



## FINANCIAL STATEMENTS

June 30, 2016 and 2015

With Independent Auditor's Report





## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
North Shore InnoVentures, Inc.

We have audited the accompanying financial statements of North Shore InnoVentures, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the 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 U.S. generally accepted accounting principles; 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 audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 North Shore InnoVentures, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

*BerryDunn McNeil & Parker, LLC*

Manchester, New Hampshire  
May 12, 2017

**NORTH SHORE INNOVENTURES, INC.**

**Statements of Financial Position**

**June 30, 2016 and 2015**

|  | <u>2016</u>                | <u>2015</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>                                      |                            |                            |
| Current assets                                     |                            |                            |
| Cash   | \$ 198,121                 | \$ 116,349                 |
| Certificate of deposit                             | 29,234                     | 29,131                     |
| Accounts receivable, net                           | 229,903                    | 102,398                    |
| Prepaid expenses and other current assets          | 19,500                     | -                          |
| Unbilled grant revenues for operations             | -                          | 14,250                     |
| Unbilled grant revenues for property and equipment | <u>110,192</u>             | <u>566,602</u>             |
| Total current assets                               | <b>586,950</b>             | 828,730                    |
| Property and equipment, net                        | <b>845,373</b>             | 866,478                    |
| Security deposits                                  | <u>27,527</u>              | <u>25,750</u>              |
| Total assets                                       | <b><u>\$ 1,459,850</u></b> | <b><u>\$ 1,720,958</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                            |                            |
| Current liabilities                                |                            |                            |
| Line of credit                                     | \$ -                       | \$ 121,374                 |
| Accounts payable for operations                    | 29,678                     | 9,837                      |
| Accounts payable for property and equipment        | 34,061                     | 523,982                    |
| Refundable deposits                                | 54,590                     | 48,785                     |
| Deferred revenue                                   | <u>62,638</u>              | <u>47,667</u>              |
| Total current liabilities and total liabilities    | <u>180,967</u>             | <u>751,645</u>             |
| Net assets   |                            |                            |
| Unrestricted                                       | 315,497                    | 77,966                     |
| Temporarily restricted                             | <u>963,386</u>             | <u>891,347</u>             |
| Total net assets                                   | <u>1,278,883</u>           | <u>969,313</u>             |
| Total liabilities and net assets                   | <b><u>\$ 1,459,850</u></b> | <b><u>\$ 1,720,958</u></b> |

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The accompanying notes are an integral part of these financial statements.

**NORTH SHORE INNOVENTURES, INC.**

**Statement of Activities**

**Year Ended June 30, 2016 and 2015**  
**(With Comparative Totals for the Year Ended June 30, 2015)**

|  | 2016              |                           |                     | 2015            |
|--|-------------------|---------------------------|---------------------|-----------------|
|  | Unrestricted      | Temporarily<br>Restricted | Total               | Total           |
| Revenues and support                                 |                   |                           |                     |                 |
| Service fees   | \$ 512,145        | \$ -                      | \$ 512,145          | 335,202         |
| Sponsorships   | 184,631           | -                         | 184,631             | 147,083         |
| Contributions in-kind                                | 347,389           | -                         | 347,389             | 315,051         |
| Grants and contracts                                 | 246,190           | -                         | 246,190             | 50,767          |
| Donation of lab equipment                            | -                 | -                         | -                   | 2,626           |
| Net assets released from restriction                 | <u>54,265</u>     | <u>-</u>                  | <u>54,265</u>       | <u>13,094</u>   |
| Total revenues and support                           | <u>1,344,620</u>  | <u>-</u>                  | <u>1,344,620</u>    | <u>863,823</u>  |
| Operating expenses                                   |                   |                           |                     |                 |
| Salaries and benefits                                | 283,546           | -                         | 283,546             | 245,080         |
| Contractual and professional services                | 345,998           | -                         | 345,998             | 294,985         |
| Occupancy  | 328,509           | -                         | 328,509             | 317,214         |
| Management and general                               | <u>147,675</u>    | <u>-</u>                  | <u>147,675</u>      | <u>70,995</u>   |
| Total operating expenses                             | <u>1,105,728</u>  | <u>-</u>                  | <u>1,105,728</u>    | <u>928,274</u>  |
| Increase (decrease) in net assets<br>from operations | <u>238,892</u>    | <u>-</u>                  | <u>238,892</u>      | <u>(64,451)</u> |
| Nonoperating (expense) revenue                       |                   |                           |                     |                 |
| Grants and contracts revenue                         | -                 | 126,304                   | 126,304             | 904,441         |
| Net assets released from restriction                 | -                 | (54,265)                  | (54,265)            | (13,094)        |
| Interest expense                                     | (1,464)           | -                         | (1,464)             | (1,724)         |
| Interest income                                      | <u>103</u>        | <u>-</u>                  | <u>103</u>          | <u>101</u>      |
| Nonoperating (expense)<br>revenue, net               | <u>(1,361)</u>    | <u>72,039</u>             | <u>70,678</u>       | <u>889,724</u>  |
| Total change in net assets                           | 237,531           | 72,039                    | 309,570             | 825,273         |
| Net assets, beginning of year                        | <u>77,966</u>     | <u>891,347</u>            | <u>969,313</u>      | <u>144,040</u>  |
| Net assets, end of year                              | <u>\$ 315,497</u> | <u>\$ 963,386</u>         | <u>\$ 1,278,883</u> | <u>969,313</u>  |

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The accompanying notes are an integral part of these financial statements.

**NORTH SHORE INNOVENTURES, INC.**

**Statement of Activities**

**Year Ended June 30, 2015**

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-------------------|
| Revenues and support                   |                     |                                   |                   |
| Service fees                           | \$ 335,202          | \$ -                              | \$ 335,202        |
| Sponsorships                           | 147,083             | -                                 | 147,083           |
| Contributions in-kind                  | 315,051             | -                                 | 315,051           |
| Grants and contracts                   | 50,767              | -                                 | 50,767            |
| Donation of lab equipment              | 2,626               | -                                 | 2,626             |
| Net assets released from restriction   | <u>13,094</u>       | <u>-</u>                          | <u>13,094</u>     |
| Total revenues and support             | <u>863,823</u>      | <u>-</u>                          | <u>863,823</u>    |
| Operating expenses                     |                     |                                   |                   |
| Salaries and benefits                  | 245,080             | -                                 | 245,080           |
| Contractual and professional services  | 294,985             | -                                 | 294,985           |
| Occupancy                              | 317,214             | -                                 | 317,214           |
| Management and general                 | <u>70,995</u>       | <u>-</u>                          | <u>70,995</u>     |
| Total operating expenses               | <u>928,274</u>      | <u>-</u>                          | <u>928,274</u>    |
| Decrease in net assets from operations | <u>(64,451)</u>     | <u>-</u>                          | <u>(64,451)</u>   |
| Nonoperating (expense) revenue         |                     |                                   |                   |
| Grants and contracts revenue           | -                   | 904,441                           | 904,441           |
| Net assets released from restriction   | -                   | (13,094)                          | (13,094)          |
| Interest expense                       | (1,724)             | -                                 | (1,724)           |
| Interest income                        | <u>101</u>          | <u>-</u>                          | <u>101</u>        |
| Nonoperating (expense)<br>revenue, net | <u>(1,623)</u>      | <u>891,347</u>                    | <u>889,724</u>    |
| Total change in net assets             | (66,074)            | 891,347                           | 825,273           |
| Net assets, beginning of year          | <u>144,040</u>      | <u>-</u>                          | <u>144,040</u>    |
| Net assets, end of year                | <u>\$ 77,966</u>    | <u>\$ 891,347</u>                 | <u>\$ 969,313</u> |

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The accompanying notes are an integral part of these financial statements.

**NORTH SHORE INNOVENTURES, INC.**

**Statements of Cash Flows**

**Years Ended June 30, 2016 and 2015**

|   | <u><b>2016</b></u>       | <u><b>2015</b></u> |
|---|--------------------------|--------------------|
| Cash flows from operating activities  |                          |                    |
| Total change in net assets  | \$ <b>309,570</b>        | \$ 825,273         |
| Adjustments to reconcile total change in net assets to net cash provided (used) by operating activities |                          |                    |
| Depreciation  | <b>128,867</b>           | 44,420             |
| Grants and contracts revenue for long-term purposes   | <b>(126,304)</b>         | (904,441)          |
| Reinvested interest income on certificate of deposit  | <b>(103)</b>             | (101)              |
| (Increase) decrease in:   |                          |                    |
| Accounts receivable   | <b>(127,505)</b>         | (3,743)            |
| Prepaid expenses and other current assets   | <b>(19,500)</b>          | -                  |
| Unbilled grant revenues for operations  | <b>14,250</b>            | (14,250)           |
| Security deposits   | <b>(1,777)</b>           | (3,100)            |
| (Decrease) increase in:   |                          |                    |
| Accounts payable for operations   | <b>19,841</b>            | (2,281)            |
| Refundable deposits   | <b>5,805</b>             | 7,070              |
| Deferred revenue  | <b>14,971</b>            | (40,583)           |
| Net cash provided (used) by operating activities  | <u><b>218,115</b></u>    | <u>(91,736)</u>    |
| Cash flows from investing activities  |                          |                    |
| Payments for the acquisition of property and equipment  | <u><b>(597,683)</b></u>  | <u>(343,499)</u>   |
| Cash flows from financing activities  |                          |                    |
| Net activity on line of credit  | <b>(121,374)</b>         | 121,374            |
| Grants and contracts revenue received for long-term purposes  | <u><b>582,714</b></u>    | <u>337,839</u>     |
| Net cash provided by financing activities   | <u><b>461,340</b></u>    | <u>459,213</u>     |
| Net increase in cash  | <b>81,772</b>            | 23,978             |
| Cash, beginning of year   | <u><b>116,349</b></u>    | <u>92,371</u>      |
| Cash, end of year   | <u><b>\$ 198,121</b></u> | <u>\$ 116,349</u>  |
| Supplemental cash flow information:   |                          |                    |
| Noncash financing and investing activities:   |                          |                    |
| Acquisition of property and equipment   | <b>\$ 107,762</b>        | \$ 867,481         |
| Less: Acquisition of property and equipment included in accounts payable                                | <b>(34,061)</b>          | (523,982)          |
| Add: Payments on short-term accounts used to finance acquisition of property and equipment              | <u><b>523,982</b></u>    | <u>-</u>           |
| Payments for the acquisition of property and equipment  | <u><b>\$ 597,683</b></u> | <u>\$ 343,499</u>  |

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The accompanying notes are an integral part of these financial statements.

# NORTH SHORE INNOVENTURES, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

### **Nature of Business**

North Shore InnoVentures, Inc. (NSIV) was established in 2008. NSIV is a not-for-profit corporation incorporated under the provisions of the laws of the Commonwealth of Massachusetts. NSIV operates a technology business incubator to nurture innovative early-stage companies and support sustained economic growth.

### **1. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified as follows based on the existence or absence of donor-imposed restrictions:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of NSIV and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Restricted contributions are reported as unrestricted support if the restrictions are met in the same reporting period.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by NSIV. As of June 30, 2016 and 2015, NSIV did not have any permanently restricted net assets.

#### **Cash and Certificate of Deposit**

NSIV maintains its cash and certificate of deposit in bank deposit accounts which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and the certificate of deposit.

Interest is accrued each month based on the interest rate stated on the certificate of deposit. At June 30, 2016, the certificate paid interest at a rate of 0.35% and had a maturity date of March 30, 2017. The certificate of deposit automatically renewed on March 30, 2017.

# NORTH SHORE INNOVENTURES, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

### Revenue Recognition

Revenue from sponsors, member companies, and granting agencies are recognized when earned. Certain sponsors, member companies, and granting agencies are billed in advance. Such amounts are accounted for as deferred revenue and are recognized as revenue over the period the services are provided.

As a component of their service agreements with NSIV, some member companies are required to make additional payments to NSIV upon achieving agreed-upon financial milestones. As NSIV's experience in realizing these fees is limited, management currently reserves for the entire amount of the potential deferred fees until a member company achieves a relevant milestone. As of June 30, 2016 and 2015, NSIV has deferred fees and a corresponding reserve amounting to \$296,525 and \$274,672, respectively.

### Contributions In-Kind

NSIV receives in-kind support that consists primarily of information technology products and services, accounting and legal services, consulting and management, lease space, lab equipment and lab supplies. These contributions in-kind are accounted for in the period in which the products or services are received at the estimated fair value as of the date of the transaction.

The total value of the in-kind support for the years ended June 30, 2016 and 2015 is comprised of the following:

|                        | <u>2016</u>       | <u>2015</u>       |
|------------------------|-------------------|-------------------|
| Information technology | \$ 21,315         | \$ 32,970         |
| Accounting             | 23,308            | 7,859             |
| Legal                  | 37,265            | 34,544            |
| Technical consulting   | 133,020           | 132,253           |
| Outside Consulting     | 31,465            | -                 |
| Rent                   | <u>101,016</u>    | <u>107,425</u>    |
|                        | <u>\$ 347,389</u> | <u>\$ 315,051</u> |

The related in-kind expenses, reported by their functional classification, consisted of the following for the years ended June 30, 2016 and 2015:

|                            | <u>2016</u>       | <u>2015</u>       |
|----------------------------|-------------------|-------------------|
| Program                    | \$ 310,783        | \$ 286,241        |
| Fundraising                | 12,477            | 12,440            |
| General and administrative | <u>24,129</u>     | <u>16,370</u>     |
|                            | <u>\$ 347,389</u> | <u>\$ 315,051</u> |



# NORTH SHORE INNOVENTURES, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through the allowance for doubtful accounts. Management believes all accounts are fully collectible at June 30, 2016.

Accounts receivable consisted of the following as of June 30:

|                                      | <u>2016</u>       | <u>2015</u>       |
|--------------------------------------|-------------------|-------------------|
| Member companies                     | \$ 72,139         | \$ 27,555         |
| Granting agencies                    | 123,113           | 104,088           |
| Sponsors                             | 37,750            | 7,500             |
| Prepayments                          | <u>(3,099)</u>    | <u>(29,555)</u>   |
| Accounts receivable                  | 229,903           | 109,588           |
| Less allowance for doubtful accounts | <u>-</u>          | <u>(7,190)</u>    |
| Accounts receivable, net             | <u>\$ 229,903</u> | <u>\$ 102,398</u> |

### Property and Equipment

Purchased property and equipment is recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Following is a summary of estimated useful lives by category:

|                      |             |
|----------------------|-------------|
| Building renovations | 7 years     |
| Lab equipment        | 3 - 7 years |

### Nonoperating Grants and Contracts Revenue

In July 2013, NSIV signed a memorandum of understanding with four local institutions of higher learning to establish the Life Science Consortium of the North Shore (the Consortium). The Consortium applied for and received notice of a capital award of \$5,000,000 from the Massachusetts Life Science Center (MLSC) for a three-year program starting in July 2014 to purchase equipment and provide enhanced training for students and members of NSIV's incubation programs. NSIV's share of this grant is approximately \$1,650,000.

# NORTH SHORE INNOVENTURES, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

During the years ended June 30, 2016 and 2015, NSIV recognized \$126,304 and \$904,441, respectively, related to this grant, which is included in nonoperating grants and contracts revenue. NSIV's portion of this grant for fiscal year ending June 30, 2017 is expected to approximate \$620,000.

NSIV is obligated to hold the equipment purchased through grant funding for fifteen years. NSIV is releasing the restriction on the straight-line basis over the life of the obligation to hold the related equipment. As a result, NSIV released \$54,265 and \$13,094 from temporarily restricted to unrestricted net assets during the years ended June 30, 2016 and 2015, respectively.

### Income Taxes

The Internal Revenue Service has determined that NSIV is exempt from taxation under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes has been reflected in these financial statements.

### Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, NSIV has considered transactions or events occurring through May 12, 2017, which was the date that the financial statements were available to be issued.

## 2. Property and Equipment

Property and equipment at June 30 consisted of:

|                               | <u>2016</u>              | <u>2015</u>              |
|-------------------------------|--------------------------|--------------------------|
| Lab equipment                 | \$ 991,588               | \$ 888,773               |
| Building renovations          | <u>40,655</u>            | <u>35,708</u>            |
|                               | <b>1,032,243</b>         | 924,481                  |
| Less accumulated depreciation | <u>(186,870)</u>         | <u>(58,003)</u>          |
|                               | <b><u>\$ 845,373</u></b> | <b><u>\$ 866,478</u></b> |

As of June 30, 2016 and 2015, the net book value of property and equipment funded by the MLSC grant discussed in Note 1 to the financial statements amounted to \$821,482 and \$842,062, respectively.

**NORTH SHORE INNOVENTURES, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**3. Operating Lease**

NSIV leases office and lab space under a non-cancelable operating lease agreement. NSIV entered into an agreement to extend the lease for an additional term ending on October 14, 2016.

Subsequent to June 30, 2016, NSIV entered into a new five-year lease agreement through June 30, 2022 with Cummings Properties that committed NSIV to relocate and consolidate its two office blocks and five labs into two suites on the same floor of 100 Cummings Center. This move is to improve operational efficiency and member collaboration, and to provide additional capabilities and approximately 25% more space to allow for continued growth. The lease requires NSIV to pay approximately \$474,000 at lease signing to reimburse Cummings Properties for a portion of the leasehold improvements made by Cummings Properties.

Future minimum lease payments under the lease are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u>      |
|-----------------------------|--------------------|
| 2017                        | \$ 140,000         |
| 2018                        | 224,124            |
| 2019                        | 224,124            |
| 2020                        | 224,124            |
| 2021                        | 224,124            |
| Thereafter                  | <u>224,124</u>     |
|                             | <u>\$1,260,620</u> |

Total rent expense charged to operations during the years ended June 30, 2016 and 2015, were \$231,014 and \$233,392, respectively, which includes contributed occupancy expenses.

As a condition of the lease agreement, NSIV is required to maintain an irrevocable standby letter of credit in the amount of \$28,500 as a security deposit. This letter of credit is collateralized by a certificate of deposit.

**4. Line of Credit**

NSIV has a line of credit agreement with a bank. The maximum amount of borrowings available under the agreement is \$400,000. Amounts may be drawn for the purpose of reimbursable equipment purchases under the \$1,650,000 capital grant from the MLSC. Amounts are due on demand. The line of credit is set to renew annually subject to review by the lender. The loan is collateralized by guarantee payments that will be received from the MLSC grant contract. The line of credit bears a floating interest rate at the bank's prime rate plus 1.25%, which in no event shall be below 4.5% per annum (4.75% at June 30, 2016). There were no borrowings outstanding under the agreement as of June 30, 2016. At June 30, 2015, borrowings outstanding under the agreement were \$121,374.

**NORTH SHORE INNOVENTURES, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**5. Functional Expenses**

NSIV has one major service program providing business incubation to cleantech and biotech companies to foster the growth of its member companies, create jobs, and encourage innovation in the cleantech and biotech fields. Expenses, reported by their functional classification, consisted of the following for the years ended June 30:

|                            | <u>2016</u>                | <u>2015</u>       |
|----------------------------|----------------------------|-------------------|
| Program                    | \$ <b>996,610</b>          | \$ 844,254        |
| Fundraising                | <b>41,231</b>              | 37,364            |
| General and administrative | <u><b>67,887</b></u>       | <u>46,656</u>     |
|                            | <u><b>\$ 1,105,728</b></u> | <u>\$ 928,274</u> |