

THE FAB FOUNDATION

Financial Statements

December 31, 2016 and 2015

THE FAB FOUNDATION

December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors
The Fab Foundation
Boston, Massachusetts

We have audited the accompanying financial statements of The Fab Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 The Fab Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
September 26, 2017

THE FAB FOUNDATION

Statements of Financial Position December 31,

	2016	2015
Assets:		
Cash	\$ 6,511,527	\$ 7,342,138
Accounts receivable, net	307,254	167,825
Grants receivable	447,688	608,643
Prepaid expenses and other assets	7,875	7,038
Equipment, net	303,595	463,486
Total assets	<u>\$ 7,577,939</u>	<u>\$ 8,589,130</u>
 Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 342,924	\$ 483,989
Accrued expenses	77,634	37,545
Lab operating costs payable	82,750	438,815
Line of credit	95,000	45,000
Deferred revenue	438,060	226,398
Total liabilities	<u>1,036,368</u>	<u>1,231,747</u>
 Net assets:		
Unrestricted	(241,735)	56,441
Temporarily restricted	6,783,306	7,300,942
	<u>6,541,571</u>	<u>7,357,383</u>
Total liabilities and net assets	<u>\$ 7,577,939</u>	<u>\$ 8,589,130</u>

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Statements of Activities and Changes in Net Assets For the Years Ended December 31,

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Contracts	\$ 2,879,859	\$ -	\$ 2,879,859	\$ 1,399,016	\$ -	\$ 1,399,016
Grants and contributions	2,089	2,787,500	2,789,589	43,652	1,645,075	1,688,727
Government grant	883,061	-	883,061	1,551,722	-	1,551,722
Tuition	452,976	-	452,976	229,389	-	229,389
Conference fees	115,513	-	115,513	240,887	-	240,887
Investment income	12,536	-	12,536	18,670	-	18,670
Net assets released from restrictions	3,305,136	(3,305,136)	-	3,892,412	(3,892,412)	-
Total revenue and support	7,651,170	(517,636)	7,133,534	7,375,748	(2,247,337)	5,128,411
Expenses:						
Program services:						
Organizational services	6,953,513	-	6,953,513	6,990,843	-	6,990,843
Education	573,948	-	573,948	376,825	-	376,825
Total program services	7,527,461	-	7,527,461	7,367,668	-	7,367,668
Management and general	397,950	-	397,950	356,651	-	356,651
Fundraising	23,935	-	23,935	48,027	-	48,027
Total expenses	7,949,346	-	7,949,346	7,772,346	-	7,772,346
Change in net assets	(298,176)	(517,636)	(815,812)	(396,598)	(2,247,337)	(2,643,935)
Net assets, beginning of year	56,441	7,300,942	7,357,383	453,039	9,548,279	10,001,318
Net assets, end of year	\$ (241,735)	\$ 6,783,306	\$ 6,541,571	\$ 56,441	\$ 7,300,942	\$ 7,357,383

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

THE FAB FOUNDATION

Statements of Cash Flows

For the Years Ended December 31,

2016

2015

Cash flows (used in) provided by operating activities:

Change in net assets	\$ (815,812)	\$ (2,643,935)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Bad debt expense	22,815	6,900
Depreciation	159,891	159,890
Net realized losses on investments	-	25,865
Changes in operating assets and liabilities:		
Accounts receivable	(162,244)	84,719
Grants receivable	160,955	2,493,700
Prepaid expenses and other assets	(837)	20,071
Accounts payable	(141,065)	291,557
Accrued expenses	40,089	(30,860)
Lab operating costs payable	(356,065)	438,815
Deferred revenue	211,662	(215,322)
Net cash (used in) provided by operating activities	<u>(880,611)</u>	<u>631,400</u>

Cash flows provided by investing activities:

Purchases of investments	-	(489,944)
Proceeds from sales of investments	-	1,963,439
Net cash provided by investing activities	<u>-</u>	<u>1,473,495</u>

Cash flows from financing activities:

Net proceeds from line of credit	50,000	45,000
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Net (decrease) increase in cash	(830,611)	2,149,895
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Cash, beginning of year	<u>7,342,138</u>	<u>5,192,243</u>
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Cash, end of year	<u>\$ 6,511,527</u>	<u>\$ 7,342,138</u>
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Supplemental disclosure of cash flows information:

Cash paid during the year for interest	<u>\$ 17,936</u>	<u>\$ 3,472</u>
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THE FAB FOUNDATION

**Statements of Functional Expenses
For the Years Ended December 31,**

	2016						2015					
	Program			Management and General	Fundraising	Total	Program			Management and General	Fundraising	Total
	Organizational Services	Education	Total Program				Organizational Services	Education	Total Program			
Lab components and operating expenses	\$ 5,194,740	\$ 45,098	\$ 5,239,838	\$ 11,931	\$ -	\$ 5,251,769	\$ 5,031,531	\$ 40,503	\$ 5,072,034	\$ 34,647	\$ -	\$ 5,106,681
Professional fees	330,597	26,000	356,597	138,632	15,250	510,479	159,568	5,000	164,568	108,881	39,750	313,199
Sponsorships	409,540	-	409,540	-	-	409,540	310,784	-	310,784	-	-	310,784
Salaries, payroll taxes and benefits	251,727	9,637	261,364	107,382	8,685	377,431	225,676	8,059	233,735	59,145	8,277	301,157
Travel	323,421	2,187	325,608	26,125	-	351,733	302,035	12,602	314,637	31,125	-	345,762
Staffing	-	320,467	320,467	-	-	320,467	-	135,645	135,645	-	-	135,645
Conferences	274,021	-	274,021	5,481	-	279,502	683,696	-	683,696	108	-	683,804
Depreciation	-	159,891	159,891	-	-	159,891	-	159,890	159,890	-	-	159,890
Equipment grants	107,020	-	107,020	-	-	107,020	236,367	-	236,367	40,994	-	277,361
Occupancy	-	-	-	39,609	-	39,609	-	-	-	35,432	-	35,432
Grants and awards	22,638	-	22,638	3,845	-	26,483	6,000	-	6,000	-	-	6,000
Insurance	2,500	-	2,500	23,292	-	25,792	3,389	-	3,389	14,701	-	18,090
Bad debt expense	13,443	9,372	22,815	-	-	22,815	-	6,900	6,900	-	-	6,900
Office expense	1,887	210	2,097	16,310	-	18,407	4,027	-	4,027	12,667	-	16,694
Interest	-	-	-	17,936	-	17,936	-	-	-	3,472	-	3,472
Consulting	16,745	-	16,745	-	-	16,745	17,738	6,745	24,483	2,420	-	26,903
Bank fees	1,950	1,031	2,981	4,533	-	7,514	5,514	1,481	6,995	8,531	-	15,526
Miscellaneous	1,590	-	1,590	1,374	-	2,964	2,622	-	2,622	3,256	-	5,878
Postage and delivery	1,694	55	1,749	1,500	-	3,249	1,896	-	1,896	1,272	-	3,168
	<u>\$ 6,953,513</u>	<u>\$ 573,948</u>	<u>\$ 7,527,461</u>	<u>\$ 397,950</u>	<u>\$ 23,935</u>	<u>\$ 7,949,346</u>	<u>\$ 6,990,843</u>	<u>\$ 376,825</u>	<u>\$ 7,367,668</u>	<u>\$ 356,651</u>	<u>\$ 48,027</u>	<u>\$ 7,772,346</u>

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

THE FAB FOUNDATION

Notes to Financial Statements

1. Organization

Nature of Activities

The Fab Foundation (the “Organization”) was organized in February 2009 under the laws of the State of California for the purpose of providing access to the tools, the knowledge and the financial means to educate, innovate and invent using technology and digital fabrication to allow anyone to make (almost) anything, and thereby creating opportunities to improve lives and livelihoods around the world. The Organization’s headquarters are in Massachusetts. Community organizations, educational institutions and non-profit concerns are the Organization’s primary beneficiaries. The Organization’s primary sources of revenue and support are from contracts for the procurement of fab labs, grants and contributions and government grants. A fab lab is comprised of off-the-shelf, industrial-grade fabrication and electronics tools, wrapped in open source software and programs.

Program Descriptions

Organizational Services

The Organization promotes digital fabrication by facilitating the development of community-based and educational fab labs, the dissemination of best practices in digital fabrication throughout the fab lab network, facilitation and dissemination of research and community-beneficial projects, the funding and facilitation of fab lab and digital fabrication projects that benefit people and communities in exemplary ways, such as mobile fab labs for emergency aid, or fab labs for developing world contexts. These services include deploying, installing, training, and consulting for new fab labs as well as programmatic support of established fab labs. The Organization works to gather and provide critical evaluation data as well as provide tools for tracking the impact of fab labs in educational, business and social contexts. As part of its services the Organization provides a network function for the fab lab community, bringing together fab labs around the world either physically (for annual meetings and workshops) or virtually through online tools and resources. Additionally, as a resource to educational organizations, entrepreneurial organizations and the general public the Organization has developed an online global map of Fab Labs, MakerSpaces, and Innovation spaces such that people or organizations that need access to these facilities can find them easily.

Education

The Organization brings digital fabrication tools and processes to people of all ages, teaching the skills and knowledge of digital fabrication, developing curriculum for formal and informal educational settings, as well as designing and offering professional development training programs for teachers, fab lab managers and other professionals. The Organization offers advanced technical education through the Fab Academy which provides instruction and supervises investigation of mechanisms, applications, and implications of digital fabrication and other technologies. The Fab Academy is a worldwide, distributed campus utilizing fab labs as classrooms and libraries for a new kind of technical literacy.

THE FAB FOUNDATION

Notes to Financial Statements

2. Summary of Significant Accounting Policies

Basis of Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, the Organization determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

- 1) *Unrestricted net assets* represent expendable resources available for support of the Organization's general operations.
- 2) *Temporarily restricted net assets* represent resources restricted by donors for a specific period or purpose.
- 3) *Permanently restricted net assets* represent resources which cannot be expended. Income on these invested endowment funds are utilized in accordance with the donors' stipulations.

The Organization had no permanently restricted net assets as of December 31, 2016 or 2015, or during the years then ended.

Revenue and Support

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the restriction or expiration of the time restriction.

Contracts for equipping and setting up fab labs require a portion of the agreed upon price to be paid in advance. Revenue for constructing fab lab projects is recognized on an individual project basis based on the estimated project percentage completed at that time. Any amounts paid in excess of the revenue recognized are reported as deferred revenue.

Amounts received for Fab Academy tuition payments are recognized as revenue when instruction commences. Any amounts paid in advance of instruction are also reported as deferred revenue.

Amounts received for the annual Fab Lab Conference are recognized as revenue when the conference commences.

Revenue from government grants is recognized as expenses are incurred.

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue and Support (continued)

The Organization receives in-kind support in the form of contributed services. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions are recognized at fair value when received.

The Organization receives contributions of time by volunteers, including Board members which does not meet the criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Cash

Cash consists of deposits held in checking and money market accounts at federally insured banks.

Equipment

Equipment is recorded at cost or fair value at the date of donation. Expenditures for maintenance, repairs, and renewals are charged to expense when incurred, whereas additions in excess of \$2,000 are capitalized. Depreciation is computed over the estimated useful lives (5 years) of the equipment using the straight-line method.

Functional Allocation of Expenses

The costs of providing programs and other activities have been detailed in the statement of functional expenses and summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates and Subsequent Events

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

The Organization's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on September 26, 2017, the date these financial statements became available to be issued.

Income Taxes

The Organization is a publicly supported organization whose activities are described in Internal Revenue Code Section 501(c)(3) and, therefore, is exempt from income taxes. The Organization is also exempt from Massachusetts and California income tax. Tax returns for tax years beginning with those filed for the period ended December 31, 2013 are open to examination.

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Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts from 2015 have been reclassified on these financial statements in order to conform to 2016 presentation.

3. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a corresponding reserve based on its assessment of the current status of individual accounts. Balances that were still outstanding after management had used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. During the years ended December 31, 2016 and 2015, receivable balances of \$20,483 and \$6,900, respectively, were written off. As of December 31, 2016, the allowance for uncollectible accounts was \$2,332. No allowance for uncollectible accounts was deemed necessary at December 31, 2015.

4. Grants Receivable

Grants receivable are due in less than one year and consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Corporations	\$ 410,000	\$ 350,000
Government	37,668	258,643
	<u>\$ 447,668</u>	<u>\$ 608,643</u>

In July 2014, the Organization entered into a grant agreement with the United States Army Research Office (“ARO”) and Defense Advanced Research Projects Agency (“DARPA”) for \$2.8 million to fund research for distributing technical education to students through July 2016. In August 2016, the grant agreement was modified to include an additional \$199,673 of funding, and to extend the grant period through August 2017. An additional no cost extension was provided in 2017 through September 2017. The Organization recognized \$883,061 and \$1,551,722 of revenue under this agreement during the years ended December 31, 2016 and 2015, respectively.

5. Equipment

Equipment consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment	799,454	\$ 799,454
Less - accumulated depreciation	495,859	335,968
	<u>\$ 303,595</u>	<u>\$ 463,486</u>

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Notes to Financial Statements

5. Equipment (continued)

During the years ended December 31, 2016 and 2015, the Organization received donations of equipment with a fair value of \$107,020 and \$277,361, respectively to be used during the annual FAB conference which was held in August of each year. This amount is included in grants and contributions in the statements of activities and changes in net assets. The equipment was subsequently donated by the Organization to various Fab Labs for their use. The donated equipment expense is reflected in the statement of functional expenses for the years ended December 31, 2016 and 2015, respectively.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Procurement of fab labs	\$ 5,121,579	\$ 7,250,942
Annual FAB Conference	-	50,000
Savage project	128,828	-
SCOPES project	932,899	-
Brilliant Careers project	600,000	-
	<u>\$ 6,783,306</u>	<u>\$ 7,300,942</u>

Net assets released from restrictions for the years ended December 31, 2016 and 2015 consisted of the following:

Procurement of fab labs	\$ 2,555,863	\$ 2,829,211
Annual FAB Conference	300,500	751,581
Fiscal sponsorships	410,500	311,620
Savage project	38,104	-
SCOPES project	169	-
	<u>\$ 3,305,136</u>	<u>\$ 3,892,412</u>

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Notes to Financial Statements

7. Investment Income

Investment income for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 12,536	\$ 44,535
Net realized losses	-	(25,865)
	<u>\$ 12,536</u>	<u>\$ 18,670</u>

8. In-Kind Support

During the year ended December 31, 2015, the Organization recognized \$43,000 of income from in-kind contributions of professional services for the annual Fab conference, which is included as a component of professional fees in the statement of functional expense.

9. Line of Credit

In September 2015, the Organization entered into a line of credit agreement with a bank. Borrowings under the line of credit are due on demand, and are collateralized by equipment owned by the Organization. Under the line of credit agreement, the maximum borrowing limit is \$200,000. Borrowings on the line of credit bear interest at 2% over the prime rate (5.75% at December 31, 2016). Borrowings outstanding on the line of credit at December 31, 2016 and 2015 were \$95,000 and \$45,000, respectively.

10. Lease

The Organization leases office space under a tenant-at-will arrangement. Total rent expense amounted to \$30,325 and \$26,870 for the years ended December 31, 2016 and 2015, respectively.

11. Concentrations

Approximately 89% of the Organization's grants receivable at December 31, 2016 was due from one source. Approximately 84% of the Organization's grants receivable at December 31, 2015 was due from two sources. Approximately 48% of the total revenue and support received during the year ended December 31, 2016 was received from three sources. Approximately 30% of the total revenue and support received during the year ended December 31, 2015 was received from one source.

The Organization has a concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution for each account ownership category.