The Arthur Vining Davis Foundations

Combined Financial Statements

For The Years Ended December 31, 2018 And 2017

The Financial Statements

REPORT OF INDEPENDENT AUDITOR

We have audited the accompanying combined financial statements of The Arthur Vining Davis Foundations ("the Foundations"), which consist of the combined statements of financial position as of December 31, 2018 and 2017, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundations' preparation and fair presentation of the combined 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 Foundations' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Arthur Vining Davis Foundations as of December 31, 2018 and 2017, the combined changes in its net assets, and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
August 23, 2019

Combined Statements of Financial Position

DECEMBER 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents		
Administrative account	$ 288,178	$ 300,092
Operating accounts - grants	—	4,590
Trust accounts	4,927,506	2,436,852
Total cash and cash equivalents	5,215,684	2,741,534
Accrued interest and dividends	321,645	270,697
Investments, at estimated fair value		
Equity securities	179,746,685	208,683,989
Obligations of the U.S. Government or its agencies	18,659,088	16,694,185
Corporate obligations	12,335,762	14,299,855
Other investments	31,350,003	33,902,874
Total investments	242,091,538	273,580,903
Other assets	5,000	5,000
TOTAL	**$247,633,867**	**$276,598,134**
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS		
Liabilities		
Grants payable	$ 762,500	$ —
Federal excise tax payable, net	27,824	70,898
Total liabilities	790,324	70,898
Net assets without donor restrictions	246,843,543	276,527,236
TOTAL	**$247,633,867**	**$276,598,134**

Combined Statements of Activities

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	2018	2017
INVESTMENT AND OTHER INCOME		
Dividends	$ 4,096,701	$ 4,125,632
Interest	1,005,840	938,169
Other	10,322	42,966
TOTAL	5,112,863	5,106,767
EXPENSES		
Office expenses	2,242,938	1,965,428
Federal excise tax	113,824	409,898
Professional fees	317,703	61,373
TOTAL	2,674,465	2,436,699
INVESTMENT AND OTHER INCOME AVAILABLE FOR GRANTS	2,438,398	2,670,068
GRANTS APPROVED		
Private higher education	(4,367,275)	(100,000)
Interfaith leadership and religious literacy	(2,387,184)	—
Public educational media	(2,350,000)	(500,000)
Environmental engagement, stewardship, and solutions	(1,045,000)	—
Other	(409,800)	(426,000)
Palliative care	(350,000)	—
Legacy	—	(410,000)
TOTAL	(10,909,259)	(1,436,000)
EXPENSES AND GRANTS APPROVED OVER INVESTMENT AND OTHER INCOME BEFORE INVESTMENT GAINS/(LOSSES), NET	(8,470,861)	1,234,068
INVESTMENT GAINS/(LOSSES), NET		
Realized gains on sales and maturities of investments, net	6,278,503	16,071,163
Unrealized (losses)/gains on investments, net	(27,491,335)	17,528,954
TOTAL	(21,212,832)	33,600,117
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**(29,683,693)**	**34,834,185**
NET ASSETS WITHOUT DONOR RESTRICTIONS, Beginning of year	**276,527,236**	**241,693,051**
NET ASSETS WITHOUT DONOR RESTRICTIONS, End of year	**$246,843,543**	**$276,527,236**

Combined Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	2018	2017
OPERATING CASH FLOWS		
Investment and other income received	$ 5,061,915	$ 5,095,416
Cash paid to grantees	(10,146,759)	(1,436,000)
Cash paid for operating activities and costs	(2,560,641)	(2,724,177)
Federal excise taxes paid	(156,898)	(356,273)
Net operating cash flows	**(7,802,383)**	**578,966**
INVESTING CASH FLOWS		
Proceeds from sales and maturities of investments	78,973,212	98,705,487
Purchases of investments	(68,696,679)	(98,981,079)
Net investing cash flows	**10,276,533**	**(275,592)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**2,474,150**	**303,374**
CASH AND CASH EQUIVALENTS, Beginning of year	**2,741,534**	**2,438,160**
CASH AND CASH EQUIVALENTS, End of year	**$ 5,215,684**	**$ 2,741,534**

The Accompanying Notes are an Integral
Part of These Combined Financial statements

Notes to Combined Financial Statements

DECEMBER 31, 2018 and 2017

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arthur Vining Davis Foundations ("the Foundations") were established for the purpose of aiding charitable organizations within the United States. Emphasis is placed on the support of private higher education, public educational media, interfaith leadership and religious literacy, environmental engagement, stewardship and solutions, and palliative care.

The Foundations consist of two entities, designated respectively as Foundations No. 2 and No. 3. Each Foundation is operated and administered as a separate legal entity. All funds are handled separately by a corporate trustee. For purposes of making grants, however, the two Foundations function as a single entity. Although the Foundations are to continue perpetually, the principal of the Foundations may be distributed to meet minimum distribution requirements.

The Foundations consider investments purchased with original maturities of three months or less to be cash equivalents.

Investments in securities that are traded on national or international securities exchanges are carried at estimated fair value, based upon quoted market prices provided by external investment managers and the Foundations' custodians and are accepted by the Foundations' management.

Investments in alternative structures including limited partnerships and hedge funds are carried at estimated fair value. Estimated fair values for these "alternative investments" are provided by the investee and accepted by the Foundations' management. Alternative investments are not readily marketable and are often highly illiquid. The estimated fair values of alternative investments included in the accompanying combined financial statements are subject to a high degree of uncertainty and the actual fair values could differ materially from the estimated fair values. Management of the Foundations believes that the Foundations' alternative investments are carried at reasonable estimates of their fair value.

The Foundations are exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from state income tax pursuant to corresponding Florida law. The Foundations are private foundations for federal income tax purposes and are subject to an excise tax of 1% or 2% on their net investment income. Deferred taxes, if any, are not recognized in the accompanying combined financial statements due to uncertainty of realization.

Management uses estimates and assumptions in preparing the combined financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. The most significant estimates used in the combined financial statements relate to the estimated fair value of investments. Actual results could differ from the estimates.

The Foundations maintain their cash, cash equivalents, and investments in deposit and brokerage accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Foundations have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk related to cash, cash equivalents, and investments.

Certain amounts included in the December 31, 2017 combined financial statements have been reclassified to conform to classifications adopted during the year ended December 31, 2018. The reclassifications had no material effect on the accompanying combined financial statements.

Notes to Combined Financial Statements

DECEMBER 31, 2018 and 2017

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities is effective for the Foundations' combined financial statements for the year ended December 31, 2018. The ASU requires various changes to the presentation of financial statements for not-for-profit entities, the most significant of which relate to the classifications of net assets, a requirement to report expenses by natural classification as well as by functional classification, and new required disclosures related to an entity's liquidity and availability of resources. The adoption of the ASU had no effect on the Foundations' combined net assets or the combined change in net assets presented for the years ended December 31, 2018 or 2017.

The Foundations have evaluated for possible financial reporting and disclosure subsequent events through August 23, 2019, the date as of which the combined financial statements were available to be issued.

NOTE B - OTHER

Financial assets available within one year of the December 31, 2018 combined statement of financial position for general expenditures are as follows:

Financial assets available:	
Cash and cash equivalents	$ 5,215,684
Investments	242,091,538
Total financial assets available	247,307,222
Less: assets unavailable for general expenditure	—
Net financial assets available within one year	$ 247,307,222

The Foundations are primarily supported by investment income. As part of the Foundations' liquidity management, they structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. Management believes it has sufficient liquid assets to draw upon in the case of an immediate financial need.

Accounting principles generally accepted in the United States ("GAAP") define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Level 1 – quoted prices in active markets for identical assets

Level 2 – other significant observable inputs (such as quoted prices for similar investments)

Level 3 – significant unobservable inputs

Notes to Combined Financial Statements
DECEMBER 31, 2018 and 2017

NOTE B – OTHER (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Estimated fair value of certain assets measured on a recurring basis at December 31, 2018, is as follows:

	Total	Level 1	Level 2	Level 3
Equity securities	$ 179,746,685	$ 179,746,685	$ —	$ —
Obligations of the U.S. Government or its agencies	18,659,088	18,659,088	—	—
Corporate obligations	12,335,762	12,335,762	—	—
Other investments Commodity indexed trust	1,317,620	1,317,620	—	—
Subtotal	$ 212,059,155	$ 212,059,155	$ —	$ —
Fair value measured at net asset value – other nonpublicly traded investments	30,032,383			
Total investments	$ 242,091,538			

As of December 31, 2018, the estimated fair values and unfunded commitments for other nonpublicly traded investments are as follows:

	Estimated Fair Value	Unfunded Commitments
Investments in hedge funds	$ 19,187,086	$ —
Investments in pooled investment funds	6,399,913	—
Investments in private equity funds	4,445,384	7,960,000
Total	$ 30,032,383	$ 7,960,000

Estimated fair value of certain assets measured on a recurring basis at December 31, 2017, is as follows:

	Total	Level 1	Level 2	Level 3
Equity securities	$ 208,683,989	$ 208,683,989	$ —	$ —
Obligations of the U.S. Government or its agencies	16,694,185	16,694,185	—	—
Corporate obligations	14,299,855	14,299,855	—	—
Other investments Commodity indexed trust	1,819,978	1,819,978	—	—
Subtotal	$ 241,498,007	$ 241,498,007	$ —	$ —
Fair value measured at net asset value – other nonpublicly traded investments	32,082,896			
Total investments	$ 273,580,903			

NOTE B – OTHER (Continued)

As of December 31, 2017, the estimated fair values and unfunded commitments for other nonpublicly traded investments are as follows:

	Estimated Fair Value	Unfunded Commitments
Investments in hedge funds	$ 23,090,261	$ —
Investments in pooled investment funds	6,270,857	—
Investments in private equity funds	2,721,778	3,532,500
Total	$ 32,082,896	$ 3,532,500

Other nonpublicly traded investments include various hedge funds, pooled investment funds, and private equity funds which use an array of diversified investment strategies focused on long-term capital appreciation, risk diversification, and low volatility. These nontraditional investment opportunities seek to exceed the returns offered by traditional investments. There are no lock-up periods associated with these investments, and such investments can generally be liquidated at an amount approximating net asset value in the near-term with proper notice. The financial statements of the nonpublicly traded investments in which such investments have been made are generally subject to annual external audits which are ordinarily conducted by nationally-recognized certified public accounting firms.

The Foundations' other significant financial instrument is cash, for which carrying value approximates fair value.

Functional and natural expenses for the Foundations for 2018 are as follows:

	Program	Supporting	Total
Grants approved	$ 10,909,259	$ —	$ 10,909,259
Office expenses	—	2,242,938	2,242,938
Federal excise tax	—	113,824	113,824
Professional fees		317,703	317,703
Total functional expenses	$ 10,909,259	$ 2,674,465	$ 13,583,724

The above schedule of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas.

The Foundations have a contributory, defined contribution pension plan ("the Plan") covering all employees. Contributions to the Plan are based on a percentage of each employee's salary and are made at the direction of the Board of Trustees. During 2018 and 2017, approximately $126,000 and $190,000, respectively, was contributed to the Plan through the Administrative account.