Arcus Foundation

Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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

September 29, 2017

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Arcus Foundation

Statements of Financial Position

	December 31	
	2016	2015
ASSETS		
Cash and cash equivalents	$ 10,512,363	$ 14,894,837
Accrued interest and dividends	240,844	217,968
Due from investment managers	1,545,674	352,827
Prepaid Federal excise tax	23,000	68,000
Property, equipment and leasehold improvements, net	1,257,761	1,440,392
Due from Arcus Operating Foundation	81,653	83,220
Investments	174,146,735	161,555,464
Other assets	449,673	537,681
	$ 188,257,703	$ 179,150,389
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable, net	$ 16,440,045	$ 16,890,224
Accounts payable and accrued expenses	857,585	771,890
Deferred Federal excise tax	1,490,000	1,250,000
Deferred rent	755,149	756,343
Total Liabilities	19,542,779	19,668,457
Net assets, unrestricted	168,714,924	159,481,932
	$ 188,257,703	$ 179,150,389

See notes to financial statements

Arcus Foundation

Statements of Activities

	Year Ended December 31	
	2016	2015
SUPPORT AND REVENUE		
Contributions	$ 30,310,879	$ 30,099,367
Dividends and interest	1,345,680	1,274,123
Net realized gain on investments	5,236,936	2,881,684
In-kind contributions	309,078	45,874
Other income	1,083	906
Total Support and Revenue	37,203,656	34,301,954
GRANTS AND OPERATING EXPENSES		
Grants awarded, net	28,004,886	28,115,535
Salaries and wages	4,507,732	4,172,574
Payroll taxes and employee benefits	1,453,241	1,286,503
Professional fees	2,147,153	2,276,588
Occupancy	617,904	593,675
Meetings, travel and site visits	1,134,361	1,085,726
Postage, printing and publications	540,363	486,067
Office expense	187,835	213,958
Repairs and maintenance	97,080	103,376
Insurance	89,062	71,613
Membership dues	52,100	47,566
Depreciation and amortization	369,771	425,524
Other	104,868	79,075
Total Grants and Operating Expenses	39,306,356	38,957,780
Change in Net Assets Before Other Changes	(2,102,700)	(4,655,826)
OTHER CHANGES		
Unrealized gain (loss) on investments	11,620,692	(1,371,363)
Provision for deferred Federal excise tax	(240,000)	-
Federal excise tax, current	(45,000)	(25,000)
Change in Net Assets	9,232,992	(6,052,189)
NET ASSETS		
Beginning of year	159,481,932	165,534,121
End of year	$ 168,714,924	$ 159,481,932

See notes to financial statements

Arcus Foundation

Statements of Cash Flows

	Year Ended December 31 2016	Year Ended December 31 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 9,232,992	$ (6,052,189)
Adjustments to reconcile change in net assets to net cash from operating activities		
Bond premium amortization	(185,354)	(58,058)
Depreciation and amortization	369,771	425,524
Deferred rent	(1,194)	32,568
Provision for discount on grants payable	(29,672)	(28,707)
Realized gain on investments	(5,236,936)	(2,881,684)
Unrealized (gain) loss on investments	(11,620,692)	1,371,363
Deferred Federal excise tax	240,000	-
Donated stock received	(15,300,879)	(15,089,367)
Contributions of stock to grantees	16,814,775	17,590,738
Changes in operating assets and liabilities		
Accrued interest and dividends	(22,876)	1,616
Due from investment managers	(1,192,847)	1,791,711
Prepaid Federal excise tax	45,000	25,000
Due from Arcus Operating Foundation	1,567	(4,424)
Other assets	88,008	8,164
Grants payable	(420,507)	(746,561)
Accounts payable and accrued expenses	85,695	(74,882)
Net Cash from Operating Activities	(7,133,149)	(3,689,188)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(73,543,465)	(95,308,030)
Net proceeds from sales of investments	76,481,280	100,673,646
Purchase of property, equipment and leasehold improvements	(187,140)	(67,451)
Net Cash from Investing Activities	2,750,675	5,298,165
Net Change in Cash and Cash Equivalents	(4,382,474)	1,608,977
CASH AND CASH EQUIVALENTS		
Beginning of year	14,894,837	13,285,860
End of year	$ 10,512,363	$ 14,894,837

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.

The Foundation follows U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient.

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, 2016 and 2015.

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 2013.

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 29, 2017.

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:

	2016			
	Level 1	Level 2	Other Investments Measured at Net Asset Value (*)	Total
Common Stock				
Healthcare	$ 42,802,752	$ -	$ -	$ 42,802,752
Pharmaceuticals and biotechnology	1,045,483	-	-	1,045,483
Banks	1,022,944	-	-	1,022,944
Other common stock	15,950,667	-	-	15,950,667
Government, agency notes and bonds	5,353,109	2,530,835	-	7,883,944
Corporate bonds	-	1,459,291	-	1,459,291
Other fixed income	-	2,688,188	-	2,688,188
Private equity	-	-	19,461,546	19,461,546
Hedge Funds				
Diversified strategy	-	-	25,436,760	25,436,760
Hedged equity	-	-	20,266,837	20,266,837
Strategic fixed income	-	-	16,031,114	16,031,114
Selected equity	-	-	20,097,209	20,097,209
	$ 66,174,955	$ 6,678,314	$ 101,293,466	$ 174,146,735

	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

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, 2016 and 2015.

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

	2016		
	Tax Cost	Book Cost	Fair Value
357,255 Shares	$ 5,119	$ 34,332,295	$ 42,802,752

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

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

As of and for the years ended December 31, unrealized and realized gains / (losses) attributed to Stryker Corporation stock are included on the statement of activities as follows:

	2016	2015
Realized gain	$ 3,668,076	$ 2,302,633
Unrealized gain (loss)	$ 6,983,150	$ (2,840,001)

In addition to the shares of Stryker Corporation stock, the Foundation is also invested in several hedge fund-of-fund structures and two private equity investments. Three of the hedge funds and one private equity investment represented 15%, 12%, 12% and 11% of the Foundation's total investment portfolio at December 31, 2016, and four of the hedge funds and one private equity investment represented 15%, 13%, 12%, 12% and 11% at December 31, 2015.

4. Investments *(continued)*

Information regarding alternative investments valued using NAV as practical expedient at December 31, 2016 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity (see "a" below)	$ 19,461,546	$ 12,021,678	Locked	N/A
Hedge Funds				
Diversified strategy (see "b" below)	25,436,760	-	Quarterly	7 days
Hedged equity (see "c" below)	20,266,837	-	Quarterly	7 days
Strategic fixed income (see "d" below)	16,031,114	-	Quarterly	7 days
Select equity (see "e" below)	20,097,209	-	Quarterly	7 days
	$ 101,293,466	$ 12,021,678		

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.

4. Investments *(continued)*

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. Property, Equipment and Leasehold Improvements

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

	2016	2015
Leasehold improvements	$ 1,472,534	$ 1,465,479
Furniture and equipment	2,223,824	2,043,739
	3,696,358	3,509,218
Less: accumulated depreciation and amortization	2,438,597	2,068,826
	$ 1,257,761	$ 1,440,392

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:

	2016	2015
Less than one year	$ 12,573,148	$ 12,910,012
One to four years	4,031,847	4,115,490
	16,604,995	17,025,502
Less: present value discount	164,950	135,278
Grants Payable, net	$ 16,440,045	$ 16,890,224

To reflect the time value of money, grants payable as of December 31, 2016 and 2015 were discounted to their present value using the Federal Reserve Business Lending rate of 3.50% and 2.92%.

8. Grants Awarded

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

	2016	2015
Grants awarded	$ 28,836,987	$ 28,868,414
Grants rescinded/refunded	(780,919)	(769,432)
Stock transfer adjustment	(21,510)	45,260
Provision for present value discount	(29,672)	(28,707)
Grants Awarded, net	$ 28,004,886	$ 28,115,535

9. Retirement Plan

The Foundation maintains a 401(k) plan, which covers all employees whose regular schedule is at least 30 hours a week. Employees become eligible 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 $158,355 and $143,282 for 2016 and 2015. The Foundation may also make discretionary contributions to all eligible employees. Discretionary contributions were $441,678 and $397,135 for 2016 and 2015. 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.

10. 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 $208,512 as a guarantee for the lease agreement.

The Foundation also occupies space in the United Kingdom under a lease agreement which expires March 31, 2018, 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:

2017	$ 563,241
2018	537,522
2019	539,440
2020	567,023
2021	610,671
Thereafter	2,357,394
	$ 5,175,291

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 $92,305 and $135,371 for 2016 and 2015.

12. In-Kind Contributions

The Foundation received pro-bono advertising space valued at an estimated $309,078 and $45,874 during 2016 and 2015. Such services have been reflected as an expense within postage, printing and publications on the statements of activities.

13. Subsequent Events

In February 2017, the Foundation received 119,684 shares of Stryker Corporation common stock with a fair value of $15,049,665 at date of donation.

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