

MassChallenge, Inc.

Financial Statements

Years Ended December 31, 2014 and 2013

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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, 2014 and 2013, and the related statements of activities and functional expenses for the year ended December 31, 2014 with comparative totals for 2013, and cash flows for the year ended December 31, 2014 and 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, 2014 and 2013, and the changes in its net assets and cash flows for the year ended December 31, 2014 and 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 2013 financial statements, and our report dated November 14, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Katz, Nannis + Solomon, P.C.

Waltham, MA
January 31, 2016

MassChallenge, Inc.
Statements of Financial Position
December 31,

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 761,947	\$ 570,178
Contributions and grants receivable	1,108,000	513,278
Unbilled contributions and grants receivable	-	150,000
Other receivables	5,396	1,200
Total Current Assets	1,875,343	1,234,656
Property, Equipment and Improvements		
Computers	11,381	11,381
Equipment	26,239	18,263
Furniture	63,358	63,358
Software	331,870	263,137
Leasehold improvements	83,448	71,925
Total	516,296	428,064
Accumulated depreciation	(319,748)	(175,228)
Net Property, Equipment and Improvements	196,548	252,836
Total Assets	\$ 2,071,891	\$ 1,487,492
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 202,852	\$ 29,362
Accrued expenses	1,334,910	994,758
Credit card payable	42,221	-
Deferred revenue	965,000	-
Total Current Liabilities	2,544,983	1,024,120
Commitments and Contingencies (Note E)	-	-
Net Assets		
Unrestricted	(1,858,092)	279,590
Temporarily restricted	1,385,000	183,782
Total Net Assets	(473,092)	463,372
Total Liabilities and Net Assets	\$ 2,071,891	\$ 1,487,492

See accompanying notes.

MassChallenge, Inc.
Statement of Activities
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			2013	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>	
Support					
Grants and contributions	\$ 2,829,934	\$ 1,635,000	\$ 4,464,934	\$	3,282,327
In-kind contributions	1,032,729	-	1,032,729	\$	1,541,396
Entrant fees and ticket sales	-	-	-		135,661
Rental income	30,032	-	30,032		43,617
Temporarily restricted net assets released from restrictions	433,782	(433,782)	-		-
Total Support	4,326,477	1,201,218	5,527,695		5,003,001
Expenses					
Program services	4,963,340	-	4,963,340		3,843,504
General and administrative	592,291	-	592,291		532,231
Fundraising	908,528	-	908,528		398,303
Total Expenses	6,464,159	-	6,464,159		4,774,038
Change in Net Assets	(2,137,682)	1,201,218	(936,464)		228,963
Net Assets, Beginning of Year	279,590	183,782	463,372		234,409
Net Assets, End of Year	\$ (1,858,092)	\$ 1,385,000	\$ (473,092)	\$	463,372

See accompanying notes.

MassChallenge, Inc.
Statement of Functional Expenses
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			2013	
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Participant awards	\$ 1,790,000	\$ -	\$ -	\$ 1,790,000	\$ 1,480,000
Rent	792,349	46,608	93,217	932,174	1,472,327
Salaries and related expenses	1,293,118	117,501	554,160	1,964,779	1,026,878
Advertising	53,256	726	-	53,982	24,955
Bank charges	2,659	4,202	231	7,092	8,901
Business insurance	-	6,197	-	6,197	7,814
Contracted interns	-	-	-	-	4,295
Depreciation and amortization	20,769	123,752	-	144,521	122,719
Event expenses	278,720	-	-	278,720	326,489
Health insurance	24,922	12,688	17,769	55,379	14,333
Office expenses	51,765	105,102	17,994	174,861	53,385
Printing and reproduction	7,105	6,739	-	13,844	4,280
Professional fees	202,541	44,009	102,000	348,550	100,320
Staffing	915	70,222	-	71,137	3,870
Software subscription	5,143	689	817	6,649	7,012
Travel and entertainment	435,692	35,887	122,186	593,765	96,460
Web hosting and development	4,386	17,969	154	22,509	20,000
Total Expenses	\$ 4,963,340	\$ 592,291	\$ 908,528	\$ 6,464,159	\$ 4,774,038

See accompanying notes.

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

	2014	2013
Operating Activities		
Change in net assets	\$ (936,464)	\$ 228,963
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation and amortization	144,521	122,719
Increase (decrease) in cash from:		
Contributions, grants and other receivables	(598,918)	537
Unbilled contributions and grants receivable	150,000	(150,000)
Accounts payable	173,490	20,716
Accrued expenses	340,152	342,875
Credit card payable	42,221	-
Deferred revenue	965,000	-
Net Cash Operating Activities	280,002	565,810
Investing Activities		
Acquisition of property and equipment	(88,233)	(221,148)
Net Change in Cash and Cash Equivalents	191,769	344,662
Cash and cash equivalents, beginning of year	570,178	225,516
Cash and Cash Equivalents, End of Year	\$ 761,947	\$ 570,178

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, 2014 and 2013 was \$33,898 and \$54,177, respectively.
5. Internal use software - The Company capitalizes direct internal and external costs related to the design and installation of the Company's web based platform and are amortized over the estimated useful life of three years on a straight line basis. Amortization expense for the years ended December 31, 2014 and 2013 was \$110,623 and \$68,542, respectively.

B. Summary of Significant Accounting Policies (continued)

6. 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, 2014 and 2013, management has deemed that no allowance for doubtful accounts is necessary. All contributions and grants receivable at December 31, 2014 are expected to be collected within one year.
7. Donated services and support - Donated services and support are recorded as in-kind contributions at their estimated fair market values on the date received.
8. 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.
9. Advertising costs - The Organization expenses advertising costs as they are incurred. Total advertising costs for the years ended December 31, 2014 and 2013 were \$53,982 and \$24,955, respectively.
10. 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 (2011-2014) and has concluded that no provision for uncertain tax positions is required in the Organization's financial statements.

11. 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 2014 and 2013.
12. 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, 2013, from which the summarized totals were derived.

B. Summary of Significant Accounting Policies (continued)

13. Subsequent events - The Organization has evaluated all subsequent events through January 31, 2016, the date the financial statements were available to be issued.

C. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013 of \$1,385,000 and \$183,782, 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, 2014 and 2013 were \$1,032,729 and \$1,541,396, respectively, and are reported in the accompanying financial statements as unrestricted support and the following asset or expenses:

	<u>2014</u>	<u>2013</u>
Rent and utilities	\$ 918,799	\$ 1,456,400
Legal and accounting services	9,845	9,845
Marketing services	49,379	13,050
Office supplies and services	-	4,788
Travel services	37,680	37,313
Website hosting	<u>17,026</u>	<u>20,000</u>
	<u>\$ 1,032,729</u>	<u>\$ 1,541,396</u>

E. Commitments and Contingencies

The Organization entered into a facilities license agreement with an unrelated party for a term of four years which expired 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. In May of 2014 the Organization moved and entered into a five year lease under the same terms. In December 2014 they entered into another lease to rent additional space in the same building beginning in January 2015. Total rent expense under the facility license was recorded at the estimated fair value of \$918,799 and \$1,456,400 for the years ended December 31, 2014 and 2013, respectively.

The Organization subleased facilities space under tenancy at will agreements. Fifty percent of amounts collected under sublease agreements is payable to the lessor. Additional rent paid to the lessor from sublease agreement was \$15,927 for the year ending December 31, 2013.

F. Related Party

During 2014 and 2013, an entity owned by the two Founders and Officers of the Organization outsourced work to the Organization for total fees of \$138,000 and \$99,000, respectively, which were in accounts receivable as of December 31, 2014 and 2013.

G. Concentrations

1. Contributions and grants - For the years ended December 31, 2014 and 2013, the Organization received approximately 24% of its grants and contributions from three donors and 18% from one donor, respectively. The Organization received approximately 89% and 94% of its in-kind contributions from one donor during the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, three donors accounted for approximately 52% and 64%, respectively, of total receivables.
2. Major vendors - At December 31, 2014 and 2013, one vendor accounted for approximately 35% and 42% of the accounts payable, respectively.
3. Uninsured cash deposits - The Company maintains cash in bank deposit accounts that, at times, exceed federally insured limits. The Federal Deposit Insurance Corporation ("FDIC") provides a \$250,000 guarantee per depositor for accounts held at insured banks. At December 31, 2014, the Organization had \$460,950 of uninsured cash or cash equivalents held in a commercial bank. Management believes that the Organization is not exposed to significant credit risk in these accounts.

H. Subsequent Events

In 2015 MassChallenge, Inc. created three subsidiaries to run the operations of the Organizations' international projects. These subsidiaries include MassChallenge Mexico, MassChallenge (Israel) Ltd. (C.C.) and MassChallenge Limited (U.K.). These entities were incorporated as for-profit but they are in the process of applying to be non-profit organizations. MassChallenge owns 85% of MassChallenge Mexico, 40% of MassChallenge Israel Ltd., and for MassChallenge Limited they are the guarantor. A majority of the remaining ownership is held by various members of MassChallenge, Inc. management.