

**MassChallenge, Inc.**

*Financial Statements*

*Years Ended December 31, 2011 and 2010*

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***Years Ended December 31, 2011 and 2010***  
***Contents***

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## Independent Auditors' Report

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

We have audited the accompanying statements of financial position of MassChallenge, Inc. (a Massachusetts nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 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 audits 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 MassChallenge, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Katz, Nannis + Solomon, P.C.*

November 5, 2012

**MassChallenge, Inc.**  
**Statements of Financial Position**  
**December 31,**

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 172,159	\$ 418,828
Contributions receivable	33,995	52,000
Grants receivable	175,000	10,000
Other receivables	7,263	-
<b>Total Current Assets</b>	<b>388,417</b>	<b>480,828</b>
<b>Property and Equipment</b>		
Computers	4,651	-
Equipment	14,289	8,593
Furniture	10,000	-
<b>Total</b>	<b>28,940</b>	<b>8,593</b>
Accumulated depreciation	(7,892)	(1,632)
<b>Net Property and Equipment</b>	<b>21,048</b>	<b>6,961</b>
<b>Total Assets</b>	<b>\$ 409,465</b>	<b>\$ 487,789</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 4,868	\$ 2,500
Accrued expenses	562,890	421,500
Deferred rental revenue	17,275	1,150
<b>Total Current Liabilities</b>	<b>585,033</b>	<b>425,150</b>
<b>Commitments and Contingencies (Note E)</b>	<b>-</b>	<b>-</b>
<b>Net Assets</b>		
Unrestricted	(575,568)	(422,361)
Temporarily restricted	400,000	485,000
<b>Total Net Assets</b>	<b>(175,568)</b>	<b>62,639</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 409,465</b>	<b>\$ 487,789</b>

*See accompanying notes.*

**MassChallenge, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2011**  
**(With Comparative Totals for 2010)**

	2011			2010	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>	
<b>Support</b>					
Grants and contributions	\$ 1,027,935	\$ 400,000	\$ 1,427,935	\$	1,359,325
In-kind contributions	1,249,702	-	1,249,702		682,202
Entrant fees	83,942	-	83,942		68,414
Event ticket sales	59,767	-	59,767		31,600
Rental income	54,862	-	54,862		6,100
Interest income	2	-	2		350
Temporarily restricted net assets released from restrictions	485,000	(485,000)	-		-
<b>Total Support</b>	<b>2,961,210</b>	<b>(85,000)</b>	<b>2,876,210</b>		<b>2,147,991</b>
<b>Expenses</b>					
Program	2,823,042	-	2,823,042		1,354,824
General and administrative	164,728	-	164,728		771,217
Fundraising	126,647	-	126,647		93,500
<b>Total Expenses</b>	<b>3,114,417</b>	<b>-</b>	<b>3,114,417</b>		<b>2,219,541</b>
<b>Change in Net Assets</b>	<b>(153,207)</b>	<b>(85,000)</b>	<b>(238,207)</b>		<b>(71,550)</b>
<b>Net Assets, Beginning of Year</b>	<b>(422,361)</b>	<b>485,000</b>	<b>62,639</b>		<b>134,189</b>
<b>Net Assets, End of Year</b>	<b>\$ (575,568)</b>	<b>\$ 400,000</b>	<b>\$ (175,568)</b>	<b>\$</b>	<b>62,639</b>

*See accompanying notes.*

**MassChallenge, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2011**  
**(With Comparative Totals for 2010)**

	<b>2011</b>			<b>2010</b>	
	<b><u>Program Services</u></b>	<b><u>General and Administrative</u></b>	<b><u>Fundraising</u></b>	<b><u>Total Expenses</u></b>	<b><u>Total Expenses</u></b>
Rent	\$ 1,162,889	\$ 11,989	\$ 23,977	\$ 1,198,855	\$ 587,502
Participant awards	1,000,000	-	-	1,000,000	1,000,000
Salaries and related expenses	480,372	34,770	82,886	598,028	433,217
Event expenses	100,389	-	-	100,389	46,888
Professional fees	-	43,742	-	43,742	19,200
Office expenses	-	40,696	-	40,696	18,080
Software subscription	35,000	-	-	35,000	-
Travel and entertainment	23,513	5,878	-	29,391	3,667
Advertising	-	-	18,818	18,818	12,449
Printing and reproduction	11,327	-	-	11,327	1,128
Staffing	-	10,878	-	10,878	-
Depreciation	4,811	483	966	6,260	1,632
Bank charges	-	5,844	-	5,844	1,732
Contracted interns	4,741	-	-	4,741	4,222
Bad debt expense	-	4,061	-	4,061	-
Web hosting and development	-	3,519	-	3,519	88,245
Business insurance	-	2,868	-	2,868	1,579
<b>Total Expenses</b>	<b>\$ 2,823,042</b>	<b>\$ 164,728</b>	<b>\$ 126,647</b>	<b>\$ 3,114,417</b>	<b>\$ 2,219,541</b>

*See accompanying notes.*

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

	2011	2010
<b>Operating Activities</b>		
Change in net assets	\$ (238,207)	\$ (71,550)
Adjustments to reconcile change in net assets to net cash operating activities:		
Contributed property and equipment	(10,000)	-
Provision for bad debts	4,061	-
Depreciation	6,260	1,632
Increase (decrease) in cash from:		
Contributions, grants and other receivables	(158,319)	73,152
Accounts payable	2,368	(1,634)
Accrued expenses	141,390	383,117
Deferred rental revenue	16,125	1,150
<b>Net Cash Operating Activities</b>	<b>(236,322)</b>	<b>385,867</b>
<b>Investing Activities</b>		
Acquisition of property and equipment	(10,347)	(8,593)
<b>Net Change in Cash and Cash Equivalents</b>	<b>(246,669)</b>	<b>377,274</b>
Cash and cash equivalents, beginning of year	418,828	41,554
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 172,159</b>	<b>\$ 418,828</b>

*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 and equipment - 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, 2011 and 2010 was \$6,260 and \$1,632, 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, 2011 and 2010 management has deemed that no allowance for doubtful accounts is necessary. All contributions and grants receivable at December 31, 2011 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. 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 (2009-2011) and has concluded that no provision for uncertain tax positions is required in the Organization's financial statements.

9. 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 the donated goods and services received by the Organization during 2011 and 2010.
10. 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, 2010, from which the summarized totals were derived.
11. Subsequent events - The Organization has evaluated all subsequent events through November 5, 2012, the date the financial statements were available to be issued.

**C. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2011 and 2010 of \$400,000 and \$485,000, 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, 2011 and 2010 were \$1,249,702 and \$682,202, respectively, and are reported in the accompanying financial statements as unrestricted support and the following asset or expenses:

	<u>2011</u>	<u>2010</u>
Rent and utilities	\$ 1,165,120	\$ 587,502
Legal and accounting services	28,342	7,200
Software subscription	35,000	-
Website hosting and development	-	87,500
Property and equipment	10,000	-
Marketing services	9,240	-
Supplies	2,000	-
	<u>\$ 1,249,702</u>	<u>\$ 682,202</u>

**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 \$1,165,202 and \$587,502 for the years ended December 31, 2011 and 2010, respectively.

**F. Concentrations**

1. Contributions and grants - For the years ended December 31, 2011 and 2010, the Organization received approximately 43% of its grants and contributions from three donors and 62% from six donors, respectively. The Organization received approximately 93% and 85% of its in-kind contributions from one donor during the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, two and three donors accounted for approximately 81% and 89%, respectively, of total receivables.
2. Uninsured cash balances - The Federal Deposit Insurance Corporation (FDIC) provides an unlimited guarantee for non-interest bearing accounts, and a \$250,000 guarantee for interest bearing accounts, at commercial banks. At December 31, 2011 and 2010, the Company had no amounts uninsured. The Organization maintains substantially all of its cash and cash equivalents with one financial institution that management believes to be of high credit quality.

**G. Reclassification**

Certain items in the 2010 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.