



THE ARTHUR VINING DAVIS FOUNDATIONS

COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014



THE FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITOR

We have audited the accompanying combined financial statements of The Arthur Vining Davis Foundations (“the Foundations”), which comprise the combined statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Orlando, Florida
November 16, 2016

Combined Statements of Financial Position

DECEMBER 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents		
Administrative account	\$ 213,298	\$ 286,352
Operating accounts - grants	298,895	—
Trust accounts	<u>2,258,918</u>	<u>2,201,215</u>
Total cash and cash equivalents	<u>2,771,111</u>	<u>2,487,567</u>
Accrued interest and dividends	<u>288,039</u>	<u>402,646</u>
Investments, at estimated fair value		
Equity securities	167,397,399	177,008,642
Obligations of the U.S. Government or its agencies	16,972,004	23,403,413
Corporate obligations	15,409,796	18,039,281
Other investments	<u>29,800,974</u>	<u>23,315,277</u>
Total investments	<u>229,580,173</u>	<u>241,766,613</u>
Other assets	<u>83,048</u>	<u>22,757</u>
TOTAL	<u>\$232,722,371</u>	<u>\$244,679,583</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Liabilities		
Grants payable	\$ —	\$ 3,883,000
Federal excise tax payable, net	<u>282,828</u>	<u>3,562</u>
Total liabilities	282,828	3,886,562
Unrestricted net assets	<u>232,439,543</u>	<u>240,793,021</u>
TOTAL	<u>\$232,722,371</u>	<u>\$244,679,583</u>

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

Combined Statements of Activities

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVESTMENT AND OTHER INCOME		
Dividends	\$ 3,657,056	\$ 4,451,916
Interest.....	1,004,805	1,589,608
Other.....	<u>65,195</u>	<u>12,160</u>
TOTAL	<u>4,727,056</u>	<u>6,053,684</u>
EXPENSES		
Office expenses	1,788,830	1,923,045
Investment expenses.....	727,643	748,708
Federal excise tax.....	466,266	134,974
Professional fees	<u>258,951</u>	<u>86,751</u>
TOTAL	<u>3,241,690</u>	<u>2,893,478</u>
INVESTMENT AND OTHER INCOME AVAILABLE FOR GRANTS	<u>1,485,366</u>	<u>3,160,206</u>
GRANTS APPROVED		
Public educational media.....	(1,600,000)	(2,225,000)
Private higher education.....	(994,120)	(3,300,000)
Medicine and health	(650,000)	(1,598,596)
Secondary education.....	(471,793)	(1,813,000)
Other	(449,835)	(1,140,020)
Religious literacy and interfaith leadership.....	(400,000)	(285,000)
Theological education.....	<u>(284,700)</u>	<u>(1,680,000)</u>
TOTAL	<u>(4,850,448)</u>	<u>(12,041,616)</u>
EXCESS OF EXPENSES AND GRANTS APPROVED OVER INVESTMENT AND OTHER INCOME BEFORE INVESTMENT GAINS/(LOSSES), NET	<u>(3,365,082)</u>	<u>(8,881,410)</u>
INVESTMENT GAINS/(LOSSES), NET		
Realized gains on sales and maturities of investments, net	14,382,070	12,250,146
Unrealized losses on investments, net.....	<u>(19,370,466)</u>	<u>(2,726,558)</u>
TOTAL	<u>(4,988,396)</u>	<u>9,523,588</u>
CHANGE IN UNRESTRICTED NET ASSETS.....	(8,353,478)	642,178
UNRESTRICTED NET ASSETS, Beginning of year.....	<u>240,793,021</u>	<u>240,150,843</u>
UNRESTRICTED NET ASSETS, End of year.....	<u>\$232,439,543</u>	<u>\$240,793,021</u>

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Part of These Combined Financial statements

Combined Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING CASH FLOWS		
Investment and other income received	\$ 4,841,663	\$ 6,141,432
Cash paid to grantees	(8,733,448)	(11,820,616)
Cash paid for operating activities and costs	(2,835,715)	(2,781,311)
Federal excise taxes paid.....	<u>(187,000)</u>	<u>(138,000)</u>
Net operating cash flows	<u>(6,914,500)</u>	<u>(8,598,495)</u>
INVESTING CASH FLOWS		
Proceeds from sales and maturities of investments.....	138,870,741	101,845,754
Purchases of investments	<u>(131,672,697)</u>	<u>(93,458,218)</u>
Net investing cash flows.....	<u>7,198,044</u>	<u>8,387,536</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	283,544	(210,959)
CASH AND CASH EQUIVALENTS, Beginning of year.....	<u>2,487,567</u>	<u>2,698,526</u>
CASH AND CASH EQUIVALENTS, End of year.....	<u>\$ 2,771,111</u>	<u>\$ 2,487,567</u>
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET OPERATING CASH FLOWS		
Change in unrestricted net assets	\$ (8,353,478)	\$ 642,178
Adjustments to reconcile change in unrestricted net assets to net operating cash flows		
Realized gains on sales and maturities of investments, net	(14,382,070)	(12,250,146)
Unrealized losses on investments, net	19,370,466	2,726,558
Change in accrued interest and dividends.....	114,607	87,748
Change in other assets	(60,291)	(22,757)
Change in grants payable	(3,883,000)	221,000
Change in federal excise tax payable/(receivable), net.....	<u>279,266</u>	<u>(3,076)</u>
Net operating cash flows	<u>\$ (6,914,500)</u>	<u>\$ (8,598,495)</u>

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

Notes to Combined Financial Statements

DECEMBER 31, 2015 and 2014

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, secondary education, religious literacy and interfaith leadership, theological education, medicine and health, and public educational media.

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. The Foundations have not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

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.

The Foundations have evaluated for possible financial reporting and disclosure subsequent events through November 16, 2016, the date as of which the combined financial statements were available to be issued.

Notes to Combined Financial Statements

DECEMBER 31, 2015 and 2014

NOTE B - OTHER

Certain amounts included in the 2014 combined financial statements have been reclassified to conform to classifications adopted during 2015. The reclassifications had no material effect on the accompanying combined financial statements.

Expenses for the Foundations for 2015 and 2014 include approximately \$7,107,000 and \$14,177,000 for program activities and \$985,000 and \$758,000 for supporting activities, respectively.

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 2015 and 2014, approximately \$120,000 and \$156,000, respectively, was contributed to the Plan through the Administrative account.

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

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, 2015, is as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 167,397,399	\$ 167,397,399	\$ —	\$ —
Obligations of the U.S.				
Government or its agencies	16,972,004	16,972,004	—	—
Corporate obligations	<u>15,409,796</u>	<u>15,409,796</u>	<u>—</u>	<u>—</u>
Other investments				
Commodity indexed trust	1,685,662	1,685,662	—	—
Hedge funds	28,111,991	—	—	28,111,991
Limited partnership interests	<u>3,321</u>	<u>—</u>	<u>—</u>	<u>3,321</u>
Total other investments	<u>29,800,974</u>	<u>1,685,662</u>	<u>—</u>	<u>28,115,312</u>
Total investments	<u>\$ 229,580,173</u>	<u>\$ 201,464,861</u>	<u>\$ —</u>	<u>\$ 28,115,312</u>

Notes to Combined Financial Statements

DECEMBER 31, 2015 and 2014

NOTE B – OTHER (Continued)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, January 1, 2015	\$ 22,122,900
Purchases, net	6,089,611
Net loss	<u>(97,199)</u>
Balance, December 31, 2015	<u>\$ 28,115,312</u>

Estimated fair value of certain assets measured on a recurring basis at December 31, 2014, is as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 177,008,642	\$ 177,008,642	\$ —	\$ —
Obligations of the U.S.				
Government or its agencies	23,403,413	23,403,413	—	—
Corporate obligations	<u>18,039,281</u>	<u>18,039,281</u>	—	—
Other investments				
Commodity indexed trust	1,192,377	1,192,377	—	—
Hedge funds	22,118,421	—	—	22,118,421
Limited partnership interests	<u>4,479</u>	<u>—</u>	<u>—</u>	<u>4,479</u>
Total other investments	<u>23,315,277</u>	<u>1,192,377</u>	<u>—</u>	<u>22,122,900</u>
Total investments	<u>\$ 241,766,613</u>	<u>\$ 219,643,713</u>	<u>\$ —</u>	<u>\$ 22,122,900</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, January 1, 2014	\$ 20,522,851
Net gain	<u>1,600,049</u>
Balance, December 31, 2014	<u>\$ 22,122,900</u>

Investments in hedge funds consist of investments in vehicles which pursue various strategies to diversify risks and reduce volatility. 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 hedge funds 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.

Investments in limited partnership interests consist primarily of investments in pooled funds which invest in privately-held enterprises in the United States and abroad. These investments can generally be liquidated at an amount approximating carrying value in the near-term with proper notice.

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