

THE FAB FOUNDATION

Financial Statements

December 31, 2014 and 2013

THE FAB FOUNDATION

December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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
October 6, 2015

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Statements of Financial Position December 31,

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Assets:						
Cash	\$ 110,143	\$ 5,082,100	\$ 5,192,243	\$ 112,673	\$ 3,990,082	\$ 4,102,755
Accounts receivable	259,444	-	259,444	104,969	-	104,969
Grants receivable	2,343	3,100,000	3,102,343	4,000	5,910,000	5,914,000
Prepaid expenses	27,109	-	27,109	885	-	885
Investments	-	1,499,360	1,499,360	-	-	-
Equipment	623,376	-	623,376	432,595	-	432,595
Total assets	\$ 1,022,415	\$ 9,681,460	\$ 10,703,875	\$ 655,122	\$ 9,900,082	\$ 10,555,204
Liabilities and net assets						
Liabilities:						
Accounts payable	\$ 5,119	\$ 133,181	\$ 138,300	\$ 14,355	\$ -	\$ 14,355
Accrued expenses	122,537	-	122,537	87,805	-	87,805
Payroll liabilities	-	-	-	526	-	526
Deferred revenue	441,720	-	441,720	151,569	-	151,569
Total liabilities	569,376	133,181	702,557	254,255	-	254,255
Net assets	453,039	9,548,279	10,001,318	400,867	9,900,082	10,300,949
Total liabilities and net assets	\$ 1,022,415	\$ 9,681,460	\$ 10,703,875	\$ 655,122	\$ 9,900,082	\$ 10,555,204

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

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

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Contracts	\$ 533,183	\$ -	\$ 533,183	\$ 346,231	\$ -	\$ 346,231
Grants and contributions	321,646	630,716	952,362	480,761	10,065,988	10,546,749
Tuition	110,973	-	110,973	97,750	-	97,750
Investment income	4,048	-	4,048	-	-	-
Net assets released from restrictions	982,519	(982,519)	-	165,906	(165,906)	-
Total revenue and support	1,952,369	(351,803)	1,600,566	1,090,648	9,900,082	10,990,730
Expenses:						
Program services:						
Organizational services	1,447,740	-	1,447,740	497,874	-	497,874
Education	247,738	-	247,738	134,458	-	134,458
Total program services	1,695,478	-	1,695,478	632,332	-	632,332
Management and general	200,571	-	200,571	74,673	-	74,673
Fundraising	4,148	-	4,148	-	-	-
Total expenses	1,900,197	-	1,900,197	707,005	-	707,005
Change in net assets	52,172	(351,803)	(299,631)	383,643	9,900,082	10,283,725
Net assets, beginning of year	400,867	9,900,082	10,300,949	17,224	-	17,224
Net assets, end of year	\$ 453,039	\$ 9,548,279	\$ 10,001,318	\$ 400,867	\$ 9,900,082	\$ 10,300,949

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Statements of Cash Flows

For the Years Ended December 31,

2014

2013

Cash flows provided by operating activities:

Change in net assets	\$ (299,631)	\$ 10,283,725
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Bad debt expense	6,250	-
Noncash contributions of equipment	(318,793)	(480,661)
Depreciation	128,012	48,066
Net realized and unrealized losses on investments	31,970	-
Changes in operating assets and liabilities:		
Accounts receivable	(160,725)	(91,315)
Grants receivable	2,811,657	(5,914,000)
Prepaid expenses	(26,224)	(885)
Accounts payable	123,945	14,355
Accrued expenses	34,732	42,400
Payroll liabilities	(526)	526
Deferred revenue	290,151	52,692
Net cash provided by operating activities	<u>2,620,818</u>	<u>3,954,903</u>
Cash flows used in investing activities:		
Purchases of investments	(2,286,824)	-
Proceeds from sales of investments	755,494	-
Net cash used in investing activities	<u>(1,531,330)</u>	<u>-</u>
Cash, beginning of year	<u>4,102,755</u>	<u>147,852</u>
Cash, end of year	<u>\$ 5,192,243</u>	<u>\$ 4,102,755</u>

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

	2014						2013					
	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	\$ 914,289	\$ 22,151	\$ 936,440	\$ 1,734	\$ -	\$ 938,174	\$ 438,579	\$ 333	\$ 438,912	\$ -	\$ -	\$ 438,912
Consulting	295,390	-	295,390	-	-	295,390	-	-	-	-	-	-
Depreciation	-	128,012	128,012	-	-	128,012	-	48,066	48,066	-	-	48,066
Salaries and payroll taxes	67,895	7,787	75,682	41,548	4,148	121,378	-	-	-	11,379	-	11,379
Travel	84,113	3,393	87,506	15,515	-	103,021	35,978	21,372	57,350	6,019	-	63,369
Professional fees	24,788	-	24,788	75,307	-	100,095	-	10,000	10,000	35,588	-	45,588
Staffing	-	76,625	76,625	-	-	76,625	-	48,202	48,202	-	-	48,202
Grants and awards	33,716	-	33,716	510	-	34,226	2,500	248	2,748	-	-	2,748
Conferences	26,527	-	26,527	389	-	26,916	16,483	1,860	18,343	-	-	18,343
Office expense	436	3,027	3,463	17,270	-	20,733	1,447	2,529	3,976	9,559	-	13,535
Occupancy	-	-	-	16,656	-	16,656	-	-	-	5,662	-	5,662
Insurance	-	-	-	13,651	-	13,651	-	-	-	-	-	-
Miscellaneous	300	-	300	7,211	-	7,511	2,887	-	2,887	4,342	-	7,229
Bad debt expense	-	6,250	6,250	-	-	6,250	-	-	-	-	-	-
Postage and delivery	286	-	286	6,881	-	7,167	-	1,848	1,848	478	-	2,326
Bank and investment fees	-	493	493	3,899	-	4,392	-	-	-	1,646	-	1,646
	<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>	<u>\$ 497,874</u>	<u>\$ 134,458</u>	<u>\$ 632,332</u>	<u>\$ 74,673</u>	<u>\$ -</u>	<u>\$ 707,005</u>

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

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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.

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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, 2014 or 2013, 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.

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. Donations of equipment received in 2014 and 2013 were unrestricted.

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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 contributions of time by volunteers, including Board members. These contributions do not meet the criteria for recognition of in-kind support, and therefore, they have not been reflected in the 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.

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.

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Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 October 6, 2015, 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, 2011 are open to examination.

Reclassifications

Certain amounts from 2013 have been reclassified on these financial statements in order to conform to 2014 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 year ended December 31, 2014, receivable balances of \$6,250 were written off. As of December 31, 2014 and 2013, no allowance for uncollectible accounts was deemed necessary.

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Notes to Financial Statements

4. Grants Receivable

Grants receivable consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 3,102,343	\$ 3,004,000
Receivable in one to five years	-	3,000,000
	<u>3,102,343</u>	<u>6,004,000</u>
Less - discount to net present value	-	90,000
	<u>\$ 3,102,343</u>	<u>\$ 5,914,000</u>

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 was determined using a discount rate of 3% for the year ended December 31, 2013.

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. Grants receivable at December 31, 2014 and grants and contributions revenue for the year ended December 31, 2014 include \$2,343 for expenses charged to this grant.

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, 2014 and 2013 :

	<u>2014</u>	<u>2013</u>
Equipment	\$ 799,454	\$ 480,661
Less - accumulated depreciation	<u>176,078</u>	<u>48,066</u>
	<u>\$ 623,376</u>	<u>\$ 432,595</u>

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Notes to Financial Statements

6. Equipment (continued)

During the years ended December 31, 2014 and 2013, the organization received donations of video conferencing systems with a fair value of \$318,793 and \$480,661, respectively. 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Procurement of fab labs	\$ 9,451,059	\$ 9,900,082
Development of Fab ED project	47,220	-
FAB 11 Conference	50,000	-
	<u>\$ 9,548,279</u>	<u>\$ 9,900,082</u>

Net assets released from restrictions for the years ended December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Procurement of fab labs	\$ 939,023	\$ 149,906
Development of Fab ED project	2,780	-
Global Fab Awards	22,000	-
Fiscal sponsorships	18,716	-
Development of Fab ED online course	-	16,000
	<u>\$ 982,519</u>	<u>\$ 165,906</u>

8. Investment Income

Investment income for the year ended December 31, 2014 consisted of the following:

Dividends and interest	\$ 36,018
Net realized gains	12
Net unrealized losses	(31,982)
	<u>\$ 4,048</u>

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Notes to Financial Statements

9. Concentrations

Approximately 97% and 99% of the Organization's grants receivable at December 31, 2014 and 2013, respectively was due from one donor. Approximately 31% and 90% of the total revenue and support received during the years ended December 31, 2014 and 2013, respectively, 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.