

MODEST NEEDS FOUNDATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

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INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Modest Needs Foundation (a Delaware not-for-profit corporation) as of December 31, 2007 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, 2007 and results of its operations and changes in fund balance and cash flows for the year ended December 31, 2007 in conformity with generally accepted accounting principles.

Iris B. Rosken, CPA, LLC

May 2, 2008

MODEST NEEDS FOUNDATION
(A Delaware Not For Profit Corporation)

BALANCE SHEET

AT DECEMBER 31, 2007

Assets

Current Assets

Cash and Cash Equivalents (Note 3)	\$447,450
Investments (Note 4)	1,028
Undeposited Funds	17,457
Pledge Receivables	20,433
Commitments to Other Organizations	7,487
Prepaid Assets	2,873
Other Current Receivables	<u>10,659</u>
Total Current Assets	507,387

Fixed Assets (Note 2)

Office Equipment	110,344
Furniture and Fixtures	2,563
Less: Accumulated Depreciation	<u>(62,739)</u>
Net Fixed Assets	50,168

Other Assets

Deposits	<u>29,525</u>
Total Other Assets	29,525

Total Assets	\$587,080
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Liabilities and Fund Balance

Grants payable	335
Accrued payroll taxes	9,160
Other current liabilities	<u>9,205</u>
Total Current Liabilities	18,700

Fund Balance	568,380
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Total Liabilities and Fund Balance	\$587,080
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MODEST NEEDS FOUNDATION
(A Delaware Not For Profit Corporation)

STATEMENT OF ACTIVITY AND
CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

Revenue

Direct public support (Note 5)	\$2,059,175
Interest	556

Total Revenue	2,059,731
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Expenses

Specific assistance to individuals (Note 7)	739,090
Grants made through partnerships (Note 8)	136,893
Grants to other organizations (Note 7)	9,007
Programs service expenses	600,524
Management and general expenses	46,724
Fundraising expenses	74,220

Total Expenses	1,606,458
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Revenue over Expenses	453,273
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Fund Balance at the Beginning of the Year	115,107
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Fund Balance at the End of the Year	\$ 568,380
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MODEST NEEDS FOUNDATION
(A Delaware Not For Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Services	Management and General	Fundraising	Total
Specific Assistance to Individuals (Note 7)				
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
Total Assistance to Individuals	875,983			875,983
Grants to Other Organizations (Note 7)	9,007			9,007
Total Grants	884,990			884,990
Operating Expenses				
Other Salaries and Wages	208,867			208,867
Compensation of Officers (Note 10)	79,900	9,400	4,700	94,000
Professional Fees	52,027	535	25,660	78,222
Travel	57,943	6,497	12,846	77,286
Rent (Note 6)	32,194	3,788	1,893	37,875
Independent Contractors	15,142		11,002	26,144
Payroll Taxes	24,192	763	426	25,381
Depreciation	12,042	1,721	3,441	17,204
Staff Development	17,068	76		17,144
Health Insurance Premiums	14,021	2,250	729	17,000
Advertising	11,117		4,973	16,090
Bank & Merchant Account Fees	9,698	5,503	538	15,739
Supplies	13,118	1,492	309	14,919
Employee Benefits	10,223	2,015	1,331	13,569
Telephone	8,594	1,656	414	10,664
Equipment Rental and Maintenance	10,657			10,657
Printing and Copying	6,120		2,247	8,367
Legal Fees	5,611			5,611
Conferences, Conventions and Meetings	1,920	1,021	1,403	4,344
Books, Subscriptions & References	3,955	111	240	4,306
Accounting Fees		4,222		4,222
Postage and Shipping	2,160	217	797	3,174
Other Non-Personnel Expenses	506	2,438	220	3,164
Janitorial	1,550	800	748	3,098
Utilities	1,899	253	115	2,267
Business Insurance		1,281		1,281
Filing Fees		448	188	636
Interest		237		237
Total Operating Expenses	600,524	46,724	74,220	721,468
Total Expenses	1,485,514	46,724	74,220	1,606,458

MODEST NEEDS FOUNDATION
(A Delaware Not For Profit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2007

Cash Flow from Operating Activities:

Revenue over expenses	\$453,273
Increase in pledge receivables	(20,433)
Increase in security deposits	(19,170)
Increase in depreciation	17,204
Increase in other current receivables	(10,659)
Increase in other current liabilities	9,205
Increase in accrued payroll taxes	9,160
Decrease in undeposited funds	8,979
Increase in prepaid assets	(2,873)
Decrease in travel credits	1,683
Increase in grants payables	335
Net cash provided by operating activities	446,704

Cash Flow from Investing Activities:

Increase in acquisition of furniture, fixtures and equipment	(45,374)
Decrease in furniture, fixtures and equipment for donations to other organizations	(7,487)
Increase in commitments to other organizations	7,487
Increase in donating equipment to specific assistance to individuals	3,135
Increase in investments	(1,028)
Net cash used in investing activities	(43,267)
Cash and Cash Equivalents at January 1, 2007	44,013
Cash and Cash Equivalents at December 31, 2007	\$447,450

Modest Needs Foundation
(A Delaware Not-For-Profit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

Note 1 – Organization and Operation

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

On December 31, 2007, the Organization had on hand cash and cash equivalents totaling \$447,450. This balance was comprised of \$286,588 remaining from an unrestricted operating grant made by the Omidyar Network to the organization in November 2007 (See Note 5); \$93,143 in contributions made by various properties within the Loews Hotels chain but not yet disbursed to individuals (See Note 8); \$4,357 in undesignated contributions raised via partnership with Starbucks Coffee stores (See Note 8), and \$63,362 in undesignated contributions received by the organization from individual donors in the final months of 2007, to be disbursed to grant applicants in the initial months of 2008.

Note 4 – Investments

In prior years, when the Organization received securities from a donor, the policy of the Organization was to sell the security the next day to convert it to cash. Due to the positive cash flow of the Organization, the Organization has determined that it is now in the best interests of the Organization to initiate an investment portfolio funded in whole by donated securities. On December 31, 2007, the Organization received fourteen shares of Procter & Gamble common stock valued at \$1,028.

Note 5 – Direct Public Support

During 2007, the Organization received five major grants: \$689,837.04 from a family foundation that has asked to remain anonymous; \$300,000 from The Omidyar Network; \$50,129.85 from a private investor; \$45,000 from The Loews Foundation (See Note 8) and \$41,000 from the Morton Meyerson Family Tzedakah Fund.

The donation from the aforementioned anonymous family foundation was designated and used by the Organization as follows; \$200,000 to underwrite the cost of specific capacity building initiatives on the part of the Organization; and \$489,837.04 to underwrite an ongoing matching grant initiative undertaken jointly by the aforementioned family foundation and the Organization.

The donation from The Omidyar Network was to support the Organization's general operating expenses.

The donation from the Morton Meyerson Family Tzedakah Fund was for hiring and training of two new client advocacy specialists so that the Organization might provide better service to its applicants.

The balance of donations received by the Organization in 2007 came from three sources; grants from small foundations; corporate donations; and donations from individuals received via check, credit cards, or various online services, chiefly 'Echeck.net', '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 6 – 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 \$3,090 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.

Note 7 – 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 online via the Organization's website (<http://www.modestneeds.org>). Applications are not accepted 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.

In November 2007, the Organization implemented an 'advanced scoring system' designed to provide donors with a higher degree of feedback as to the types of applications for assistance in which they would prefer to invest. As a part of this system, donors now receive valueless 'points' each time they make contributions to the Organization and are able to 'vote' as to which applications they most would like to see funded via these points. Applications for assistance are funded by the Organization once an application has received a predetermined number of points from donors to the Organization, or in the case of donors who have indicated that they would like the Organization to act on their behalf, at the discretion of the Organization itself.

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 2007, the Organization funded \$884,990 to individuals and other organizations who had applied for assistance from the Organization. In the same period, specific assistance to individuals from the Organization totaled \$875,983, as follows:

<u>Grant Program</u>	<u>Amount Disbursed 2007</u>
• Self-Sufficiency Grants	\$575,320
• Independent Living Grants	\$227,692
• Back to Work Grants	\$ 47,922
• Gulf Coast Renewal Grants	\$ 25,049
<u>Subtotal:</u>	<u>\$875,983</u>

Additionally, the Organization occasionally provides small grants to other organizations. In 2007, the Organization provided two such grants totaling \$9,007, as follows:

<u>Organization Name</u>	<u>Amount Disbursed 2007</u>
• Modest Needs Foundation – Canada (See Note 9)	\$ 8,507
• Broadway Cares	\$ 500
<u>Subtotal:</u>	<u>\$ 9,007</u>
<u>Total 2007 Grants:</u>	<u>\$884,990</u>

Effective 2008, the Organization has discontinued its programs specific to Hurricane Relief and Gulf Coast Renewal. Applicants affected by Hurricane Katrina in 2005 will apply for assistance from the Organization via its ongoing grant programs in future years.

Note 8 – Loews Hotels and Starbucks Partnerships

In March 2007, Loews Hotels announced that it had selected the Organization as its national ‘Good Neighbor Partner’ on an open-ended basis. As a result of this partnership, Loews Hotels throughout the United States and Canada will embark on a variety of local and national activities to bring awareness to and raise funds for Modest Needs Foundation.

The partnership between Modest Needs Foundation and Loews Hotels was formally launched in Q3 2007 with a \$45,000 contribution from the Loews Foundation. From Q3 2007 through FYE December 31, 2007, Loews Hotels properties participated in activities which raised an additional \$171,055 for the Organization. During the same period, Modest Needs ‘councils’ operating within each property allocated \$122,912 of these funds to applicants for assistance from the Organization, leaving the various hotel properties with an aggregate balance of \$93,143 of funding raised by these properties to be allocated in 2008. The Organization does not have a formal agreement with Loews Hotel, however, this partnership has been successful and the Organization feels this partnership will continue. The partnership can be terminated by either party at will.

In November 2007, Modest Needs partnered with Starbucks Coffee stores located in Delaware, Maryland, Washington DC, Virginia, and West Virginia to initiate a holiday ‘Days of Cheer’ promotion. On certain days of this promotion, the Organization received a portion of the proceeds raised through the sale of certain holiday beverages served by Starbucks Coffee stores.

As a result of this partnership, Starbucks Coffee stores located in the areas specified above raised \$18,338 on behalf of the organization, \$13,981 of which was disbursed by

the Organization to qualified applicants by December 31, 2007. This short term agreement ended on January 3, 2008.

Note 9 – Modest Needs - Canada

In June 2007, the Organization entered into formal trademark and licensing agreements with Modest Needs – Canada, a separately incorporated entity established for the purpose of offering the Organization's exclusively to persons living in Canada.

In 2007, the Organization simultaneously allocated to Modest Needs – Canada a start-up grant of up to US \$10,000 in order to allow the organization to begin the process of seeking tax-exempt status from the CRA, the Canada Revenue Agency, and hiring a full-time Executive Director to oversee this process. Grants from the Organization to Modest Needs – Canada for this purpose in 2007 totaled \$8,507.

Note 10 – 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 2007, 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 11 – Subsequent Events

A. First Quarter Growth – At the conclusion of Q1 2008, and excluding unusual grants made to the Organization in Q1 2008 or in the corresponding period in 2007, contributions to the Organization had increased by 35.5% to \$896,923 from \$661,997 in the respective periods.

In the same respective periods, specific assistance to individuals and other grants made by the organization increased by 71.5%, to \$317,385 in Q1 2008 from \$185,073 in Q1 2007.

B. New Major Grants – In Q1 2008, Modest Needs was the recipient of three major grants: \$250,000 from the Harnisch Family Foundation, to be used for capacity building initiatives; \$100,000 from the Louis V. Gerstner Jr. Foundation to be used at the discretion of the Organization to assist individuals and families in keeping with the mission of the Organization, and \$333,000 from a family foundation that has asked to remain anonymous, \$300,000 of which has been designated to continue the Organization's matching grant initiative, and \$33,000 of which has been designated to specific activities designed to bolster the capacity of the Organization.

C. Additional Partnerships – In Q1 2008, the Organization entered into an agreement with Second Wind Dreams, a Georgia not-for-profit organization, by which the Organization will license its software to Second Wind Dreams. Royalties pertaining to this licensing agreement are one-tenth of revenue generated for Second Wind Dreams as a direct result of the use of Organization's software, payable on the fifteenth day of each month, capped at a maximum of \$120,000 in the first calendar year of the agreement. This agreement will remain in effect for twelve months and may be terminated by either party with thirty days written advanced notice.

D. In Q1 2008, the Organization announced that it would be expanding its program services to qualified not-for-profit organizations throughout the United States and Canada that encounter short-term emergency financial needs and lack the ability to write successful grant applications from foundations or other major grantors. This program enhancement on the part of the Organization is scheduled to launch in Q3 2008.