



MassChallenge Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2023



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Independent Auditor's Report

To the Board of Directors of MassChallenge Inc. and Subsidiary:

Opinion

We have audited the consolidated financial statements of MassChallenge Inc. and its subsidiary (the Organization), which comprise the consolidated statement of financial position as of December 31, 2023, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental consolidating schedules as of and for the year ended December 31, 2023 are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAS. In our opinion the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Wolf & Company, P.C.

Boston, Massachusetts

November 14, 2024

MassChallenge Inc. and Subsidiary

Consolidated Statement of Financial Position

December 31, 2023

Assets

Current assets:

Cash and cash equivalents	\$ 1,848,336
Sponsorship, grants and contribution receivables	2,356,647
In-kind contributions receivable, net, current portion	1,278,537
Due from related parties	415,520
Prepaid expenses and other	226,008
Total current assets	<u>6,125,048</u>

In-kind contributions receivable, net, non current portion	2,559,310
Property and equipment, net	<u>1,043</u>

Total assets	<u><u>\$ 8,685,401</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 282,635
Accrued compensation	640,848
Accrued awards	539,234
Deferred revenue	1,375,220
Total current liabilities	<u>2,837,937</u>

Net assets:

Without donor restrictions	2,009,618
With donor restrictions	3,837,846
Total net assets	<u>5,847,464</u>

Total liabilities and net assets	<u><u>\$ 8,685,401</u></u>
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See accompanying notes to consolidated financial statements.

MassChallenge Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Sponsorships, grants and contributions	\$ 10,332,219	\$ -	\$ 10,332,219
Net assets released from restrictions	1,241,591	(1,241,591)	-
Total support and revenues	<u>11,573,810</u>	<u>(1,241,591)</u>	<u>10,332,219</u>
Expenses:			
Program services	6,279,015	-	6,279,015
General and administrative	2,457,633	-	2,457,633
Fundraising	2,696,655	-	2,696,655
Total expenses	<u>11,433,303</u>	<u>-</u>	<u>11,433,303</u>
Change in net assets	140,507	(1,241,591)	(1,101,084)
Net assets, beginning of year	<u>1,869,111</u>	<u>5,079,437</u>	<u>6,948,548</u>
Net assets, end of year	<u>\$ 2,009,618</u>	<u>\$ 3,837,846</u>	<u>\$ 5,847,464</u>

See accompanying notes to consolidated financial statements.

MassChallenge Inc. and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended December 31, 2023

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and related expenses	\$ 3,247,063	\$ 1,319,489	\$ 2,234,909	\$ 6,801,461
Participant awards	612,500	-	-	612,500
Rent	875,619	186,239	186,239	1,248,097
Professional fees	575,336	377,100	83,417	1,035,853
Office and technology expenses	224,747	330,935	16,119	571,801
Event expenses	269,276	3,988	38,006	311,270
Marketing and advertising	173,549	-	-	173,549
Training and development	-	115,101	2,600	117,701
Travel and entertainment	121,448	22,224	124,506	268,178
Insurance	-	65,292	-	65,292
Depreciation and amortization	1,054	3,950	-	5,004
Foreign exchange gain/loss	11,081	-	-	11,081
Other	167,342	33,315	10,859	211,516
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 6,279,015</u>	<u>\$ 2,457,633</u>	<u>\$ 2,696,655</u>	<u>\$ 11,433,303</u>

See accompanying notes to consolidated financial statements.

MassChallenge Inc. and Subsidiary

Consolidated Statement of Cash Flows

Year Ended December 31, 2022

Cash flows from operating activities:	
Change in net assets	\$ (1,101,084)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	9,303
Changes in operating assets and liabilities:	
In-kind contribution receivables	1,241,590
Due from related parties	49,720
Prepaid expenses and other	(198,466)
Accounts payable	(147,961)
Accrued compensation	173,779
Accrued awards	25,000
Deferred revenue	(68,185)
Net cash used by operating activities	<u>(16,304)</u>
Change in cash and cash equivalents	<u>(16,304)</u>
Cash and cash equivalents at beginning of year	<u>1,864,640</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,848,336</u></u>

See accompanying notes to consolidated financial statements.

MassChallenge Inc. and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2023

1. DESCRIPTION OF ORGANIZATION

MassChallenge Inc. is organized under section 501(c)(3) of the Internal Revenue Code and was formed in June 2009 with the mission to connect early-stage entrepreneurs with the resources they need to launch and succeed immediately. The primary objectives include running an annual global startup competition, documenting and organizing key resources, and organizing training and networking events. MassChallenge Inc. is headquartered in Boston, Massachusetts with operations throughout the United States and abroad.

On August 6, 2015, MassChallenge Inc. formed its 100% owned subsidiary, MassChallenge Mexico as a for-profit entity to run the operations of the Organizations' international projects. MassChallenge Inc. and its subsidiary, MassChallenge Mexico, are collectively referred to as "the Organization".

All intercompany transactions and balances have been eliminated in consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes therein are classified as follows:

Net Assets without Donor Restrictions

Represent net assets that are not restricted by donors or the donor-imposed restrictions have expired. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Net Assets with Donor Restrictions

Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

MassChallenge Inc. and Subsidiary

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of related revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Organization's revenues are derived from three primary sources: (i) contributions and grants (ii) sponsorships and consulting services and (iii) donated services and support.

Contributions and Grants

Contributions are recognized as revenue in the period the contribution or the unconditional promises to give is received. Promises to give that are scheduled to be received after the statement of financial position date, or which are restricted by the donor to a specific purpose which has not been met as of the statement of financial position date, are shown as increases in net assets with donor restrictions. This revenue is reclassified to net assets without donor restrictions when the time or purpose restrictions are met. Revenue with donor-imposed restrictions is recognized in net assets without donor restrictions if the restriction is met in the year the revenue is recognized.

Sponsorships and Consulting Services

Revenue from exchange transactions is recognized as follows: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the Organization satisfies the performance obligations.

The various promises made under the Organization's sponsorship agreements represent one bundled performance obligation to its customer. Sponsorships are generally billed in advance, in accordance with contractual terms, and recognized evenly over the sponsorship period or upon the related event.

The Organization maintains a consulting arrangement with another accelerator program (see Note 5). Fees are billed in accordance with the related consulting agreement and fee income is recognized as services are delivered.

Donated Services and Support

Donated services and support are recorded as in-kind contributions at their estimated fair market values on the date received or contractual agreement is executed.

MassChallenge Inc. and Subsidiary

Contributions and Grants Receivable

The Organization carries its contributions and grants receivable at the unconditional amount due less an allowance for credit losses. On a periodic basis, the Organization evaluates its contributions and grants receivable and establishes an allowance for credit losses, based on a history of historic write offs and collections, current credit conditions and forecasting of future economic outlooks. As of December 31, 2023, management has determined that no allowance for credit losses is necessary. Individual accounts receivable are written off when deemed uncollectible with any future recoveries recorded as income when received or recorded as a recovery to the provision for credit losses.

Cash and Cash Equivalents

For the purpose of consolidated financial statement presentation, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost if purchased and fair market value if contributed. Depreciation is computed using either the double declining balance method or the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentration of credit risk, include cash and cash equivalents which may exceed deposit insurance limitations; however, they are placed in high quality financial service organizations.

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.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2023 was \$173,549.

MassChallenge Inc. and Subsidiary

Tax-Exempt Status

MassChallenge Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (“the 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. MassChallenge Inc. 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 consolidated financial statements. Contributions to MassChallenge Inc. are tax deductible.

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

MassChallenge Mexico is a for-profit entity and is taxed in accordance with the rules and regulations of Mexico.

Foreign Currency Adjustments

The U.S. dollar is the functional currency of the Organization’s worldwide continuing operations. All foreign currency asset and liability amounts are remeasured into U.S. dollars at end-of-period exchange rates, except for capital and net asset accounts, which are measured at historical rates. Foreign currency income and expenses are remeasured at average exchange rates in effect during the year, except for expenses related to balance sheet amounts remeasured at historical exchange rates. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in income in the period in which they occur.

3. DONATED FACILITIES AND LEASE COMMITMENTS

During 2021, the Organization entered into a new lease agreement effective December 1, 2021 through November 30, 2026 with an unrelated third party which provides for the right to use 21,103 square feet of space and certain related utilities and services free of charge. The estimated fair value of this lease agreement amounted to \$6,383,415 and is recorded as an in-kind contribution in the year the contract is executed and then amortized to rent expense over the contractual term of the respective lease. Rent expense under the lease agreement amounted to \$1,189,670 for the year ended December 31, 2023 and has been recorded as a component of rent expense. In-kind contributions receivable remaining under the lease amount to \$3,837,847 as of December 31, 2023.

MassChallenge Inc. and Subsidiary

4. EMPLOYEE BENEFIT PLAN

The Organization maintains a 403(b) plan as a retirement plan covering substantially all employees. Eligible employees can contribute any amount of pre-taxed or non pre-taxed salary to the 403(b) plan each pay period. Employees choose the investment funds they would like to invest in and can designate beneficiaries for their plan assets. Employee contributions cannot exceed annual IRS maximums and/or 100% of their compensation for the year. At the election of the Board of Directors, the Organization may make a discretionary contribution each pay period for each participating employee. For the year ended December 31, 2023, contributions made to the plan by the Organization totaled \$126,055.

5. RELATED PARTY TRANSACTIONS

MassChallenge Switzerland

MassChallenge Switzerland (“MassChallenge Switzerland”), a not-for-profit entity with common board members, was incorporated to work with early-stage entrepreneurs and start-up companies in Switzerland. The Organization maintains a consulting services agreement with MassChallenge Switzerland. During 2023, the Organization recognized consulting services revenue of \$250,000 from MassChallenge Switzerland. This revenue is recorded as a component of sponsorship, grants and contributions on the Statement of Activities. As of December 31, 2023, there was \$250,000 due from MassChallenge Switzerland.

MassChallenge Israel

MassChallenge Israel, a nonprofit entity, was formed to work with early-stage entrepreneurs and start-up companies in Israel. MassChallenge Israel is a related party through ownership and board participation. From time to time, the companies will obtain contributions or pay expenses on each other’s behalf.

During 2020, the Organization extended a \$131,000 cash bridge loan to MassChallenge Israel. During 2022, the Organization extended a \$50,000 cash bridge loan to MassChallenge Israel. Repayment of the two cash bridge loans totaling \$181,000 will be determined in 2024, once MassChallenge Israel has built and shared an updated repayment plan. As of December 31, 2023, amounts due from MassChallenge Israel amounted to \$165,520.

MassChallenge Inc. and Subsidiary

6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available for general expenditures within one year of the statement of financial position are as follows at December 31, 2023:

Cash and cash equivalents	\$ 1,848,336
Sponsorship, grants and contributions receivable	<u>2,356,647</u>
	<u>\$ 4,204,983</u>

The Organization's operations are primarily supported by corporate sponsorships and donations from individuals, private foundations and corporations. Donor restrictions may require these resources to be used in a particular manner or in future periods, therefore the Organization maintains sufficient resources to meet those responsibilities to its donors. Thus, a portion of financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it structures its financial assets to be available as its general operations, liabilities, and other obligations require.

7. NET ASSETS

The net assets released from restrictions for the year ended December 31, 2023 in the amount of \$1,241,591 related to purpose restrictions accomplished for in-kind rent utilized. Net assets with donor restrictions consist of in-kind rent receivable in the amount of \$3,525,717.

8. REVOLVING LINE OF CREDIT

The Organization maintained a line of credit for working capital purposes under which advances are limited to \$500,000. Advances beared interest at 3% per annum and are collateralized by all assets of the Organization. There were no borrowings outstanding under the line of credit at December 31, 2023. The line of credit expired on November 25, 2022 and was not renewed.

9. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 14, 2024, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

MassChallenge Inc. and Subsidiary

Consolidating Schedule of Financial Position

December 31, 2023

	<u>MassChallenge Inc.</u>	<u>MassChallenge Mexico</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,847,359	\$ 977	\$ -	\$ 1,848,336
Sponsorships, grants and contribution receivables	2,263,530	93,117	-	2,356,647
In-kind contributions receivable, net, current portion	1,278,537	-	-	1,278,537
Due from related parties	415,520	-	-	415,520
Prepaid expenses and other	395,082	34,926	(204,000)	226,008
Total current assets	<u>6,200,028</u>	<u>129,020</u>	<u>(204,000)</u>	<u>6,125,048</u>
In-kind contributions receivable, net, non current portion	2,559,310	-	-	2,559,310
Property and equipment, net	758	285	-	1,043
Investment in subsidiary	225,304	-	(225,304)	-
Total assets	<u>\$ 8,985,400</u>	<u>\$ 129,305</u>	<u>\$ (429,304)</u>	<u>\$ 8,685,401</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 226,792	\$ 259,843	\$ (204,000)	\$ 282,635
Accrued compensation	629,681	11,167	-	640,848
Accrued awards	539,234	-	-	539,234
Deferred revenue	1,375,220	-	-	1,375,220
Total current liabilities	<u>2,770,927</u>	<u>271,010</u>	<u>(204,000)</u>	<u>2,837,937</u>
Net assets and capital				
Net assets without donor restrictions	2,376,627	(367,009)	-	2,009,618
Net assets with donor restrictions	3,837,846	-	-	3,837,846
Capital	-	225,304	(225,304)	-
Total net assets and capital	<u>6,214,473</u>	<u>(141,705)</u>	<u>(225,304)</u>	<u>5,847,464</u>
Total liabilities and net assets	<u>\$ 8,985,400</u>	<u>\$ 129,305</u>	<u>\$ (429,304)</u>	<u>\$ 8,685,401</u>

See independent auditor's report on the supplementary information.

MassChallenge Inc. and Subsidiary

Consolidating Schedule of Activities

Year Ended December 31, 2023

	<u>MassChallenge Inc.</u>	<u>MassChallenge Mexico</u>	<u>Eliminations</u>	<u>Total</u>
Support and revenues:				
Sponsorships, grants and contributions	\$ 10,284,333	\$ 47,886	\$ -	\$ 10,332,219
Total support and revenues	<u>10,284,333</u>	<u>47,886</u>	<u>-</u>	<u>10,332,219</u>
Expenses:				
Program services	6,049,857	229,158	-	6,279,015
General and administrative	2,445,965	11,668	-	2,457,633
Fundraising	2,681,104	15,551	-	2,696,655
Total expenses	<u>11,176,926</u>	<u>256,377</u>	<u>-</u>	<u>11,433,303</u>
Change in net assets from operations	<u>(892,593)</u>	<u>(208,491)</u>	<u>-</u>	<u>(1,101,084)</u>
Change in net assets	<u>\$ (892,593)</u>	<u>\$ (208,491)</u>	<u>\$ -</u>	<u>\$ (1,101,084)</u>

See independent auditor's report on the supplementary information.

MassChallenge Inc. and Subsidiary

Consolidating Schedule of Functional Expenses

Year Ended December 31, 2023

	MassChallenge Inc.			MassChallenge Mexico			Intercompany Eliminations	2023 Total Expenses
	Program Services	General and Administrative	Fundraising	Program Services	General and Administrative	Fundraising		
Salaries and related expenses	\$ 3,091,705	\$ 1,319,489	\$ 2,234,909	\$ 155,358	\$ -	\$ -	\$ -	\$ 6,801,461
Participant awards	612,500	-	-	-	-	-	-	612,500
Rent	869,113	186,239	186,239	6,506	-	-	-	1,248,097
Professional fees	532,963	366,946	69,240	42,373	10,154	14,176	-	1,035,852
Office and technology expenses	224,368	330,935	16,119	379	-	-	-	571,801
Event expenses	262,576	3,988	37,883	6,700	-	123	-	311,270
Marketing and advertising	173,549	-	-	-	-	-	-	173,549
Training and development	-	115,101	2,600	-	-	-	-	117,701
Travel and entertainment	117,806	22,224	124,506	3,642	-	-	-	268,178
Insurance	-	65,292	-	-	-	-	-	65,292
Depreciation and amortization	-	3,950	-	1,054	-	-	-	5,004
Foreign exchange gain/loss	-	-	-	11,081	-	-	-	11,081
Other	165,277	31,801	9,608	2,065	1,514	1,252	-	211,517
Total expenses	\$ 6,049,857	\$ 2,445,965	\$ 2,681,104	\$ 229,158	\$ 11,668	\$ 15,551	\$ -	\$ 11,433,303

See independent auditor's report on the supplementary information.