

**THE ALBERT BAKER FUND**

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**FINANCIAL STATEMENTS**

September 30, 2016

(With summarized comparative information about  
The Albert Baker Fund and its Subsidiary as of September 30, 2015)

# 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 financial statements of The Albert Baker Fund, which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*BPM LLP*

San Francisco, California  
April 6, 2017

# THE ALBERT BAKER FUND

## STATEMENT OF FINANCIAL POSITION

September 30, 2016

(With summarized comparative information about  
The Albert Baker Fund and Its Subsidiary as of September 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 215,631	\$ 317,539
Contributions receivable	92,000	5,000
Investment dividends and interest receivable	19,398	27,152
Student loans receivable, net	2,322,465	2,425,469
Prepaid expenses and other assets	31,902	45,201
Investments, at fair value	30,276,174	29,649,912
Property and equipment, net	57,627	79,567
Beneficial interest in a charitable trust	31,377	32,217
	<u>\$ 33,046,574</u>	<u>\$ 32,582,057</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	<u>\$ 57,660</u>	<u>\$ 37,550</u>
Commitments (Note 8)		
Net assets:		
Unrestricted	31,329,915	30,986,041
Temporarily restricted	1,512,431	1,411,898
Permanently restricted	<u>146,568</u>	<u>146,568</u>
Total net assets	<u>32,988,914</u>	<u>32,544,507</u>
	<u>\$ 33,046,574</u>	<u>\$ 32,582,057</u>

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

## THE ALBERT BAKER FUND

### STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2016  
(With summarized comparative information about  
The Albert Baker Fund and Its Subsidiary for the year ended September 30, 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 203,005	\$ 181,021	\$ -	\$ 384,026	\$ 574,292
Bequests	13,382	10,000	-	23,382	41,200
Student loan interest	34,489	-	-	34,489	35,956
Other revenue	295	-	-	295	2,733
Investment return - operating	-	50,400	-	50,400	-
Net assets released from restriction	204,358	(204,358)	-	-	-
Total support and revenue	455,529	37,063	-	492,592	654,181
Expenses:					
Program services:					
Post-secondary - student loans	109,141	-	-	109,141	123,356
Post-secondary - grants	472,288	-	-	472,288	484,427
International post-secondary	470,322	-	-	470,322	499,366
Christian Science nurse training	155,873	-	-	155,873	195,540
Youth leadership	135,553	-	-	135,553	160,892
Career alliance	244,150	-	-	244,150	300,984
Total program services	1,587,327	-	-	1,587,327	1,764,565
Support services:					
Management and general	458,266	-	-	458,266	453,679
Fundraising	290,910	-	-	290,910	246,902
Total support services	749,176	-	-	749,176	700,581
Total expenses	2,336,503	-	-	2,336,503	2,465,146
Loss from operations	(1,880,974)	37,063	-	(1,843,911)	(1,810,965)
Investment return, net - nonoperating	2,224,848	63,470	-	2,288,318	(1,056,851)
Change in net assets	343,874	100,533	-	444,407	(2,867,816)
Net assets, beginning of year	30,986,041	1,411,898	146,568	32,544,507	35,412,323
Net assets, end of year	\$ 31,329,915	\$ 1,512,431	\$ 146,568	\$ 32,988,914	\$ 32,544,507

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

**THE ALBERT BAKER FUND**  
**STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended September 30, 2016  
(With summarized comparative information about  
The Albert Baker Fund and Its Subsidiary for the year ended September 30, 2015)

	Program Services						Support Services		2016 Total	2015 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	\$ -	\$ 415,226	\$ 285,038	\$ 114,297	\$ 124,750	\$ -	\$ 939,311	\$ -	\$ -	\$ 939,311	\$ 1,071,788
Salaries and benefits	62,159	53,008	67,752	38,981	10,198	180,040	412,138	265,853	193,544	871,535	860,869
Other personnel costs	641	547	699	402	105	1,857	4,251	2,743	1,997	8,991	9,297
Temporary contract help	10,800	-	-	-	-	-	10,800	-	-	10,800	66,664
Professional fees	-	-	62,810	-	-	-	62,810	48,298	13,469	124,577	61,680
Office expenses	-	-	258	-	-	479	737	14,036	1,854	16,627	12,916
Information technology costs	-	-	157	-	-	24,563	24,720	15,185	4,859	44,764	37,395
Loan management and collection	8,133	-	-	-	-	-	8,133	-	-	8,133	8,444
Marketing	-	-	104	-	-	11,870	11,974	75	37,141	49,190	65,874
Telephone and telecommunications	932	228	2,791	159	42	2,089	6,241	5,784	4,049	16,074	14,528
Occupancy expenses	1,692	1,480	1,790	1,030	270	3,558	9,820	37,508	2,313	49,641	48,110
Depreciation expense	748	654	791	456	119	1,572	4,340	16,578	1,022	21,940	21,940
Miscellaneous expenses	285	233	7,916	-	-	1,000	9,434	18,623	9,923	37,980	33,425
Insurance	-	-	-	-	-	-	-	6,510	-	6,510	6,903
Travel, and entertainment	994	912	40,216	548	69	17,122	59,861	27,073	20,739	107,673	104,390
Program materials	-	-	-	-	-	-	-	-	-	-	6,764
Loan losses and forgiveness	22,757	-	-	-	-	-	22,757	-	-	22,757	34,159
	<u>\$ 109,141</u>	<u>\$ 472,288</u>	<u>\$ 470,322</u>	<u>\$ 155,873</u>	<u>\$ 135,553</u>	<u>\$ 244,150</u>	<u>\$ 1,587,327</u>	<u>\$ 458,266</u>	<u>\$ 290,910</u>	<u>\$ 2,336,503</u>	<u>\$ 2,465,146</u>

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

# THE ALBERT BAKER FUND

## STATEMENT OF CASH FLOWS

For the year ended September 30, 2016  
(With summarized comparative information about  
The Albert Baker Fund and Its Subsidiary for the year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 444,407	\$ (2,867,816)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	21,940	21,940
Change in value of beneficial interest in a charitable trust	840	1,704
Net realized and unrealized (gains) losses on investments	(1,663,522)	1,817,271
Loan losses and forgiveness	22,757	34,159
Investment income restricted for long-term purposes	(51,794)	(50,418)
Changes in operating assets and liabilities:		
Contributions receivable	(87,000)	57,814
Interest receivable	7,754	(15,845)
Prepaid expenses and other assets	13,299	(23,090)
Accounts payable and accrued liabilities	20,110	10,141
Net cash used in operating activities	<u>(1,271,209)</u>	<u>(1,014,140)</u>
Cash flows from investing activities:		
Purchases of investments	(30,330,294)	(6,407,605)
Proceeds from sales and maturities of investments	31,367,554	7,112,924
Advances to loan recipients	(329,900)	(324,298)
Repayments from loan recipients	410,147	378,398
Net cash provided by investing activities	<u>1,117,507</u>	<u>759,419</u>
Cash flows from financing activities:		
Investment income restricted to endowment	51,794	50,418
Net cash provided by financing activities	<u>51,794</u>	<u>50,418</u>
Net decrease in cash	(101,908)	(204,303)
Cash, beginning of year	<u>317,539</u>	<u>521,842</u>
Cash, end of year	<u>\$ 215,631</u>	<u>\$ 317,539</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 12,886</u>	<u>\$ 11,550</u>

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

**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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

**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.

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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**1. Description of Organization**, continued

*Nature of Activities*, continued

**Career Alliance**

Launched in 2015, this 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.

**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**

*Basis of 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 September 30, 2015 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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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**2. Significant Accounting Policies, continued**

*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 an investment, within its scope, on the basis of the NAV per share of the investment if the NAV of the investment is calculated in a manner consistent with the measuring principles of accounting for investment companies as of the reporting entity's measurement date. As a result of early adoption of ASU 2015-07, these investments are no longer categorized within the fair value hierarchy. Additional disclosures about the attributes of such investments are required, by major category of investment (see Note 3).

Continued

**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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.

Investments in limited partnerships, such as natural resources/commodities, real estate, private equity, or hybrid strategy funds, include securities of companies that are neither immediately liquid nor have a readily available market. Since there is no readily available market for investments in limited partnerships, such investments are valued at amounts reported to the Fund by the general partners of such entities based upon guidelines established by the general partners. Further, management reviews the annual forms K-1, the audited financial statements for the partnerships, reviews investment managers' valuation policies, monitors news in the public domain in connection with its investment managers, meets periodically with investment managers, and reviews performance with its investment consultants. Management believes this method provides a reasonable estimate of fair value. These values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Unrealized gains or losses on alternative 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.

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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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 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 following a 12 month grace period. Loan recipients accepted into *The Christian Science Journal* as listed Christian Science practitioners or Christian Science 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, 2016 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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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% (+/-20%) in global 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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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, 2016 there were no deficiencies in the endowment funds.

***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 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 financial statements for donated services for the year ended September 30, 2016. 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.

***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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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, 2016.

***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 financial statements. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income. ABF's investment activities generated unrelated business income during the year ended September 30, 2016. As a result, the Fund paid \$12,886 in income taxes during the year ended September 30, 2016.

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). 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.

***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.

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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 and Receivables**

For the year ended September 30, 2016, three donors made up 57% of total contributions. One donor made up 100% of contributions receivable.

***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 (“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, 2015, from which the summarized comparative information was derived.

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

**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, 2016:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Total
Assets:					
Investments:					
Cash equivalents	\$ 981,846	\$ -	\$ -	\$ -	\$ 981,846
Equities:					
Common Stocks	13,038,680	-	-	-	13,038,680
Mutual funds and exchange-traded funds:					
Fixed income - domestic	1,529,598	-	-	-	1,529,598
Large cap blend - domestic	3,889,117	-	-	-	3,889,117
Large cap blend - international	113,478	-	-	-	113,478
Small/mid cap blend - domestic	359,894	-	-	-	359,894
Large growth	610,514	-	-	-	610,514
Small growth	688,263	-	-	-	688,263
International hedge equity fund	114,896	-	-	-	114,896
Consumer defensive funds	127,225	-	-	-	127,225
Large value funds	231,217	-	-	-	231,217
Natural resources/commodities	820,396	-	-	-	820,396
Fixed income - domestic:					
U.S. Treasuries	1,404,491	-	-	-	1,404,491
Government obligations	1,058,862	-	-	-	1,058,862
Corporate bonds	-	1,363,771	-	-	1,363,771
Mortgage-backed securities	-	57,646	-	-	57,646
Alternative investments:					
Natural resources/commodities funds	-	-	-	853,925	853,925
Real estate funds	-	-	-	1,817,031	1,817,031
Private equity funds	-	-	-	1,036,090	1,036,090
Hybrid strategy funds	-	-	-	179,234	179,234
Total investments	24,968,477	1,421,417	-	3,886,280	30,276,174
Beneficial interest in a charitable trust	-	-	31,377	-	31,377
Total	<u>\$ 24,968,477</u>	<u>\$ 1,421,417</u>	<u>\$ 31,377</u>	<u>\$ 3,886,280</u>	<u>\$ 30,307,551</u>

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

**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, 2016. 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
Beneficial interest in a charitable trust	\$ 32,217	\$ -	\$ (840)	\$ -	\$ 31,377
Total	<u>\$ 32,217</u>	<u>\$ -</u>	<u>\$ (840)</u>	<u>\$ -</u>	<u>\$ 31,377</u>

The net change in unrealized gains relating to instruments still held at September 30, 2016 is the same as the unrealized gains, net above.

The Albert Baker Fund uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category as of September 30, 2016:

	Number of Funds	NAV in Funds	Unfunded Commitments	Remaining Life	Redemption Restrictions	Redemption Notice Period
Natural resources/ commodities funds <sup>a</sup>	2	\$ 853,925	\$ -	N.A.	quarterly and no exit	90 days
Real estate funds <sup>b</sup>	5	1,817,031	354,820	1–5 years	quarterly and no exit	90 days
Private equity funds <sup>c</sup>	2	1,036,090	409,749	N.A.	no exit	-
Hybrid strategy funds <sup>d</sup>	1	179,234	-	N.A.	annually	180 days
Total		<u>\$ 3,886,280</u>	<u>\$ 764,569</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 88% 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 12% 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**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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 \$103,925 at September 30, 2016 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. The Fund’s interest in 14% 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 10% 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 Fund’s interest in 11% is nonredeemable and set to terminate March 6, 2020. The remaining 65% has no termination date and can be redeemed quarterly.
- 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 39% of this category is set to terminate on September 1, 2018 and is nonredeemable. The remaining 61% is set to terminate on December 31, 2030 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 \$179,441 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, 2016 was comprised of the following:

Interest and dividend income	\$ 799,649
Realized and unrealized gains, net	1,663,522
Investment management fees	<u>(124,453)</u>
Total investment return, net	2,338,718
Less appropriations from endowments	<u>(50,400)</u>
Total investment return, net - nonoperating	<u><u>\$ 2,288,318</u></u>

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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**4. Student Loans Receivable**

Loans at September 30, 2016 are summarized as follows:

Loans in repayment:	
Loans current	\$ 1,068,920
Loans past due 30 - 60 days	20,348
Loans past due 60 - 90 days	4,015
Loans past due 90 - 120 days	12,098
Loans past due over 120 days	228,396
Loans in a special arrangement	<u>154,999</u>
	1,488,776
In school or grace *	<u>1,153,439</u>
	2,642,215
Allowance for loan losses	<u>(319,750)</u>
	<u><u>\$ 2,322,465</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, 2016, was as follows:

Beginning balance	\$ 299,750
Loan forgiveness	(2,757)
Loan loss expense	<u>22,757</u>
Ending balance	<u><u>\$ 319,750</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.

**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.

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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**6. Beneficial Interest in Charitable Trust, continued**

The asset is recorded on the statement of financial condition and is valued at \$31,377 as of September 30, 2016. For the period ended September 30, 2016, the change in value of the charitable lead trust was \$840.

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 year ended September 30, 2016.

**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 \$37,154 for the year ended September 30, 2016.

**8. Commitments**

The Fund has a noncancelable operating lease for office space in Sacramento that expires September 1, 2019 with a renewal option for an additional five years with 180 days prior written notice. Rent expense was \$38,292 during the year ended September 30, 2016. Future minimum payments due under the operating lease as of September 30, 2016 are as follows:

2017		\$	44,772
2018			43,176
	Total		\$ 87,948

**9. Net Assets**

Temporarily restricted net assets as of September 30, 2016 are as follows:

Time restrictions		\$	31,376
Purpose:			
Post-secondary - student loans and grants			1,440,802
Other Programs			8,650
Career Alliance Regional Workshops			31,603
			\$ 1,512,431

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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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	\$	5,040
Purpose:		
Post-secondary - student loans and grants		144,932
Career Alliance		9,709
Career Alliance workshops		8,397
International post-secondary		35,830
Christian Science nurse training		400
Other		50
		<u>204,358</u>
	\$	<u>204,358</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, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ (7,426)	\$ 1,336,762	\$ 146,568	\$ 1,475,904
Investment income	-	51,794	-	51,794
Realized gains	-	1,820	-	1,820
Unrealized gains	7,426	52,830	-	60,256
Amounts appropriated for expenditure	-	(50,400)	-	(50,400)
Endowment net assets, end of year	\$ -	\$ 1,392,806	\$ 146,568	\$ 1,539,374

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**THE ALBERT BAKER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

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**10. Related Parties**

The Fund was 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 shared three board members and were under common control. During the year, The Fund’s Board of Directors voted to terminate the Trust. The Trustees of the Trust executed the termination and all receivables due from the Trust were written off on September 30, 2016.

**11. Subsequent Events**

The Fund evaluated subsequent events for recognition and disclosure through April 6, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since September 30, 2016 that require recognition or disclosure in the financial statements.