

BAKER INDUSTRIES, INC.

DECEMBER 31, 2016 AND 2015

FINANCIAL STATEMENTS

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DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Baker Industries, Inc.
184 Pennsylvania Ave.
Malvern, PA 19355

We have audited the accompanying financial statements of Baker Industries, Inc., which comprise the statement of financial position as of December 31, 2016 and 2015 and the related comparative statements of operations 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Baker Industries, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Doyle & McDonnell, P.C.

Doyle & McDonnell, P.C.
Certified Public Accountants
Broomall, Pennsylvania

February 24, 2017

BAKER INDUSTRIES, INC.
COMPARATIVE STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash	\$ 564,142	\$ 433,410
Marketable Securities	665,935	624,422
Accounts Receivable, Net of Allowance	262,000	335,895
Prepaid Expenses	29,380	21,098
Total Current Assets	1,521,457	1,414,825
PROPERTY AND EQUIPMENT		
Land	207,750	207,750
Building and Improvements	3,044,550	3,020,068
Equipment	185,435	173,798
Vehicles	102,029	102,029
Total Property and Equipment	3,539,764	3,503,645
Accumulated Depreciation	(1,467,474)	(1,368,006)
Total Property and Equipment - Net	2,072,290	2,135,639
TOTAL ASSETS	\$ 3,593,747	\$ 3,550,464
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts Payable	\$ 49,046	\$ 45,846
Accrued Interest	2,178	2,313
Payroll and Sales Tax Payable	35,888	26,861
Loan Payable - Auto	4,782	4,576
Total Current Liabilities	91,894	79,596
LONG-TERM LIABILITIES		
Loan Payable - Auto (net of current portion)	17,223	22,100
Mortgage Payable	595,000	632,000
Total Long-Term Liabilities	612,223	654,100
TOTAL LIABILITIES	704,117	733,696
FUND BALANCE		
Unrestricted	2,889,630	2,816,768
Total Fund Balance	2,889,630	2,816,768
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,593,747	\$ 3,550,464

The accompanying notes are an integral part of this statement.

BAKER INDUSTRIES, INC.
COMPARATIVE STATEMENT OF ACTIVITIES AND FUND BALANCE
DECEMBER 31, 2016 AND 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Support		
Donations - Individuals	\$ 101,214	\$ 147,177
Donations - Foundations and Corporations	772,130	780,098
Fund-Raising	100,414	134,237
Total Support	<u>973,758</u>	<u>1,061,512</u>
Revenue		
Sales of Services	1,525,130	2,322,966
Rental	130,029	158,382
Interest and Dividends	13,390	8,242
Total Revenue	<u>1,668,549</u>	<u>2,489,590</u>
TOTAL SUPPORT AND REVENUE	<u>2,642,307</u>	<u>3,551,102</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Capital Campaign	77,630	86,620
TOTAL	<u>2,719,937</u>	<u>3,637,722</u>
EXPENSES		
Program Services	2,433,163	3,288,134
Supporting Services	112,236	133,190
Fund-Raising	144,404	148,470
Total Expenses	<u>2,689,803</u>	<u>3,569,794</u>
OTHER INCOME		
Recycling Income	14,040	18,642
Other Income	-	13,520
Unrealized Gain (Loss) on Securities	28,698	(2,607)
Total Other Income	<u>42,738</u>	<u>29,555</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>72,872</u>	<u>97,483</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions - Capital Campaign	77,630	86,620
Net Assets Released from Restrictions	(77,630)	(86,620)
Increase in Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
NET INCREASE IN FUND BALANCE	72,872	97,483
FUND BALANCE - BEGINNING OF YEAR	<u>2,816,758</u>	<u>2,719,275</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,889,630</u>	<u>\$ 2,816,758</u>

The accompanying notes are an integral part of this statement.

BAKER INDUSTRIES, INC.
COMPARATIVE STATEMENT OF CASH FLOWS
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase in Fund Balance	\$ 72,872	\$ 97,483
Adjustments to Reconcile Changes to Net Cash		
Flows Provided by Operating Activities:		
Depreciation	99,467	92,618
Allowance for Doubtful Accounts	(1,897)	2,157
Unrealized (Gain) Loss on Marketable Securities	(28,698)	2,607
(Increase) Decrease in:		
Accounts Receivable	75,792	98,207
Prepaid Expenses	(8,290)	1,813
Increase (Decrease) in:		
Accounts Payable	3,200	23,963
Accrued Interest	(135)	(145)
Payroll and Sales Tax Liabilities	9,027	26,720
Net Cash Flows Provided by Operating Activities	<u>221,338</u>	<u>345,423</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment	(36,120)	(110,626)
Increase in Marketable Securities	(12,815)	(3,379)
Net Cash Flows Used in Investing Activities	<u>(48,935)</u>	<u>(114,005)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Mortgages Payable	(37,000)	(62,000)
Net Borrowings (Repayments) of Loan Payable - Auto	(4,671)	26,676
Net Cash Flows Used in Financing Activities	<u>(41,671)</u>	<u>(35,324)</u>
NET INCREASE IN CASH	130,732	196,094
CASH - BEGINNING OF YEAR	<u>433,410</u>	<u>237,316</u>
CASH - END OF YEAR	<u>\$ 564,142</u>	<u>\$ 433,410</u>
SUPPLEMENTAL DISCLOSURES		
Cash Paid During the Year for Interest	<u>\$ 27,251</u>	<u>\$ 29,483</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. **ORGANIZATION**

Organization

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 handicapped and homeless people. The Organization primarily services customers with operations in Southeastern Pennsylvania.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principals. Revenues are recognized when earned, and expenses are recognized when the obligations are incurred

Financial Statement Presentation

The organization elected to adopt Statement of Financial Accounting Standards (SFAS) No. 116 that states that contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Financial statement presentation is in accordance with SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The net assets consist of the original contribution and the capital appreciation. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Donated Services

The organization receives donated services from a variety of unpaid volunteers who assist the organization in a number of capacities. The organization received no services that were required to be reported under SFAS No. 116.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit and marketable securities with original maturities of less than 90 days. The carrying value of cash and cash equivalents approximate fair value because of the short maturities of those financial instruments.

Accounts Receivable

The Organization charges income with doubtful accounts when they are considered uncollectible. Accounts receivable are presented net of an allowance for doubtful accounts of \$5,336 and \$7,233 at December 31, 2016 and 2015, respectively.

Property and Equipment

Capital additions are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. 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. Maintenance, repairs and minor renewals are charged to operations as incurred. Depreciation is provided over the estimated useful lives of assets by the straight-line method. Building improvements are amortized over the life of the building or the estimated useful lives of the various classes of assets are:

	<u>Range in Years</u>
Building	39
Building Improvements	5 - 39
Equipment	5 - 7
Vehicles	5

Income Taxes

The Organization is a not-for-profit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and files Form 990. The federal Exempt Organization Business Income Tax Returns for 2015, 2014 and 2013 remain subject to examination by the Internal Revenue Service.

Subsequent Events

The organization evaluated subsequent events for recognition or disclosure through February 24, 2017, the date the financial statements were issued.

In October 2016 the Company was approved for a grant for a storm water management project at the Philadelphia, PA location. The grant amount of \$284,746 is expected to be received in 2017.

3. TEMPORARILY RESTRICTED NET ASSETS

In May of 2002, Baker launched a Capital Campaign with a two-fold objective – first, to pay off the mortgages on the Philadelphia and Malvern properties and second, to begin to build an endowment to ease the demands of annual fundraising.

Temporarily restricted net assets are available for the retirement of the mortgage on the organization's two facilities.

4. MARKETABLE SECURITIES

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at the fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Marketable Securities consisted of the following at December 31:

	2016	2015
Vanguard Total Stock Market Index	\$ 273,452	\$ 242,714
Vanguard Short-Term Bond Fund	392,483	381,708
Total Marketable Securities	<u>\$ 665,935</u>	<u>\$ 624,422</u>

5. LOAN PAYABLE - AUTO

Loan Payable – Auto consist of an auto loan in the amount of \$30,000. The loan is payable monthly in the amount of \$472 at an interest rate of 4.14% over a period of 72 months. The outstanding balance as of December 31, 2016 and 2015 is \$22,005 and 26,676, respectively.

Maturities of this note payable over the next 5 years are as follows:

2017	\$ 4,782
2018	4,978
2019	5,189
2020	5,411
2021	1,645
	<u>\$ 22,005</u>

6. EMPLOYEE BENEFIT PLAN

The Company has adopted a salary reduction contribution and employer contribution retirement plan. The plan adopted by the employer is Baker Industries 457 Plan. This plan provides Top-Hat group of employees and independent contractors eligibility into the plan. Discretionary contributions made into the plan for the year ended December 31, 2016 and 2015 was \$0.

7. LOAN AND MORTGAGE PAYABLE

Mortgage payable consists of a loan payable to Bryn Mawr Trust Company secured by property and The Company's assets. The loan is payable in 60 monthly payments of interest only at an interest rate 4.25%. A balloon payment is due May 1, 2018. The outstanding amount was \$595,000 and \$632,000 at December 31, 2016 and 2015, respectively.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Quoted prices are available in the active markets for identical assets or liabilities as of the reported date.

Level 2 – Pricing inputs are other than quoted prices in active markets for identical assets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The Company measures its investments at fair value on a recurring basis. These items were measured with the following inputs at August 31, 2016 and 2015.

	December 31, 2015			
	Level 1	Level 2	Level 3	Fair Value
Mutual Funds - Bonds	\$ 381,708	\$ -	\$ -	\$ 381,708
Mutual Funds - Stocks	242,714	-	-	242,714
Total	<u>\$ 624,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624,422</u>

	December 31, 2016			
	Level 1	Level 2	Level 3	Fair Value
Mutual Funds - Bonds	\$ 392,483	-	\$ -	\$ 392,483
Mutual Funds - Stocks	273,452	-	-	273,452
Total	<u>\$ 665,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 665,935</u>

9. LEASE COMMITMENTS

The Company leases various office equipment and warehouse equipment. Minimum lease payments over the next 5 years for the year ended December 31 is as follows:

2017	\$	9,857
2018		7,759
2019		4,432
2020		568
2021		-
Total	\$	<u>22,616</u>

10. CONCENTRATION OF CREDIT RISK

The Company creates a credit risk by having on deposit with one financial institution funds in excess of federally insured limits (up to \$250,000). At December 31, 2016, the Company had \$307,752 on deposit in excess of federally insured limits.

SUPPLEMENTAL INFORMATION

BAKER INDUSTRIES, INC.
SCHEDULES OF OPERATING EXPENSES
DECEMBER 31, 2016 AND 2015

	Program Services	Supporting Services	Fund Raising	Total 2016 Operating Expenses	Total 2015 Operating Expenses
Salaries - Management	\$ 136,545	\$ 70,000	\$ 67,500	\$ 274,045	\$ 264,547
Salaries - Program	1,506,380	-	-	1,506,380	2,172,161
Payroll Taxes	133,511	6,634	6,412	146,557	197,906
Alumni Bonus	825	-	-	825	1,250
Commissions	-	-	-	-	2,055
Employee Benefits	85,197	6,212	5,811	97,220	108,458
Employee Training	936	-	-	936	1,050
Employee Expense - Services	2,350	-	-	2,350	1,571
Job Services	960	-	-	960	2,080
Job Supplies and Shipping	62,992	-	-	62,992	148,108
OT Services	710	-	-	710	20,574
Insurance	100,776	11,357	-	112,133	159,511
Fund-Raising Expenses	-	-	38,896	38,896	39,392
Capital Campaigning Expense	-	-	25,785	25,785	26,155
Auto Expense	937	-	-	937	2,064
Interest Expense	27,116	-	-	27,116	29,338
Professional Fees	35,215	1,033	-	36,248	37,891
Office and Warehouse Supplies	28,654	2,251	-	30,905	29,850
Utilities	80,754	3,860	-	84,614	107,989
Telephone	5,148	826	-	5,974	6,160
Depreciation	99,467	-	-	99,467	92,618
Equipment Rental	21,165	-	-	21,165	18,970
Repairs and Maintenance	32,753	-	-	32,753	36,432
Trash Removal	28,595	-	-	28,595	23,204
Other Expenses	1,026	1,379	-	2,405	1,050
Advertising	12,060	8,684	-	20,744	5,849
Computer Expense	7,049	-	-	7,049	13,258
Internet Expense	6,398	-	-	6,398	1,848
Bank Charges	1,930	-	-	1,930	2,274
Sales Expense	5,910	-	-	5,910	12,450
Dues and Subscriptions	4,071	-	-	4,071	2,965
Contributions	100	-	-	100	535
Bad Debts	3,633	-	-	3,633	231
Total Operating Expense	\$ 2,433,163	\$ 112,236	\$ 144,404	\$ 2,689,803	\$ 3,569,794

The accompanying notes are an integral part of this statement.