the president and executive director of the Organization, was approved by the Organization's Board of Directors, who considered the compensation package to be commensurate with the president's duties and service to the Organization. In 2006, 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 10 – Production Costs

In 2006, the Organization created a Public Service Announcement designed to increase participation in the Organization's programs on the part of both donors and applicants.

The cost of this Public Service Announcement, including travel and related expenses, was \$32,717 and is shown under the expense category 'Production Costs.' The bulk of these costs were borne by a grant made from the Vain & Harry Fish Foundation of \$17,500 for this purpose, with the remaining Production Costs being borne by unrestricted operating grants. (See Note 4) The Organization's individual donors bore no part of the costs involved with the production of this Public Service Announcement.

Note 11 – Subsequent events

- A. As of January 1, 2007, 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, which was introduced in 2006 and renewed for 2007, recurring gifts made by individuals to the Organization will continue matched, dollar for dollar, throughout 2007, each time the recurring gift is made. The grant has an initial maximum value to the organization of \$300,000 in matching funds in 2007.

Additionally, this private foundation has awarded an additional \$200,000 grant to the Organization in 2007. The purpose of this grant is to increase the Organization's program capacity.

- B. First Quarter Growth – At the conclusion of first quarter 2007, and excluding the \$200,000 'capacity building' grant referenced above, donations to the Organization had increased by 84% over first quarter 2006, to \$237,384 from \$128,719, respectively.

In the same period, specific assistance to individuals from the Organization increased by 168% for first quarter 2007 over first quarter 2006, to \$199,609, from \$74,483, respectively.

- C. Loews Hotels – In March 2007, Loews Hotels announced that it had selected the Organization as its 'Good Neighbor Partner' on an open-ended basis. As a result of this partnership, Loews Hotels will embark on a variety of local and national activities to bring awareness to and raise funds for Modest Needs Foundation.
- D. International Expansion – The Organization postponed its launch of Modest Needs – Canada (originally scheduled for fourth quarter 2006) to fourth quarter 2007 to allow for the participation of Loews Hotels' Canadian outlets in the launch.

- E. Changes to the Organization and Operation –On March 1, 2007, the Organization reincorporated in Delaware.
- F. Accounting Practices – Beginning January 1, 2007, the organization began keeping its books on an accrual basis.