MassChallenge, Inc.

Financial Statements

Years Ended December 31, 2013 and 2012

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Contents

Katz, Nannis + Solomon, PC
Certified Public Accountants

Independent Auditors' Report

To the Board of Advisors
MassChallenge, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of MassChallenge, Inc. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2013, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MassChallenge, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and cash flows for the year ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the MassChallenge, Inc.'s 2012 financial statements, and our report dated November 13, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Katz, Nannis + Solomon, P.C.

Waltham, MA
November 14, 2014

MassChallenge, Inc.
Statements of Financial Position
December 31,

		2013		2012
Assets				
Current Assets				
Cash and cash equivalents	$	570,178	$	225,516
Contributions and grants receivable		513,278		515,015
Unbilled contributions and grants receivable		150,000		-
Other receivables		1,200		-
Total Current Assets		1,234,656		740,531
Property, Equipment and Improvements				
Computers		11,381		7,198
Equipment		18,263		18,002
Furniture		63,358		63,358
Software		263,137		46,433
Leasehold improvements		71,925		71,925
Total		428,064		206,916
Accumulated depreciation		(175,228)		(52,509)
Net Property, Equipment and Improvements		252,836		154,407
Total Assets	$	1,487,492	$	894,938
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	29,362	$	8,646
Accrued expenses		994,758		651,883
Total Current Liabilities		1,024,120		660,529
Commitments and Contingencies (Note E)		-		-
Net Assets				
Unrestricted		279,590		(200,591)
Temporarily restricted		183,782		435,000
Total Net Assets		463,372		234,409
Total Liabilities and Net Assets	$	1,487,492	$	894,938

See accompanying notes.

MassChallenge, Inc.

Statement of Activities

Year Ended December 31, 2013

(With Comparative Totals for 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Support				
Grants and contributions	$ 2,103,507	$ 1,178,820	$ 3,282,327	$ 2,417,613
In-kind contributions	1,541,396	-	1,541,396	1,369,237
Entrant fees and ticket sales	135,661	-	135,661	150,460
Rental income	43,617	-	43,617	57,143
Temporarily restricted net assets released from restrictions	1,430,038	(1,430,038)	-	-
Total Support	5,254,219	(251,218)	5,003,001	3,994,453
Expenses				
Program	3,843,504	-	3,843,504	3,223,780
General and administrative	532,231	-	532,231	169,181
Fundraising	398,303	-	398,303	191,515
Total Expenses	4,774,038	-	4,774,038	3,584,476
Change in Net Assets	480,181	(251,218)	228,963	409,977
Net Assets, Beginning of Year	(200,591)	435,000	234,409	(175,568)
Net Assets, End of Year	$ 279,590	$ 183,782	$ 463,372	$ 234,409

See accompanying notes.

MassChallenge, Inc.

Statement of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013				2012
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Rent	$ 1,251,478	$ 73,616	$ 147,233	$ 1,472,327	$ 1,190,195
Participant awards	1,480,000	-	-	1,480,000	1,075,000
Salaries and related expenses	668,532	155,943	202,403	1,026,878	657,288
Advertising	-	-	24,955	24,955	40,140
Bad debt expense	-	-	-	-	3,699
Bank charges	-	8,901	-	8,901	10,995
Business insurance	-	7,814	-	7,814	4,303
Contracted interns	4,295	-	-	4,295	1,863
Depreciation	33,196	89,523	-	122,719	44,617
Event expenses	326,489	-	-	326,489	208,669
Health Insurance	9,604	2,007	2,722	14,333	-
Office expenses	-	53,385	-	53,385	49,772
Printing and reproduction	4,280	-	-	4,280	3,583
Professional fees	350	98,170	1,800	100,320	152,775
Staffing	-	3,870	-	3,870	7,108
Software subscription	4,496	1,472	1,044	7,012	-
Travel and entertainment	60,784	17,530	18,146	96,460	109,447
Web hosting and development	-	20,000	-	20,000	25,022
Total Expenses	$ 3,843,504	$ 532,231	$ 398,303	$ 4,774,038	$ 3,584,476

See accompanying notes.

MassChallenge, Inc.
Statements of Cash Flows
Years Ended December 31,

		2013		2012
Operating Activities				
Change in net assets	$	228,963	$	409,977
Adjustments to reconcile change in net assets to net cash operating activities:				
Contributed property and equipment		-		(134,383)
Provision for bad debts		-		3,583
Depreciation		122,719		44,617
Increase (decrease) in cash from:				
Contributions, grants and other receivables		537		(302,340)
Unbilled contributions and grants receivable		(150,000)		-
Accounts payable		20,716		3,778
Accrued expenses		342,875		88,993
Deferred rental revenue		-		(17,275)
Net Cash Operating Activities		565,810		96,950
Investing Activities				
Acquisition of property and equipment		(221,148)		(43,593)
Net Change in Cash and Cash Equivalents		344,662		53,357
Cash and cash equivalents, beginning of year		225,516		172,159
Cash and Cash Equivalents, End of Year	$	570,178	$	225,516

See accompanying notes.

A. Description of Organization

MassChallenge, Inc. (the "Organization") is a nonprofit organization formed in June 2009. The Organization's mission is to connect early-stage entrepreneurs with the resources they need to launch and succeed immediately. The primary objectives of the Organization include running an annual global startup competition, documenting and organizing key resources, and organizing training and networking events.

B. Summary of Significant Accounting Policies

1. Basis of presentation - In accordance with accounting principles generally accepted in the United States of America ("GAAP"), 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.

2. Cash and cash equivalents - For purposes of financial statement presentation, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

3. Accounting for contributions and grants - Contributions and grants received are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Contributions and grants are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence and nature of any restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporary or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

4. Property, equipment, improvements and depreciation - Property and equipment are recorded at cost if purchased and fair market value if contributed. The Organization capitalizes property and equipment with a cost of $1,000 or more and a useful life of more than one year. Depreciation is computed using the double declining balance method over the estimated useful lives of the assets ranging from three to seven years. Depreciation expense for the years ended December 31, 2013 and 2012 was $122,719 and $44,617, respectively.

5. Contributions and grants receivable - The Organization carries its contributions and grants receivable at the unconditional amount due less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its contributions and grants receivable and establishes an allowance for doubtful accounts, based on a history of past write offs and collections and current credit conditions. As of December 31, 2013 and 2012, management has deemed that no allowance for doubtful accounts is necessary. All contributions and grants receivable at December 31, 2013 are expected to be collected within one year.

B. Summary of Significant Accounting Policies (continued)

6. Donated services and support - Donated services and support are recorded as in-kind contributions at their estimated fair market values on the date received.

7. Functional expenses - The costs of providing the Organization's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs using various allocation methods.

8. Advertising costs - The Organization expenses advertising costs as they are incurred. Total advertising costs for the years ended December 31, 2013 and 2012 were $24,955 and $40,140, respectively.

9. Tax-exempt status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Section 501(c)(3) of the Code provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literacy or educational purposes, and whose net earnings do not inure to the benefit of any private shareholder or individual. The Organization is also exempt from state and local income taxes under Massachusetts General Law Section 180. Accordingly, no provision for federal or state income taxes has been provided for in the accompanying financial statements. Contributions to the Organization are tax deductible.

   Management has analyzed the Organization's tax positions taken for all open tax years (2010-2012) and has concluded that no provision for uncertain tax positions is required in the Organization's financial statements.

10. Use of estimates - The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Significant estimates used in preparing these financial statements include those assumed in the valuation of donated goods and services received by the Organization during 2013 and 2012.

11. Prior year information - The financial statements include certain prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized totals were derived.

12. Subsequent events - The Organization has evaluated all subsequent events through November 14, 2014, the date the financial statements were available to be issued.

C. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012 of $183,782 and $435,000, respectively, were available for support of the subsequent year competition program.

D. Donated Services and Support

The Organization receives donations of goods and professional services. The estimated fair value of the donated goods and services for the years ended December 31, 2013 and 2012 were $1,541,396 and $1,369,237, respectively, and are reported in the accompanying financial statements as unrestricted support and the following asset or expenses:

	2013	2012
Rent and utilities	$ 1,456,400	$ 1,165,120
Legal and accounting services	9,845	14,600
Property and equipment	-	134,383
Marketing services	13,050	4,200
Office supplies and services	4,788	11,038
Travel services	37,313	19,896
Website hosting	20,000	20,000
	$ 1,541,396	$ 1,369,237

E. Commitments and Contingencies

The Organization entered into a facilities license agreement with an unrelated party for a term of four years expiring in July 2014. The license provides for the right to use the premises and certain related utilities and services at no cost to the Organization. Rent expense under the facility license was recorded at the estimated fair value of $1,456,400 and $1,165,120 for the years ended December 31, 2013 and 2012, respectively.

The Organization subleases facilities space under tenancy at will agreements. Fifty percent of amounts collected under sublease agreements is payable to the lessor. Additional rents paid to the lessor from sublease agreements were $15,927 and $25,075 for the years ending December 31, 2013 and 2012, respectively.

F. Related Party

During 2013, an entity owned by the two Founders and Officers of the Organization outsourced work to the Organization for $99,000, which was in accounts receivable as of December 31, 2013. During the year ended December 31, 2012, the Organization received a contribution and had an accounts receivable at December 31, 2012 for $98,500 from the same entity.

G. Concentrations

1. Contributions and grants - For the years ended December 31, 2013 and 2012, the Organization received approximately 18% of its grants and contributions from one donor and 10% from one donor, respectively. The Organization received approximately 94% and 85% of its in-kind contributions from one donor during the years ended December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, three donors accounted for approximately 64% and 53%, respectively, of total receivables.

2. Major vendors - At December 31, 2013, one vendor accounted for approximately 42% of the accounts payable.

3. Uninsured cash balances - The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Through December 31, 2012, the Federal Deposit Insurance Corporation (FDIC) provided an unlimited guarantee for non-interest bearing accounts and a $250,000 guarantee for interest bearing accounts at commercial banks. On January 1, 2013, the FDIC unlimited guarantee for non-interest bearing accounts expired. Deposits held in noninterest bearing accounts are now aggregated with any interest bearing deposits held in the same bank and the combined total is insured up to $250,000. At December 31, 2013 the Organization had $467,777 on deposit in excess of insured amounts. The Organization maintains substantially all of its cash and cash equivalents with one financial institution that management believes to be of high credit quality.

H. Reclassification

Certain items in the 2012 financial statements have been reclassified to conform to the current year presentation. There was no change in previously reported net assets or changes in net assets as a result of these reclassifications.

I. Subsequent Events

Facilities lease - The Organization entered into a facilities lease agreement with an unrelated party for a term of five years commencing in May 2014. The lease provides for the right to use the premises and certain related utilities and services at no cost to the Organization.