Arcus Foundation

Financial Statements

December 31, 2011 and 2010

O'CONNOR DAVIES

PKF

Independent Auditors' Report

To the Board of Directors
Arcus Foundation

We have audited the accompanying statements of financial position of Arcus Foundation (the "Foundation") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arcus Foundation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
September 27, 2012

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Arcus Foundation

Statements of Financial Position

	December 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 5,341,064	$ 2,578,083
Accrued interest and dividends	394,513	475,156
Investments	153,756,927	170,038,968
Program related investment	328,045	350,000
Prepaid Federal excise tax	402,000	283,000
Property, equipment and leasehold improvements, net	4,164,200	4,461,672
Due from Arcus Operating Foundation	338,393	435,446
Other assets	541,074	565,492
	$ 165,266,216	$ 179,187,817
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	$ 32,305,621	$ 16,095,727
Accounts payable and accrued expenses	833,144	989,785
Deferred Federal excise tax	400,000	695,000
Deferred rent	531,568	448,307
Total Liabilities	34,070,333	18,228,819
Net Assets	131,195,883	160,958,998
	$ 165,266,216	$ 179,187,817

See notes to financial statements

Arcus Foundation

Statements of Activities

	Year Ended December 31, 2011	Year Ended December 31, 2010
SUPPORT AND REVENUE		
Contributions	$ 30,005,021	$ 30,790,836
Dividends and interest	1,811,256	1,751,414
Net realized gain on investments	1,969,938	12,907,476
Rental income	28,200	29,020
Total Support and Revenue	33,814,415	45,478,746
GRANTS AND OPERATING EXPENSES		
Grants awarded, net	47,794,513	23,332,299
Salaries and wages	2,514,464	2,379,426
Payroll taxes and employee benefits	719,829	702,754
Professional fees	1,296,598	2,023,354
Occupancy	324,441	368,599
Meetings, travel and site visits	361,597	579,098
Postage, printing and publications	213,996	308,076
Office expense	115,269	136,779
Repairs and maintenance	141,143	127,258
Insurance	71,241	66,762
Membership dues	43,045	30,861
Depreciation	362,293	387,088
Other	75,611	70,737
Total Grants and Operating Expenses	54,034,040	30,513,091
Change in Net Assets Before Federal Excise Taxes and Unrealized (loss) gain on Investments	(20,219,625)	14,965,655
Federal excise tax currently payable	(156,000)	(226,000)
Benefit (Provision) for deferred Federal excise tax	295,000	(40,000)
Unrealized (loss) gain on investments	(9,682,490)	1,797,865
Change in Net Assets	(29,763,115)	16,497,520
NET ASSETS		
Beginning of year	160,958,998	144,461,478
End of year	$ 131,195,883	$ 160,958,998

See notes to financial statements

Arcus Foundation

Statements of Cash Flows

	Year Ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (29,763,115)	$ 16,497,520
Adjustments to reconcile change in net assets to net cash from operating activities		
Bond premium amortization	680,405	484,025
Depreciation and amortization	362,293	387,088
Deferred rent amortization	83,261	364,405
(Provision) benefit for discount on grants payable	(1,030,500)	337,297
Realized gain on investments	(1,969,938)	(12,907,476)
Unrealized loss (gain) on investments	9,682,490	(1,797,865)
Deferred Federal excise tax (benefit) provision	(295,000)	40,000
Donated stock received	(29,959,944)	(30,790,736)
Contributions of stock to grantees	23,635,920	20,779,720
Changes in operating assets and liabilities		
Accrued interest and dividends	56,757	(158,733)
Prepaid Federal excise tax	(119,000)	(224,000)
Due from Arcus Operating Foundation	97,053	58,537
Other assets	24,418	(44,820)
Grants payable	17,240,394	(5,962,049)
Accounts payable and accrued liabilities	(156,641)	355,142
Net Cash from Operating Activities	(11,431,147)	(12,581,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	45,841	-
Purchase of property, equipment and leasehold improvements	(64,821)	(1,720,021)
Purchase of investments	(21,815,325)	(45,296,752)
Net proceeds from sales of investments	36,028,433	46,870,364
Net Cash from Investing Activities	14,194,128	(146,409)
Net Change in Cash and Cash Equivalents	2,762,981	(12,728,354)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,578,083	15,306,437
End of year	$ 5,341,064	$ 2,578,083
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise tax paid	$ 275,000	$ 450,000

See notes to financial statements

1. Organization

The Arcus Foundation, (the "Foundation") formed in 1997 as the Jon L. Stryker Foundation and renamed in 2000, is a leading global philanthropic funder advancing pressing social justice and conservation issues. The mission of the Arcus Foundation is to achieve social justice that is inclusive of sexual orientation, gender identity and race, and to ensure conservation and respect of the great apes. The Foundation has offices in Kalamazoo, Michigan, Cambridge, United Kingdom, and New York City, New York.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the presence or absence of donor imposed restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts. The Foundation considers all highly liquid debt instruments available for current use with a maturity date of three months or less at the date of purchase to be cash equivalents.

Fair Value Measurements

The Foundation follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

2. Summary of Significant Accounting Policies *(continued)*

Investments

The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein and their classification within Level 2 or 3 is based on the Foundation's ability to redeem its interest in the near term.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed on the specific identification basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are carried at cost or appraised value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are recorded at cost and amortized over the terms of the office lease. The Foundation capitalizes all purchases of property and equipment greater than or equal to $1,000.

Grants

The liability for grants and project appropriations payable is recognized when specific grants are authorized by the Board of Directors and the recipients have been notified.

Contributions

Contributions are reported as an increase in unrestricted net assets unless their use is limited by donor-imposed restrictions.

Concentration of Credit Risk

The Foundation's cash, cash equivalents and investments are potentially exposed to concentrations of credit risk. The Foundation invests its cash and cash equivalents with quality financial institutions and throughout the year balances in such investments may exceed the Federal insured limits. The Foundation invests in common stocks, corporate bonds, index funds, and limited partnerships. The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio.

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of tax positions when they are more likely than not to be sustained. Management is not aware of any violations of its tax status as an organization exempt from income tax, nor of any exposure to unrelated business income tax that would require disclosure and/or recognition. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2008.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 27, 2012.

3. Investments

The following are the classes and major categories of investments at December 31 grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

	2011			
	(Level 1)	(Level 2)	(Level 3)	Total
Common stock				
Healthcare	$ 19,801,730	$ -	$ -	$ 19,801,730
Mutual funds	9,687,717		-	9,687,717
Government, agency notes and bonds	820,907	3,195,808	-	4,016,715
Corporate bonds		30,124,038	-	30,124,038
Private equity	-	-	5,698,192	5,698,192
Real asset funds	-	-	9,779,205	9,779,205
Hedge funds				
Diversified strategy	-	-	27,667,952	27,667,952
Hedged equity	-	-	24,995,255	24,995,255
Strategic fixed income	-	-	12,135,665	12,135,665
Select equity	-	-	9,850,458	9,850,458
	$ 30,310,354	$ 33,319,846	$ 90,126,727	$ 153,756,927

3. Investments (*continued)*

	2010			
	(Level 1)	(Level 2)	(Level 3)	Total
Common stock				
Healthcare	$ 30,289,217	$ -	$ -	$ 30,289,217
Mutual funds	14,974,937	-	-	14,974,937
Government, agency notes and bonds	776,772	4,298,223	-	5,074,995
Corporate bonds	-	28,846,191	-	28,846,191
Private equity	-	-	3,384,258	3,384,258
Real asset funds	-	-	11,282,184	11,282,184
Hedge funds				
Diversified strategy	-	-	28,586,019	28,586,019
Hedged equity	-	-	25,277,240	25,277,240
Strategic fixed income	-	-	12,296,225	12,296,225
Select equity	-	-	10,027,702	10,027,702
	$ 46,040,926	$ 33,144,414	$ 90,853,628	$ 170,038,968

At December 31, marketable securities consist of shares of Stryker Corp. common stock as follows:

	2011		
	Tax Cost	Book Cost	Fair Value
398,345 Shares	$ 5,708	$ 23,956,468	$ 19,801,730

	2010		
	Tax Cost	Book Cost	Fair Value
564,045 Shares	$ 8,082	$ 29,759,014	$ 30,289,217

Tax cost represents the donor's basis. Book cost represents the fair value of the donated stock at the time of donation.

In addition to the shares of Stryker stock, the Foundation is also invested in several hedge fund-of-fund structures. Each fund-of-fund invests in a number of underlying hedge fund managers. Two of the hedge funds represented 18% and 16%, respectively, of the Foundation's total investment portfolio at December 31, 2011, and 17% and 15%, respectively, at December 31, 2010.

3. Investments (*continued)*

The following is a reconciliation of the beginning and ending balances for investments measured at fair value using significant unobservable inputs (Level 3) during the year ended December 31:

	2011			
	Private Equity	Real Asset Funds	Hedge Funds	Total
Beginning balance	$ 3,384,258	$ 11,282,184	$ 76,187,186	$ 90,853,628
Unrealized (losses) gains relating to investments still held at the reporting date included in earnings	(151,576)	(1,502,979)	(1,537,856)	(3,192,411)
Redemptions and withdrawals	(1,213,839)	-	-	(1,213,839)
Purchases, issuances and (settlements), net	3,679,349	-	-	3,679,349
Ending balance	$ 5,698,192	$ 9,779,205	$ 74,649,330	$ 90,126,727

	2010			
	Private Equity	Real Asset Funds	Hedge Funds	Total
Beginning balance	$ 3,766,246	$ -	$ 68,920,436	$ 72,686,682
Unrealized losses relating to investments still held at the reporting date included in earnings	(196,428)	2,282,184	7,266,750	9,352,506
Purchases, issuances and (settlements), net	(185,560)	9,000,000	-	8,814,440
Ending balance	$ 3,384,258	$ 11,282,184	$ 76,187,186	$ 90,853,628

Information regarding alternative investments valued using NAV as practical expedient at December 31, 2011 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity (see "a" below)	$ 5,698,192	$ 17,526,290	Locked	N/A
Real Asset Funds (see "b" below)	9,779,205	-	Quarterly	105 days
Hedge Funds				
Diversified strategy (see "c" below)	27,667,952	-	Quarterly	105 days
Hedged equity (see "d" below)	24,995,255	-	Quarterly	105 days
Strategic fixed income (see "e" below)	12,135,665	-	Quarterly	105 days
Select equity (see "f" below)	9,850,458	-	Quarterly	105 days
	$ 90,126,727	$ 17,526,290		

3. Investments (*continued)*

a. This is a private equity fund that invests primarily in private equity investment partnerships. The Fund makes commitments to a number of investment managers who are expected to bring business operating skills, information advantages, and at times a contrarian approach to add value at the company level through private direct ownership. Investments made directly or indirectly by the fund will generally be, by nature, illiquid and not publicly traded. The Fund is expected to consist of U.S. and international private equity funds covering a range of private equity strategies. These strategies may include, among other things, buyouts, venture capital, growth capital, investments in securities of distressed companies, or investments in companies operating within particular industries. The Fund expects to primarily make investments in investment funds, but may also make direct and secondary investments. The fair value of this investment has been estimated using the net asset value of the Foundation's ownership interest in partners' capital. This investment can never be redeemed with the fund. Instead, the nature of the investment is that distributions are received through liquidation of the underlying assets of the fund.

b. This is a real asset fund that allocates capital to investment managers across a broad array of natural resources sectors including, but not limited to, energy, metals, minerals, timber and agriculture. Underlying Managers are expected to add value across these commodity cycles through investment insights, research skills, business operating skills, information advantages and sector expertise. Investments made directly or indirectly by each portfolio will include commodity futures and options as well as natural resource-related public equity, fixed income, credit, foreign exchange, commodities (including futures and options) and privately-negotiated equity and debt investments.

c. The diversified strategy portfolio allocates capital to a number of investment managers who deploy their capital with flexibility across all the major markets of the world including public equity, fixed income, credit, foreign exchange, commodities, and may, from time to time, also make privately-negotiated equity and debt investments. The compositions of the portfolios relative to actual underlying asset classes are likely to evolve over time based on the opportunity set in the world's markets, and also vary based on the core competencies of each underlying manager's team. Preservation of capital is typically a focus and hedging techniques are usually employed. While the portfolio will be primarily composed of investments in Fund Investments, the portfolio's investments may also include Direct Investments in any other security or financial instrument employed in the portfolio's management, including cash, publicly-traded stocks and bonds, exchange-traded funds, and exchange-traded and over-the-counter derivative contracts, or other privately-negotiated investments and Secondary Investments made by acquiring interests in pooled investment vehicles from Shareholders who are seeking liquidity.

3. Investments (*continued)*

d. The hedged equity portfolio allocates capital to a number of investment managers who approach the world's equity markets with the intention of generating positive total returns over a market cycle, while also attempting to preserve capital during adverse market conditions. The Underlying Managers typically employ hedging techniques at the single stock level, at the sector level, and sometimes at the broad market level. Underlying Managers bring an expertise to the investment process typically based on strong research skills and/or on quantitative and technical insights. The focus is on recognizing areas of value in the global equity markets, uncovering securities that may be mispriced, and identifying special situations where value is driven more by specific events and less by the ups and downs of general market movements.

e. The strategic fixed income portfolio allocates capital to a number of investment managers who approach the world's fixed income, foreign exchange, and credit markets with strong research skills and/or quantitative and technical insights. The focus in the fixed income and foreign exchange markets tends to center on identifying mispricings in securities and interest rate curves around the world. In the credit markets, the focus tends to be on preserving capital through buying at low valuations and also through securing protections for investors by being high in the capital structure and/or by being collateralized to physical and/or financial assets of a corporate balance sheet.

f. The select equity portfolio allocates capital to a number of investment managers who apply their unique insights and talents to the world's public equity markets. Each Underlying Manager will typically have an area of focus or expertise which may be sector-based, regionally-based, or style-based. The Underlying Managers' portfolios tend to be more highly concentrated than index-based portfolios as the Underlying Managers tend to hold bigger positions in a smaller number of underlying equity shares. The Underlying Managers' portfolios tend to be invested with a longer time horizon, typically one to three years, and with less attention to monthly and quarterly ups and downs of the market. The Underlying Managers' portfolios are predominantly long-biased, with little if any hedging employed.

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

3. Investments (*continued)*

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

4. Federal Excise Tax

The Foundation is exempt from Federal income taxes under Section 501(c)(3) and 509(a) of the Internal Revenue Code and has been further classified as a "private foundation." The Foundation is subject to an excise tax on its net investment income.

Excise taxes consist of two components: current taxes based upon net investment income and deferred taxes which arise from the difference between the tax cost of the investments held at year end and their fair market value.

5. Program Related Investments (PRIs)

In accordance with a loan agreement dated May 20, 2009, the Foundation loaned $350,000 to Ol Pejeta Ranching Limited. Ol Pejeta Ranching Limited used the proceeds to repay a bank loan which was used for charitable expenditures. The note had an interest rate of 4% per annum, compounded monthly, for a term of seven years.

Subsequent to year end the Foundation amended the loan agreement retroactively, to May 1, 2011, to reduce the interest rate from 4% to 2% per annum. Under the new terms the note will bear an interest rate of 2% per annum, compounded monthly, for a term of five years and three months.

PRIs, defined in IRC 4944(c), have a primary purpose of advancing the mission of the Foundation without a significant purpose of the production of income or the appreciation of property. PRIs are treated as charitable distributions on Internal Revenue Service form 990-PF, the tax and information return filed by private foundations for minimum-distribution requirement purposes.

6. Property, Equipment and Leasehold Improvements

As of December 31, property and equipment consisted of the following:

	2011	2010
Land	$ 290,000	$ 290,000
Building and improvements	2,606,066	2,589,056
Leasehold Improvements	1,265,898	1,243,164
Furniture and equipment	1,325,511	1,300,434
	5,487,475	5,422,654
Less: accumulated depreciation	1,323,275	960,982
	$ 4,164,200	$ 4,461,672

7. Grants Payable

The Foundation has entered into grant commitments with certain organizations. Payments to these organizations at December 31, are to be made as follows:

	2011	2010
Less than one year	$ 17,049,568	$ 13,286,824
One to four years	16,468,893	2,991,243
	33,518,461	16,278,067
Less: present value discount	1,212,840	182,340
Grants payable, net	$ 32,305,621	$ 16,095,727

To reflect the time value of money, grants payable as of December 31, 2011 and 2010 were discounted to their present value using the Federal Reserve Business Lending rate of 4.38% and 4.76%.

8. Grants Awarded, net

	2011	2010
Grants awarded	$ 48,993,695	$ 26,483,169
Grants rescinded/refunded	(207,146)	(3,536,511)
Stock transfer adjustment	38,464	48,344
Provision for present value discount	(1,030,500)	337,297
Grants awarded, net	$ 47,794,513	$ 23,332,299

8. Grants Awarded, net (*continued)*

In 2010, the Foundation modified a prior year, multi-year grant award to Lewa Wildlife Conservancy, from its original amount of $5,000,000, payable over 20 years to $2,000,000 payable in 2010. Accordingly, the 2010 Grants awarded, as presented in the statements of activities reflects this $3,000,000 reduction.

9. Retirement Plan

The Foundation maintains a 401(k) plan, which covers all employees on the first day of the month following his/her start date. Eligible employees may defer a portion of their compensation, not to exceed the annual limit set by the Internal Revenue Code. The Foundation matches 100% of the first 3% and 50% of the next 2% of an employee's contribution. The Foundation's matching contributions were $67,895 and $74,457 for 2011 and 2010, respectively. The Foundation may also make discretionary contributions to all eligible employees. Discretionary contributions were $210,322 and $207,461 for 2011 and 2010, respectively. Employees receive these contributions regardless of their plan participation.

10. Commitments

The Foundation entered into a lease agreement commencing November 1, 2009 and expiring August 25, 2025 for space at 44 West 28th, NY, NY. The Foundation moved into this space in the fall of 2010. The Foundation has a letter of credit obligation of $312,768 as a guarantee for the lease agreement.

The Foundation also occupies space in the United Kingdom under a lease agreement which expires December 31, 2012.

Future minimum obligations under these leases, exclusive of required payments for increases in real estate taxes and operating expenses, are as follows:

2012	$ 475,111
2013	439,271
2014	449,155
2015	470,845
2016	504,607
Thereafter	5,118,058
	$ 7,457,047

11. Related Party

The Foundation and the Arcus Operating Foundation ("AOF") are related organizations with directors and officers in common. There is an administrative service agreement between the two organizations where by the Foundation provides AOF with staff, space and general administration support and AOF reimburses the Foundation for such costs and services. Total reimbursements amounted to $2,068,580 and $2,624,277 for the years ended 2011 and 2010.

12. Subsequent Event

In February 2012, the Foundation received 562,482 shares of Stryker Corporation common stock with a fair value of approximately $30,092,787 at date of donation.

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