



**FINANCIAL
REVIEW**



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Samuel H. Kress Foundation

We have audited the accompanying financial statements of the Samuel H. Kress Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the Samuel H. Kress Foundation as of June 30, 2014 and 2013, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in cursive script that reads "Owen J. Flanagan + Co." The signature is written in black ink and is positioned above the date.

October 7, 2014

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2014 and 2013

	2014	2013
Assets		
Investments	\$ 92,949,741	\$ 82,300,194
Operating cash	253,118	165,133
Accrued interest and dividends receivable	10,888	14,438
Prepaid expenses and other assets	42,622	22,082
Property and equipment, net of accumulated depreciation	1,348,334	1,355,066
Total Assets	\$ 94,604,703	\$ 83,856,913
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 7,834,717	\$ 2,152,347
Accounts payable and accrued expenses	110,802	91,353
Excise tax payable	16,317	4,183
Deferred Federal excise tax payable	227,653	57,000
Total Liabilities	8,189,489	2,304,883
Unrestricted Net Assets	86,415,214	81,552,030
Total Liabilities and Net Assets	\$ 94,604,703	\$ 83,856,913

See Accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2014 and 2013

	2014	2013
Revenue		
Interest	\$ 36	\$ 298
Dividends	1,518,836	1,202,634
	1,518,872	1,202,932
Less: Direct investment expenses		
Investment management and custodian fees	603,868	1,099,643
Federal excise taxes	88,135	62,716
Foreign withholding taxes	950	640
	692,953	1,162,999
Net Revenue	825,919	39,933
Grants and Expenses		
Grants authorized	9,568,817	2,363,163
Foundation directed projects	48,124	54,442
Grants management and administrative	1,348,001	1,365,280
Total Grants and Expenses	10,964,942	3,782,885
Change in Net Assets before Gain on Investments	(10,139,023)	(3,742,952)
Net Gain on Investments	15,002,207	10,566,426
CHANGE IN NET ASSETS FOR YEAR	4,863,184	6,813,474
Net Assets, beginning of year	81,552,030	74,738,556
NET ASSETS, END OF YEAR	\$ 86,415,214	\$ 81,552,030

See Accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets for Year	\$ 4,863,184	\$ 6,813,474
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	112,607	107,371
<i>Net realized gain on investments</i>	(3,790,215)	(5,021,982)
<i>Change in unrealized appreciation</i>	(11,382,645)	(5,591,444)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	3,550	12,664
<i>Prepaid expenses and other assets</i>	(20,540)	29,482
Increase (decrease) in liabilities:		
<i>Grants payable</i>	5,682,370	(1,732,669)
<i>Accounts payable and accrued expenses</i>	19,449	(14,318)
<i>Excise tax payable</i>	12,134	(4,183)
<i>Deferred Federal Excise tax</i>	170,653	57,000
Net Cash Used by Operating Activities	(4,329,453)	(5,335,605)
From Investing Activities:		
Proceeds from sale of investments	17,773,659	72,666,254
Purchases of investments	(13,250,346)	(67,394,336)
Additions to property and equipment	(105,875)	(62,597)
Net Cash Provided by Investing Activities	4,417,438	5,209,321
Net increase (decrease) in cash for year	87,985	(126,284)
Cash, Beginning of Year	165,133	291,417
Cash, End of Year	\$ 253,118	\$ 165,133
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ 76,000	\$ 31,000

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation
June 30, 2014

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's investment in these funds will represent the amount that the Foundation could reasonably expect to receive from the fund if the Foundation's interest was 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.

NOTE 2
(continued)

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.

Subsequent Events

In connection with the preparation of the financial statements the Foundation evaluated subsequent events after the statement of financial position date of June 30, 2014 through October 7, 2014, which was the date the financial statements were available to be issued.

NOTE 3
Investments

Fair Value Measurements of Investments

Investments are carried at fair value based on quoted market prices. The Samuel H. Kress Foundation follows Financial Accounting Standards Board (FASB) 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.

A summary of investments is as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 576,938	\$ 576,938	\$ 2,109,132	\$ 2,109,132
Common stock				
Financials	4,144,569	4,934,127	2,680,477	2,891,745
Information technology	4,524,233	5,806,065	4,428,006	5,054,608
Healthcare	2,455,888	3,225,950	1,616,226	1,990,753
Consumer discretionary	2,939,998	3,637,475	2,515,016	2,693,088
Other	4,263,583	4,908,965	6,506,055	7,073,761
Small capital equity funds	2,816,732	3,512,298	3,000,000	3,148,164
Large capital equity funds	9,758,230	12,645,423	10,041,683	10,395,876
International equity funds	21,156,111	25,739,992	21,380,289	22,235,708
International bond funds	4,010,941	3,990,098	3,941,085	3,739,269
Fixed income funds	3,435,162	3,433,877	3,905,919	3,874,359
Emerging market funds	6,143,638	6,560,543	6,023,967	5,574,043
Hedge funds	12,500,000	13,986,931	11,535,120	11,752,483
	78,726,023	92,958,682	79,682,975	82,532,989
Net receivable for pending trades	(8,941)	(8,941)	(232,795)	(232,795)
	\$ 78,717,082	\$ 92,949,741	\$ 79,450,180	\$ 82,300,194

The following are major categories of investments measured at estimated fair value as of June 30:

2014

Description	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 567,997	\$ —	\$ —	\$ 567,997
Common stock	22,512,582	—	—	22,512,582
Small capital equity funds	3,512,298	—	—	3,512,298
Large capital equity funds	12,645,423	—	—	12,645,423
International equity funds	—	22,683,717	3,056,275	25,739,992
International bond funds	—	3,990,098	—	3,990,098
Fixed income funds	3,433,877	—	—	3,433,877
Emerging market funds	6,560,543	—	—	6,560,543
Hedge funds	—	6,919,062	7,067,869	13,986,931
	\$49,232,720	\$ 33,592,877	\$ 10,124,144	\$ 92,949,741

2013

Description	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 1,876,337	\$ —	\$ —	\$ 1,876,337
Common stock	19,703,955	—	—	19,703,955
Small capital equity funds	3,148,164	—	—	3,148,164
Large capital equity funds	10,395,876	—	—	10,395,876
International equity funds	—	19,806,608	2,429,100	22,235,708
International bond funds	—	3,739,269	—	3,739,269
Fixed income funds	3,874,359	—	—	3,874,359
Emerging market funds	5,574,043	—	—	5,574,043
Hedge funds	—	2,038,811	9,713,672	11,752,483
	\$44,572,734	\$25,584,688	\$ 12,142,772	\$ 82,300,194

The following is a reconciliation of the beginning and ending balances for assets valued using level 3 inputs:

	2014		
	International Equity Funds	Hedge Funds	Total
Beginning Balance	\$ 2,429,100	\$ 9,713,672	\$ 12,142,772
Realized gains and losses reported in income	—	59,030	59,030
Unrealized gains and losses reported in income	627,175	1,165,172	1,792,347
Purchases	—	1,000,000	1,000,000
Sales	—	(94,150)	(94,150)
Transfers between levels	—	(4,775,855)	(4,775,855)
Ending Balance	\$ 3,056,275	\$ 7,067,869	\$ 10,124,144

The transfer between levels reflects expiration of initial redemption lockups.

	2013		
	International Equity Funds	Hedge Funds	Total
Beginning Balance	\$ —	\$ 365,723	\$ 365,723
Realized gains and losses reported in income	—	237,310	237,310
Unrealized gains and losses reported in income	(70,900)	(6,144)	(77,044)
Purchases	2,500,000	9,500,000	12,000,000
Sales	—	(383,217)	(383,217)
Ending Balance	\$ 2,429,100	\$ 9,713,672	\$ 12,142,772

NOTE 3
(continued)

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2014 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 25,739,992	—	Monthly-Quarterly	6–95 days
International bond funds (b)	3,990,098	—	Monthly	10 days
Hedge funds (c)	13,986,931	—	Quarterly	45–90 days
	<u>\$ 43,717,021</u>			

(a) International equity funds consists of three investments which focus on long-term growth through investing in diversified portfolios of equity securities of companies outside the United States.

(b) International bond funds consist of one investment which focuses on achieving favorable returns from a globally diversified portfolio of debt or debt-like securities.

(c) Hedge funds consists of six investments which all seek to preserve and grow capital through different combinations of long and short investments in different foreign and domestic equity sectors.

NOTE 4
Net Gain on
Investments

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

	<u>2014</u>	<u>2013</u>
Realized gains on sale of investments	\$ 3,790,215	\$ 5,021,982
Net change in unrealized appreciation	11,382,645	5,591,444
Deferred Federal excise tax	(170,653)	(57,000)
Net Gain on Investments	\$ 15,002,207	\$ 10,556,426

NOTE 5
Property and
Equipment

Property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	833,009	727,134
	4,137,567	4,031,692
Less: Accumulated depreciation	2,789,233	2,676,626
Net Property and Equipment	\$ 1,348,334	\$ 1,355,066

Depreciation expense for 2014 and 2013 was \$112,607 and \$107,371, respectively.

NOTE 6
Grants Payable

A reconciliation of grants payable is as follows:

	<u>2014</u>	<u>2013</u>
Grants payable, July 1	\$ 2,152,347	\$ 3,876,016
Grants approved	10,204,790	2,427,701
Grants paid, net of refunds of \$20,388 and \$24,929 in fiscal year 2014 and 2013, respectively	(3,886,447)	(4,086,832)
Change in discount to present value	(635,973)	(64,538)
Grants payable, June 30	\$ 7,834,717	\$ 2,152,347

The Foundation operates on a five year grant cycle. The majority of the grants approved in the year ended June 30, 2014 are for the next cycle which started July 1, 2014. These grants will be paid out through the year ended June 30, 2019.

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. As of January 1, 2012, the Foundation amended its plan from a matching contribution plan to contributing 10% of each employee's salary annually. The expense of the retirement plan for the years ended June 30, 2014 and 2013 totaled \$56,070 and \$54,806.

The Foundation has 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 2014 and 2013 the Foundation's rate was 2% and 1%, respectively.

Deferred Federal excise tax on unrealized appreciation of investments is provided at the 2% tax rate since the qualification for the 1% tax is not determinable until the year in which gains are realized.

At June 30, 2014 and 2013 a payable of \$227,653 and \$57,000, respectively, for deferred Federal excise tax expense was recorded.

NOTE 9
Concentration of Risk

During the years ended June 30, 2014 and 2013, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.

NOTE 10
Uncertain Tax
Positions

The Samuel H. Kress Foundation has not entered into any uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions prior to periods ending June 30, 2011.