# INTERSECT FUND CORPORATION

FINANCIAL STATEMENTS

JULY 31, 2011 AND 2010

**INTERSECT FUND CORPORATION**

July 31, 2011 AND 2010

CONTENTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Intersect Fund Corporation
New Brunswick, New Jersey

We have audited the accompanying statement of financial position of Intersect Fund Corporation (a not-for-profit corporation) (the "Organization") as of July 31, 2011, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 the 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 referred to above present fairly, in all material respects, the financial position of Intersect Fund Corporation as of July 31, 2011, and the change 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.

The 2010 financial statements of Intersect Fund Corporation were reviewed by other accountants, whose report dated January 7, 2011, stated they were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for expression of an opinion on the financial statements taken as a whole.

Certified Public Accountants

November XX, 2011
Livingston, New Jersey

| | July 31, 2011 Audited | | July 31, 2010 Reviewed | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash | $ | 163,343 | $ | 69,194 |
| Grants and contributions receivable | | 24,851 | | 50,500 |
| Loans receivable, net | | 49,062 | | 7,285 |
| Prepaid expenses | | 2,136 | | - |
| Total Current Assets | | 239,392 | | 126,979 |
| PROPERTY AND EQUIPMENT, Net | | 29,399 | | 15,174 |
| Security deposits | | 1,328 | | 754 |
| | $ | 270,119 | $ | 142,907 |
| **LIABILITIES AND NET ASSETS** | | | | |
| LIABILITIES: | | | | |
| Accounts payable and accrued expenses | $ | 2,503 | $ | 11,102 |
| Accrued payroll and taxes payables | | 9,875 | | 3,478 |
| Escrow deposit | | 18,451 | | 1,200 |
| Total Current Liabilities | | 30,829 | | 15,780 |
| NOTES PAYABLE | | 42,000 | | - |
| COMMITMENTS AND CONTINGENCIES | | | | |
| NET ASSETS: | | | | |
| Unrestricted | | 162,290 | | 102,127 |
| Temporarily restricted | | 35,000 | | 25,000 |
| Total Net Assets | | 197,290 | | 127,127 |
| | $ | 270,119 | $ | 142,907 |

**INTERSECT FUND CORPORATION**

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

| | Year Ended July 31, 2011 (Audited) | | | Year Ended July 31, 2010 (Reviewed) | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| PUBLIC SUPPORT, REVENUE AND OTHER: | | | | | | |
| Clients fees | 17,788 | $ - | $ 17,788 | $ 34,999 | $ - | $ 34,999 |
| Grants and fees from governmental agencies | 42,442 | - | 42,442 | - | - | - |
| Contributions and grants | 188,506 | 40,000 | 228,506 | 127,147 | - | 127,147 |
| Donated goods and services | 11,540 | - | 11,540 | 1,500 | - | 1,500 |
| Interest income | 6,380 | - | 6,380 | 462 | - | 462 |
| Other revenue | - | - | - | 242 | - | 242 |
| Total Revenue | 266,656 | 40,000 | 306,656 | 164,350 | - | 164,350 |
| Net assets released from donor and grantor restrictions | 30,000 | (30,000) | - | - | - | - |
| Total Public Support, Revenue and Other | 296,656 | 10,000 | 306,656 | 164,350 | - | 164,350 |
| EXPENSES: | | | | | | |
| Program services | 172,267 | - | 172,267 | 100,758 | - | 100,758 |
| Fundraising | 30,630 | - | 30,630 | 25,016 | - | 25,016 |
| Management and general | 33,596 | - | 33,596 | 24,920 | - | 24,920 |
| Total Expenses | 236,493 | - | 236,493 | 150,694 | - | 150,694 |
| CHANGES IN NET ASSETS | 60,163 | 10,000 | 70,163 | 13,656 | - | 13,656 |
| Net Assets, Beginning of year | 102,127 | 25,000 | 127,127 | 88,471 | 25,000 | 113,471 |
| Net Assets, End of year | $ 162,290 | $ 35,000 | $ 197,290 | $ 102,127 | $ 25,000 | $ 127,127 |

**INTERSECT FUND CORPORATION**

STATEMENT OF FUNCTIONAL EXPENSES

| | Year Ended July 31, 2011 (Audited) | | | | Year Ended July 31, 2010 (Reviewed) | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | Management and General | Fund-Raising | Total Expenses | Program Services | Management and General | Fund-Raising | Total Expenses |
| Salaries | $ 78,313 | $ 14,339 | $ 17,648 | $ 110,300 | $ 33,150 | $ 11,200 | $ 13,541 | $ 57,891 |
| Payroll taxes | 10,372 | 1,899 | 2,337 | 14,609 | 3,499 | 1,413 | 1,430 | 6,342 |
| Training | - | - | - | - | 4,924 | - | - | 4,924 |
| Entrepreneurship lab | - | - | - | - | 4,159 | - | - | 4,159 |
| Design services expense | 701 | 1,857 | - | 2,558 | 3,565 | - | - | 3,565 |
| Rent | 10,454 | 1,914 | 2,356 | 14,724 | 4,122 | 1,393 | 1,684 | 7,199 |
| Telephone and internet | 2,443 | 447 | 551 | 3,441 | 1,458 | 492 | 595 | 2,545 |
| Professional fees | 3,490 | 1,000 | 3,278 | 7,768 | 8,144 | 387 | 693 | 9,224 |
| Special events | 11,904 | - | - | 11,904 | - | - | 8,070 | 8,070 |
| Printing and postage | 4,010 | 1,313 | 1,590 | 6,913 | 2,175 | 735 | 889 | 3,799 |
| Marketing | 5,696 | 1,067 | 24 | 6,787 | 1,754 | 1,550 | 328 | 3,632 |
| Insurance | 2,315 | 424 | 522 | 3,261 | 5,947 | 2,009 | 2,429 | 10,385 |
| Travel and transportations | 2,428 | 685 | 1,882 | 4,995 | 1,581 | 254 | 662 | 2,497 |
| Grant paid | 12,700 | - | - | 12,700 | 5,295 | - | - | 5,295 |
| Office expenses | 8,830 | 1,525 | 1,876 | 12,231 | 2,458 | 2,067 | - | 4,525 |
| Credit reporting | 3,092 | - | - | 3,092 | 2,006 | - | - | 2,006 |
| Bank charges | - | 668 | - | 668 | - | 48 | - | 48 |
| Conferences and membership | 1,653 | 247 | - | 1,900 | 500 | 650 | - | 1,150 |
| Interest expense | 66 | - | - | 66 | - | - | - | - |
| Provisions for loan loss reserves | 4,642 | - | - | 4,642 | - | 809 | - | 809 |
| Depreciation | 6,797 | 1,244 | 1,532 | 9,573 | 4,652 | 1,572 | 1,900 | 8,124 |
| Hosted services | 2,361 | 2,000 | - | 4,361 | 3,539 | 437 | 529 | 4,505 |
| | $ 172,267 | $ 30,630 | $ 33,596 | $ 236,493 | $ 100,758 | $ 24,920 | $ 25,016 | $ 150,694 |

**INTERSECT FUND CORPORATION**
STATEMENTS OF CASH FLOWS

| | Year Ended July 31, | |
|---|---|---|
| | 2011 | 2010 |
| CASH FLOWS PROVIDED BY (USED FOR) : | Audited | Reviewed |
| OPERATING ACTIVITIES: | | |
| Changes in net assets | $ 70,163 | $ 13,656 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 9,573 | 8,124 |
| Provisions for loss reserves | 4,642 | 809 |
| Changes in certain assets and liabilities: | | |
| Grants and contributions receivable | 25,649 | (17,864) |
| Loans receivable | (46,419) | (7,094) |
| Prepaid insurance | (2,136) | 872 |
| Security deposits | (574) | 371 |
| Accounts payable and accrued expenses | (8,599) | 15,232 |
| Accrued payroll and taxes payables | 6,397 | (3,478) |
| Deferred revenue | - | (7,500) |
| Escrow deposits | 17,251 | 825 |
| Net Cash Provided by Operating Activities | 75,947 | 3,953 |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (23,798) | - |
| FINANCING ACTIVITIES: | | |
| Proceeds from notes payable | 42,000 | - |
| NET INCREASE IN CASH | 94,149 | 3,953 |
| CASH | | |
| Beginning of year | 69,194 | 65,241 |
| End of year | $ 163,343 | $ 69,194 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

| | | |
|---|---|---|
| Cash paid during the year for interest | $ 66 | $ - |

## NOTE 1 - NATURE OF ORGANIZATION:

Intersect Fund Corporation (the "Organization") is a New Jersey not-for-profit corporation, which was incorporated in 2008. The Organization's mission is to empower entrepreneurs to build strong businesses so they can generate income, build assets, and spark dramatic social change in their communities. The Organization provides small loans for entrepreneurs starting a new business or expanding an existing business. The activities of the Organization include providing loans to entrepreneurs, as well as providing training and coaching to loan recipients and loan candidates.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

***Basis of Accounting:***
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America under the *FASB Accounting Standards Codification*.

***Financial Statement Presentation:***
Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets
Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets are those currently available for use by the Organization's Board of Trustees.

Temporarily Restricted Net Assets
Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets
Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

***Fair Value:***
Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

**Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

**Level 2:** Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

**Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk (or other parties such as counterparty in a swap) in its assessment of fair value.

***Grants and Contributions Receivable:***
Grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible accounts receivable to operations when determined to be uncollectible. At July 31, 2011 and 2010, an allowance was not deemed necessary.

***Loans Receivable:***
Loans are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan fees. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

***Property and Equipment:***
Fixed assets are recorded at cost on the date of acquisition, or at the fair value of the asset using Level 2 inputs, based on values of comparable assets, at the date of gift, for donated assets. Property and equipment are depreciated using the straight-line method over their estimated useful lives of 3 years. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance, repairs and minor renewals are charged to operations as incurred; significant renewals or maintenance and repairs that are greater than $1,000 are capitalized when they increase the useful life of the asset.

***Contributions:***
Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

***Donated Goods and Services:***
Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated goods and services are recorded as contributions at their estimated fair value at the date of donation. The Organization used "Level 2" inputs, based on the market value of similar goods and services, to estimate the fair value of the donated goods and services.

***Functional Allocation of Expenses:***
Program services, management and general and fundraising expenses have been recorded in the statements of activities and change in net assets and on the statements of functional expenses based on both a direct costing method for those expenses directly attributable to a particular program or on an allocation basis based on the salary percentage of each program to total salaries for joint costs attributable to all functions. The Organization's management allocated general and administrative expenses based upon management's best estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

***Income Taxes:***
The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows accounting standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. No interest and penalties were recorded during the fiscal years ended 2011 and 2010. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2008 and forward. At July 31, 2011 and 2010, there are no significant income tax uncertainties that are expected to have a material impact on the Organization's financial statements.

***Use of Estimates:***
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition:***
Funds received from various federal, and state agencies represent grants awarded to Intersect Fund Corporation to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms. Upon completion or expiration of a grant, unexpended funds are not available to Intersect Fund Corporation and must be returned to the awarding agency.

***Reclassifications:***
Certain amounts have been reclassified in the 2010 financial statements to conform to the 2011 presentation.

***Subsequent Events:***
The Organization has evaluated events subsequent to the statement of financial position date as of July 31, 2011 through November XX, 2011, the date that the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

## NOTE 3 - PROPERTY AND EQUIPMENT:

| | July 31, 2011 | July 31, 2010 |
|---|---|---|
| Furniture and fixtures | $ 3,397 | $ 1,958 |
| Equipment | 5,922 | 4,006 |
| Computer software and hardware | 38,837 | 18,394 |
| | 48,156 | 24,358 |
| Less: Accumulated depreciation | 18,757 | 9,184 |
| Property and Equipment, Net | $ 29,399 | $ 15,174 |

## NOTE 4 - LOANS RECEIVABLE:

The Organization has disbursed loans to entrepreneurs ranging from $200 to $6,850. The loans are for a term of eighteen months or less and bear interest at 15% per annum. The carrying amount of loans receivable is reduced by an allowance for credit losses that reflects management's best estimate of the amounts that will not be collected. At July 31, 2011 and 2010, the allowance for loan losses recorded on the statements of activities and changes in net assets was $4,642 and 809, respectively.

| | July 31, 2011 | July 31, 2010 |
|---|---|---|
| Loans receivable | $ 54,513 | $ 8,094 |
| Less: Allowance for loan losses | 5,451 | 809 |
| Loans receivable, Net | $ 49,062 | $ 7,285 |

## NOTE 5 - NON-CASH DONATIONS:

During the years ended July 31, 2011 and 2010, the Organization received non-cash donations of goods and services that have been reflected in the accompanying financial statements.

The amount of goods and services for the years ended July 2011 and 2010 was $11,540 and $1,500, respectively. The amount for the year ended July 31, 2011 represents in-kind contributions of fixed assets, while the amount for the year ended July 31, 2010 represents in-kind professional services.

The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the financial statements.

## NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS:

At July 31, 2011, the Organization has $35,000 in temporarily restricted net assets comprised of contributions restricted for technology and software development.

## NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS:

At July 31, 2010, the Organization has released $30,000 of contributions restricted for the loan funds pool.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES:

The Organization entered into a lease for the rental office space from February 10, 2010 through February 28, 2012; the lease was extended due to organizational growth through February 28, 2014. The lease calls for a minimum rent of $829 per month through February 2012, and starting April 1, 2011, base rent increased to $1,328.

Also, the Organization leased another space from an unrelated party under an operating month-to-month lease. The Organization is charged a base rent of $500 a month.

At July 31, 2011, future minimum payments on these leases are as follows:

| Year Ending July 31, | |
|---|---|
| 2012 | $ 6,638 |
| 2013 | 15,930 |
| 2014 | 9,293 |
| Total | $ 31,861 |

Rent expense amounted to $14,724 and $7,198 for years ended July 31, 2011 and 2010, respectively.

NOTE 9 - NOTES PAYABLE:

At July 31, 2011, the Organization has interest bearing notes payable due to three individuals (one was a board member, one related to the Executive Director, and the other not related to the Organization) in the original amount of $42,000, due at various dates provided that the Organization has sufficient cash flow. The notes bear various interest rates ranging from 0% to 1.5% payable quarterly till their respective maturity date. Imputed interest has not been calculated since, in the opinion of the Organization's management, it is not material to these financial statements.

Maturity of notes payables as of July 31, 2011, is as follow:

| Year Ending July 31, | |
|---|---|
| 2013 | $42,000 |

NOTE 10 - CONCENTRATIONS OF RISK:

The Organization maintains cash balances at various financial institutions, which at times, may be in excess of federally insured limits.

NOTE 11 - TAX RETURNS:

At July 31, 2011 and 2010, all required tax returns have been filed.