

**THE ALBERT BAKER FUND AND SUBSIDIARY**

---

**CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

(with summarized comparative information as of September 30, 2014)

# THE ALBERT BAKER FUND AND SUBSIDIARY

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
The Albert Baker Fund  
Sacramento, California

We have audited the accompanying consolidated financial statements of The Albert Baker Fund and subsidiary, which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Albert Baker Fund and subsidiary as of September 30, 2015, and the changes in their net assets and their 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's 2014 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014 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 4, 2016

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

September 30, 2015  
(with summarized comparative information as of September 30, 2014)

	2015	2014
<b>ASSETS</b>		
Cash	\$ 317,539	\$ 521,842
Contributions receivable	5,000	62,814
Interest receivable	27,152	11,307
Student loans receivable, net	2,425,469	2,513,728
Prepaid expenses and other assets	45,201	22,111
Investments, at fair value	29,649,912	32,172,502
Property and equipment, net	79,567	101,507
Beneficial interest in a charitable trust	32,217	33,921
	\$ 32,582,057	\$ 35,439,732
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 37,550	\$ 27,409
Commitments (Note 8)		
Net assets:		
Unrestricted	30,986,041	33,742,517
Temporarily restricted	1,411,898	1,523,238
Permanently restricted	146,568	146,568
Total net assets	32,544,507	35,412,323
	\$ 32,582,057	\$ 35,439,732

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

## THE ALBERT BAKER FUND AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2015

(with summarized comparative information for the year ended September 30, 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 353,798	\$ 220,494	\$ -	\$ 574,292	\$ 524,484
Bequests	31,200	10,000	-	41,200	55,209
Student loan interest	35,956	-	-	35,956	34,787
Other revenue	2,733	-	-	2,733	5,612
Investment return - operating	-	-	-	-	37,302
Net assets released from restriction	231,649	(231,649)	-	-	-
Total support and revenue	655,336	(1,155)	-	654,181	657,394
Expenses:					
Program services:					
Post-secondary - student loans	123,356	-	-	123,356	124,830
Post-secondary - grants	484,427	-	-	484,427	477,921
International post-secondary	499,366	-	-	499,366	513,352
Christian Science nurse training	195,540	-	-	195,540	190,272
Youth leadership	160,892	-	-	160,892	166,821
Career alliance	300,984	-	-	300,984	170,158
Other programs	-	-	-	-	34,569
Total program services	1,764,565	-	-	1,764,565	1,677,923
Support services:					
Management and general	453,679	-	-	453,679	341,052
Fundraising	246,902	-	-	246,902	293,563
Total support services	700,581	-	-	700,581	634,615
Total expenses	2,465,146	-	-	2,465,146	2,312,538
Loss from operations	(1,809,810)	(1,155)	-	(1,810,965)	(1,655,144)
Investment return, net - nonoperating	(946,666)	(110,185)	-	(1,056,851)	2,405,528
Change in net assets	(2,756,476)	(111,340)	-	(2,867,816)	750,384
Net assets, beginning of year	33,742,517	1,523,238	146,568	35,412,323	34,661,939
Net assets, end of year	\$ 30,986,041	\$ 1,411,898	\$ 146,568	\$ 32,544,507	\$ 35,412,323

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

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended September 30, 2015  
(with summarized comparative information for the year ended September 30, 2014)

	Program Services						Support Services		2015 Total	2014 Total	
	Post- Secondary - Student Loans	Post- Secondary - Grants	International Post- Secondary	Christian Science Nurse Training	Youth Leadership	Career Alliance	Total Programs	Management and General			Fundraising
Grants expense	\$ -	\$ 423,158	\$ 345,410	\$ 154,520	\$ 148,700	\$ -	\$ 1,071,788	\$ -	\$ -	\$ 1,071,788	\$ 1,063,465
Salaries and benefits	65,739	57,333	72,450	38,331	11,575	197,604	443,032	245,401	172,436	860,869	801,558
Other personnel costs	710	619	782	414	125	2,134	4,784	2,651	1,862	9,297	6,557
Temporary contract help	9,600	-	57,064	-	-	-	66,664	-	-	66,664	64,036
Professional fees	-	-	2,125	-	-	-	2,125	52,427	7,128	61,680	42,995
Office expenses	-	-	807	-	-	1,644	2,451	9,337	1,128	12,916	7,319
Information technology costs	-	-	1,768	-	-	10,239	12,007	17,613	7,775	37,395	32,559
Loan management and collection	8,444	-	-	-	-	-	8,444	-	-	8,444	8,990
Marketing	-	-	-	-	-	44,712	44,712	194	20,968	65,874	49,557
Telephone and telecommunications	839	210	2,821	147	38	2,100	6,155	5,325	3,048	14,528	15,870
Occupancy expenses	1,510	1,326	1,603	924	241	3,805	9,409	33,575	5,126	48,110	46,146
Depreciation expense	744	654	790	456	119	1,689	4,452	16,550	938	21,940	2,897
Miscellaneous expenses	372	-	8,028	-	-	364	8,764	23,683	978	33,425	33,606
Insurance	-	-	-	-	-	-	-	6,903	-	6,903	6,839
Travel and entertainment	1,239	1,127	5,718	748	94	29,929	38,855	40,020	25,515	104,390	100,603
Conference	-	-	-	-	-	-	-	-	-	-	6,000
Program materials	-	-	-	-	-	6,764	6,764	-	-	6,764	11,738
Loan losses and forgiveness	34,159	-	-	-	-	-	34,159	-	-	34,159	11,803
	<u>\$ 123,356</u>	<u>\$ 484,427</u>	<u>\$ 499,366</u>	<u>\$ 195,540</u>	<u>\$ 160,892</u>	<u>\$ 300,984</u>	<u>\$ 1,764,565</u>	<u>\$ 453,679</u>	<u>\$ 246,902</u>	<u>\$ 2,465,146</u>	<u>\$ 2,312,538</u>

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

## THE ALBERT BAKER FUND AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2015

(with summarized comparative information for the year ended September 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (2,867,816)	\$ 750,384
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	21,940	2,897
Change in value of beneficial interest in a charitable trust	1,704	1,819
Net realized and unrealized losses (gains) on investments	1,817,271	(1,806,714)
Loan losses and forgiveness	34,159	11,803
Investment income restricted for long-term purposes	(50,418)	(44,667)
Changes in operating assets and liabilities:		
Contributions receivable	57,814	(62,814)
Interest receivable	(15,845)	5,489
Prepaid expenses and other assets	(23,090)	(1,075)
Accounts payable and accrued liabilities	10,141	12,974
Net cash used in operating activities	(1,014,140)	(1,129,904)
Cash flows from investing activities:		
Purchases of investments	(6,407,605)	(3,384,892)
Proceeds from sales and maturities of investments	7,112,924	3,864,095
Net receivables from unsettled trades	-	814,233
Advances to loan recipients	(324,298)	(278,098)
Repayments from loan recipients	378,398	350,054
Purchases of property and equipment	-	(95,215)
Net cash provided by investing activities	759,419	1,270,177
Cash flows from financing activities:		
Investment income restricted to endowment	50,418	44,667
Net cash provided by financing activities	50,418	44,667
Net (decrease) increase in cash	(204,303)	184,940
Cash, beginning of year	521,842	336,902
Cash, end of year	\$ 317,539	\$ 521,842
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 11,550	\$ 20,093

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

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**1. Description of Organization**

The Albert Baker Fund (“ABF”), is a California nonprofit public benefit corporation organized in 1964. ABF’s mission is to serve the cause of Christian Science and humanity by providing resources for the education and development of Christian Scientists. ABF 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 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 consolidated financial statements:

**Post-Secondary Program - Student Loans and Grants**

This program is ABF’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**

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

**Christian Science Nurse Training**

This program provides need-based grants for tuition 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**

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.

**Career Alliance**

Launched in 2015, this new program links job seekers to career allies by opening doors to internships and job opportunities, and by providing outstanding career education and networking resources for the Christian Science community.

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**1. Description of Organization**, continued

*Nature of Activities*, continued

**Other Programs**

Other programs include language education, Christian Science military chaplain program and seminary education grants.

**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, churches, foundations, and corporations.

**2. Significant Accounting Policies**

*Principles of Consolidation and Basis of Presentation*

The accompanying consolidated 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 and include the accounts of ABF and its wholly owned subsidiary, The ABF Trust for Program Support (collectively, the "Fund"). All material intercompany transactions have been eliminated.

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 AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

***Principles of Consolidation and Basis of 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.

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 3).

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

***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, 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 alternative investments resulting from fair value fluctuations are recorded in the consolidated statement of activities and changes in net assets in the period that 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.

***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.

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

***Student Loans Receivable***, continued

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 3%. 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 following a 12 month grace period. 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 do not bear interest during the deferral period on student and hardship deferments. Borrowers serving in the military, Peace Corps, AmeriCorps, VISTA and similar government organizations may also 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 software, 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. Capitalized software consists of internally developed software that is in the application development stage. Upgrades and enhancements that have additional functionality are capitalized. Capitalized software is carried at cost and depreciated using the straight-line method over the estimated useful life of the assets. Depreciation expense for the year ended September 30, 2015 was \$21,940.

***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.

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

*Endowments*, continued

**Interpretation of Relevant Law**, continued

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.

**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 spending, 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 growth oriented 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 total reported 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.

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

*Endowments, continued*

**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. As of September 30, 2015, there was a deficiency of \$7,426.

***Contributions Revenue and Receivable***

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 consolidated statement of activities and changes in net assets as net assets released from restrictions.

***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 consolidated financial statements for donated services for the year ended September 30, 2015. Volunteers also provided interview and application screening services throughout the year that are not recognized as contributions in the consolidated 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.

***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. The Fund is named as the beneficiary of two split-interest agreement, a charitable lead trust and a charitable remainder unitrust. 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.

Continued

**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**2. Significant Accounting Policies, continued**

***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.

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 grants payable at September 30, 2015.

***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 office square footage and 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***

ABF has received determination letters from the Internal Revenue Service and the state of California indicating that ABF is exempt from federal income taxes under Internal Revenue Code 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 consolidated financial statements. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income.

The ABF Trust for Program Support was established in 2014 as a Type I supporting organization of ABF and is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and has a pending request for exemption 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 consolidated financial statements. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income. The Fund's investment activities generated unrelated business income during the year ended September 30, 2015. As a result, the Fund paid \$11,550 in income taxes during the year ended September 30, 2015.

***Measure of Operations***

In its consolidated 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.

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**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, 2015, two donors made up 52% 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 consolidated 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 (“U.S. GAAP”). Accordingly, such information should be read in conjunction with the Fund’s financial statements as of and for the year ended September 30, 2014, from which the summarized comparative information was derived.

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

**3. 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, 2015:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Cash equivalents	\$ 1,343,012	\$ -	\$ -	\$ 1,343,012
Mutual funds and exchange-traded funds:				
Fixed income - domestic	3,355,351	-	-	3,355,351
Fixed income - international	605,122	-	-	605,122
Large cap blend - domestic	7,760,595	-	-	7,760,595
Large cap blend - international	4,141,861	-	-	4,141,861
Small/mid cap blend - international	1,491,621	-	-	1,491,621
Small Cap fund	930,227	-	-	930,227
Emerging markets	1,019,950	-	-	1,019,950
Absolute return	1,843,502	-	-	1,843,502
Hedge equity - domestic	271,598	-	-	271,598
Hedge equity - international	673,616	-	-	673,616
Natural resources/commodities	246,023	-	-	246,023
Fixed income - domestic:				
U.S. Treasuries	715,142	-	-	715,142
Municipal bonds	-	280,302	-	280,302
Corporate bonds	-	953,622	-	953,622
Mortgage-backed securities	-	824,083	-	824,083
Alternative investments:				
Natural resources/commodities funds	-	131,006	750,000	881,006
Real estate funds	-	-	799,966	799,966
Private equity funds	-	-	1,272,303	1,272,303
Hybrid strategy funds	-	-	241,010	241,010
Total investments	24,397,620	2,189,013	3,063,279	29,649,912
Beneficial interest in a charitable trust	-	-	32,217	32,217
Total	<u>\$ 24,397,620</u>	<u>\$ 2,189,013</u>	<u>\$ 3,095,496</u>	<u>\$ 29,682,129</u>

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

**3. Fair Value Measurements and Investments, continued**

The following table summarizes the changes in assets classified as Level 3 for the year ended September 30, 2015. 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/ Distributions	Unrealized / Realized Gains (Losses), Net	Balance, End of Year
Natural resources/ commodities funds	\$ 750,000	\$ -	\$ (45,948)	\$ 45,948	\$ 750,000
Real estate funds	967,265	151,451	(450,952)	132,202	799,966
Private equity funds	1,440,901	-	(344,900)	176,302	1,272,303
Hybrid strategy funds	388,601	-	(119,595)	(27,996)	241,010
Beneficial interest in a charitable trust	33,921	-	(1,704)	-	32,217
Total	<u>\$ 3,580,688</u>	<u>\$ 151,451</u>	<u>\$ (963,099)</u>	<u>\$ 326,456</u>	<u>\$ 3,095,496</u>

The net change in unrealized gains relating to instruments still held at September 30, 2015 is the same as the unrealized gains, 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.

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Natural resources/ commodities funds <sup>a</sup>	2	\$ 881,006	\$ -	quarterly and no exit	90 days
Real estate funds <sup>b</sup>	3	799,966	415,472	no exit	-
Private equity funds <sup>c</sup>	2	1,272,303	426,787	no exit	-
Hybrid strategy funds <sup>d</sup>	1	241,010	-	annually	180 days
Total		<u>\$ 3,194,285</u>	<u>\$ 842,259</u>		

- 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 15% 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 85% 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.

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
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**3. Fair Value Measurements and Investments**, continued

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 that was paid in the year ended September 30, 2014 after the 2013 audit was complete. The remaining capital account of \$131,006 at September 30, 2015 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 41% of this category is set to terminate on November 13, 2016 with provision for extensions of two years, in one year increments, and the Fund's interest in 43% will terminate at such time as is reasonably necessary to wind down the affairs of the Partnership after the date on which all of the Partnership's investments in the Underlying Funds have been liquidated. The remaining 16% is set to terminate March 6, 2020.
- 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 41% of this category is set to terminate on September 1, 2018 and is nonredeemable. The remaining 59% 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 was 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 \$241,010 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.

Investment return for the year ended September 30, 2015 was comprised of the following:

Interest and dividend income	\$ 906,224
Realized and unrealized losses, net	(1,817,271)
Investment management fees	<u>(145,804)</u>
Total investment return, net	(1,056,851)
Less appropriations from endowments	<u>-</u>
Total investment return, net - nonoperating	<u><u>\$ (1,056,851)</u></u>

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**4. Student Loans Receivable**

Loans at September 30, 2015 are summarized as follows:

Loans in repayment:	
Loans current	\$ 1,093,018
Loans past due 30 - 60 days	15,959
Loans past due 60 - 90 days	14,250
Loans past due 90 - 120 days	35,567
Loans past due over 120 days	250,513
Loans in a special arrangement	<u>107,635</u>
	1,516,942
In school or grace *	<u>1,208,277</u>
	2,725,219
Allowance for loan losses	<u>(299,750)</u>
	<u><u>\$ 2,425,469</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, 2015, was as follows:

Beginning balance	\$ 299,750
Charge offs	(23,178)
Loan forgiveness	(10,981)
Loan loss expense	<u>34,159</u>
Ending balance	<u><u>\$ 299,750</u></u>

**5. 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.

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

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**6. 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. The beneficial interest in the charitable trust is measured using a discount cash flows method, based on a 2.22% discount rate. The asset is recorded on the consolidated statement of financial condition and is valued at \$32,217 as of September 30, 2015. For the period ended September 30, 2015, the Fund received \$1,704 from the charitable lead trust.

The Fund is the sole remainder beneficiary of a charitable remainder unitrust. The assets of the trust are not included in the Statement of Financial Position of the Fund since the trust is revocable at the discretion of the grantor. No income has been received or recognized from the trust for the years ended September 30, 2015 and 2014, respectively.

**7. 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 \$32,835 for the year ended September 30, 2015.

**8. 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 \$36,348 during the year ended September 30, 2015. Future minimum payments due under the operating lease as of September 30, 2015 are as follows:

2016	\$ 40,603
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**9. Net Assets**

Temporarily restricted net assets as of September 30, 2015 are as follows:

Time restrictions	\$ 32,217
Purpose:	
Post-secondary - student loans and grants	1,379,681
	\$ 1,411,898

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**9. 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	\$	1,705
Purpose:		
Post-secondary - student loans and grants		118,835
Career Alliance		81,190
International post-secondary		5,554
Christian Science nurse training		24,315
Other		50
		<u>231,649</u>
	\$	<u>231,649</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, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 1,446,947	\$ 146,568	\$ 1,593,515
Investment income	-	50,418	-	50,418
Realized losses	-	(2,098)	-	(2,098)
Unrealized losses	(7,426)	(158,505)	-	(165,931)
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ (7,426)</u>	<u>\$ 1,336,762</u>	<u>\$ 146,568</u>	<u>\$ 1,475,904</u>

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**THE ALBERT BAKER FUND AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**10. Related Parties**

The Fund is the Trustor of the ABF Trust for Program Support (the “Trust”), a supporting organization of ABF established for the sole purpose of benefitting the Fund. The Fund and the Trust share three board members and are under common control.

**11. Subsequent Events**

The Fund evaluated subsequent events for recognition and disclosure through March 4, 2016, the date which these consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since September 30, 2015 that require recognition or disclosure in the consolidated financial statements.