

**MassChallenge, Inc.**

*Financial Statements*

*Years Ended December 31, 2012 and 2011*

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*Years Ended December 31, 2012 and 2011*  
*Contents*

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FIRST NEEDHAM PLACE  
250 FIRST AVENUE • SUITE 101  
NEEDHAM • MA • 02494-2805  
WEB WWW.KNSCPA.COM  
EMAIL KNS@KNSCPA.COM  
TELEPHONE 781.453.8700  
FAX 781.453.8778

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## **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, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2012, 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, 2012 and 2011, and the changes in its net assets and cash flows for the year ended December 31, 2012 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 2011 financial statements, and our report dated November 5, 2012, 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, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KATZ, NANNIS + SOLOMON, PC

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

Needham, MA

November 13, 2013

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

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 225,516	\$ 172,159
Contributions and grants receivable	515,015	208,995
Other receivables	-	7,263
<b>Total Current Assets</b>	<b>740,531</b>	<b>388,417</b>
<b>Property, Equipment and Improvements</b>		
Computers	7,198	4,651
Equipment	18,002	14,289
Furniture	63,358	10,000
Software	46,433	-
Leasehold improvements	71,925	-
Total	206,916	28,940
Accumulated depreciation	(52,509)	(7,892)
<b>Net Property, Equipment and Improvements</b>	<b>154,407</b>	<b>21,048</b>
<b>Total Assets</b>	<b>\$ 894,938</b>	<b>\$ 409,465</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,646	\$ 4,868
Accrued expenses	651,883	562,890
Deferred rental revenue	-	17,275
<b>Total Current Liabilities</b>	<b>660,529</b>	<b>585,033</b>
<b>Commitments and Contingencies (Note E)</b>	<b>-</b>	<b>-</b>
<b>Net Assets</b>		
Unrestricted	(200,591)	(575,568)
Temporarily restricted	435,000	400,000
<b>Total Net Assets</b>	<b>234,409</b>	<b>(175,568)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 894,938</b>	<b>\$ 409,465</b>

*See accompanying notes.*

**MassChallenge, Inc.**  
*Statement of Activities*  
*Year Ended December 31, 2012*  
*(With Comparative Totals for 2011)*

	<b>2012</b>			<b>2011</b>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>	
<b>Support</b>					
Grants and contributions	\$ 1,882,613	\$ 535,000	\$ 2,417,613	\$ 1,427,935	
In-kind contributions	1,369,237	-	1,369,237	1,249,702	
Entrant fees and ticket sales	150,460	-	150,460	143,709	
Rental income	57,143	-	57,143	54,862	
Interest income	-	-	-	2	
Temporarily restricted net assets released from restrictions	500,000	(500,000)	-	-	
<b>Total Support</b>	<b>3,959,453</b>	<b>35,000</b>	<b>3,994,453</b>	<b>2,876,210</b>	
<b>Expenses</b>					
Program	3,223,780	-	3,223,780	2,823,042	
General and administrative	169,181	-	169,181	164,728	
Fundraising	191,515	-	191,515	126,647	
<b>Total Expenses</b>	<b>3,584,476</b>	<b>-</b>	<b>3,584,476</b>	<b>3,114,417</b>	
<b>Change in Net Assets</b>	<b>374,977</b>	<b>35,000</b>	<b>409,977</b>	<b>(238,207)</b>	
<b>Net Assets, Beginning of Year</b>	<b>(575,568)</b>	<b>400,000</b>	<b>(175,568)</b>	<b>62,639</b>	
<b>Net Assets, End of Year</b>	<b>\$ (200,591)</b>	<b>\$ 435,000</b>	<b>\$ 234,409</b>	<b>\$ (175,568)</b>	

*See accompanying notes.*

**MassChallenge, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2012**  
**(With Comparative Totals for 2011)**

	<b>2012</b>			<b>2011</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	\$ 1,154,489	\$ 11,902	\$ 23,804	\$ 1,190,195	\$ 1,198,855
Participant awards	1,075,000	-	-	1,075,000	1,000,000
Salaries and related expenses	492,625	52,373	112,290	657,288	598,028
Event expenses	208,669	-	-	208,669	100,389
Professional fees	150,464	2,311	-	152,775	43,742
Travel and entertainment	97,558	-	11,889	109,447	29,391
Office expenses	-	49,772	-	49,772	40,696
Depreciation	39,529	1,696	3,392	44,617	6,260
Advertising	-	-	40,140	40,140	18,818
Web hosting and development	-	25,022	-	25,022	3,519
Bank charges	-	10,995	-	10,995	5,844
Staffing	-	7,108	-	7,108	10,878
Business insurance	-	4,303	-	4,303	2,868
Bad debt expense	-	3,699	-	3,699	4,061
Printing and reproduction	3,583	-	-	3,583	11,327
Contracted interns	1,863	-	-	1,863	4,741
Software subscription	-	-	-	-	35,000
<b>Total Expenses</b>	<b>\$ 3,223,780</b>	<b>\$ 169,181</b>	<b>\$ 191,515</b>	<b>\$ 3,584,476</b>	<b>\$ 3,114,417</b>

*See accompanying notes.*

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

	2012	2011
<b>Operating Activities</b>		
Change in net assets	\$ 409,977	\$ (238,207)
Adjustments to reconcile change in net assets to net cash operating activities:		
Contributed property and equipment	(134,383)	(10,000)
Provision for bad debts	3,583	4,061
Depreciation	7,108	6,260
Increase (decrease) in cash from:		
Contributions, grants and other receivables	(302,340)	(158,319)
Accounts payable	3,778	2,368
Accrued expenses	88,993	141,390
Deferred rental revenue	(17,275)	16,125
<b>Net Cash Operating Activities</b>	<b>59,441</b>	<b>(236,322)</b>
<b>Investing Activities</b>		
Acquisition of property and equipment	(6,084)	(10,347)
<b>Net Change in Cash and Cash Equivalents</b>	<b>53,357</b>	<b>(246,669)</b>
Cash and cash equivalents, beginning of year	172,159	418,828
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 225,516</b>	<b>\$ 172,159</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, 2012 and 2011 was \$44,617 and \$6,260, 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, 2012 and 2011, management has deemed that no allowance for doubtful accounts is necessary. All contributions and grants receivable at December 31, 2012 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, 2012 and 2011 were \$40,140 and \$18,818, 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 2012 and 2011.
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, 2011, from which the summarized totals were derived.
12. Subsequent events - The Organization has evaluated all subsequent events through November 13, 2013, the date the financial statements were available to be issued.

**C. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2012 and 2011 of \$435,000 and \$400,000, 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, 2012 and 2011 were \$1,369,237 and \$1,249,702, respectively, and are reported in the accompanying financial statements as unrestricted support and the following asset or expenses:

	<u>2012</u>	<u>2011</u>
Rent and utilities	\$ 1,165,120	\$ 1,165,120
Legal and accounting services	14,600	28,342
Software subscription	-	35,000
Property and equipment	134,383	10,000
Marketing services	4,200	9,240
Office supplies and services	11,038	2,000
Travel services	19,896	
Website hosting	<u>20,000</u>	<u>-</u>
	\$ <u>1,369,237</u>	\$ <u>1,249,702</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 \$1,165,120 for the years ended December 31, 2012 and 2011.

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 \$25,075 and \$33,735 for the years ending December 31, 2012 and 2011, respectively.

**F. Related Party**

During the year ended December 31, 2012, the Organization received a contribution and had an account receivable at December 31, 2012 for \$98,500 from an entity owned by the two Founders and Officers of the Organization.

**G. Concentrations**

1. Contributions and grants - For the years ended December 31, 2012 and 2011, the Organization received approximately 10% of its grants and contributions from one donor and 43% from three donors, respectively. The Organization received approximately 85% and 93% of its in-kind contributions from one donor during the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, three and two donors accounted for approximately 53% and 81%, 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, 2012 and 2011, 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.

**H. Reclassification**

Certain items in the 2011 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.