

THE FAB FOUNDATION

Financial Statements

December 31, 2017 and 2016

THE FAB FOUNDATION

December 31, 2017 and 2016

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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, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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, 2017 and 2016, 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.

A handwritten signature in black ink that reads "Edelstein & Company LLP".

Boston, Massachusetts
November 7, 2018

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Statements of Financial Position December 31,

	2017	2016
Assets:		
Cash	\$ 4,126,333	\$ 6,511,527
Accounts receivable, net	211,099	307,254
Grants receivable	-	447,688
Prepaid expenses and other assets	22,079	7,875
Equipment, net	145,297	303,595
Total assets	<u>\$ 4,504,808</u>	<u>\$ 7,577,939</u>
 Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 575,506	\$ 342,924
Accrued expenses	83,838	77,634
Lab operating costs payable	86,709	82,750
Line of credit	105,000	95,000
Deferred revenue	183,657	438,060
Total liabilities	<u>1,034,710</u>	<u>1,036,368</u>
 Net assets (deficit):		
Unrestricted	(488,443)	(241,735)
Temporarily restricted	3,958,541	6,783,306
	<u>3,470,098</u>	<u>6,541,571</u>
 Total liabilities and net assets	 <u>\$ 4,504,808</u>	 <u>\$ 7,577,939</u>

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

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Contracts	\$ 1,556,868	\$ -	\$ 1,556,868	\$ 2,879,859	\$ -	\$ 2,879,859
Grants and contributions	3,243	1,154,104	1,157,347	2,089	2,787,500	2,789,589
Government grant	458,803	-	458,803	883,061	-	883,061
Tuition	521,466	-	521,466	452,976	-	452,976
Conference fees	265	-	265	115,513	-	115,513
Interest income	8,364	-	8,364	12,536	-	12,536
Net assets released from restrictions	3,978,869	(3,978,869)	-	3,305,136	(3,305,136)	-
Total revenue and support	6,527,878	(2,824,765)	3,703,113	7,651,170	(517,636)	7,133,534
Expenses:						
Program services:						
Organizational services	5,767,887	-	5,767,887	6,953,513	-	6,953,513
Education	584,220	-	584,220	573,948	-	573,948
Total program services	6,352,107	-	6,352,107	7,527,461	-	7,527,461
Management and general	398,449	-	398,449	397,950	-	397,950
Fundraising	24,030	-	24,030	23,935	-	23,935
Total expenses	6,774,586	-	6,774,586	7,949,346	-	7,949,346
Change in net assets	(246,708)	(2,824,765)	(3,071,473)	(298,176)	(517,636)	(815,812)
Net assets (deficit), beginning of year	(241,735)	6,783,306	6,541,571	56,441	7,300,942	7,357,383
Net assets (deficit), end of year	\$ (488,443)	\$ 3,958,541	\$ 3,470,098	\$ (241,735)	\$ 6,783,306	\$ 6,541,571

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

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Statements of Cash Flows

For the Years Ended December 31,

2017

2016

Cash flows from operating activities:

Change in net assets	\$ (3,071,473)	\$ (815,812)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Bad debt expense	8,048	22,815
Depreciation	160,688	159,891
Changes in operating assets and liabilities:		
Accounts receivable	88,107	(162,244)
Grants receivable	447,688	160,955
Prepaid expenses and other assets	(14,204)	(837)
Accounts payable	232,582	(141,065)
Accrued expenses	6,204	40,089
Lab operating costs payable	3,959	(356,065)
Deferred revenue	(254,403)	211,662
Net cash used in operating activities	<u>(2,392,804)</u>	<u>(880,611)</u>

Cash flows from investing activities:

Purchase of equipment	<u>(2,390)</u>	<u>-</u>
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Cash flows from financing activities:

Net proceeds from line of credit	<u>10,000</u>	<u>50,000</u>
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Net decrease in cash

(2,385,194) (830,611)

Cash, beginning of year

6,511,527 7,342,138

Cash, end of year

\$ 4,126,333 \$ 6,511,527

Supplemental disclosure of cash flows information:

Cash paid during the year for interest	<u>\$ 21,731</u>	<u>\$ 17,936</u>
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**Statements of Functional Expenses
For the Years Ended December 31,**

	2017						2016					
	Program Services					Total	Program Services					Total
	Organizational Services	Education	Program Services	Management and General	Fundraising		Organizational Services	Education	Program Services	Management and General	Fundraising	
Lab components and operating expenses	\$ 3,823,336	\$ 35,657	\$ 3,858,993	\$ -	\$ -	\$ 3,858,993	\$ 5,194,740	\$ 45,098	\$ 5,239,838	\$ 11,931	\$ -	\$ 5,251,769
Professional fees	759,422	47,229	806,651	152,690	15,000	974,341	330,597	26,000	356,597	138,632	15,250	510,479
Salaries, payroll taxes and benefits	509,625	10,100	519,725	107,550	8,959	636,234	251,727	9,637	261,364	107,382	8,685	377,431
Travel	322,167	7,230	329,397	17,743	71	347,211	323,421	2,187	325,608	26,125	-	351,733
Staffing	-	317,811	317,811	-	-	317,811	-	320,467	320,467	-	-	320,467
Sponsorships	262,500	-	262,500	-	-	262,500	409,540	-	409,540	-	-	409,540
Depreciation	-	159,891	159,891	797	-	160,688	-	159,891	159,891	-	-	159,891
Occupancy	327	-	327	51,434	-	51,761	-	-	-	39,609	-	39,609
Office expense	7,929	472	8,401	18,721	-	27,122	1,887	210	2,097	16,310	-	18,407
Equipment grants	27,000	-	27,000	-	-	27,000	107,020	-	107,020	-	-	107,020
Conferences	26,569	-	26,569	123	-	26,692	274,021	-	274,021	5,481	-	279,502
Grants and awards	12,031	-	12,031	10,500	-	22,531	22,638	-	22,638	3,845	-	26,483
Interest	-	-	-	21,731	-	21,731	-	-	-	17,936	-	17,936
Insurance	220	-	220	13,748	-	13,968	2,500	-	2,500	23,292	-	25,792
Miscellaneous	11,526	212	11,738	1,518	-	13,256	1,590	-	1,590	1,374	-	2,964
Bad debt expense	4,190	3,858	8,048	-	-	8,048	13,443	9,372	22,815	-	-	22,815
Bank fees	255	1,742	1,997	1,702	-	3,699	1,950	1,031	2,981	4,533	-	7,514
Postage and delivery	790	18	808	192	-	1,000	1,694	55	1,749	1,500	-	3,249
Consulting	-	-	-	-	-	-	16,745	-	16,745	-	-	16,745
	<u>\$ 5,767,887</u>	<u>\$ 584,220</u>	<u>\$ 6,352,107</u>	<u>\$ 398,449</u>	<u>\$ 24,030</u>	<u>\$ 6,774,586</u>	<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>

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.

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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, 2017 or 2016, 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 over the period of instruction. 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 may receive 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 a federally insured bank.

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 (3 - 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 in the United States of America 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 November 7, 2018, 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.

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Notes to Financial Statements

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, 2017 and 2016, receivable balances of \$10,380 and \$20,483, respectively, were written off. No allowance for uncollectible accounts was deemed necessary at December 31, 2017. As of December 31, 2016, the allowance for uncollectible accounts was \$2,332.

4. Grants Receivable

There were no grants receivable December 31, 2017. Grants receivable due in less than one year amounted to \$447,668 at December 31, 2016.

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 \$458,803 and \$883,061 of revenue under this agreement during the years ended December 31, 2017 and 2016, respectively.

5. Equipment

Equipment consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 801,844	\$ 799,454
Less - accumulated depreciation	<u>656,547</u>	<u>495,859</u>
	<u>\$ 145,297</u>	<u>\$ 303,595</u>

During the years ended December 31, 2017 and 2016, the Organization received donations of equipment with a fair value of \$27,000 and \$107,020, 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, 2017 and 2016, respectively.

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Notes to Financial Statements

6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Procurement of fab labs	\$ 2,706,586	\$ 5,121,579
Fiscal sponsorships	250,000	-
Savage project	-	128,828
SCOPEs project	962,955	932,899
Brilliant Careers project	-	600,000
Academy scholarships	12,500	-
Chevron fab lab meeting	26,500	-
	<u>\$ 3,958,541</u>	<u>\$ 6,783,306</u>

Net assets released from restrictions for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Procurement of fab labs	\$ 2,384,993	\$ 2,555,863
Annual FAB Conference	132,604	300,500
Fiscal sponsorships	262,500	410,500
Savage project	128,828	38,104
SCOPEs project	469,944	169
Brilliant Careers project	600,000	-
	<u>\$ 3,978,869</u>	<u>\$ 3,305,136</u>

7. Line of Credit

The Organization has 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 (6.25% at December 31, 2017). Borrowings outstanding on the line of credit at December 31, 2017 and 2016 were \$105,000 and \$95,000, respectively.

8. Lease

The Organization leases office space under a tenant-at-will arrangement. Total rent expense under this lease amounted to \$41,262 and \$30,325 for the years ended December 31, 2017 and 2016, respectively.

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Notes to Financial Statements

9. Concentrations

Approximately 40% and 48% of the total revenue and support received during the years ended December 31, 2017 and 2016, respectively, was received from three sources. Approximately 79% of accounts receivable at December 31, 2017 was due from three sources. Approximately 89% of the Organization's grants receivable at December 31, 2016 was due 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. The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution for each account ownership category.