

THE FAB FOUNDATION

Financial Statements

December 31, 2015 and 2014

THE FAB FOUNDATION

December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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
September 29, 2016

THE FAB FOUNDATION

Statements of Financial Position December 31,

	2015	2014
Assets:		
Cash	\$ 7,342,138	\$ 5,192,243
Accounts receivable	167,825	259,444
Grants receivable	608,643	3,102,343
Prepaid expenses and other assets	7,038	27,109
Investments	-	1,499,360
Equipment, net	463,486	623,376
Total assets	<u>\$ 8,589,130</u>	<u>\$ 10,703,875</u>
 Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 429,857	\$ 138,300
Accrued expenses	91,677	122,537
Lab operating costs payable	438,815	-
Line of credit	45,000	-
Deferred revenue	226,398	441,720
Total liabilities	<u>1,231,747</u>	<u>702,557</u>
 Net assets:		
Unrestricted	56,441	453,039
Temporarily restricted	7,300,942	9,548,279
	<u>7,357,383</u>	<u>10,001,318</u>
 Total liabilities and net assets	 <u>\$ 8,589,130</u>	 <u>\$ 10,703,875</u>

THE FAB FOUNDATION

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

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Contracts	\$ 1,399,016	\$ -	\$ 1,399,016	\$ 533,183	\$ -	\$ 533,183
Grants and contributions	43,652	1,645,075	1,688,727	321,646	630,716	952,362
Government grant	1,551,722	-	1,551,722	-	-	-
Tuition	229,389	-	229,389	110,973	-	110,973
Conference fees	240,887	-	240,887	-	-	-
Investment income	18,670	-	18,670	4,048	-	4,048
Net assets released from restrictions	3,892,412	(3,892,412)	-	982,519	(982,519)	-
Total revenue and support	7,375,748	(2,247,337)	5,128,411	1,952,369	(351,803)	1,600,566
Expenses:						
Program services:						
Organizational services	6,990,843	-	6,990,843	1,447,740	-	1,447,740
Education	376,825	-	376,825	247,738	-	247,738
Total program services	7,367,668	-	7,367,668	1,695,478	-	1,695,478
Management and general	356,651	-	356,651	200,571	-	200,571
Fundraising	48,027	-	48,027	4,148	-	4,148
Total expenses	7,772,346	-	7,772,346	1,900,197	-	1,900,197
Change in net assets	(396,598)	(2,247,337)	(2,643,935)	52,172	(351,803)	(299,631)
Net assets, beginning of year	453,039	9,548,279	10,001,318	400,867	9,900,082	10,300,949
Net assets, end of year	\$ 56,441	\$ 7,300,942	\$ 7,357,383	\$ 453,039	\$ 9,548,279	\$ 10,001,318

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

THE FAB FOUNDATION

Statements of Cash Flows

For the Years Ended December 31,

2015

2014

Cash flows provided by operating activities:

Change in net assets	\$ (2,643,935)	\$ (299,631)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Bad debt expense	6,900	6,250
Noncash contributions of equipment	-	(318,793)
Depreciation	159,890	128,012
Net realized and unrealized losses on investments	25,865	31,970
Changes in operating assets and liabilities:		
Accounts receivable	84,719	(160,725)
Grants receivable	2,493,700	2,811,657
Prepaid expenses and other assets	20,071	(26,224)
Accounts payable	291,557	123,945
Accrued expenses	(30,860)	34,732
Payroll liabilities	-	(526)
Lab operating costs payable	438,815	-
Deferred revenue	(215,322)	290,151
Net cash provided by operating activities	<u>631,400</u>	<u>2,620,818</u>

Cash flows provided by (used in) investing activities:

Purchases of investments	(489,944)	(2,286,824)
Proceeds from sales of investments	1,963,439	755,494
Net cash provided by (used in) investing activities	<u>1,473,495</u>	<u>(1,531,330)</u>

Cash flows from financing activities:

Net proceeds from line of credit	45,000	-
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Net increase in cash

2,149,895 1,089,488

Cash, beginning of year

5,192,243 4,102,755

Cash, end of year

\$ 7,342,138 \$ 5,192,243

Supplemental disclosure of cash flows information:

Cash paid during the year for interest	\$ 3,472	\$ -
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**Statements of Functional Expenses
For the Years Ended December 31,**

	2015						2014					
	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	\$ 5,031,531	\$ 40,503	\$ 5,072,034	\$ 34,647	\$ -	\$ 5,106,681	\$ 914,289	\$ 22,151	\$ 936,440	\$ 1,734	\$ -	\$ 938,174
Conferences	683,696	-	683,696	108	-	683,804	26,527	-	26,527	389	-	26,916
Travel	302,035	12,602	314,637	31,125	-	345,762	84,113	3,393	87,506	15,515	-	103,021
Equipment grants	236,367	-	236,367	40,994	-	277,361	-	-	-	-	-	-
Professional fees	159,568	5,000	164,568	108,881	39,750	313,199	24,788	-	24,788	75,307	-	100,095
Sponsorships	310,784	-	310,784	-	-	310,784	18,716	-	18,716	-	-	18,716
Salaries, payroll taxes and benefits	225,676	8,059	233,735	59,145	8,277	301,157	67,895	7,787	75,682	41,548	4,148	121,378
Depreciation	-	159,890	159,890	-	-	159,890	-	128,012	128,012	-	-	128,012
Staffing	-	135,645	135,645	-	-	135,645	-	76,625	76,625	-	-	76,625
Occupancy	-	-	-	35,432	-	35,432	-	-	-	16,656	-	16,656
Consulting	17,738	6,745	24,483	2,420	-	26,903	295,390	-	295,390	-	-	295,390
Insurance	3,389	-	3,389	14,701	-	18,090	-	-	-	13,651	-	13,651
Office expense	4,027	-	4,027	12,667	-	16,694	436	3,027	3,463	17,270	-	20,733
Bank and investment fees	5,514	1,481	6,995	8,531	-	15,526	-	493	493	3,899	-	4,392
Miscellaneous	2,622	-	2,622	6,728	-	9,350	300	-	300	7,211	-	7,511
Bad debt expense	-	6,900	6,900	-	-	6,900	-	6,250	6,250	-	-	6,250
Grants and awards	6,000	-	6,000	-	-	6,000	15,000	-	15,000	510	-	15,510
Postage and delivery	1,896	-	1,896	1,272	-	3,168	286	-	286	6,881	-	7,167
	<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>	<u>\$ 1,447,740</u>	<u>\$ 247,738</u>	<u>\$ 1,695,478</u>	<u>\$ 200,571</u>	<u>\$ 4,148</u>	<u>\$ 1,900,197</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.

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, 2015 or 2014, 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 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.

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)

Changes in fair value of securities and realized gains and losses have been reflected in the statement of activities and changes in net assets. Interest, dividends, realized and unrealized gains and losses on investments are recorded as revenue and support of unrestricted net assets unless the income and gains and losses are restricted by donor or law.

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.

Fair Value Measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to *Level 1* inputs.

Level 2 - Observable inputs other than *Level 1* inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to *Level 3* inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Fair values are reported as follows:

Cash equivalents (money market funds) - quoted net asset values.

Corporate and municipal bonds - based on independent unadjusted market based prices received from a third-party pricing service.

Cash

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

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Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 29, 2016, 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, 2012 are open to examination.

Reclassifications

Certain amounts from 2014 have been reclassified on these financial statements in order to conform to 2015 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, 2015 and 2014, receivable balances of \$6,900 and \$6,250, respectively, were written off. As of December 31, 2015 and 2014, no allowance for uncollectible accounts was deemed necessary.

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Notes to Financial Statements

4. Grants Receivable

Grants receivable are due in less than one year and consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Corporations	\$ 350,000	\$ 3,100,000
Government	258,643	2,343
	<u>\$ 608,643</u>	<u>\$ 3,102,343</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. The Organization recognized \$1,551,722 and \$2,343 of revenue under this agreement during the years ended December 31, 2015 and 2014, respectively.

At December 31, 2015, the Organization had conditional grants receivable of \$460,000 which will not be recognized as assets in the statements of financial position or as revenue in the statements of activities and changes in net assets until such time as the conditions of the grants are met.

5. Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis consisted of the following at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Investments:</u>			
Cash Equivalents	\$ 362,040	\$ -	\$ -
Fixed income:			
Corporate bonds	-	588,297	-
Municipal bonds	-	549,023	-
	<u>\$ 362,040</u>	<u>\$ 1,137,320</u>	<u>\$ -</u>

6. Equipment

Equipment consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Equipment	799,454	\$ 799,454
Less - accumulated depreciation	335,968	176,078
	<u>\$ 463,486</u>	<u>\$ 623,376</u>

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Notes to Financial Statements

6. Equipment (continued)

During the year ended December 31, 2015 the Organization received donations of equipment with a fair value of \$277,361 to be used during the FAB 11 conference which was held in August, 2015. This amount is included in grants and contributions in the statement 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. During the year ended December 31, 2014, the organization received donations of video conferencing systems with a fair value of \$318,793. The video conferencing equipment is used to facilitate the exchange of ideas and knowledge with respect to the Fab Academy.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Procurement of fab labs	\$ 7,250,942	\$ 9,451,059
Development of Fab ED project	-	47,220
Annual FAB Conference	50,000	50,000
	<u>\$ 7,300,942</u>	<u>\$ 9,548,279</u>

Net assets released from restrictions for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Procurement of fab labs	\$ 2,829,211	\$ 939,023
Annual FAB Conference	751,581	-
Fiscal sponsorship	311,620	18,716
Development of Fab ED project	-	2,780
Global Fab Awards	-	22,000
	<u>\$ 3,892,412</u>	<u>\$ 982,519</u>

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Notes to Financial Statements

8. Investment Income

Investment income for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 44,535	\$ 36,018
Net realized gains	(25,865)	12
Net unrealized losses	-	(31,982)
	<u>\$ 18,670</u>	<u>\$ 4,048</u>

9. 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.

10. 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. Borrowings outstanding on the line of credit at December 31, 2015 were \$45,000.

11. Lease

The Organization leases office space under a tenant-at-will arrangement. Total rent expense amounted to \$26,870 and \$15,820 for the years ended December 31, 2015 and 2014, respectively.

12. Concentrations

Approximately 84% of the Organization's grants receivable at December 31, 2015 was due from two sources. Approximately 97% of the Organization's grants receivable at December 31, 2014 was due from one source. Approximately 30% and 31% of the total revenue and support received during the years ended December 31, 2015 and 2014, respectively, was received from one source.

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.