Arcus Foundation

Financial Statements

December 31, 2012 and 2011

Independent Auditors' Report

To the Board of Directors
Arcus Foundation

We have audited the accompanying financial statements of Arcus Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 auditor considers 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 Arcus Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
August 2, 2013

Arcus Foundation

Statements of Financial Position

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 2,393,651	$ 5,341,064
Accrued interest and dividends	360,439	394,513
Prepaid Federal excise tax	290,000	402,000
Property, equipment and leasehold improvements, net	3,873,027	4,164,200
Due from Arcus Operating Foundation	146,368	338,393
Investments	163,301,063	153,756,927
Program related investment	258,303	328,045
Other assets	573,607	541,074
	$ 171,196,458	$ 165,266,216
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	$ 21,900,543	$ 32,305,621
Accounts payable and accrued expenses	895,400	833,144
Deferred Federal excise tax	625,000	400,000
Deferred rent	605,376	531,568
Total Liabilities	24,026,319	34,070,333
Net Assets	147,170,139	131,195,883
	$ 171,196,458	$ 165,266,216

See notes to financial statements

Arcus Foundation

Statements of Activities

	Year Ended December 31, 2012	Year Ended December 31, 2011
SUPPORT AND REVENUE		
Contributions	$ 30,107,517	$ 30,005,021
Dividends and interest	1,615,063	1,811,256
Net realized (loss) gain on investments	(2,019,725)	1,969,938
Rental income	28,760	28,200
Total Support and Revenue	29,731,615	33,814,415
GRANTS AND OPERATING EXPENSES		
Grants awarded, net	18,162,631	47,794,513
Salaries and wages	3,754,792	2,514,464
Payroll taxes and employee benefits	934,385	719,829
Professional fees	1,809,608	1,318,552
Occupancy	417,351	324,441
Meetings, travel and site visits	402,865	339,643
Postage, printing and publications	282,912	213,996
Office expense	142,854	115,269
Repairs and maintenance	173,320	141,143
Insurance	83,817	71,241
Membership dues	18,124	43,045
Depreciation	356,423	362,293
Other	64,951	75,611
Total Grants and Operating Expenses	26,604,033	54,034,040
Change in Net Assets Before Federal Excise Taxes and Unrealized gain (loss) on Investments	3,127,582	(20,219,625)
Federal excise tax currently payable	(112,000)	(156,000)
(Provision) Benefit for deferred Federal excise tax	(225,000)	295,000
Unrealized gain (loss) on investments	13,183,674	(9,682,490)
Change in Net Assets	15,974,256	(29,763,115)
NET ASSETS		
Beginning of year	131,195,883	160,958,998
End of year	$ 147,170,139	$ 131,195,883

See notes to financial statements

Arcus Foundation

Statements of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 15,974,256	$ (29,763,115)
Adjustments to reconcile change in net assets to net cash from operating activities		
Bond premium amortization	440,268	680,405
Depreciation and amortization	356,423	362,293
Deferred rent amortization	73,808	83,261
Benefit (provision) for discount on grants payable	671,180	(1,030,500)
Realized loss (gain) on investments	2,019,725	(1,969,938)
Unrealized (gain) loss on investments	(13,183,674)	9,682,490
Deferred Federal excise tax provision (benefit)	225,000	(295,000)
Donated stock received	(30,092,787)	(29,959,944)
Contributions of stock to grantees	19,471,570	23,635,920
Changes in operating assets and liabilities		
Accrued interest and dividends	34,074	56,757
Prepaid Federal excise tax	112,000	(119,000)
Due from Arcus Operating Foundation	192,025	97,053
Other assets	(32,533)	24,418
Grants payable	(11,076,258)	17,240,394
Accounts payable and accrued liabilities	62,256	(156,641)
Net Cash from Operating Activities	(14,752,667)	(11,431,147)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of program related investments	69,742	45,841
Purchase of property, equipment and leasehold improvements	(65,250)	(64,821)
Purchase of investments	(24,466,522)	(21,815,325)
Net proceeds from sales of investments	36,267,284	36,028,433
Net Cash from Investing Activities	11,805,254	14,194,128
Net Change in Cash and Cash Equivalents	(2,947,413)	2,762,981
CASH AND CASH EQUIVALENTS		
Beginning of year	5,341,064	2,578,083
End of year	$ 2,393,651	$ 5,341,064
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise tax paid	$ -	$ 275,000

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

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

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 U.S. GAAP 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.

Investments

Investments other than cash and cash equivalents are carried at fair value. 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. U.S. GAAP 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.

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

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.

Presentation of Net Assets

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.

Contributions

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

Reclassification

Certain items in the 2011 financial statements have been reclassified for comparative purposes only.

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 2009.

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

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 August 2, 2013.

3. 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.

4. 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:

	2012			
	(Level 1)	(Level 2)	(Level 3)	Total
Common stock				
Healthcare	$ 22,693,068	$ -	$ -	$ 22,693,068
Mutual funds	13,396,653	-	-	13,396,653
Government, agency notes and bonds	2,329,319	2,196,173	-	4,525,492
Foreign government bonds	-	1,805,650	-	1,805,650
Corporate bonds	-	23,057,095	-	23,057,095
Private equity	-	-	10,841,280	10,841,280
Real asset funds	-	-	9,517,625	9,517,625
Hedge funds				
Diversified strategy	-	-	29,489,208	29,489,208
Hedged equity	-	-	18,686,127	18,686,127
Strategic fixed income	-	-	17,501,390	17,501,390
Select equity	-	-	11,787,475	11,787,475
	$ 38,419,040	$ 27,058,918	$ 97,823,105	$ 163,301,063

4. Investments (*continued)*

	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
Foreign government bonds	-	790,200	-	790,200
Corporate bonds	-	29,333,838	-	29,333,838
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

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

	2012		
	Tax Cost	Book Cost	Fair Value
413,956 Shares	$ 5,931	$ 22,146,646	$ 22,693,068

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

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. Three of the hedge funds represented 18%, 11% and 10%, respectively, of the Foundation's total investment portfolio at December 31, 2012, and two hedge funds represented 18% and 16%, respectively, at December 31, 2011.

4. 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:

	2012			
	Private Equity	Real Asset Funds	Hedge Funds	Total
Beginning balance	$ 5,698,192	$ 9,779,205	$ 74,649,330	$ 90,126,727
Unrealized gains (losses) relating to investments still held at the reporting date included in earnings	603,313	(261,580)	7,114,870	7,456,603
Redemptions and withdrawals	(691,940)	-	-	(691,940)
Purchases, issuances and (settlements), net	5,231,715	-	(4,300,000)	931,715
Ending balance	$ 10,841,280	$ 9,517,625	$ 77,464,200	$ 97,823,105

	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 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

Information regarding alternative investments valued using NAV as practical expedient at December 31, 2012 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity (see "a" below)	$ 10,841,280	$ 12,435,244	Locked	N/A
Real Asset Funds (see "b" below)	9,517,625	-	Quarterly	105 days
Hedge Funds				
Diversified strategy (see "c" below)	29,489,208	-	Quarterly	105 days
Hedged equity (see "d" below)	18,686,127	-	Quarterly	105 days
Strategic fixed income (see "e" below)	17,501,390	-	Quarterly	105 days
Select equity (see "f" below)	11,787,475	-	Quarterly	105 days
	$ 97,823,105	$ 12,435,244		

4. 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 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.

4. 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 maybe 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.

4. 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.

5. 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.

6. Program Related Investment (PRI)

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.

In accordance with the amended loan agreement dated August 24, 2012, 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.

7. Property, Equipment and Leasehold Improvements

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

	2012	2011
Land	$ 290,000	$ 290,000
Building and improvements	2,606,066	2,606,066
Leasehold Improvements	1,271,407	1,265,898
Furniture and equipment	1,385,252	1,325,511
	5,552,725	5,487,475
Less: accumulated depreciation	1,679,698	1,323,275
	$ 3,873,027	$ 4,164,200

8. 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:

	2012	2011
Less than one year	$ 12,163,274	$ 17,049,568
One to four years	10,278,929	16,468,893
	22,442,203	33,518,461
Less: present value discount	541,660	1,212,840
Grants payable, net	$ 21,900,543	$ 32,305,621

To reflect the time value of money, grants payable as of December 31, 2012 and 2011 were discounted to their present value using the Federal Reserve Business Lending rate of 3.87% and 4.38%.

9. Grants Awarded, net

	2012	2011
Grants awarded	$ 17,478,253	$ 48,993,695
Grants rescinded/refunded	(29,158)	(207,146)
Stock transfer adjustment	42,356	38,464
Benefit (provision) for present value discount	671,180	(1,030,500)
Grants awarded, net	$ 18,162,631	$ 47,794,513

10. 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 $100,480 and $67,895 for 2012 and 2011, respectively. The Foundation may also make discretionary contributions to all eligible employees. Discretionary contributions were $290,619 and $210,322 for 2012 and 2011, respectively. Employees receive these contributions regardless of their plan participation.

11. Commitments

The Foundation entered into a lease agreement 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, 2013.

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

2013	$ 506,436
2014	449,155
2015	470,845
2016	504,607
2017	515,960
Thereafter	4,602,098
	$ 7,049,101

12. 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 $1,140,467 and $2,068,580 for the years ended 2012 and 2011.

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