Financial Report

BAKER INDUSTRIES, INC.

December 31, 2023

SIANA CARR O'CONNOR & LYNAM, LLP

CERTIFIED PUBLIC ACCOUNTANTS

BAKER INDUSTRIES, INC.

Financial Statements
For the Year Ended December 31, 2023

and

INDEPENDENT AUDITOR'S REPORT

I N D E X

SIANA CARR O'CONNOR & LYNAM, LLP
Certified Public Accountants

1500 E. Lancaster Avenue, Suite 202
Paoli, PA 19301

*Phone: 610-296-4200 * Fax: 610-296-3659*
www.scolcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Baker Industries, Inc.
Malvern, Pennsylvania

Opinion

We have audited the accompanying financial statements of Baker Industries, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baker Industries, Inc. as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Baker Industries, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Baker Industries, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Baker Industries, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Baker Industries, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Siana Carr O'Connor & Lynam, LLP

SIANA CARR O'CONNOR & LYNAM, LLP

Paoli, PA
April 9, 2024

BAKER INDUSTRIES, INC.
Statement of Financial Position
December 31, 2023

Assets		
Current assets:		
Cash and cash equivalents	$	496,043
Investments		2,277,990
Accounts receivable, net		140,008
Unconditional promises to give - Justin Baker Endowment fund		187,000
Total current assets		3,101,041
Managed Investments - Justin Baker Endowment fund		742,212
Investments - 457(b) deferred compensation plan asset		600,020
Unconditional promises to give, net of current portion - Justin Baker Endowment fund		376,049
Deposits		24,933
Property and equipment, net		1,307,573
Right-of-use operating lease asset		444,559
Total assets	$	6,596,387
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$	13,592
Operating lease liability		124,481
Total current liabilities		138,073
Operating lease liability, net of current portion		431,384
457(b) deferred compensation plan liability		600,020
Total liabilities		1,169,477
Net assets:		
Without donor restrictions		4,302,151
With donor restrictions		1,124,759
Total net assets		5,426,910
Total liabilities and net assets	$	6,596,387

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

BAKER INDUSTRIES, INC.
Statement of Activities
For the Year Ended December 31, 2023

Support and revenue	Without Donor Restrictions	With Donor Restrictions	Total
Support:			
Donations	$ 1,057,534	$ 1,113,547	$ 2,171,081
Special events - fundraising	176,033	-	176,033
Total support	1,233,567	1,113,547	2,347,114
Revenue:			
Sales of service	758,759	-	758,759
Rental income	95,520	-	95,520
Interest and dividends	115,663	-	115,663
Unrealized gain on investments	258,921	11,212	270,133
Other	4,431	-	4,431
Total revenue	1,233,294	11,212	1,244,506
Assets released from donor restrictions	-	-	-
Total support and revenue	2,466,861	1,124,759	3,591,620
Expenses			
Program services	1,917,458	-	1,917,458
Management and general	206,773	-	206,773
Fundraising	210,777	-	210,777
Total expenses	2,335,008	-	2,335,008
Increase in net assets	131,853	1,124,759	1,256,612
Net assets at beginning of year, previously stated	4,004,999	-	4,004,999
Adjustments for accounting restatements	165,299	-	165,299
Net assets at beginning of year, restated	4,170,298	-	4,170,298
Net assets at end of year	$ 4,302,151	$ 1,124,759	$ 5,426,910

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

BAKER INDUSTRIES, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2023

	Program Services	Management and General	Fundraising	Total
Salaries - Management	$ 181,610	$ 107,329	$ 57,242	$ 346,181
Salaries - Program	981,071	-	-	981,071
Payroll taxes	111,660	9,852	4,147	125,659
Health insurance	44,485	24,714	9,886	79,085
Participant service	13,784	-	-	13,784
Job supplies and shipping	20,232	-	-	20,232
Insurance	58,536	7,501	3,999	70,036
Fundraising	-	-	77,910	77,910
Auto	10,689	-	-	10,689
Legal and accounting	44,821	11,205	-	56,026
Office and warehouse supplies	49,161	-	-	49,161
Utilities	29,693	3,493	1,747	34,933
Telephone	2,324	697	697	3,718
Depreciation	104,297	-	-	104,297
Equipment rental	12,032	-	-	12,032
Repairs and maintenance	16,953	-	-	16,953
Trash removal	18,217	1,242	1,242	20,701
Other	12,440	-	-	12,440
Consulting	47,724	29,666	51,594	128,984
Computer	19,437	2,287	1,143	22,867
Internet	8,295	-	-	8,295
Bank charges	615	-	-	615
Rent	114,771	8,202	-	122,973
Marketing	8,026	-	-	8,026
Dues and subscriptions	585	585	1,170	2,340
Bad debt	6,000	-	-	6,000
	$ 1,917,458	$ 206,773	$ 210,777	$ 2,335,008

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

BAKER INDUSTRIES, INC.
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities:	
Increase in net assets	$ 1,256,612
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Contributions restricted for long-term purpose	(1,113,547)
Unrealized gain on investments - endowment	(11,212)
Depreciation	104,297
Bad debt expense	6,000
Amortization of right-of-use operating lease asset	102,564
Unrealized gain on investments	(270,133)
(Increase) decrease in:	
Accounts receivable	10,323
ERTC receivable	191,633
Prepaid expenses	6,874
Deposits	(5,000)
Increase (decrease) in:	
Accounts payable and accrued expenses	(156,042)
Operating lease liability	8,742
Deferred compensation	181,542
Net cash provided by operating activities	312,653
Cash flows from investing activities:	
Purchase of property and equipment	(26,274)
Purchase of investments	(157,732)
Purchase of investments - 457(b) plan	(96,562)
Purchase of investments - Justin Baker Endowment Fund	(731,000)
Net cash used by investing activities	(1,011,568)
Cash flows from financing activities:	
Endowment unconditional promises to give	(563,049)
Endowment contributions	1,083,547
Other restricted contributions	30,000
Unrealized gain on endowment investments	11,212
Net cash provided by financing activities	561,710
Net decrease in cash and cash equivalents	(137,205)
Cash and cash equivalents at beginning of year	633,248
Cash and cash equivalents at end of year	$ 496,043

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

(1) NATURE OF OPERATIONS

Baker Industries, Inc. (the Organization) is a nonprofit entity incorporated on May 8, 1989 under the laws of the Commonwealth of Pennsylvania for the purpose of organizing and operating work rehabilitation programs for hard to employ adults challenged by disability, substance use disorders, homelessness and parole or probation (the Participants). The Organization primarily services customers with operations in Southeastern Pennsylvania and is managed by a full-time administrative staff.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> **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.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.
>
> Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction expires, net assets are reclassified to net assets without donor restrictions in the statement of activities.

New accounting pronouncement

On January 1, 2023, the Organization adopted Accounting Standards Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This new accounting pronouncement modifies the measurement of expected credit losses on certain financial instruments, primarily accounts receivable. The Organization adopted this new guidance utilizing the modified retrospective transition method. Topic 326 requires measurement and recognition of expected versus incurred losses for financial assets held. The adoption of this ASU did not have a material impact on the Organization's financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of bank deposit accounts and highly liquid financial instruments that have an original maturity of three months or less. Money market funds held as part of the endowment or deferred compensation plan are excluded. At times, cash and cash equivalents may be above FDIC insurance limits. $404,103 was uninsured at December 31, 2023.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

All investments are recorded at fair-value using the market approach. Interest, dividends, and realized and unrealized gains and losses are included in the statement of activities without donor restrictions unless the income is restricted by donor or law.

Accounts receivable

Accounts receivable is stated at cost, less an allowance for credit losses. Prior to 2023, the Organization estimated the allowance based on its historical experience of the relationship between actual bad debts and net credit sales. Beginning in 2023, the Organization changed to estimating the allowance based on an analysis of specific customers taking into consideration the age of the past due accounts and the assessment of the customer’s ability to pay. Receivables are considered past due if they have not been received within the terms agreed upon with the customer. The Organization does not charge interest on past due accounts. The allowance for credit losses was $10,938 at December 31, 2023, and bad debt expense was $6,000 for 2023.

Unconditional promises to give

Unconditional promises to give are recognized as donations in the period the promise is received. Amounts expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in future years are recorded at the present value of their estimated cash flows. Unconditional promises to give are discounted at the applicable risk-free rates of return at the time of the contribution. Discount rates range from 3.96% to 4.82% as amounts are expected to be paid over two to five years. The Organization uses the allowance method to determine uncollectible unconditional promises to give, which is based on prior years' experience and management's analysis of specific promises made. There was no allowance required at December 31, 2023.

Property and equipment, net

Land is carried at cost. Other property and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and accelerated methods based principally on the estimated useful lives of the assets. Repairs and maintenance are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Operating leases

The Organization has made an accounting policy election to not recognize right-of-use (ROU) assets and lease liabilities that arise from short-term leases with a term of one year or less. Additionally, the Organization uses the risk-free rate of return to calculate the present value of ROU assets and lease liabilities.

Donated services

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the financial statements for these services.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Organization enters into contracts with customers to fulfill orders. Sales of service revenue are recognized at a point-in-time when the order is complete and either picked up by the customer or delivered by the Organization. The Organization has elected to account for shipping and handling as activities to fulfill its promise to transfer goods. Revenue from shipping and handling is recognized when the goods are shipped. Costs incurred for shipping and handling are recognized in the same period as revenue and are included in operating expenses.

Rental income is recognized on a straight-line basis over the term of the lease.

Income tax status

The Organization is a not-for-profit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been presented.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of support and expense during the reporting period. Accordingly, actual results could differ from those estimates.

(3) ENDOWMENT FUND

In 2023, the Organization established the Justin Baker Endowment Fund (the Endowment) to provide long-term support for the Organization focusing on 1) professional training and coaching designed to build job readiness and 2) improve facilities and purchase equipment to increase access and support skill-building. The Endowment is maintained in a separate custodial account at Bryn Mawr Trust Wealth Management, a subsidiary of WSFS Bank.

The Endowment includes both donor-restricted funds and funds designated by the board of directors to function as an endowment. Net assets associated with endowment funds, including funds designated by the board of directors to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors has approved $500,000 to partly fund the Endowment, of which $285,000 was deposited into the Endowment investment account by December 31, 2023.

The overall investment objective is to preserve the long-term, real purchasing power of the Endowment's investment assets while providing a reasonably predictable stream of annual distributions to fund the board's spending priorities. A secondary objective is to effectively minimize risk and expense required to grow the investments over time, which is achieved through prudent investing and planning, as well as through strategic asset allocations and maintenance of a diversified portfolio. At times, the fair value of the assets may fall below the value of the initial gift amount and create a deficit. When a deficit exists, it is classified as a reduction to the respective net assets, which coincide with the intended use of the endowment.

(3) ENDOWMENT FUND (CONTINUED)

The following is a composition of and changes in the Endowment net assets through December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions
Cash contributions	$ -	$ 520,498
Unconditional promises to give, net	-	563,049
Board designated	285,000	-
Money spent	-	-
Investment return	-	11,212
Balance at December 31, 2023	$ 285,000	$ 1,094,759

(4) UNCONDITIONAL PROMISES TO GIVE

The Organization has unconditional promises to give related to its endowment at December 31, 2023 as follows:

Receivables in less than one year	$ 187,000
Receivables in one to five years	431,300
	618,300
Less: discounts to net present value	(55,251)
	$ 563,049

$330,000 of contributions in 2023 were from board members. $122,000 is due from board members and included in unconditional promises to give above.

(5) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2023:

Land	$ 152,900
Building and improvements	2,225,969
Equipment and vehicles	501,314
	2,880,183
Less: accumulated depreciation	(1,572,610)
	$ 1,307,573

Depreciation expense was $104,297 for 2023.

(6) DEFERRED COMPENSATION PLAN UNDER IRC SECTION 457(b)

The Organization has a deferred compensation plan (the Plan) that allows certain employees to defer a portion of their compensation. The Organization will also match a percentage of the employee deferrals. Individual deferrals to the Plan cannot exceed IRS limitations. The Organization contributed $24,569 to the Plan in 2023.

Amounts deferred accrue earnings and/or losses in an amount equal to the earnings and/or losses of the underlying investments. Although Plan investments are held by Nationwide Trust Company, FSB as custodian, the Plan is considered an unfunded eligible deferred compensation plan within the meaning of Internal Revenue Code Section 457(b). Amounts deferred and matched, and all income from investments, are custodied in a separate account owned by the Organization, subject only to the claims of the Organization’s general creditors.

Plan income (interest, dividends, and realized and unrealized gains/losses) is recorded when earned in the statement of changes in activities. Changes to the deferred compensation liability are recorded as compensation expense.

(7) PRIOR PERIOD ADJUSTMENTS

Net assets without donor restrictions have been restated as of January 1, 2023 as follows:

Net assets without donor restrictions previously stated	$ 4,004,999
Increase due to:	
Investments - 457(b) deferred compensation plan asset	418,478
ERTC receivable	191,633
Operating lease liability	67,474
Decrease due to:	
457(b) deferred compensation plan liability	(418,478)
Accounts payable and accrued expenses	(26,334)
Right-of-use operating lease asset	(67,474)
Net assets without donor restrictions, restated	$ 4,170,298

GAAP requires Organizations to carry the assets and liabilities of deferred compensation plans as an asset and underlying liability equal to the asset. Prior to 2023, the Organization did not properly reflect the asset or liability. GAAP also requires certain receivables and payable to be accounted for on the accrual basis. However, prior to 2023, management recorded these items on the cash basis. Lastly, the Organization did not properly account for a discount rate when establishing an asset and liability for a new operating lease.

(8) INVESTMENTS

Investments consist of the following at December 31, 2023:

	Level 1		
	Ongoing Operations	Endowment	Deferred Compensation
Equity funds	$ 981,324	$ 151,046	$ 598,397
Fixed income funds	1,296,666	55,849	1,086
Money market funds	-	535,317	537
	$ 2,277,990	$ 742,212	$ 600,020

(9) CONTRIBUTIONS FROM TRUST

The Organization has a beneficial interest in a revocable trust controlled by an independent third party. The Organization received $405,000 from this trust in 2023. Although there is an expectation that funding will continue, the Organization's interest is not unconditional. Accordingly, no investment in beneficial trust has been recognized at December 31, 2023.

(10) RENTAL INCOME

The Organization leases warehouse space under a non-cancelable operating lease that expires in January 2025. The following is a summary of the future rental payments to be received:

Year Ended December 31:	
2024	$ 114,120
2025	9,510
	$ 123,630

(11) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization maintains cash and cash equivalents and investments to meet its needs for general expenditures. The Organization maintains investments in debt and equity mutual funds, which are available for use within one year of the statement of financial position date to meet cash needs for general expenditures if necessary.

(11) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	$ 496,043
Investments	2,277,990
Accounts receivable	140,008
Less: funds restricted for long-term purposes	(55,000)
Less: remaining board designated endowment funds	(215,000)
	$2,644,041

(12) LEASE COMMITMENTS

The Organization has a five-year lease for a warehouse in Philadelphia expiring December 31, 2027. Rent expense was $122,973 for 2023. The weighted average remaining lease term is four years, and the weighted average discount rate is 3.99%. The maturities of lease liabilities as of December 31, 2023 are as follows:

2024	$ 144,400
2025	148,400
2026	152,800
2027	157,600
Total	603,200
Less: interest	(47,335)
Present value	$ 555,865

(13) CONTINGENCY

In prior years, the Organization was assessed penalties and interest for failure to comply with the Affordable Care Act (ACA) during 2016. The Organization had $143,300 accrued for this matter at December 31, 2022, which was paid in 2023. The Organization continues to contest the matter as additional penalties and interest may be assessed for years through 2020. Additionally, the Organization filed a petition to get the money that was paid refunded back to them. Management is unable to determine any potential outcome. As such, no amounts are accrued as of December 31, 2023.

(14) SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 9, 2024, the date which the financial statements were available to be issued. No subsequent events significantly affected the Organization.