

**MODEST NEEDS FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 and 2009**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Modest Needs Foundation  
New York, New York

We have audited the accompanying statements of financial position of Modest Needs Foundation ("Modest Needs") as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*EisnerAmper LLP*

New York, New York  
July 25, 2011

# MODEST NEEDS FOUNDATION

## Statements of Financial Position

	December 31,	
	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 103,276	\$ 185,646
Pledges receivable		100,000
Other receivables	32,966	63,148
Prepaid expenses and other assets	78,388	16,416
Security deposits	10,415	33,463
Property and equipment, net	<u>795,250</u>	<u>159,056</u>
	<u>\$ 1,020,295</u>	<u>\$ 557,729</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 463,584	\$ 550
Grants payable	<u>45,189</u>	<u>68,584</u>
Total liabilities	<u>508,773</u>	<u>69,134</u>
Net assets:		
Unrestricted	511,522	388,595
Temporarily restricted	<u>          </u>	<u>100,000</u>
Total net assets	<u>511,522</u>	<u>488,595</u>
	<u>\$ 1,020,295</u>	<u>\$ 557,729</u>

**MODEST NEEDS FOUNDATION**

Statements of Activities

	Year Ended December 31,					
	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>						
Contributions	\$ 1,578,397	\$ 350,000	\$ 1,928,397	\$ 2,232,950	\$ 460,000	\$ 2,692,950
Application fee	24,998		24,998	12,535		12,535
Donated service	11,275		11,275			
Investment income (losses)	33		33	(702)		(702)
Support and revenue before release from restrictions	1,614,703	350,000	1,964,703	2,244,783	460,000	2,704,783
Net assets released from restrictions	450,000	(450,000)	0	360,000	(360,000)	0
Total support and revenue	2,064,703	(100,000)	1,964,703	2,604,783	100,000	2,704,783
<b>Expenses:</b>						
Self-sufficiency grants to individuals	598,310		598,310	866,341		866,341
Independent living grants to individuals	67,253		67,253	136,774		136,774
Back-to-work grants to individuals	103,083		103,083	84,154		84,154
Grants to other organizations	76,618		76,618	76,511		76,511
Bridge grants	10,875		10,875	64,180		64,180
Program services	878,104		878,104	1,119,492		1,119,492
Total program expenses	1,734,243		1,734,243	2,347,452		2,347,452
General and administrative	131,623		131,623	193,296		193,296
Fund-raising	75,910		75,910	114,998		114,998
Total expenses	1,941,776		1,941,776	2,655,746		2,655,746
<b>Change in net assets</b>						
Net assets - January 1	122,927	(100,000)	22,927	(50,963)	100,000	49,037
	388,595	100,000	488,595	439,558	0	439,558
<b>Net assets - December 31</b>	\$ 511,522	\$ 0	\$ 511,522	\$ 388,595	\$ 100,000	\$ 488,595

# MODEST NEEDS FOUNDATION

## Statement of Functional Expenses

Year Ended December 31, 2010

(with summarized financial information for 2009)

	Program Services	Management and General	Fund- Raising	Total Expenses	
				2010	2009
<b>Grants:</b>					
Self-sufficiency grants to individuals	\$ 598,310			\$ 598,310	\$ 866,341
Independent living grants	67,253			67,253	136,774
Back-to-work grants to individuals	103,083			103,083	84,154
Grants to other organizations	76,618			76,618	76,511
Bridge Grants	10,875			10,875	64,180
<b>Total grants</b>	<b>856,139</b>			<b>856,139</b>	<b>1,227,960</b>
Other salaries and wages	289,179	\$ 22,728		311,907	496,268
Compensation of officers	147,821	19,709	\$ 29,564	197,094	192,204
Travel	15,690	2,409	5,796	23,895	101,934
Professional fees	41,650	725	5,725	48,100	94,575
Depreciation	21,638	54,425	1,915	77,978	87,113
Employee benefits	48,289	7,844	6,941	63,074	81,120
Rent	55,302	3,422	2,722	61,446	61,746
Payroll taxes	28,589	3,363	1,683	33,635	50,069
Bank and merchant account fees	43,449	3,538	2,371	49,358	38,914
Staff development	7,544	1,385	7	8,936	29,780
Telephone	21,382	1,124	1,124	23,630	28,786
Insurance	23,659	453	380	24,492	23,460
Accounting	13,500	4,500	4,500	22,500	22,500
Conferences, conventions and meetings	5,242	334	5,048	10,624	21,304
Office supplies	13,456	781	414	14,651	20,130
Equipment rental and maintenance	63,397	989	818	65,204	19,424
Books, subscriptions, and references	8,683	399	3,487	12,569	17,455
Filing fees	4,383	297	218	4,898	9,155
Postage and shipping	2,628	91	91	2,810	7,690
Utilities	3,095	172	172	3,439	7,128
Special events					4,816
Miscellaneous expenses	10,954	504	503	11,961	3,591
Advertising					3,440
Payroll processing fees					2,063
Printing and copying	1,278			1,278	1,921
Legal fees	7,296	2,431	2,431	12,158	1,200
<b>Total expenses</b>	<b>\$ 1,734,243</b>	<b>\$ 131,623</b>	<b>\$ 75,910</b>	<b>\$ 1,941,776</b>	<b>\$ 2,655,746</b>

See notes to financial statements

# MODEST NEEDS FOUNDATION

## Statement of Functional Expenses Year Ended December 31, 2009

	<u>Program Services</u>	<u>Management And General</u>	<u>Fund-raising</u>	<u>Total Expenses</u>
<b>Grants:</b>				
Self-sufficiency grants to individuals	\$ 866,341			\$ 866,341
Independent living grants to individuals	136,774			136,774
Back-to-work grants to individuals	84,154			84,154
Grants to other organizations	76,511			76,511
Bridge grants	<u>64,180</u>			<u>64,180</u>
Total grants	1,227,960			1,227,960
Other salaries and wages	389,725	\$ 95,342	\$ 11,201	496,268
Compensation of officers	134,544	28,830	28,830	192,204
Travel	79,447	12,469	10,018	101,934
Professional fees	55,397	6,973	32,205	94,575
Depreciation	78,442	5,147	3,524	87,113
Employee benefits	61,308	15,072	4,740	81,120
Rent	55,768	2,989	2,989	61,746
Payroll taxes	38,998	8,415	2,656	50,069
Bank and merchant account fees	35,036	1,939	1,939	38,914
Staff development	26,810	2,361	609	29,780
Telephone	26,298	1,244	1,244	28,786
Insurance	21,120	1,703	637	23,460
Accounting	20,250	1,125	1,125	22,500
Conferences, conventions, and meetings	13,727	4,998	2,579	21,304
Office supplies	18,095	1,400	635	20,130
Equipment rental and maintenance	17,644	890	890	19,424
Books, subscriptions, and references	12,234	538	4,683	17,455
Filing fees	8,297	429	429	9,155
Postage and shipping	6,922	384	384	7,690
Utilities	6,416	356	356	7,128
Special events	4,186	222	408	4,816
Miscellaneous expenses	2,667	266	658	3,591
Advertising	1,720		1,720	3,440
Payroll processing	1,855	104	104	2,063
Printing and copying	1,506	40	375	1,921
Legal fees	<u>1,080</u>	<u>60</u>	<u>60</u>	<u>1,200</u>
Total expenses	<u>\$ 2,347,452</u>	<u>\$ 193,296</u>	<u>\$ 114,998</u>	<u>\$ 2,655,746</u>

See notes to financial statements

# MODEST NEEDS FOUNDATION

## Statements of Cash Flows

	Year Ended December 31,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 22,927	\$ 49,037
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	77,978	87,113
Net realized and unrealized losses on investments		702
Changes in operating assets and liabilities:		
Pledges receivable	100,000	(100,000)
Other receivables	30,182	(63,148)
Prepaid expenses and other assets	(61,972)	10,843
Security deposits	23,048	(1,435)
Accounts payable and accrued expenses	463,034	(27,291)
Grants payable	(23,395)	65,839
Net cash provided by operating activities	<u>631,802</u>	<u>21,660</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of donated securities		3,225
Donations of equipment to assist individuals	2,451	40,326
Purchases of property and equipment	(716,623)	(165,796)
Net cash used in investing activities	<u>(714,172)</u>	<u>(122,245)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(82,370)</b>	<b>(100,585)</b>
Cash and cash equivalents at January 1	<u>185,646</u>	<u>286,231</u>
<b>Cash and cash equivalents at December 31</b>	<b>\$ <u>103,276</u></b>	<b>\$ <u>185,646</u></b>
<b>Supplementary information:</b>		
Noncash donations of services	<u>\$ 11,275</u>	

## MODEST NEEDS FOUNDATION

### Notes to Financial Statements

December 31, 2010 and 2009

#### NOTE 4 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization:

The 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 moved to New York and filed new incorporation documents in the state of Delaware.

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.

##### 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 organizations.

###### (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 functional expenses. 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 may differ from those estimates.

###### (e) Net assets:

###### (i) *Unrestricted:*

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

## MODEST NEEDS FOUNDATION

Notes to Financial Statements  
December 31, 2010 and 2009

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

#### **4** Financial reporting: (continued)

##### *(ii) Temporarily restricted:*

Temporarily restricted net assets represent those resources, the use of which has been restricted by donors to specific purposes or the passage of time. The release of restrictions results from the satisfaction of the restricted purposes specified by the donor or the occurrence of other events.

##### **(f) Revenue recognition:**

###### **(i) Contributions and pledges:**

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

###### **(ii) Application fee:**

During the fourth quarter of 2009, Modest Needs began charging a nominal application fee from its grant applicants. This fee is collected when an application is initially submitted and refundable in the event that Modest Needs is unable to provide the assistance requested by the applicant. Modest Needs discontinued the application fee in the fourth quarter of 2010.

##### **(g) Advertising costs:**

Advertising costs are expensed as incurred.

#### **5** 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 five to seven years. Software and website design are depreciated over three years.

#### **6** 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 year.

#### **7** Donated goods and services:

Those donated goods and services that meet the requirements for recognition under generally accepted accounting principles are recorded as both revenue and expense in the accompanying statements of activities, at amounts determined by management to be reasonable for acquiring such goods and services.

#### **8** Income tax uncertainties:

Modest Needs is subject to the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 740-10-05 relating to the accounting and reporting for uncertainty in income taxes.

## MODEST NEEDS FOUNDATION

Notes to Financial Statements  
December 31, 2010 and 2009

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

#### Fair-value measurements:

Modest Needs reports a fair-value measurement of all applicable financial assets and liabilities.

#### Subsequent events:

Modest Needs considers the accounting treatments, and the related disclosures in the current year's financial statements, that may be required as the result of all events or transactions that occur after year-end through the date of the independent auditors' report. As a result, management believes all required disclosures have been made in the current financial statements.

### NOTE B - PLEDGES RECEIVABLE

In 2009, a family foundation pledged \$200,000 over a two-year period. Modest Needs received \$100,000 during 2009 and received the remaining balance of the pledge during 2010. There were no pledges outstanding at the end of 2010.

### NOTE C - OTHER RECEIVABLES

Included in other receivables listed in the accompanying statements of financial position, is an amount due from employees of \$32,966 and \$63,148 for 2010 and 2009, respectively.

### NOTE D - PROPERTY AND EQUIPMENT

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

	Year Ended December 31,	
	2010	2009
Office equipment	\$ 194,877	\$ 175,047
Software	17,107	15,765
Website	128,305	128,305
Furniture and fixtures	10,450	10,450
	<u>350,739</u>	<u>329,567</u>
Less accumulated depreciation	<u>(248,489)</u>	<u>(170,511)</u>
	102,250	159,056
Website under development	<u>693,000</u>	<u>          </u>
	<u>\$ 795,250</u>	<u>\$ 159,056</u>

## MODEST NEEDS FOUNDATION

### Notes to Financial Statements December 31, 2010 and 2009

#### NOTE D - PROPERTY AND EQUIPMENT (CONTINUED)

During 2010 and 2009, Modest Needs donated approximately \$2,500 and \$41,000, respectively, in furniture and equipment in the form of grants to individuals and small not-for-profit organizations. The majority of the furniture and equipment donated in 2009 was surplus equipment related to the closing of Modest Needs Foundation's San Francisco office and was donated to small not-for-profit organizations operating in the San Francisco area.

During 2010, Modest Needs entered into a three-year arrangement, with a web development company, which is a related party (see Note G), for the amount of \$810,000. The contract includes services to develop a new website, as well as provide monthly support and maintenance. Completion and launch of the website are expected to take place in 2012. As of December 31, 2010, Modest Needs had paid \$380,000 on the contract, leaving an outstanding balance of \$427,072, to be paid over a 24-month period, ending in 2012.

#### NOTE E - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2009, temporarily restricted net assets consisted of a pledge receivable restricted for time, which was fully released in 2010.

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

	December 31,	
	2010	2009
Time-restrictions satisfied	\$ 100,000	
Staffing and training		\$ 10,000
Grant-making	<u>350,000</u>	<u>350,000</u>
	<u>\$ 450,000</u>	<u>\$ 360,000</u>

#### NOTE F - CONCENTRATION OF REVENUE SOURCES

During 2010 and 2009, approximately 18% and 20%, respectively, of Modest Needs' total support was provided by one donor.

#### NOTE G - RELATED-PARTY TRANSACTIONS

As noted in Note D, during 2010, Modest Needs entered into a three-year contract arrangement, for the development and maintenance of a website, with a Corporation that has a key employee and a former employee in common with Modest Needs.

In May 2010, Modest Needs entered into a contract for consulting services with an independent contractor who employed a relative of one of Modest Needs' key employees. The total amount paid to the independent contractor was \$10,000, prior to the termination of the contract in 2010.

Both of the foregoing transactions were reviewed by disinterested members of Modest Needs' board of directors and approved with the interested party abstaining from voting or discussion of these matters, as required by Modest Needs' conflict-of-interest policy.

## MODEST NEEDS FOUNDATION

### Notes to Financial Statements December 31, 2010 and 2009

#### NOTE H - COMMITMENTS AND CONTINGENCIES

- (1) Modest Needs rents office space in New York City, under the terms of an operating lease, that expires in December 2011. During 2009, Modest Needs opted to reduce its overall costs by shifting all operational duties assigned to its San Francisco, California office back to its New York City office and to eliminate its physical presence in California. At December 31, 2009, the final payment due to finalize the termination of the San Francisco lease was \$15,025, which was paid in 2010. The New York City lease requires minimum lease payments, plus escalation charges. Rent expense in 2010 and 2009 was \$61,000 and \$62,000, respectively.
- (2) In 2011, Modest Needs' 2008 Form 990 was selected for routine examination by the Internal Revenue Service. During the field work related to this examination, the IRS field examiner noted that, while Modest Needs was able to properly account for the cost of travel and related expenses incurred in 2008 via receipts and other similar records, Modest Needs had not received contemporaneously written travel logs documenting that the purpose of travel from those employees who traveled on Modest Needs' behalf during the year under examination was in furtherance of the organization's charitable activities.

In the event that the IRS were ultimately to rule that available records were not sufficient to document the charitable purposes of travel expenses incurred by Modest Needs in 2008, it is possible that at least a portion of the travel expenses incurred by Modest Needs in 2008 would be reclassified by the IRS as employee compensation rather than travel expenses *per se*. In this event, (i) Modest Needs could be required to pay employment taxes on any travel expenses reclassified in this manner; (ii) Modest Needs could be required to file an amended Form 990 for 2008, reclassifying any disallowed travel expenses as employee compensation; and (iii) employees whose travel expenses were reclassified as compensation in this manner could be subject to additional income taxes and penalties.

Additionally, in the event that the IRS were to reclassify a portion of Modest Needs' 2008 travel expenses as employee compensation, and this reclassification resulted in a determination by the IRS that an excess benefit had been paid to one or more of Modest Needs' employees in 2008, then any such employee could be required to repay the amount of the excess benefit, plus applicable interest, to Modest Needs.

As of the date of these financial statements, the examination of Modest Needs' 2008 Form 990 has not been completed, and the IRS has not definitively ruled on any of the foregoing issues. Management believes that there is little risk of a significant financial impact for the organization or that Modest Needs' tax-exempt status would be in jeopardy as a result of any of these potential issues.