

THE FAB FOUNDATION

Financial Statements

December 31, 2018 and 2017

THE FAB FOUNDATION

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019

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Statements of Financial Position December 31,

	2018	2017
Assets:		
Cash	\$ 2,679,999	\$ 4,126,333
Accounts receivable	154,614	211,099
Grants receivable	916,000	-
Prepaid expenses and other assets	13,744	22,079
Equipment, net	34,063	145,297
Total assets	<u>\$ 3,798,420</u>	<u>\$ 4,504,808</u>
 Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 236,397	\$ 575,506
Accrued expenses	143,492	83,838
Lab operating costs payable	158,734	86,709
Line of credit	135,000	105,000
Deferred revenue	349,878	183,657
Total liabilities	<u>1,023,501</u>	<u>1,034,710</u>
 Net assets (deficit):		
Without donor restrictions	(237,867)	(488,443)
With donor restrictions	3,012,786	3,958,541
	<u>2,774,919</u>	<u>3,470,098</u>
 Total liabilities and net assets	 <u>\$ 3,798,420</u>	 <u>\$ 4,504,808</u>

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

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Contracts	\$ 1,027,418	\$ -	\$ 1,027,418	\$ 1,556,868	\$ -	\$ 1,556,868
Grants and contributions	139,418	3,073,581	3,212,999	3,243	1,154,104	1,157,347
Government grant	-	-	-	458,803	-	458,803
Tuition	452,669	-	452,669	521,466	-	521,466
Conference fees	-	-	-	265	-	265
Interest income	4,050	-	4,050	8,364	-	8,364
Net assets released from restrictions	4,019,336	(4,019,336)	-	3,978,869	(3,978,869)	-
Total revenue and support	5,642,891	(945,755)	4,697,136	6,527,878	(2,824,765)	3,703,113
Expenses:						
Program services:						
Organizational services	4,354,672	-	4,354,672	5,767,887	-	5,767,887
Education	551,193	-	551,193	584,220	-	584,220
Total program services	4,905,865	-	4,905,865	6,352,107	-	6,352,107
Management and general	456,465	-	456,465	398,449	-	398,449
Fundraising	29,985	-	29,985	24,030	-	24,030
Total expenses	5,392,315	-	5,392,315	6,774,586	-	6,774,586
Change in net assets	250,576	(945,755)	(695,179)	(246,708)	(2,824,765)	(3,071,473)
Net assets (deficit), beginning of year	(488,443)	3,958,541	3,470,098	(241,735)	6,783,306	6,541,571
Net assets (deficit), end of year	\$ (237,867)	\$ 3,012,786	\$ 2,774,919	\$ (488,443)	\$ 3,958,541	\$ 3,470,098

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

THE FAB FOUNDATION

Statements of Cash Flows

For the Years Ended December 31,

2018

2017

Cash flows from operating activities:

Change in net assets	\$ (695,179)	\$ (3,071,473)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense	6,719	8,048
Depreciation	113,315	160,688
Changes in operating assets and liabilities:		
Accounts receivable	49,766	88,107
Grants receivable	(916,000)	447,688
Prepaid expenses and other assets	8,335	(14,204)
Accounts payable	(339,109)	232,582
Accrued expenses	59,654	6,204
Lab operating costs payable	72,025	3,959
Deferred revenue	166,221	(254,403)
Net cash used in operating activities	<u>(1,474,253)</u>	<u>(2,392,804)</u>

Cash flows from investing activities:

Purchase of equipment	<u>(2,081)</u>	<u>(2,390)</u>
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Cash flows from financing activities:

Net proceeds from line of credit	<u>30,000</u>	<u>10,000</u>
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Net decrease in cash

(1,446,334) (2,385,194)

Cash, beginning of year

4,126,333 6,511,527

Cash, end of year

\$ 2,679,999 \$ 4,126,333

Supplemental disclosure of cash flows information:

Cash paid during the year for interest	<u>\$ 19,926</u>	<u>\$ 21,731</u>
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**Statements of Functional Expenses
For the Years Ended December 31,**

	2018						2017					
	Program Services		Total Program Services	Management and General	Fundraising	Total	Program Services		Total Program Services	Management and General	Fundraising	Total
	Organizational Services	Education					Organizational Services	Education				
Lab components and operating expenses	\$ 2,268,507	\$ 1,837	\$ 2,270,344	\$ -	\$ 96	\$ 2,270,440	\$ 3,823,336	\$ 35,657	\$ 3,858,993	\$ -	\$ -	\$ 3,858,993
Salaries, payroll taxes and benefits	821,566	10,606	832,172	143,368	9,457	984,997	509,625	10,100	519,725	107,550	8,959	636,234
Professional fees	505,869	51,531	557,400	152,184	13,734	723,318	759,422	47,229	806,651	152,690	15,000	974,341
Travel	294,883	196	295,079	26,426	5,326	326,831	322,167	7,230	329,397	17,743	71	347,211
Staffing	-	319,623	319,623	325	-	319,948	-	317,811	317,811	-	-	317,811
Sponsorships	257,500	-	257,500	-	-	257,500	262,500	-	262,500	-	-	262,500
Conferences	126,905	44,135	171,040	799	-	171,839	26,569	-	26,569	123	-	26,692
Depreciation	-	111,825	111,825	1,490	-	113,315	-	159,891	159,891	797	-	160,688
Occupancy	20	-	20	57,500	-	57,520	327	-	327	51,434	-	51,761
Office expense	10,729	4,432	15,161	27,068	1,213	43,442	7,929	472	8,401	18,721	-	27,122
Insurance	15,960	-	15,960	19,788	-	35,748	220	-	220	13,748	-	13,968
Equipment grants	34,000	-	34,000	500	-	34,500	27,000	-	27,000	-	-	27,000
Interest	-	-	-	19,926	-	19,926	-	-	-	21,731	-	21,731
Grants and awards	17,690	-	17,690	2,118	-	19,808	12,031	-	12,031	10,500	-	22,531
Bad debt expense	-	6,719	6,719	-	-	6,719	4,190	3,858	8,048	-	-	8,048
Miscellaneous	99	-	99	3,012	159	3,270	11,526	212	11,738	1,518	-	13,256
Postage and delivery	844	23	867	979	-	1,846	790	18	808	192	-	1,000
Bank fees	100	266	366	982	-	1,348	255	1,742	1,997	1,702	-	3,699
	<u>\$ 4,354,672</u>	<u>\$ 551,193</u>	<u>\$ 4,905,865</u>	<u>\$ 456,465</u>	<u>\$ 29,985</u>	<u>\$ 5,392,315</u>	<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>

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. 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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature. Those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Organization did not have any net assets with donor restrictions that are perpetual in nature as of December 31, 2018 and 2017, or for the years then ended.

Revenue and Support

Grants and contributions are recorded as net assets without or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Grants and contributions that are classified as with donor restrictions are reclassified to net assets without donor restrictions 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.

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 net assets without donor restrictions 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 contributions with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions 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 Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. The financial statements report certain categories of expenses that are attributed to both program and support services. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

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 October 22, 2019, 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

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncement

In 2018, the Organization implemented Financial Accounting Standards Board ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (the “ASU”). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, as required.

3. Availability and Liquidity

The Organization’s financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date at December 31, 2018, are comprised of the following:

Cash	\$	2,679,999
Accounts receivable		154,614
Grants receivable		916,000
Total financial assets		<u>3,750,613</u>
Less: portion of net assets with donor restrictions not available to meet general expenditures within the next year		<u>(2,806,795)</u>
Financial assets available to meet general expenditures within the next year	\$	<u><u>943,818</u></u>

Certain restricted grants received by the Organization include funds available for general operations which are allowed as a percentage of the direct expenditures made under the grants. For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization has estimated the portion of these grants which will be allocated for general expenditure over the next year. As part of the Organization’s liquidity plan, excess cash is invested in money market accounts. Additionally, the Organization maintains a \$200,000 line of credit, as discussed in Note 8. As of December 31, 2018, \$65,000 remained available on the line of credit.

4. 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, 2018 and 2017, receivable balances of \$6,719 and \$10,380, respectively, were written off. No allowance for uncollectible accounts was deemed necessary at December 31, 2018 or 2017.

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Notes to Financial Statements

5. Grants Receivable

Grants receivable due in less than one year amounted to \$916,000 at December 31, 2018. There were no grants receivable at December 31, 2017.

6. Equipment

Equipment consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 803,925	\$ 801,844
Less - accumulated depreciation	<u>(769,862)</u>	<u>(656,547)</u>
	<u>\$ 34,063</u>	<u>\$ 145,297</u>

During the years ended December 31, 2018 and 2017, the Organization received donations of equipment with a fair value of \$34,500 and \$27,000, respectively to be used during the annual FAB conference which is held 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, 2018 and 2017, respectively.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Procurement of fab labs	\$ 1,942,911	\$ 2,706,586
Fiscal sponsorships	-	250,000
SCOPEs project	527,021	962,955
Brilliant Careers project	467,854	-
STEM awards	35,000	-
USA workshop and travel costs	40,000	-
Academy scholarships	-	12,500
Chevron fab lab meeting	-	26,500
	<u>\$ 3,012,786</u>	<u>\$ 3,958,541</u>

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Notes to Financial Statements

7. Net Assets with Donor Restrictions (continued)

Net assets released from restrictions for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Procurement of fab labs	\$ 1,929,042	\$ 2,384,993
Annual FAB Conference	161,500	132,604
Fiscal sponsorships	257,500	262,500
Savage project	-	128,828
Academy scholarships	12,500	-
SCOPEs project	735,934	469,944
Brilliant Careers project	886,360	600,000
Chevron fab lab meeting	26,500	-
DigiFabCon meeting	10,000	-
	<u>\$ 4,019,336</u>	<u>\$ 3,978,869</u>

8. Line of Credit

The Organization has a line of credit agreement with a bank. The line of credit renews automatically each year as long as the Organization is not in default with certain provisions contained in the agreement. 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 (7.50% and 6.25% at December 31, 2018 and 2017, respectively). Borrowings outstanding on the line of credit at December 31, 2018 and 2017 were \$135,000 and \$105,000, respectively.

9. Lease

The Organization leases office space under a tenant-at-will arrangement. Total rent expense under this lease amounted to \$51,168 and \$41,262 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy on the statements of functional expenses.

10. Concentrations

Approximately 64% and 40% of the total revenue and support received during the years ended December 31, 2018 and 2017, was received from two and three sources, respectively. Approximately 50% and 79% of accounts receivable at December 31, 2018 and 2017 was due from two and three sources, respectively. 100% of the Organization's grants receivable at December 31, 2018 was due from two sources.

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.