



**FINANCIAL
REVIEW**



INDEPENDENT AUDITOR'S 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, 2018 and 2017, 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 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 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, 2018 and 2017, 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.

Respectfully submitted,

A handwritten signature in black ink that reads "Owen J. Flanagan & Co." The signature is written in a cursive, flowing style.

October 19, 2018

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2018 and 2017

	2018	2017
Assets		
Investments, at fair value	\$ 89,265,551	\$ 88,360,970
Operating cash	440,960	381,186
Accrued interest and dividends receivable	37,210	26,222
Prepaid expenses and other assets	41,902	48,902
Property and equipment, net of accumulated depreciation	989,610	1,030,272
Total Assets	\$ 90,775,233	\$ 89,847,552
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 1,957,610	\$ 3,544,561
Accounts payable and accrued expenses	83,198	89,400
Deferred Federal excise tax payable	229,425	245,618
Total Liabilities	2,270,233	3,879,579
Unrestricted Net Assets	88,505,000	85,967,973
Total Liabilities and Net Assets	\$ 90,775,233	\$ 89,847,552

The Accompanying Notes are an integral part of these Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2018 and 2017

	2018	2017
Revenue		
Interest	\$ 5,037	\$ 4,702
Dividends	1,269,848	1,238,542
	1,274,885	1,243,244
Less direct investment expenses:		
Investment management and custodian fees	596,136	584,121
Federal excise taxes	129,806	70,701
	725,942	654,822
Net Investment Revenue	548,943	588,422
Grants and Expenses		
Grants authorized	1,897,887	1,889,365
Grants management and administrative	1,409,945	1,320,282
Total Grants and Expenses	3,307,832	3,209,647
Change in Net Assets before Net Gain on Investments	(2,758,889)	(2,621,225)
Net Gain on Investments (net of deferred Federal excise taxes)	5,295,916	14,820,246
CHANGE IN NET ASSETS FOR YEAR	2,537,027	12,199,021
Net Assets, beginning of year	85,967,973	73,768,952
NET ASSETS, END OF YEAR	\$ 88,505,000	\$ 85,967,973

The Accompanying Notes are an integral part of these Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows Provided (Used)		
From operating activities:		
Change in Net Assets for Year	\$ 2,537,027	\$ 12,199,021
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	110,700	109,090
<i>Net realized gain on investments</i>	(6,089,384)	(3,143,999)
<i>Change in unrealized appreciation of investments</i>	809,661	(11,914,537)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(10,988)	(14,409)
<i>Prepaid expenses and other assets</i>	7,000	(1,218)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,586,951)	(1,392,552)
<i>Accounts payable and accrued expenses</i>	(6,202)	(28,863)
<i>Deferred Federal excise tax payable</i>	(16,193)	238,290
Cash Used in Operating Activities	(4,245,330)	(3,949,177)
From investing activities:		
Capital expenditures	(70,038)	—
Proceeds from sale of investments	24,162,375	20,889,745
Purchases of investments	(19,787,233)	(17,099,171)
Cash Provided by Investing Activities	4,305,104	3,790,574
Net increase (decrease) in cash for year	59,774	(158,603)
Cash, Beginning of Year	381,186	539,789
Cash, End of Year	\$ 440,960	\$ 381,186
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ 124,000	\$ 68,071

The Accompanying Notes are an integral part of these Financial Statements.

Samuel H. Kress Foundation
June 30, 2018

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 cash maintained in checking accounts.

Investment Valuation and Investment Income Recognition

Investments are carried at fair value. The fair value of some alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. Accounting principles generally accepted in the United States of America provide for the use of the NAV as a "Practical Expedient" for estimating the fair value of the Foundation's interest.

Purchases and sales of securities are recorded on a settlement date basis. Interest and dividend income are recorded when received. Realized and unrealized gains and losses are included in the change in net assets shown on the statements of activities.

Fair Value Measurements

The Foundation follows US Generally Accepted Accounting Principles 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

NOTE 2
(continued)

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. Investments valued using the NAV as a practical expedient are excluded from the fair value hierarchy.

Investment Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as 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, may not be 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 costs, 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.

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.

NOTE 2
(continued)

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Foundation has no uncertain tax positions that would require financial statement recognition or disclosure. The Foundation is no longer subject to examinations by applicable taxing jurisdictions for periods prior to June 30, 2015.

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, 2018 through October 19, 2018, which was the date the financial statements were available to be issued.

NOTE 3

Investments

A summary of investments reported by major categories is as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 296,787	\$ 296,787	\$ 2,043,788	\$ 2,043,788
Common stock				
Financial	2,342,254	3,279,102	1,812,849	2,605,877
Information technology	3,703,636	4,802,934	2,410,043	3,590,655
Healthcare	1,866,198	1,936,463	2,420,896	2,645,490
Consumer discretionary	751,467	890,950	948,952	1,171,978
Other	3,447,146	3,808,320	4,864,282	5,343,165
Large capital equity funds	3,919,935	5,206,696	5,113,476	6,897,159
International equity funds	13,836,656	16,063,783	13,879,857	16,647,151
International bond funds	4,265,499	3,922,333	4,226,058	3,888,833
Fixed income funds	13,357,866	12,987,582	8,101,350	8,078,569
Emerging market funds	4,463,504	5,921,092	5,431,816	6,606,925
Hedge funds	14,197,633	16,437,848	14,127,586	15,575,241
Special situation funds	8,538,395	10,904,335	10,637,401	13,204,433
	74,986,976	86,458,225	76,018,354	88,299,264
Net receivable for pending trades	2,807,326	2,807,326	61,706	61,706
	\$ 77,794,302	\$ 89,265,551	\$ 76,080,060	\$ 88,360,970

NOTE 3
(continued)

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

2018

Description	Level 1	Investments Valued at	
		NAV	Total
Common stock	\$ 14,717,769	\$ —	\$ 14,717,769
Large capital equity funds	5,206,696	—	5,206,696
International equity funds	—	16,063,783	16,063,783
International bond funds	—	3,922,333	3,922,333
Fixed income funds	12,987,582	—	12,987,582
Emerging markets funds	2,227,272	3,693,820	5,921,092
Hedge funds	—	16,437,848	16,437,848
Special situation funds	—	10,904,335	10,904,335
Short-term cash investments and pending trades			3,104,113
	\$ 35,139,319	\$ 51,022,119	\$ 89,265,551

2017

Description	Level 1	Investments Valued at	
		NAV	Total
Common stock	\$ 15,357,165	\$ —	\$ 15,357,165
Large capital equity funds	6,897,159	—	6,897,159
International equity funds	—	16,647,151	16,647,151
International bond funds	—	3,888,833	3,888,833
Fixed income funds	8,078,569	—	8,078,569
Emerging market funds	3,126,361	3,480,564	6,606,925
Hedge funds	—	15,575,241	15,575,241
Special situation funds	—	13,204,433	13,204,433
Short-term cash investments and pending trades			2,105,494
	\$ 33,459,254	\$ 52,796,222	\$ 88,360,970

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2018 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 16,063,783	\$ —	Monthly	10 days
International bond fund (b)	3,922,333	—	Monthly	5 days
Emerging markets fund (c)	3,693,820	—	Monthly	30 days
Hedge funds (d)	8,850,023	—	Monthly– Quarterly	45–90 days
Hedge funds (d)	5,261,979	1,650,000	Annually– Semi-annually	90–180 days
Hedge funds (d)	2,325,846	—	Not Eligible	1 year lockup
Special situation funds (e)	3,218,187	—	Quarterly	180 days
Special situation funds (e)	7,686,148	—	Not Eligible	1–2 year lockup
	\$ 51,022,119	\$ 1,650,000		

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

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

(c) *Emerging markets fund* consists of one fund focused on achieving long-term capital appreciation by investing in companies that are located in emerging market economies.

(d) *Hedge funds* consists of eight investments which all seek to preserve and grow capital through different combinations of long and short investments in different foreign and domestic equity sectors. One of these funds is not eligible for redemption until 2019.

(e) *Special situation funds* consists of three funds which seek to invest in undervalued companies that may be overlooked or misunderstood, in order to generate favorable, high returns. One fund is not eligible for redemption until December 2019 and another fund is not eligible for redemption until March 2019 with a small portion not eligible until September 2020.

NOTE 4
Net Gain on
Investments

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

	2018	2017
Realized gains on sale of investments	\$ 6,089,384	\$ 3,143,999
Net change in unrealized appreciation	(809,661)	11,914,537
Deferred Federal excise tax	16,193	(238,290)
Net Gain on Investments	\$ 5,295,916	\$ 14,820,246

NOTE 5
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 2018 and 2017, the Foundation's rate was 2%.

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

Deferred Federal excise tax recovery of \$16,193 and expense of \$238,290 have been recorded for fiscal years ending June 30, 2018 and 2017, respectively.

NOTE 6
Property and
Equipment

Property and equipment consists of the following:

	2018	2017
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	828,453	758,415
	4,133,011	4,062,973
Less: Accumulated depreciation	3,143,401	3,032,701
Net Property and Equipment	\$ 989,610	\$ 1,030,272

Depreciation expense for 2018 and 2017 was \$110,700 and \$109,090, respectively.

NOTE 7
Grants Payable

A reconciliation of grants payable is as follows:

	<u>2018</u>	<u>2017</u>
Grants payable, July 1	\$ 3,544,561	\$ 4,937,113
Grants approved	2,055,106	1,845,566
Grants paid	(3,698,966)	(3,385,701)
Change in discount to present value	56,909	147,583
Grants payable, June 30	\$ 1,957,610	\$ 3,544,561

The Foundation received grant refunds of \$214,128 and \$103,784 in fiscal years 2018 and 2017, respectively.

The Foundation operates on a five year grant cycle, and the current cycle is FY2015–FY2019. The majority of grants paid annually are for multi-year grant commitments made during FY2014, to be paid through the year ended June 30, 2019.

The total grants payable of \$1,957,610 at June 30, 2018 is expected to be paid during the fiscal year ended June 30, 2019.

NOTE 8
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. Under this plan, the Foundation contributes 10% of each employee's salary annually. The expenses for the retirement plan for the years ended June 30, 2018 and 2017 totaled \$62,395 and \$50,677 respectively.

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 9
Concentration of Risk

During the years ended June 30, 2018 and 2017, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.