THE CHRISTENSEN FUND

DECEMBER 31, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The Christensen Fund

Independent Auditors' Report and Consolidated Financial Statements

Independent Auditors' Report

THE BOARD OF TRUSTEES
THE CHRISTENSEN FUND
San Francisco, California

We have audited the accompanying consolidated financial statements of **THE CHRISTENSEN FUND (the "Fund")** which comprise the consolidated statements of financial position as of December 31, 2014 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the consolidated 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 auditor's 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 auditor considers internal control relevant to the Fund'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 Fund'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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Christensen Fund as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Christensen Fund, as of and for the year ended December 31, 2013, were audited by other auditors whose report dated September 29, 2014 expressed an unmodified opinion on those statements.

Hood & Strong LLP

San Francisco, California
September 17, 2015

The Christensen Fund

Consolidated Statements of Financial Position

December 31,		2014		2013
Assets				
Cash and cash equivalents	$	14,863,819	$	16,816,978
Investments		220,997,192		211,991,531
Income-producing property		2,115,254		2,115,254
Prepaid expenses and other assets		2,638,106		3,070,710
Total assets	$	240,614,371	$	233,994,473
Liabilities and Net Assets				
Liabilities:				
Grants payable	$	4,163,289	$	5,028,148
Accounts payable and Accrued liabilities		256,597		253,991
Deferred federal excise tax		745,000		360,292
Total liabilities		5,164,886		5,642,431
Unrestricted Net Assets		235,449,485		228,352,042
Total liabilities and net assets	$	240,614,371	$	233,994,473

See accompanying notes to financial statements.

The Christensen Fund

Consolidated Statements of Activities

Year Ended December 31,	2014	2013
Revenue, Gains and Other Income:		
Contributions	$ 1,161,400	$ 245,000
Rental income	810,236	810,236
Dividends and interest	4,955,075	8,352,735
Realized and unrealized gain on investments	21,363,118	26,911,508
Other income	67,017	39,491
Total revenue, gains and other income	28,356,846	36,358,970
Expenses:		
Program grants	11,552,845	14,053,929
Other program expenses	2,742,214	2,906,649
Investment management fees	4,316,246	3,949,048
General and administrative	2,165,510	1,938,278
Excise tax expense	482,588	742,160
Total expenses	21,259,403	23,590,064
Change in Net Assets	7,097,443	12,768,906
Unrestricted Net Assets - beginning of year	228,352,042	215,583,136
Unrestricted Net Assets - end of year	$ 235,449,485	$ 228,352,042

See accompanying notes to financial statements.

The Christensen Fund

Consolidated Statements of Cash Flows

Year Ended December 31,	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 7,097,443	$ 12,768,906
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	77,369	83,103
Net realized and unrealized gains on investments	(21,363,118)	(26,911,508)
Deferred excise tax	384,708	316,083
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	359,228	(931,358)
Grants payable	(864,859)	915,475
Accounts payable	29,796	(806)
Accrued liabilities	(27,190)	39,158
Net cash used by operating activities	(14,306,623)	(13,720,947)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	13,542,367	28,461,423
Purchases of investments	(1,184,910)	(65,516,952)
Purchases of property and equipment	(3,993)	(40,250)
Net cash provided (used) by investing activities	12,353,464	(37,095,779)
Net Decrease in Cash and Cash Equivalents	(1,953,159)	(50,816,726)
Cash and Cash Equivalents, beginning of year	16,816,978	67,633,704
Cash and Cash Equivalents, end of year	$ 14,863,819	$ 16,816,978
Supplemental Disclosures:		
Cash paid for federal excise taxes	$ 270,000	$ 468,981

See accompanying notes to financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies:

a. Organization

The Christensen Fund (the "Fund") is a nonprofit, tax-exempt, primarily grant making, private Foundation established in 1957 under Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code through contributions from Allen D. and Carmen M. Christensen. The Fund's mission is rooted in their deep interest in the processes of creativity in the arts, promotion of knowledge through varied approaches to education, conservation of the natural environment, and the values of immersing ourselves in different cultures and their geographical settings.

The Fund believes in the power of biological and cultural diversity to sustain and enrich a world faced with great change and uncertainty. The Fund focuses on the biocultural -- the rich but neglected adapted interweave of people and place, culture and ecology -- by buttressing the efforts of people and institutions who believe in a biodiverse world infused with artistic expression and work to secure ways of life and landscapes that are beautiful, bountiful and resilient.

The Fund engages in place-based work concentrated in five regions chosen for their potential to withstand and recover from the global erosion of diversity: the American Southwest, San Francisco Bay Area and Northern Mexico, Central Asia and Turkey, the African Rift Valley, Northern Australia, and Melanesia. It also funds global initiatives spanning these and other regions.

In 2010, the Fund established MEC Menlo, LLC ("MEC") a California limited liability company. MEC is a Single Member LLC where the Fund is the sole member. The Fund also entered into an agreement between the Fund and MEC, in which MEC was assigned all rights, title and interest of the Fund as the lessor under the lease and sublease agreements of the Fund for a property in Menlo Park, California. In connection with such assignment, MEC assumed all liabilities and obligations of the Fund with respect to the lease.

b. Basis of Presentation

The consolidated financial statements of the Fund have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations.

Net assets and changes therein are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. There are no temporarily or permanently restricted net assets as of December 31, 2014 and 2013.

c. Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and MEC. All intercompany accounts and transactions have been eliminated.

d. Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

e. Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the statements of changes in net assets. Dividend and interest income are accrued when earned. Fair values are generally provided by using quoted market prices.

The fair value of alternative investments is determined using the Net Asset Value (NAV) per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Alternative investments represent amounts in marketable and non-marketable alternatives such as private equity, real estate, absolute return, and pooled funds. These investments are further discussed in Note 3.

f. Fair Value Measurements

The Fund carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Fair Value of Financial Instruments

The estimated fair value of the Fund's financial instruments not measured at fair value on a recurring basis (including receivables, other assets, accounts payable, accrued expenses and grants payable) approximates their carrying values due to their short length to maturity.

h. Contributions

Contributions received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met.

i. Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Grant cancellations or unspent funds are recorded in the year cancelled or the funds are returned.

j. Depreciation and Amortization

The Fund capitalizes all property and equipment with a cost greater than $5,000 and an estimated useful life in excess of one year. Property and equipment, including income-producing property, are recorded at cost or, if donated, at the estimated fair value on the date of the gift. Depreciation and amortization is calculated using the straight-line method over the estimated useful for producing term of the asset, ranging from three to 20 years.

k. Long-Lived Assets

The Fund reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

l. Functional Allocation of Expenses

Certain costs have been allocated among investment expenses and program administration expenses based on time records and on estimates made by the management of the Fund.

m. Federal Excise Taxes

The Fund is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701(d) of the California Revenue and Taxation Code.

The Fund is subject to federal excise tax on its investment income. A provision for federal excise tax is accrued. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Fund. In addition, the Fund may be subject to tax on unrelated business income, if any, generated by its investments.

The Fund follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for accounting for uncertainty in income taxes. As of December 31, 2014 and 2013, management evaluated the Fund's tax positions and concluded that the Fund had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

n. Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2015-07 - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The accounting standard is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The Fund elected to early implement this guidance. The adoption of this guidance did not have a material effect on the Fund's consolidated financial statements.

p. Subsequent Events

The management of the Fund has reviewed the changes in its net assets for the period of time from its fiscal year ended December 31, 2014 through September 17, 2015, the date the consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements and no subsequent events have occurred which would require disclosure, except as described in Notes 2, 6 and 8.

Note 2 - Investments and Fair Value Measurements:

Investments:

At December 31, 2014 and 2013, the fair market value of investments consists of the following:

	2014	2013
Cash and cash equivalents	$ 31,624	$ 32,753
Alternative investments:		
Private equity	14,942,005	15,128,324
Real estate	3,984,510	4,957,331
Absolute return	297,168	8,413,605
Pooled investments	201,741,885	183,459,518
	$ 220,997,192	$ 211,991,531

Realized and unrealized gain on investments for December 31, 2014 and 2013 include the following:

	2014	2013
Realized gain	$ 5,602,234	$ 8,884,355
Unrealized gain	15,760,884	18,027,153
Total	$ 21,363,118	$ 26,911,508

The Fund has unfunded commitments totaling approximately $3.25 million and $4.48 million as of December 31, 2014 and 2013, respectively.

Subsequent to year end, the Fund contributed $5 million to one of its investments and entered into a new investment commitment of approximately $10 million.

Fair Value Measurement:

Investments include money market funds that had a fair value of $31,624 and $32,753 at December 31, 2014 and 2013, respectively, and are classified as Level 1. The Fund's alternative investments are valued using the Net Asset Value and are not subject to the fair value hierarchy classification.

Note 3 - Net Asset Value Disclosures:

The Fund uses the Net Asset Value (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and 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 by major category as of December 31, 2014 and 2013:

	2014		2013			
Strategies	# of Funds	Valuation	# of Funds	Valuation	Redemption Frequency	Notice Period
Alternative Investments:						
Private equity (a):						
Venture capital funds	9	$ 14,942,005	9	$ 15,128,324	N/A	N/A
Real estate (b):						
Partnerships	3	3,984,510	3	4,957,331	N/A	N/A
Absolute return (c):						
Event driven:						
Non - Redeemable	1	266,170	1	320,903	N/A	N/A
Redeemable		0	1	395,332	Monthly	60 days
Multi-strategy:						
Non - Redeemable	1	30,998	1	63,690	N/A	N/A
Equity/Debt:						
Redeemable		0	3	7,633,680	Quarterly	45–90 days
Pooled funds:						
Liquid Market Fund **(d)**	1	9,406,382	1	8,614,274	Monthly	25 days
Global Endowment Fund **(e)**	1	192,335,503	1	174,845,244	Annually	120 days
Total	16	$ 220,965,568	20	$ 211,958,778		

a) Private equity funds invest in venture capital funds consisting of domestic and international private equity with the objective of long-term growth of capital. The partnerships typically have a legal life span of 1-9 years with no redemption rights for the limited partners. Unfunded commitments were $2,505,735 and $3,680,217 for 2014 and 2013, respectively.

b) This strategy invests in real estate and natural resources, both domestic and international. Natural resource funds invest primarily in crude oil, natural gas production and timberland. These funds generally cannot be redeemed and liquidity is expected in the form of distributions from the funds when the underlying assets are sold over the life of the partnerships. It is estimated that the underlying assets will be liquidated over the next 7 years, excluding any extension agreement. Unfunded commitments were $658,136 and $708,136 for 2014 and 2013, respectively.

c) The strategy of the Absolute Return is to provide diversification benefits to the overall portfolio through lower correlation to other traditional asset classes (e.g. Equity and Fixed Income) and to provide a buffer during equity market declines. The Absolute Return investment includes a number of fund with varying strategy, including Event Driven, Multi-Strategy, and Equity/Debt Funds.

   Event driven funds typically invest in the securities of companies with publicly announced corporate events and other special situations whose outcomes are largely independent and uncorrelated with other markets, including mergers, corporate restructurings, corporate takeovers and spin-offs. Unfunded commitments were $90,000 for both 2014 and 2013.

   Multi-strategy managers invest in a wide variety of securities, typically rotating between equity, bank debt, convertible bonds, and other fixed income securities depending on the manager’s view on relative attractiveness, with the objective of exploiting arbitrage opportunities or identifying undervalued assets without incurring systematic market risk.

   Equity and Debt strategies take positions in securities they find attractive and anticipate will appreciate in value and short portions in securities they believe will underperform.

   It is estimated that the underlying assets of all but one fund will be liquidated over the next 3 years including likely extension agreements.

d) The Liquid Market Fund seeks to achieve its objective by diversifying across multiple asset classes, and may invest in common and preferred stocks, exchange-traded funds, mutual funds, master limited partnerships, real estate investment trusts, high yield bonds, government securities and money market instruments, and derivative and other synthetic instruments. The shares may be redeemed on a monthly basis and the redemption request must be made prior to the 25th day of the month.

e) The Global Endowment Fund employs strategies including: public equities, venture capital, private equity, real estate, natural resources and hedged strategies. The Fund is subject to annual redemption with a 120-day redemption notice period. Payment of redemption proceeds for accepted redemption requests will be made within 60 days after the redemption date. At least 90% of any amount withdrawn will be paid within 60 days. The remaining will be paid no later than 60 days after the completion of the annual audit.

Note 4 - Income-Producing Property:

Income-producing property at December 31, 2014 and 2013 consists of land in the amount of $2,115,254.

MEC, leases the land and sub-leases an operating ground lease to an unrelated third party under a master lease arrangement. The master lease expires on October 31, 2058.

Future minimum rental income under the master lease is as follows:

Year Ended December 31,	
2015	$ 810,236
2016	810,236
2017	810,236
2018	810,236
2019	810,236
Thereafter	36,187,610
Total	$ 40,238,790

The operating ground leases expire on October 31, 2058. This rent is adjusted every 10 years to up to one half of one percent per month of the fair market value of the land. If the sub-lessee were to default on the ground lease, MEC, would be responsible for the rent.

Note 5 - Prepaid Expenses and Other Assets:

Prepaid expenses and other assets at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Receivables	$ 723,719	$ 1,215,906
Mineral rights	1,126,886	1,135,949
Note receivable	277,849	285,390
Property and equipment, (net of $1,108,590 accumulated depreciation)	72,140	136,454
Prepaid excise tax	335,700	186,119
Other	101,812	110,892
	$ 2,638,106	$ 3,070,710

In a prior year, the Fund received contributions in the form of mineral rights for property in Colorado and Wyoming. The Fund maintains all rights to develop and maintain the existing mineral rights. Upon receipt of the contributions the Fund obtained appraisals on each of the properties and it was determined that the fair value of the mineral rights when received were $428,890 and $537,760, respectively.

A portion of the Wyoming property is income producing and will be amortized over an estimated 21 year life of the producing property. As of December 31, 2014 the net present value of the income producing property in Wyoming is $160,237.

Depreciation and amortization expense on property and equipment for 2014 and 2013 was $77,369 and $83,103, respectively

Note 6 - Line of Credit:

In 2013, the Fund entered into a revolving line of credit agreement with Wells Fargo Bank in the amount of $2,000,000, which matured on January 15, 2015 and is collateralized by all inventory, equipment and accounts. The interest rate on this note is 3.5% and requires monthly payments of interest only, with the entire principal and unpaid interest due at maturity. At December 2014, there is no balance outstanding on this note. Subsequent to year end, the line of credit was renewed under similar terms through January 5, 2016.

Note 7 - Grants Payable:

Grants payable at December 31, 2014 and 2013 are scheduled to be disbursed as follows:

Year Ended December 31,	2014	2013
2014	$ 0	$ 4,955,148
2015	3,963,289	73,000
2016	200,000	0
	$ 4,163,289	$ 5,028,148

Note 8 - Bequest:

The Fund is the beneficiary under a trust administered by other parties, the total realizable amount of which is not presently determinable. Such amounts are recognized in the Fund's consolidated financial statements as bequests receivable and income when clear title is established and the proceeds are measureable. Accordingly, the assets of these trusts are not included in the accompanying consolidated statement of financial position. Subsequent to year end, the Fund received a distribution from the trust of approximately $20.8 million.

Note 9 - Lease Obligations:

The Fund maintains an office location in San Francisco and a regional office in Bishkek, Kyrgyzstan. The San Francisco lease is for a term of 71 months expiring in March 2016 with monthly base rent of $17,100 and a 4% annual increase, the regional office is under a month to month lease. Future minimum lease payments are as follows:

Year Ended December 31,	
2015	$ 240,000
2016	60,300
Total	$ 300,300

Total rent expense for 2014 and 2013 for both offices were $255,192 and $249,992, respectively.

Note 10 - Excise Taxes:

In accordance with the applicable Treasury provisions, the Fund is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. The Fund is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The tax rate for the current excise tax provision was two percent for 2014 and 2013. The Fund provides for deferred excise tax at the rate of two percent on its unrealized appreciation on investments.

The provisions for current and deferred taxes for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Current excise tax	$ 97,880	$ 381,868
Deferred excise tax	384,708	360,292
Total	$ 482,588	$ 742,160

Note 11 - Concentrations of Risk:

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. The alternative investments include additional risks such as limited liquidity, non-marketable investments and dependence on key individuals. To address the risk of investments, the Fund maintains a formal investment policy that sets out performance criteria, investment guidelines, asset allocation guidelines and requires review of the investment performance.

As of December 31, 2014 one investment fund represented approximately 87% of total investments. As of December 31, 2013 one investment fund represented approximately 82% of total investments.

The Fund maintains its cash in bank accounts in amounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts.

Note 12 - Related Parties:

The Fund has and may continue to have Trustees, committee members, and staff members who are affiliated with organizations that are current grantees or are being considered for a grant by the Fund. The Fund has a conflict of interest policy which covers situations that may constitute a conflict of interest and the procedure to address the conflict when it occurs. The policy requires Trustees, committee members, and staff members to annually update and disclose to the governing Board their grantee and organization relationships.