Arcus Foundation

Financial Statements

December 31, 2015 and 2014

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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, 2015 and 2014, 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 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 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, 2015 and 2014, 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.

PKF O'Connor Davies, LLP

October 6, 2016

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Arcus Foundation

Statements of Financial Position

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents	$ 14,894,837	$ 13,285,860
Accrued interest and dividends	217,968	219,584
Due from investment managers	352,827	2,144,538
Prepaid Federal excise tax	68,000	93,000
Property, equipment and leasehold improvements, net	1,440,392	1,798,465
Due from Arcus Operating Foundation	83,220	78,796
Investments	161,555,464	167,854,072
Other assets	537,681	545,845
	$ 179,150,389	$ 186,020,160
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	$ 16,890,224	$ 17,665,492
Accounts payable and accrued expenses	771,890	846,772
Deferred Federal excise tax	1,250,000	1,250,000
Deferred rent	756,343	723,775
Total Liabilities	19,668,457	20,486,039
Net assets, unrestricted	159,481,932	165,534,121
	$ 179,150,389	$ 186,020,160

See notes to financial statements

Arcus Foundation

Statements of Activities

	Year Ended December 31	
	2015	2014
SUPPORT AND REVENUE		
Contributions	$ 30,099,367	$ 43,332,883
Dividends and interest	1,274,123	1,159,034
Net realized gain on investments	2,881,684	7,215,824
In-kind contributions	45,874	-
Other income	906	1,683
Total Support and Revenue	34,301,954	51,709,424
GRANTS AND OPERATING EXPENSES		
Grants awarded, net	28,115,535	27,993,103
Salaries and wages	4,172,574	3,732,471
Payroll taxes and employee benefits	1,286,503	1,134,595
Professional fees	2,276,588	1,797,796
Occupancy	593,675	584,066
Meetings, travel and site visits	1,085,726	969,045
Postage, printing and publications	486,067	355,493
Office expense	213,958	252,497
Repairs and maintenance	103,376	111,796
Insurance	71,613	84,008
Membership dues	47,566	77,823
Depreciation and amortization	425,524	399,658
Other	79,075	83,241
Total Grants and Operating Expenses	38,957,780	37,575,592
Change in Net Assets Before Other Changes	(4,655,826)	14,133,832
OTHER CHANGES		
Unrealized (loss) gain on investments	(1,371,363)	7,395,847
Provision for deferred Federal excise tax	-	(340,000)
Federal excise tax, current	(25,000)	(182,000)
Change in Net Assets	(6,052,189)	21,007,679
NET ASSETS		
Beginning of year	165,534,121	144,526,442
End of year	$ 159,481,932	$ 165,534,121

See notes to financial statements

Arcus Foundation

Statements of Cash Flows

	Year Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (6,052,189)	$ 21,007,679
Adjustments to reconcile change in net assets to net cash from operating activities		
Bond premium amortization	(58,058)	(38,975)
Depreciation and amortization	425,524	399,658
Forgiveness of program related investments	-	163,450
Deferred rent	32,568	54,258
(Provision) benefit for discount on grants payable	(28,707)	123,778
Realized gain on investments	(2,881,684)	(7,215,824)
Unrealized loss (gain) on investments	1,371,363	(7,395,847)
Deferred Federal excise tax	-	340,000
Donated stock received	(15,089,367)	(43,321,908)
Contributions of stock to grantees	17,590,738	23,346,501
Changes in operating assets and liabilities		
Accrued interest and dividends	1,616	(37,908)
Due from investment managers	1,791,711	(545,730)
Prepaid Federal excise tax	25,000	182,000
Due from Arcus Operating Foundation	(4,424)	341,733
Other assets	8,164	(39,450)
Grants payable	(746,561)	(5,103,337)
Accounts payable and accrued expenses	(74,882)	125,197
Net Cash from Operating Activities	(3,689,188)	(17,614,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(95,308,030)	(128,481,838)
Net proceeds from sales of investments	100,673,646	142,188,774
Repayment of program related investments	-	29,873
Purchase of property, equipment and leasehold improvements	(67,451)	(532,925)
Net Cash from Investing Activities	5,298,165	13,203,884
Net Change in Cash and Cash Equivalents	1,608,977	(4,410,841)
CASH AND CASH EQUIVALENTS		
Beginning of year	13,285,860	17,696,701
End of year	$ 14,894,837	$ 13,285,860

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 dedicated to the idea that people can live in harmony with one another and the natural world. The mission is driven by the vision of our founder and by our shared commitment to emergent global human rights and conservation movements. 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 revenue 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.

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize, within the fair value hierarchy, all investments measured using net asset value ("NAV") as a practical expedient. ASU 2015-07 was adopted by the Foundation in its 2015 financial statements and requires retrospective application. The adoption has no effect on the reported values of these investments.

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

Investments

Investments are carried at fair value. The fair value of alternative investments has been estimated using 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.

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. Equipment is being depreciated over three to seven years. Furniture and fixtures are being depreciated over three to fifteen years. Leasehold improvements are amortized over the terms of the office lease. The Foundation capitalizes all purchases of property and equipment greater than or equal to $1,000.

The Foundation reviews property and equipment assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value. No impairment loss has been recognized during the years ended December 31, 2015 and 2014.

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. There are no temporary restricted or permanently restricted assets.

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

Contributions

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

In-Kind Contributions

Donation of assets other than cash are recorded at their fair value as of the date of donation.

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 2012.

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 October 6, 2016.

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 institutions may exceed the Federal insured limits. The Foundation invests in common stocks, fixed income securities, index funds, and limited partnerships. The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio.

4. Investments

The following tables summarize the fair value of investments valued at fair value on a recurring basis, at December 31, grouped by the fair value hierarchy, for those investments subject to categorization within such hierarchy:

2015	Level 1	Level 2	Other Investments Measured at Net Asset Value (*)	Total
Common Stock				
Healthcare	$ 33,667,423	$ -	$ -	$ 33,667,423
Pharmaceuticals and biotechnology	2,059,790	-	-	2,059,790
Banks	1,583,350	-	-	1,583,350
General retailers	1,049,001	-	-	1,049,001
Other common stock	11,489,989	-	-	11,489,989
Government, agency notes and bonds	4,946,975	606,165	-	5,553,140
Corporate bonds	-	3,871,888	-	3,871,888
Other fixed income	-	721,622	-	721,622
Private equity	-	-	19,471,133	19,471,133
Hedge Funds				
Diversified strategy	-	-	24,001,045	24,001,045
Hedged equity	-	-	21,230,120	21,230,120
Strategic fixed income	-	-	17,512,234	17,512,234
Selected equity	-	-	19,344,729	19,344,729
	$ 54,796,528	$ 5,199,675	$ 101,559,261	$ 161,555,464

2014	Level 1	Level 2	Other Investments Measured at Net Asset Value (*)	Total
Common Stock				
Healthcare	$ 36,706,161	$ -	$ -	$ 36,706,161
Pharmaceuticals and biotechnology	2,014,940	-	-	2,014,940
Banks	1,547,164	-	-	1,547,164
General retailers	1,149,358	-	-	1,149,358
Other common stock	12,727,666	-	-	12,727,666
Mutual funds	1,590,381	-	-	1,590,381
Government, agency notes and bonds	6,673,850	522,725	-	7,196,575
Corporate bonds	-	5,271,936	-	5,271,936
Other fixed income	-	1,707,561	-	1,707,561
Private equity	-	-	16,907,741	16,907,741
Hedge Funds				
Diversified strategy	-	-	23,345,732	23,345,732
Hedged equity	-	-	20,554,214	20,554,214
Strategic fixed income	-	-	17,831,725	17,831,725
Selected equity	-	-	19,302,918	19,302,918
	$ 62,409,520	$ 7,502,222	$ 97,942,330	$ 167,854,072

4. Investments *(continued)*

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

There were no transfers into or out of each level of the fair value hierarchy for assets measured at fair value for the years ended December 31, 2015 and 2014.

At December 31, common stock includes shares of Stryker Corp. common stock as follows:

	2015		
	Tax Cost	Book Cost	Fair Value
362,249 Shares	$ 5,191	$ 32,178,116	$ 33,667,423

	2014		
	Tax Cost	Book Cost	Fair Value
389,125 Shares	$ 5,576	$ 32,376,853	$ 36,706,161

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 and two private equity investments. Four of the hedge funds and one private equity investment represented 15%, 13%, 12%, 12% and 11%, of the Foundation's total investment portfolio at December 31, 2015, and four of the hedge funds and one private equity investment represented 14%, 12%, 11%, 11% and 10%, at December 31, 2014.

Information regarding alternative investments valued using NAV as practical expedient at December 31, 2015 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity (see "a" below)	$ 19,471,133	$ 13,626,091	Locked	N/A
Hedge Funds				
Diversified strategy (see "b" below)	24,001,045	-	Quarterly	7 days
Hedged equity (see "c" below)	21,230,120	-	Quarterly	7 days
Strategic fixed income (see "d" below)	17,512,234	-	Quarterly	7 days
Select equity (see "e" below)	19,344,729	-	Quarterly	7 days
	$ 101,559,261	$ 13,626,091		

4. Investments *(continued)*

a. The private equity portfolio allocates to a number of managers who seek to exceed the return of the global public equity market through value generation and operational intensity. The underlying fund investments are generally expected to span a range of strategies including, without limitation, investments of the following nature: buyout, growth capital, venture capital, distressed credit and direct lending. In addition, the portfolio intends to consider, and may include, strategies that are sector specific and may be related to physical assets such as real estate and natural resources.

b. The diversified strategy portfolio allocates capital to a number of managers who deploy their capital with flexibility across all major markets of the world including public equities, fixed income, credit, foreign exchange, commodities, and may, from time to time, also make privately negotiated equity and debt investments. The composition 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.

c. The hedged equity portfolio allocates capital to a number of 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.

d. The strategic fixed income portfolio allocates capital to a number of managers who approach the world's fixed income, foreign exchange and credit markets with strong research skills and/or quantitative and technical insights.

e. The select equity portfolio allocates capital to a number of managers who apply their unique insights and talents to the world's public equity markets. Select equity managers seek to exceed the return of the global public equities through research driven stock selection, private equity approaches to public corporate shares and increased concentration around a set of high conviction ideas.

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.

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 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 had an interest rate of 2% per annum, compounded monthly, for a term of five years and three months.

During June 2014, the Foundation decided to forgive its program related investment to Ol Pejeta Ranching Limited in the amount of $163,450.

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, equipment and leasehold improvements consisted of the following:

	2015	2014
Leasehold improvements	$ 1,465,479	$ 1,449,997
Furniture and equipment	2,043,739	1,991,770
	3,509,218	3,441,767
Less: accumulated depreciation and amortization	2,068,826	1,643,302
	$ 1,440,392	$ 1,798,465

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:

	2015	2014
Less than one year	$ 12,910,012	$ 14,983,123
One to four years	4,115,490	2,788,940
	17,025,502	17,772,063
Less: present value discount	135,278	106,571
Grants payable, net	$ 16,890,224	$ 17,665,492

To reflect the time value of money, grants payable as of December 31, 2015 and 2014 were discounted to their present value using the Federal Reserve Business Lending rate of 2.92% and 3.85%.

9. Grants Awarded

For the years December 31, grants awarded were comprised of the following:

	2015	2014
Grants awarded	$ 28,868,414	$ 28,022,344
Grants rescinded/refunded	(769,432)	(123,201)
Stock transfer adjustment	45,260	(29,818)
(Provision) benefit for present value discount	(28,707)	123,778
Grants awarded, net	$ 28,115,535	$ 27,993,103

10. Retirement Plan

The Foundation maintains a 401(k) plan, which covers all employees whose regular schedule is at least 30 hours a week, 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 $143,282 and $122,459 for 2015 and 2014. The Foundation may also make discretionary contributions to all eligible employees. Discretionary contributions were $397,135 and $358,478 for 2015 and 2014. For employees hired on or after July 1, 2013, their employer contributions will vest over a three year period, in equal parts each year. Employees receive the discretionary contributions regardless of their plan participation.

11. Commitments

The Foundation has a lease agreement expiring August 25, 2025 for space at 44 West 28th, NY, NY. The Foundation's policy is to record base rent on a straight-line basis over the term of the lease. The Foundation has a letter of credit obligation of $312,768 as a guarantee for the lease agreement. Subsequent to year end, the Foundation reduced the letter of credit obligation to $208,512.

The Foundation also occupies space in the United Kingdom under a lease agreement which expires March 31, 2017, and space in Kalamazoo, Michigan under a lease agreement which expires June 30, 2017.

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

2016	$ 580,886
2017	537,115
2018	527,570
2019	539,440
2020	567,023
Thereafter	2,968,065
	$ 5,720,099

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 $135,371 and $1,178,345 for 2015 and 2014.

13. In-Kind Contributions

The Foundation received pro-bono advertising space valued at an estimated $45,874 during 2015. Such services have been reflected as an expense within postage, printing and publications on the statements of activities. No in-kind contributions were received by the Foundation during 2014.

14. Subsequent Events

In February 2016, the Foundation received 151,915 shares of Stryker Corporation common stock with a fair value of approximately $15,300,000 at date of donation.

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