
THE FAB FOUNDATION

Financial Statements

December 31, 2013

THE FAB FOUNDATION

December 31, 2013

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows.....	4
Statement of Functional Expenses	5
Notes to Financial Statements.....	6

Independent Auditors' Report

To the Board of Directors
The Fab Foundation
Cambridge, Massachusetts

We have audited the accompanying financial statements of The Fab Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2013, 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.

Edelstein & Company LLP

Boston, Massachusetts
November 11, 2014

THE FAB FOUNDATION

Statement of Financial Position December 31, 2013

Assets:

Cash	\$ 4,102,755
Accounts receivable	104,969
Grants receivable	5,914,000
Prepaid expenses	885
Equipment	432,595
Total assets	<u><u>\$ 10,555,204</u></u>

Liabilities and net assets

Liabilities:

Accounts payable	\$ 14,355
Accrued expenses	87,805
Payroll liabilities	526
Deferred revenue	151,569
Total liabilities	<u>254,255</u>

Net assets:

Unrestricted	400,867
Temporarily restricted	9,900,082
Total net assets	<u>10,300,949</u>

Total liabilities and net assets	<u><u>\$ 10,555,204</u></u>
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THE FAB FOUNDATION

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Contracts	\$ 346,231	\$ -	\$ 346,231
Grants and contributions	480,761	10,065,988	10,546,749
Tuition	97,750	-	97,750
Net assets released from restrictions	165,906	(165,906)	-
Total revenue and support	<u>1,090,648</u>	<u>9,900,082</u>	<u>10,990,730</u>
Expenses:			
Program services:			
Organizational services	497,874	-	497,874
Education	134,458	-	134,458
Total program services	<u>632,332</u>	<u>-</u>	<u>632,332</u>
Management and general	74,673	-	74,673
Total expenses	<u>707,005</u>	<u>-</u>	<u>707,005</u>
Change in net assets	383,643	9,900,082	10,283,725
Net assets, beginning of year	<u>17,224</u>	<u>-</u>	<u>17,224</u>
Net assets, end of year	<u>\$ 400,867</u>	<u>\$ 9,900,082</u>	<u>\$ 10,300,949</u>

THE FAB FOUNDATION

Statement of Cash Flows For the Year Ended December 31, 2013

Cash flows provided by operating activities:

Change in net assets	\$ 10,283,725
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Noncash contributions of equipment	(480,661)
Depreciation	48,066
Changes in operating assets and liabilities:	
Accounts receivable	(91,315)
Grants receivable	(5,914,000)
Prepaid expenses	(885)
Accounts payable	14,355
Accrued expenses	42,400
Payroll liabilities	526
Deferred revenue	52,692
Net cash provided by operating activities	<u>3,954,903</u>
Cash, beginning of year	<u>147,852</u>
Cash, end of year	<u><u>\$ 4,102,755</u></u>

THE FAB FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2013**

	Program			Management and General	Total
	Organizational Services	Education	Total Program		
Lab components	\$ 438,579	\$ 333	\$ 438,912	\$ -	\$ 438,912
Travel	35,978	21,372	57,350	6,019	63,369
Staffing	-	48,202	48,202	-	48,202
Depreciation	-	48,066	48,066	-	48,066
Professional fees	-	10,000	10,000	35,588	45,588
Conferences	16,483	1,860	18,343	-	18,343
Office expense	1,447	2,529	3,976	9,559	13,535
Salaries and payroll taxes	-	-	-	11,379	11,379
Miscellaneous	2,887	-	2,887	5,988	8,875
Occupancy	-	-	-	5,662	5,662
Grants and awards	2,500	248	2,748	-	2,748
Postage and delivery	-	1,848	1,848	478	2,326
	<u>\$ 497,874</u>	<u>\$ 134,458</u>	<u>\$ 632,332</u>	<u>\$ 74,673</u>	<u>\$ 707,005</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, tuition, and grants and contributions. 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.

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. 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, 2013, or during the year 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 costs incurred to date, plus the proportional quoted mark-up percentage. 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.

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. Donations of equipment received in 2013 were unrestricted.

The Organization receives contributions of time by volunteers, including Board members, and the use of office space and various office services. Management has not been able to readily determine the value of these in-kind items, or they do not meet the criteria for recognition of in-kind support, and therefore, they have not been reflected in the financial statements.

THE FAB FOUNDATION

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash

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

Equipment

Equipment is stated 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 November 11, 2014, 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.

The Organization has evaluated the tax positions taken on returns for open years and those expected to be taken on returns for the year ended December 31, 2013. It is management's belief that such tax positions are more likely than not to be sustained upon examination by tax authorities. Accordingly, no liability for uncertain tax positions has been reflected in these financial statements. Tax returns for tax years beginning with those filed for the period ended December 31, 2010 are open to examination.

THE FAB FOUNDATION

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. As of December 31, 2013, no allowance for uncollectible accounts was deemed necessary.

4. Grants Receivable

Grants receivable consisted of the following at December 31, 2013:

Receivable in less than one year	\$ 3,004,000
Receivable in one to five years	3,000,000
	<u>6,004,000</u>
Less - discount to net present value	90,000
	<u>\$ 5,914,000</u>

Included in grants receivable is \$6,000,000 due on a \$10,000,000 grant award from a large corporation. The grants is payable over three years, and the first installment was received by the Organization in 2013.

Grants receivable are reported at their net realizable value based on the amount management expects to collect on outstanding balances. The present value of estimated future cash flows has been determined using a discount rate of 3% for the year ended December 31, 2013.

5. Equipment

Equipment consisted of the following at December 31, 2013:

Equipment	\$ 480,661
Less - accumulated depreciation	48,066
	<u>\$ 432,595</u>

During the year ended December 31, 2013, the organization received a donation of video conferencing system with a fair value of \$480,661. The video conferencing equipment is used to facilitate the exchange of ideas and knowledge with respect to the Fab Academy.

THE FAB FOUNDATION

Notes to Financial Statements

6. Temporarily Restricted Net Assets

At December 31, 2013 temporarily restricted net assets consisted of \$9,900,082 restricted for procurement of fab labs.

Net assets released from restrictions for the year ended December 31, 2013 consisted of the following:

Procurement of fab labs	\$	149,906
Development of Fab Ed online course		<u>16,000</u>
	\$	<u><u>165,906</u></u>

7. Concentrations

At December 31, 2013, 99% of the Organization's grants receivable was due from one donor, and 90% of its total revenue and support was received from one donor.

The Organization has a potential 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.

8. Subsequent Event

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") to fund research for distributing technical education to students. The grant provides for a total of \$2,800,000 through July 2016.