



FINANCIAL
REVIEW



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Samuel H. Kress Foundation

We have audited the statements of financial position of the Samuel H. Kress Foundation as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Samuel H. Kress Foundation as of June 30, 2008 and 2007 and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



November 3, 2008

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2008 and 2007

	2008	2007
Assets		
Investments	\$107,065,554	\$ 125,472,161
Operating Cash	479,633	30,815
Accrued interest and dividends receivable	37,359	39,096
Prepaid taxes and other assets	13,564	37,880
Property and equipment, net of accumulated depreciation	1,665,859	1,761,955
Total Assets	\$ 109,261,969	\$ 127,341,907
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 3,996,321	\$ 5,035,035
Accounts payable and accrued expenses	191,116	275,413
Deferred Federal Excise Tax		446,702
Total Liabilities	\$ 4,187,437	\$ 5,757,150
Unrestricted Net Assets	105,074,532	121,584,757
Total Liabilities and Net Assets	\$ 109,261,969	\$ 127,341,907

See accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2008 and 2007

	2008	2007
Revenue		
Interest	\$ 124,156	\$ 147,912
Dividends	2,109,303	1,499,275
Investment trusts	483,020	729,199
	<u>2,716,479</u>	<u>2,376,386</u>
Less: Direct investment expenses		
Investment management and custodian fees	812,489	904,719
Federal excise taxes	269,171	215,000
Foreign withholding taxes	24,909	35,088
	<u>1,106,569</u>	<u>1,154,807</u>
Net Revenue	<u>1,609,910</u>	<u>1,221,579</u>
Grants and Expenses		
Grants authorized	3,755,790	4,510,195
Grants management and administrative	1,632,011	1,659,932
Total Grants and Expenses	<u>5,387,801</u>	<u>6,170,127</u>
Change in Net Assets before Gain (Loss) on Investments	(3,777,891)	(4,948,548)
Net Gain (Loss) on Investments	(12,732,334)	21,971,820
CHANGE IN NET ASSETS FOR YEAR	<u>(16,510,225)</u>	<u>17,023,272</u>
Net Assets, beginning of year	121,584,757	104,561,485
NET ASSETS, END OF YEAR	<u>\$105,074,532</u>	<u>\$121,584,757</u>

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flow Provided (Used)		
From Operating Activities:		
Change in Net Assets for Year	\$(16,510,225)	\$17,023,272
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
<i>Depreciation</i>	104,096	105,828
<i>Net realized (gain) on investments</i>	(12,544,623)	(10,051,369)
<i>Change in unrealized appreciation</i>	25,723,658	(12,163,725)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	1,737	(2,637)
<i>Prepaid taxes and other assets</i>	24,316	(29,296)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,038,714)	(373,040)
<i>Accounts payable and accrued expenses</i>	(84,297)	143,855
<i>Deferred Federal Excise Tax</i>	(446,702)	243,274
Net Cash Provided (Used) by Operating Activities	(4,770,754)	(5,103,838)
From investing activities:		
Proceeds from sale of investments	97,450,391	58,752,886
Purchases of investments	(92,222,819)	(53,703,823)
Additions to property and equipment	(8,000)	(12,253)
Net Cash Provided by Investing Activities	5,219,572	5,036,810
Net Increase (decrease) in cash for year	448,818	(67,028)
Cash, Beginning of Year	30,815	97,843
Cash, End of Year	479,633	30,815
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ 245,000	\$ 250,000

Samuel H. Kress Foundation
June 30, 2008

NOTE 1
Organization

The Samuel H. Kress Foundation ("the Foundation") was established on March 6, 1929 by Samuel H. Kress. The Foundation is incorporated in the State of New York for the purpose of promoting the moral, physical and mental well-being and progress of the human race, using or creating such means or agencies as from time to time the Trustees shall deem expedient to accomplish such purpose.

NOTE 2
Summary of Significant
Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Operating Cash

For purposes of cash flows, cash consists of checking accounts.

Investments

Investments in marketable securities are valued at quoted market prices. Investments in alternative investment funds are ordinarily valued at the most recent estimate determined by the investment manager or agents based upon the valuation reported by the Fund Administrators in accordance with the policies established by the relevant funds. As a general matter, the fair value of the Foundation investment in these funds will represent the amount that the Foundation could reasonably expect to receive from the fund if the Foundation's interest were redeemed at the time of valuation, based upon the information reasonably available at the time the valuation was made.

Valuations provided by these funds may be based upon estimated or unaudited reports, and may be subject to later adjustment or revision. Any such adjustments or revision will either increase or decrease the net asset value of the Foundation at the time the Foundation is provided with the information regarding the adjustment. The Foundation does not expect to restate its previous net asset values to reflect an adjustment or revision by these funds.

Realized gains and losses from the sale of securities are determined by comparison of cost to proceeds and are determined under the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, building – 35 years, building fixtures – 5 to 15 years, office furniture and equipment – 5 to 10 years.

Grants

The Foundation records grants as expenses and liabilities at the time each grant is authorized by the Trustees and the recipient has been notified or the program is announced to the public. Grants are payable to the grantee according to the terms established by the Trustees and may be subject to routine performance requirements by the grantee.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates. The estimates are not material in the aggregate.

**NOTE 3
Investments**

A summary of investments is as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 2,985,405	\$ 2,985,405	\$ 1,808,078	\$ 1,808,078
Common Stocks	50,749,219	45,852,216	48,647,917	56,913,962
Mutual Funds	56,708,008	58,216,468	34,544,115	46,348,224
Investment Partnerships			18,312,159	20,577,121
	110,442,632	107,054,089	103,312,269	125,647,385
Net receivable for pending trades	11,465	11,465	(175,224)	(175,224)
	\$110,454,097	\$107,065,554	\$103,137,045	\$125,472,161

NOTE 4
Net Gain on
Investments

The following is a summary of the net gain on investments:

	<u>2008</u>	<u>2007</u>
Realized gains on sale of investments	\$ 12,544,623	\$ 10,051,369
Net change in unrealized appreciation	(25,723,659)	12,163,725
Deferred excise tax	446,702	(243,274)
Net Gain on Investments	\$(12,732,334)	\$21,971,820

NOTE 5
Property and
Equipment

Property and equipment consists of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	526,571	518,571
	3,831,129	3,823,129
Less: Accumulated depreciation	2,165,270	2,061,174
Net Property and Equipment	\$1,665,859	\$1,761,955

Depreciation expense for 2008 and 2007 was \$104,096 and \$105,828, respectively.

NOTE 6
Grants Payable

The Foundation estimates that its grants payable will be paid as follows:

Year ended June 30,		
2009		\$3,533,055
2010		485,000
2011		1,500
		4,019,555
Less: Discount to present value		23,234
Total		\$3,996,321

The Foundation used a discount rate of 5% in 2008 and 2007.

NOTE 7
Retirement Plan and
Commitments

The Foundation maintains a deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code ("IRC") for all eligible employees. In 2007, the Foundation matched an employee's contributions to the plan up to 6% of salary. Effective July 1, 2007, the Foundation amended its retirement plan to match double the employee's contributions up to a maximum employee contribution of 5% of the employee's salary per year. The plan expense for the years ended June 30, 2008 and 2007 amounted to \$33,174 and \$30,199, respectively.

During 2007, the Foundation established a separate retirement plan under Section 457 (b) of the IRC, which limits participation in the plan to only management. The President contributes to this plan and there are no matching provisions.

NOTE 8
Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as a "private foundation." The Foundation is subject to an excise tax on net investment income at either a 1% or 2% rate depending on the amount of qualifying distributions. For 2008 and 2007 the Foundation's rate was 2%.

In 2007, Deferred Federal excise taxes payable were also recorded on the unrealized appreciation of investments using a 2% excise tax rate. No Deferred Federal excise tax payable was provided at June 30, 2008 as cost exceeded the Fair Value of investments.

NOTE 9
Concentration of Risk

During fiscal years ended June 30, 2007 and 2008, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.

NOTE 10
Subsequent Event

Subsequent to June 30, 2008, the United States financial markets continued to experience downward pressures. As of September 30, 2008, the Dow Jones Industrial Average was down approximately 4.4% from June 30, 2008.