

THE ALBERT BAKER FUND

FINANCIAL STATEMENTS

September 30, 2013

(with summarized comparative information as of September 30, 2012)

THE ALBERT BAKER FUND

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The Albert Baker Fund
Sacramento, California

We have audited the accompanying financial statements of The Albert Baker Fund, which comprise the statement of financial position as of September 30, 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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.

Auditors' 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 auditors' 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 auditors consider 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 Albert Baker Fund as of September 30, 2013, 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.

Report on Summarized Comparative Information

We have previously audited The Albert Baker Fund 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Burr Pilger Mayer, Inc.

San Francisco, California
March 10, 2014

THE ALBERT BAKER FUND
STATEMENT OF FINANCIAL POSITION

September 30, 2013
(with summarized comparative information as of September 30, 2012)

	2013	2012
ASSETS		
Cash	\$ 336,902	\$ 174,187
Investments, at fair value	30,844,991	30,855,745
Net receivables from unsettled trades	814,233	-
Student loans receivable, net	2,597,487	2,675,946
Interest receivable	16,796	-
Prepaid expenses and other assets	21,036	31,326
Property and equipment, net	9,189	12,401
Beneficial interest in a charitable trust	35,740	38,197
	\$ 34,676,374	\$ 33,787,802
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 14,435	\$ 18,348
Commitments (Note 9)		
Net assets:		
Unrestricted	32,998,536	32,176,632
Temporarily restricted	1,516,835	1,446,254
Permanently restricted	146,568	146,568
Total net assets	34,661,939	33,769,454
	\$ 34,676,374	\$ 33,787,802

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

THE ALBERT BAKER FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

year ended September 30, 2013

(with summarized comparative information for the year ended September 30, 2012)

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 259,116	\$ 209,267	\$ -	\$ 468,383	\$ 331,509
Bequests	132,458	-	-	132,458	507
Student loan interest	27,328	-	-	27,328	25,254
Other revenue	20,740	-	-	20,740	10,250
Appropriations from endowments	-	40,837	-	40,837	5,387
Net assets released from restriction	206,796	(206,796)	-	-	-
Total support and revenue	646,438	43,308	-	689,746	372,907
Expenses:					
Program services:					
Post-secondary - student loans	111,579	-	-	111,579	100,523
Post-secondary - grants	414,284	-	-	414,284	457,487
International post-secondary	550,897	-	-	550,897	580,699
Christian Science nurse training	171,768	-	-	171,768	203,817
Youth leadership	179,848	-	-	179,848	160,458
Other programs	54,181	-	-	54,181	42,190
Total program services	1,482,557	-	-	1,482,557	1,545,174
Supporting services:					
Management and general	384,745	-	-	384,745	404,011
Fundraising	299,363	-	-	299,363	307,359
Total supporting services	684,108	-	-	684,108	711,370
Total expenses	2,166,665	-	-	2,166,665	2,256,544
(Loss) income from operations	(1,520,227)	43,308	-	(1,476,919)	(1,883,637)
Investment return, net	2,342,131	27,273	-	2,369,404	3,651,201
Change in net assets	821,904	70,581	-	892,485	1,767,564
Net assets, beginning of year	32,176,632	1,446,254	146,568	33,769,454	32,001,890
Net assets, end of year	\$ 32,998,536	\$ 1,516,835	\$ 146,568	\$ 34,661,939	\$ 33,769,454

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

THE ALBERT BAKER FUND
STATEMENT OF FUNCTIONAL EXPENSES
year ended September 30, 2013
(with summarized comparative information for the year ended September 30, 2012)

	Program Services						Support Services		2013 Total	2012 Total	
	Post- Secondary - Student Loans	Post- Secondary - Grants	International Post- Secondary	Christian Science Nurse Training	Youth Leadership	Other Programs	Total Programs	Management and General			Fundraising
Grants expense	\$ -	\$ 347,080	\$ 327,479	\$ 135,050	\$ 171,004	\$ 29,714	\$ 1,010,327	\$ -	\$ -	\$ 1,010,327	\$ 1,013,670
Salaries and benefits	78,963	66,458	107,916	36,310	8,746	12,882	311,275	175,455	196,368	683,098	704,125
Other personnel costs	887	746	1,212	408	98	145	3,496	1,971	32,012	37,479	67,358
Temporary contract help	8,400	-	-	-	-	-	8,400	35,400	-	43,800	61,450
Professional fees	-	-	48,447	-	-	3,750	52,197	39,493	-	91,690	71,425
Office expenses	-	-	2,752	-	-	56	2,808	17,338	1,189	21,335	22,826
Informational technology costs	-	-	3,812	-	-	4,150	7,962	20,697	377	29,036	25,260
Loan management and collection	9,030	-	-	-	-	-	9,030	-	-	9,030	10,302
Marketing	-	-	-	-	-	3,484	3,484	71	46,690	50,245	56,997
Telephone and telecommunications	-	-	5,984	-	-	-	5,984	8,897	1,770	16,651	21,389
Occupancy expenses	-	-	9,900	-	-	-	9,900	40,168	3,030	53,098	67,586
Depreciation expense	-	-	-	-	-	-	-	4,982	-	4,982	6,903
Miscellaneous expenses	-	-	10	-	-	-	10	2,990	675	3,675	5,884
Insurance	-	-	-	-	-	-	-	5,593	-	5,593	5,626
Travel and entertainment	-	-	43,385	-	-	-	43,385	31,690	17,252	92,327	85,567
Loan losses	14,299	-	-	-	-	-	14,299	-	-	14,299	30,176
	<u>\$ 111,579</u>	<u>\$ 414,284</u>	<u>\$ 550,897</u>	<u>\$ 171,768</u>	<u>\$ 179,848</u>	<u>\$ 54,181</u>	<u>\$ 1,482,557</u>	<u>\$ 384,745</u>	<u>\$ 299,363</u>	<u>\$ 2,166,665</u>	<u>\$ 2,256,544</u>

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

THE ALBERT BAKER FUND

STATEMENT OF CASH FLOWS

year ended September 30, 2013

(with summarized comparative information for the year ended September 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 892,485	\$ 1,767,564
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,982	6,903
Change in value of beneficial interest in a charitable trust	2,457	2,769
Net realized and unrealized gains on investments	(1,677,825)	(2,707,242)
Loan forgiveness	14,299	30,176
Investment return restricted for long-term purposes	(62,773)	(49,734)
Changes in certain operating assets and liabilities:		
Interest receivable	(16,796)	15,537
Prepaid expenses and other assets	10,290	(402)
Contribution receivables	-	100,000
Accounts payable and accrued liabilities	(3,913)	(13,512)
Net cash used in operating activities	<u>(836,794)</u>	<u>(847,941)</u>
Cash flows from investing activities:		
Purchases of investments	(5,166,166)	(9,939,571)
Proceeds from sales and maturities of investments	6,854,745	10,344,952
Net receivables from unsettled redemption requests	(814,233)	-
Advances to loan recipients	(317,200)	(448,400)
Repayments from loan recipients	381,360	338,929
Purchases of property and equipment	(1,770)	(1,790)
Net cash provided by investing activities	<u>936,736</u>	<u>294,120</u>
Cash flows from financing activities:		
Investment income restricted to endowment	62,773	49,734
Proceeds from contributions restricted to endowment	-	559,772
Net cash provided by financing activities	<u>62,773</u>	<u>609,506</u>
Net increase in cash	162,715	55,685
Cash, beginning of year	<u>174,187</u>	<u>118,502</u>
Cash, end of year	<u>\$ 336,902</u>	<u>\$ 174,187</u>

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

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

1. Description of Organization

The Albert Baker Fund (the Fund), is a California nonprofit organization incorporated in 1964. The Fund's mission is to serve the cause of Christian Science and humanity by providing resources for the education and development of Christian Scientists. The Fund offers assistance to students who are members of The Mother Church, The First Church of Christ, Scientist, Boston, Massachusetts, one of its branch churches or societies, or are otherwise active Christian Scientists, to finance formal secondary education, college and university education, graduate school, Christian Science nurse training, or vocational school, by way of loans, grants or through the establishment of scholarships.

Nature of Activities

The following programs and supporting services are included in the accompanying financial statements:

Post-Secondary Program - Student Loans and Grants

This program is the Fund's original program and provides financial aid for the education of active Christian Scientists accepted to accredited colleges, universities or vocational educational institutions in the United States and Canada. Students pursuing traditional academic degree programs as well as job-related training who qualify for aid are typically awarded a combination of loan funding and a grant.

International Post-Secondary Program

In addition to the United States and Canada, the Fund provides financial resources for the education of active Christian Scientists in: (ten African countries) Cameroon, Democratic Republic of Congo, Ghana, Kenya, Nigeria, Republic of Congo, Rwanda, Tanzania, Uganda, and Zambia; France, Germany the United Kingdom, and the Philippines.

Christian Science Nurse Training Program

This program provides grants for tuition and other expenses to Christian Scientists who enroll in Christian Science nurse training with the goal of seeking listing in The Christian Science Journal or working full time as Christian Science nurses.

Youth Leadership Program

This program provides grants to college interns working for The Mother Church and to participants in the National Leadership Council, an intensive four year student leadership program created by Discovery Bound for 9th–12th grade Christian Science teens in the United States. Each class participates in monthly teleconference calls, public service, work with a mentor, leadership education, and 10–14 day summer group experience designed to make practical what they have learned throughout the year.

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

1. **Description of Organization**, continued

Nature of Activities, continued

Other Programs

Other programs include language education and Christian Science military chaplain program seminary education grants, merit scholarships for extraordinary students, and the ABF Career Network program.

Management and General

Support services include direct business management salaries and related expenses and indirect allocations of other expenses identified that include a component of general administration.

Fundraising

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

2. **Significant Accounting Policies**

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States applicable to nonprofit organizations.

The Fund is required to report information regarding its financial position and activities in accordance with three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted

Those net assets and activities which represent the portion of expendable funds that are available to support the Fund's operations. The Board of Trustees (the Board) may designate a portion of these net assets for specified purposes. To date, no such amounts have been designated.

Temporarily Restricted

Those net assets and activities which are donor-restricted for (a) support for specific operating or program activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets; (e) unspent endowment appreciation.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. **Significant Accounting Policies**, continued

Basis of Accounting and Presentation, continued

Permanently Restricted

Net assets that are subject to donor-imposed restrictions requiring that they be retained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on related investments for general or specific purposes.

Cash Equivalents

The Fund considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, including demand deposits and money market accounts not designated for investment.

Fair Value Measurements

Fair Value Measurement - Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Fund uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—quoted prices in active markets for identical investments.

Level 2—other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the Fund's own assumptions in determining fair value instruments).

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. Significant Accounting Policies, continued

Fair Value Measurements, continued

Fair Value Measurement - Definition and Hierarchy, continued

The Fund follows the guidance relating to investments in certain entities that calculate net asset value (NAV) per share. The guidance permits, as a practical expedient, a reporting entity to measure the fair value of certain investments on the basis of the NAV per share if the investment is calculated in a manner consistent with the measurement principles of accounting for investment companies as of the reporting entity's measurement date. Additional disclosures about the attributes of such investments are required, by major category of investment (see Note 4).

Investments

Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments in equities, U.S. Treasuries notes, government obligations, and mutual funds are based on quoted market prices. Corporate bonds, municipal bonds, mortgage-backed securities, and other fixed income securities are valued based on third party pricing services for identical or similar assets in less active dealer or broker markets.

Alternative investments are categorized within Level 2 and Level 3 of the fair value hierarchy and include venture capital and hedge funds, as well as fund of funds. These investments are categorized as either natural resources/commodities, real estate, private equity, hedged equity, or hybrid strategy funds. The estimated fair value of alternative investments is based on valuations provided by the general partner. The Fund's investment managers review and evaluate the values provided by the general partners and assess the valuation methods and assumptions used in determining the fair value of the alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainties and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities and changes in net assets in the period that such fluctuations occur.

Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

Net Receivables from Unsettled Trades

Receivables from unsettled trades are amounts due from pending investment redemption requests made before September 30, 2013. These requests were settled in October 2013 (see Note 4). As of September 30, 2013, the balance shown on the statement of financial position primarily consisted of redemption from one investment fund within the natural resources/commodities funds category and a full surrender of a variable annuity.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. Significant Accounting Policies, continued

Student Loans Receivable

Student loans receivable are stated at the unpaid balance, less an allowance for loan losses. Management provides for probable uncollectible amounts through a provision for loan losses and an adjustment to an allowance for loan losses based on its assessment of the current status of individual accounts including consideration given to historical loan loss experience, delinquency status, contractual obligations, specific impaired loans, economic conditions and other circumstances which may affect the ability of borrowers to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for loan losses. Loan charge-offs are approved by the Board of Trustees and only occur when there has been no contact with the borrower or co-signer for several years. All loan balances of deceased borrowers are forgiven. The Fund bears the full risk of borrower default in the portfolio. The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. However, because of uncertainties associated with these judgments and assumptions, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term.

Student loans, which are unsecured, bear no interest while the student is in school full time, or during the twelve month grace period after graduation. Twelve months after graduation or withdrawal from full-time school attendance, repayment of the loan commences and interest charges begin at below market rates. The interest rate on new loans is currently 3% and the interest rates on outstanding loans range between 1.75% and 5%. In August 2009, all loans with higher interest rates were lowered to 3% for the remainder of the repayment period. The Fund does not accrue interest on outstanding loan balances and only recognizes interest income when a payment has been received.

The maximum repayment period is 120 months from the date of graduation or withdrawal from college. Loan recipients accepted into *The Christian Science Journal* as listed practitioners or nurses will have one monthly payment forgiven for each month they are listed, if they were current with their payments when they became listed.

Borrowers may request deferment of the repayment period if they are attending school full-time or part-time, or in cases of financial hardship. Loans continue to bear interest during the deferral period on part-time and hardship deferments. Borrowers serving in the military, Peace Corps, AmeriCorps, VISTA and similar government organizations may request deferment without interest charged.

Property and Equipment

All computer equipment acquisitions are expensed when incurred. All other acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed. Property and equipment consists of furniture and fixtures and are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to ten years. Depreciation expense for the year ended September 30, 2013 was \$4,982.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. **Significant Accounting Policies**, continued

Donated Assets and Services

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Fund. No amounts have been reflected in the financial statements for donated services for the year ended September 30, 2013. Volunteers also provided interview and application screening services throughout the year that are not recognized as contributions in the statement of activities and changes in net assets since the recognition criteria were not met. The Fund receives approximately 1,800 volunteer hours per year.

Endowments

Interpretation of Relevant Law

The Board of the Fund, on the advice of legal counsel, has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

Spending Policy

In accordance with the State of California's enacted version of UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Fund and the endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Fund
- (7) The investment policies of the Fund

The Fund has a policy of appropriating for distribution each year no more than 7% of its endowment fund's current average fair value of the endowment fund. The current average fair value is calculated using the average fair value for the fund at the end of each quarter for the three years prior, or such shorter time as that endowment fund has existed. In establishing this policy, the Fund considered the factors listed above.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. **Significant Accounting Policies**, continued

Endowments, continued

Investment Policy, Strategies, and Objectives

The Fund has adopted investment and spending policies for endowment assets that attempts to maximize total return consistent with an acceptable level of risk, and to provide a predictable stream of funding to programs. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce returns in excess of the anticipated endowment appropriations, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fund relies on the recommendations of its investment managers, supervised by the voting members of the Finance Committee. The Fund has a long term asset allocation strategy of 70% (+/-10%) in equities and alternative investments and 30% (+/-10%) in cash and fixed income. Assets are broadly diversified to protect against the risk of large losses. Furthermore, as an organization operated for and by Christian Scientists, investment managers are directed to avoid investments in all companies that disclose, or are thought to have a significant part of their business (defined as in excess of 20% of revenues), involvement with alcohol, tobacco, gaming or healthcare. Total exposure to these types of investments is limited so that at no time investment in the avoided business would ever constitute over 10% of total portfolio assets.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2013.

Contribution Revenues and Receivables

Contributions, including unconditional promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions receivable which are expected to be collected during the next fiscal year are recorded at net realizable value. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Bequests and Beneficial Interest in Charitable Trusts

The Fund is occasionally notified by donors or the trustees of their estates that they have been named as a beneficiary in their wills. The Fund will not immediately recognize these gifts as receivables and contributions unless they are unconditional and measurable. If a gift does not meet these criteria it is not recognized as contribution revenue until the will is declared valid by the court and subject to final distribution. At that time, the Fund recognizes the contribution at fair value, net of a discount for likely fees and taxes, based on historical experience.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. **Significant Accounting Policies**, continued

Bequests and Beneficial Interest in Charitable Trusts, continued

The Fund is named as the beneficiary of one split-interest agreement, a charitable lead trust. The Fund records its beneficial interest in charitable trusts upon meeting the same criteria as described in the previous paragraph and also needs to be irrevocable. Beneficial interests are recorded at estimated present value.

Grants

Unconditional grants are recognized as grant expense and a liability when the Fund's program manager approves the grant. Unconditional grants that are expected to be paid in less than one year are measured at net settlement value. Unconditional grants that are expected to be paid in more than one year are measured at the present value of the estimated future cash flows. Grant refunds are recorded as a reduction of grant expense at the time the Fund becomes aware the grant will be refunded. There were no grant payables at September 30, 2013.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time studies of how employees allocate their time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Fund.

Income Taxes

The Fund has received determination letters from the Internal Revenue Service and the State of California indicating that the Fund is exempt from federal income taxes under Internal Revenue Code of 1954 Section 501(c)(3) and from California franchise and/or income taxes under California Revenue and Taxation Code Section 23701(d), respectively. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income.

Following the accounting guidance for uncertain tax positions, management has concluded there are no uncertain tax positions at September 30, 2013.

The Fund's federal Exempt Organization Business Income Tax Returns for 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after filing.

Measure of Operations

In its statement of activities and changes in net assets, the Fund includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, including net realized and unrealized gains and losses, earned in excess of the Fund's authorized spending amount are recognized as nonoperating support, revenues, gains, and losses.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

2. Significant Accounting Policies, continued

Concentrations of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash, cash equivalents and investments, and contribution revenue.

Cash

The Fund deposits cash with one financial institution. Such amounts may at times exceed Federal Deposit Insurance Corporation (FDIC) limits. To date, the Fund has not experienced any losses in these accounts.

Investments

The Fund maintains investments with major financial institutions, which include cash equivalents held in money market funds and demand deposits. The Fund's balances may periodically exceed FDIC or Securities Investor Protection Corporation (SIPC) limits.

Support

For the year ended September 30, 2013, three donors made up 59% of total contributions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States (US GAAP). Accordingly, such information should be read in conjunction with the Fund's financial statements as of and for the year ended September 30, 2012, from which the summarized comparative information was derived.

3. Conditional Promises to Give

The Fund received a \$90,000 grant in June 2013 from a Foundation to support the newly created Christian Science career network. The Fund recognized \$50,000 for the year-ended September 30, 2013. The remaining \$40,000 balance was not recognized for the year-ended September 30, 2013 because the Fund has not yet met the condition placed by the Foundation.

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

4. Fair Value Measurements and Investments

The following table summarizes the valuation of the Fund's financial instruments measured on a recurring basis at September 30, 2013:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Cash equivalents	\$ 758,356	\$ -	\$ -	\$ 758,356
Mutual funds and ETFs:				
Fixed income - domestic	3,841,128	-	-	3,841,128
Fixed income - international	1,203,135	-	-	1,203,135
Large cap blend - domestic	7,144,913	-	-	7,144,913
Large cap blend - international	4,218,916	-	-	4,218,916
Small/mid cap blend - international	1,612,089	-	-	1,612,089
Global Balance Fund	149,303	-	-	149,303
Emerging markets	1,694,569	-	-	1,694,569
Absolute return	2,644,156	-	-	2,644,156
Hedge equity	849,211	-	-	849,211
Natural resources/commodities	433,677	-	-	433,677
Fixed income - domestic:				
U.S. Treasuries notes	562,018	-	-	562,018
Municipal bonds	-	542,516	-	542,516
Corporate bonds	-	562,034	-	562,034
Mortgage-backed securities	-	878,317	-	878,317
Alternative investments:				
Natural resources/commodities funds	-	169,965	750,000	919,965
Real estate funds	-	-	1,171,172	1,171,172
Private equity funds	-	-	1,207,566	1,207,566
Hybrid strategy funds	-	-	451,950	451,950
Total investments	25,111,471	2,152,832	3,580,688	30,844,991
Beneficial interest in a charitable trust	-	-	35,740	35,740
Total	<u>\$ 25,111,471</u>	<u>\$ 2,152,832</u>	<u>\$ 3,616,428</u>	<u>\$ 30,880,731</u>

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

4. Fair Value Measurements and Investments, continued

The following table summarizes the changes in assets classified as Level 3 for the year ended September 30, 2013. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

	Balance, Beginning of Year	Purchases	Sales	Realized Gains (Losses), Net	Unrealized Gains (Losses), Net	Balance, End of Year
Variable annuities	\$ 477,740	\$ -	\$ (498,000)	\$ 20,260	\$ -	\$ -
Natural resources/ commodities funds	622,500	172,528	(45,028)	-	-	750,000
Real estate funds	1,327,564	21,250	(164,322)	-	(13,320)	1,171,172
Private equity funds	1,127,658	80,113	(134,663)	-	134,458	1,207,566
Hybrid strategy funds	1,623,823	-	(1,200,115)	-	28,242	451,950
Beneficial interest in a charitable trust	38,197	-	-	-	(2,457)	35,740
Total	<u>\$ 5,217,482</u>	<u>\$ 273,891</u>	<u>\$ (2,042,128)</u>	<u>\$ 20,260</u>	<u>\$ 146,923</u>	<u>\$ 3,616,428</u>

The net change in unrealized losses relating to instruments still held at September 30, 2013 is the same as the unrealized losses, net above.

The table below summarizes the different categories of alternative investments calculated using NAV per share and their related unfunded commitments and redemption features.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Natural resources/ commodities funds ^a	\$ 919,965	\$ -	quarterly, no exit	90 days
Real estate funds ^b	1,171,172	63,750	no exit	-
Private equity funds ^c	1,207,566	459,412	no exit	-
Hybrid strategy funds ^d	451,950	-	annually	180 days
Total	<u>\$ 3,750,653</u>	<u>\$ 523,162</u>		

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

4. Fair Value Measurements and Investments, continued

- a. This category includes investments in a hedge fund and venture capital fund that invest in publicly traded midstream energy master limited partnerships and natural gas and renewable energy royalty interests. The fair values of 82% of the investments in this category have not been estimated using net asset value per share as they do not prepare their financial statements in accordance with GAAP. This investment is valued at management's estimate of fair value. This investment in a partnership is scheduled to terminate on May 15, 2019, but may be extended in five year terms for up to 30 years. No exit is permitted from this investment. Investments representing approximately 18% of the value of the investments in this category were estimated using the net asset value per share of the investment. Withdrawals may be made quarterly, beginning on December 31, 2010.

In April 2013, the Fund requested to withdraw the maximum available from RCH Energy MLP Fund, L.P. (RCH) in the amount of \$332,877. The Fund received a wire transfer of \$316,644 in October 2013 with RCH retaining a holdback of 5% or \$16,644. The holdback will be paid once the 2013 audit is complete. The remaining capital account of \$169,965 at September 30, 2013 is invested in Special Situation Investments and will be paid as they are realized.

- b. This category includes investments in hedge funds that invest in secured and credit enhanced debt and opportunistic equity instruments, as well as certain private real estate funds investing in office, apartment, industrial, or other commercial real estate throughout the U.S. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Interests in these funds are nonredeemable. The Fund's interest in 55% of this category is set to terminate on July 25, 2015 with provision for extensions of two years, in one year increments, and the remaining 45% is set to terminate on December 31, 2014.
- c. This category includes investments in hedge funds that invest in a diversified portfolio of private equity funds, including venture capital funds, buyout/growth capital funds, distressed funds, and special situation funds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Fund's interest in 48% of this category is set to terminate on September 1, 2018 and is nonredeemable. The remaining 52% has no termination date and is nonredeemable.
- d. This category invests in a hedge fund that invest in private investment funds among a broad range of strategies, such as fixed income, absolute return, global macro, public equity, private equity, and other real asset strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Fund is able to start withdrawing from this investment fund on December 31, 2010. In May 2012, the Fund requested for a full redemption from this fund. The Fund was paid approximately \$1,000,000 in March and July 2013. The remaining balance of \$451,952 is long-term in nature and this portion of the portfolio is illiquid. The majority of the proceeds from the liquidation of illiquid investments will be paid out periodically over the next five to seven years as they are realized.

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THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

4. Fair Value Measurements and Investments, continued

Investment return for the year ended September 30, 2013 was comprised of the following:

Interest and dividend income	\$ 868,265
Realized and unrealized gains, net	1,677,825
Investment management fees	(135,849)
Less appropriations from endowments	<u>(40,837)</u>
Total investment return, net	<u><u>\$ 2,369,404</u></u>

5. Student Loans Receivable

Loans at September 30, 2013 are summarized as follows:

Loans in repayment:	
Loans current	\$ 740,345
Loans past due 30 - 60 days	36,227
Loans past due 60 - 90 days	44,129
Loans past due 90 - 120 days	28,921
Loans past due over 120 days	371,826
Loans in a special arrangement	<u>32,267</u>
	1,253,715
In school or grace *	<u>1,643,522</u>
	2,897,237
Allowance for loan losses	<u>(299,750)</u>
	<u><u>\$ 2,597,487</u></u>

* This represents loans for students who are currently enrolled at a qualified institution or who have not yet commenced repayment, which occurs 12 months after graduation or withdrawal.

Activity in the allowance for loan losses for the year ended September 30, 2013, was as follows:

Beginning balance	\$ 326,784
Charge offs	(41,333)
Loan forgiveness	<u>14,299</u>
Ending balance	<u><u>\$ 299,750</u></u>

Continued

THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

6. Asset Not Recorded

The Fund has a 50% deeded interest in all oil, gas and other minerals in 320 acres in Petroleum County, Montana. The deed is not currently being leased, and the fair value, if any, has not been determined, and is therefore not recorded.

7. Beneficial Interest in Charitable Trust

The Fund is the income beneficiary of a charitable lead trust. Under the terms of the trust, the Fund will receive the net income earned until January 1, 2012, at which time one-third of the trust's residue will be distributed to another beneficiary. The Fund will then continue to receive net income from the remaining residue until January 1, 2015, at which time one-half of the trust's residue will be transferred to another beneficiary. The Fund will continue to receive the income from the remaining residue until January 1, 2018.

8. Employee Benefit Plan

The Fund has a 403(b) plan covering substantially all employees. The Fund matches employee contributions for employees with a minimum of one year of service up to 6% of their annual salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Contributions to the plan were \$14,817 for the year ended September 30, 2013.

9. Commitments

The Fund has a noncancelable operating lease for office space in Sacramento that expires September 1, 2016 with a renewal option for an additional five years with 180 days prior written notice. Rent expense was \$34,278 during the year ended September 30, 2013. Future minimum payments due under the operating lease as of September 30, 2013 are as follows:

2014	\$	41,346
2015		43,065
2016		41,158
		41,158
	\$	125,569

10. Net Assets

Temporarily restricted net assets as of September 30, 2013 are as follows:

Time restrictions	\$	35,740
Purpose:		
Post-secondary - student loans and grants		1,420,578
Other		60,517
		60,517
	\$	1,516,835

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THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS

September 30, 2013

10. Net Assets, continued

Over a period from June 2010 through September 2011, a donor provided \$1,227,892 to the Fund to create a term endowment for student loans and scholarships. The funds may be used to provide U.S. citizens with loans or scholarships relating to the Christian Science Nurse Training Program or to obtain an undergraduate degree. Only the income from this endowment may be used during the first ten years after the donor's death.

Beginning ten years after the donor's death, the Fund may invade the principal of such endowment every year by no more than 10% of the fair value as of the beginning of the year. If the balance falls below a certain threshold, the Board of Trustees may terminate the endowment and use the funds for general purposes. Certain pro-rata amounts of the Fund's administrative expenses may also be charged against this endowment every year.

Net assets were released from restriction as follows:

Time restrictions met	\$	2,457
Purpose:		
Post-secondary - student loans and grants		159,025
International post-secondary		33,579
Christian Science nurse training		100
Other		11,635
		<u>11,635</u>
	\$	<u>206,796</u>

The Fund has two donor-restricted endowment funds, one permanently restricted and the other temporarily restricted, and no board-designated endowments. Changes in endowment net assets for the year ended September 30, 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ (589)	\$ 1,353,937	\$ 146,568	\$ 1,499,916
Investment income	-	62,773	-	62,773
Realized gains (losses)	-	14,461	-	14,461
Unrealized gains (losses)	589	(9,124)	-	(8,535)
Amounts appropriated for expenditure	-	(40,837)	-	(40,837)
	<u>-</u>	<u>(40,837)</u>	<u>-</u>	<u>(40,837)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,381,210</u>	<u>\$ 146,568</u>	<u>\$ 1,527,778</u>

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THE ALBERT BAKER FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

11. Subsequent Events

The Fund evaluated subsequent events for recognition and disclosure through March 10, 2014, the date which these financial statements were available to be issued. In addition to Notes 2, management concluded that material subsequent events have occurred since September 30, 2013 that required disclosure in the financial statements.

Supporting Organization Trust

In October 2013, the Fund formed a supporting organization trust named *The ABF Trust for Program Support*. The supporting organization will operate exclusively for charitable, educational, and/or religious purposes to conduct or support activities for the benefit of, to perform the functions of, or to carry out the purposes of the Fund and will be controlled by the Fund.