



**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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, during the year ended June 30, 2019 the Foundation adopted ASU 2016-14 which resulted in a change in the manner in which it presents its net assets and reports certain financial information within its financial statements. Our opinion is not modified with respect to this matter.

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 28, 2019

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2019 and 2018

	2019	2018
Assets		
Investments, at fair value	\$ 85,528,637	\$ 89,265,551
Operating cash	499,519	440,960
Accrued interest and dividends receivable	24,478	37,210
Prepaid expenses and other assets	43,377	41,902
Property and equipment, net of accumulated depreciation	896,156	989,610
Total Assets	\$ 86,992,167	\$ 90,775,233
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 6,917,199	\$ 1,957,610
Accounts payable and accrued expenses	73,639	83,198
Deferred Federal excise tax payable	189,086	229,425
Total Liabilities	7,179,924	2,270,233
Net Assets without Donor Restriction	79,812,243	88,505,000
Total Liabilities and Net Assets	\$ 86,992,167	\$ 90,775,233

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue		
Net investment return	\$ 679,428	\$ 5,958,472
Less:		
Federal excise tax	49,913	129,806
Deferred federal excise tax recovery	(40,339)	(16,193)
	9,574	113,613
Investment Return Net of Taxes	669,854	5,844,859
Grants and Expenses		
Grants authorized	7,960,005	1,897,887
Program administration	493,267	435,239
	8,453,272	2,333,126
Investment administration	196,168	284,292
Management and general	713,171	690,414
Total Grants and Expenses	9,362,611	3,307,832
CHANGE IN NET ASSETS FOR YEAR	(8,692,757)	2,537,027
Net Assets, beginning of year	88,505,000	85,967,973
NET ASSETS, END OF YEAR	\$ 79,812,243	\$88,505,000

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, 2019 and 2018

	2019	2018
Cash Flows Provided (Used)		
From operating activities:		
Change in Net Assets for Year	\$ (8,692,757)	\$ 2,537,027
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	118,154	110,700
<i>Net realized gain on investments</i>	(1,971,010)	(6,089,384)
<i>Change in unrealized appreciation of investments</i>	2,016,940	809,661
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	12,732	(10,988)
<i>Prepaid expenses and other assets</i>	(1,475)	7,000
Increase (decrease) in liabilities:		
<i>Grants payable</i>	4,959,589	(1,586,951)
<i>Accounts payable and accrued expenses</i>	(9,559)	(6,202)
<i>Deferred Federal excise tax payable</i>	(40,339)	(16,193)
Cash Used in Operating Activities	(3,607,725)	(4,245,330)
From investing activities:		
Capital expenditures	(24,700)	(70,038)
Proceeds from sale of investments	20,574,045	24,162,375
Purchases of investments	(16,883,061)	(19,787,233)
Cash Provided by Investing Activities	3,666,284	4,305,104
Net increase in cash for year	58,559	59,774
Cash, Beginning of Year	440,960	381,186
Cash, End of Year	\$ 499,519	\$ 440,960
Supplemental Information:		
Taxes paid	\$ 41,000	\$ 124,000

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT D

Samuel H. Kress Foundation
Years Ended June 30, 2019 and 2018

	2019				2018
	Grants and Program Administration	Investment Administration	Management and General	Total	Total
Grants	\$ 7,960,005			\$ 7,960,005	\$ 1,897,887
Salaries	286,832	\$ 87,656	\$ 303,651	678,139	658,386
Payroll taxes and benefits	111,079	34,382	123,013	268,474	260,466
Professional and consulting fees	5,246	1,624	34,241	41,111	40,646
Trustee honoraria	—	4,620	9,380	14,000	17,000
Occupancy and maintenance	43,384	13,428	46,482	103,294	95,823
Travel and meetings	8,944	12,524	29,389	50,857	94,644
Printing and publications	—	—	5,630	5,630	6,104
Office expenses	37,782	12,395	70,820	120,997	126,176
Transit benefit tax expense	—	—	1,950	1,950	—
Depreciation	—	29,539	88,615	118,154	110,700
Subtotal	493,267	196,168	713,171	1,402,606	1,409,945
	\$ 8,453,272	\$ 196,168	\$ 713,171	\$ 9,362,611	\$3,307,832
Totals, June 30, 2018	\$ 2,333,126	\$ 284,292	\$ 690,414		

The accompanying notes are an integral part of these financial statements.

Samuel H. Kress Foundation
June 30, 2019

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
New Accounting
Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which became effective for organizations with fiscal years beginning after December 15, 2017. The Foundation has adjusted the presentation of its financial statements for June 30, 2019 accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Foundation's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restriction.
- The financial statements include a new disclosure regarding the liquidity and availability of financial assets (Note 6).
- Investment income is presented on the statement of activities as one line, net of direct investment expenses. The underlying details are presented within the footnotes (Note 5).
- The Statement of Functional Expenses is a new statement included in the financial statements which presents expenses by natural category and allocated functionally. The methodology used in allocating expenses between grants and program administration, investment administration and management and general is disclosed as part of the accounting policies.

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3
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 statement 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 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

NOTE 3
(continued)

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.

Expense Allocation Methodology

The financial statements report certain categories of expenses, such as occupancy and maintenance, travel and meetings, and office expense that are attributable to one or more program or supporting function of the Foundation. These expenses are allocated based on estimated time and use. In addition, salary and related benefit costs are allocated based on time and effort of staff.

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.

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, 2016.

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, 2019 through October 28, 2019, which was the date the financial statements were available to be issued.

NOTE 4 Investments

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

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 1,485,440	\$ 1,485,440	\$ 296,787	\$ 296,787
Common stock	8,304,181	8,902,398	12,110,701	14,717,769
Large capital equity funds	7,273,168	8,552,849	3,919,935	5,206,696
Global strategy equity fund	2,000,000	2,053,176	—	—
International equity funds	13,849,078	15,372,033	13,836,656	16,063,783
International bond funds	4,194,468	4,128,123	4,265,499	3,922,333
Fixed income funds	7,400,147	7,520,305	13,357,866	12,987,582
Emerging market funds	2,812,774	3,573,183	4,463,504	5,921,092
Hedge funds	20,192,293	23,097,309	14,197,633	16,437,848
Special situation funds	8,592,636	10,873,678	8,538,395	10,904,335
	76,104,185	85,558,494	74,986,976	86,458,225
Net receivable for pending trades	(29,857)	(29,857)	2,807,326	2,807,326
	\$ 76,074,328	\$ 85,528,637	\$ 77,794,302	\$ 89,265,551

NOTE 4
(continued)

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

			2019
Description	Level I	Investments	
		Valued at	
		NAV	Total
Common stock			
Financial	\$ 1,885,294	\$ —	\$ 1,885,294
Information technology	2,311,664	—	2,311,664
Healthcare	1,096,686	—	1,096,686
Industrials	1,589,206	—	1,589,206
Other	2,019,548	—	2,019,548
Large capital equity funds	5,360,977	3,191,872	8,552,849
Global strategy equity fund	—	2,053,176	2,053,176
International equity funds	—	15,372,033	15,372,033
International bond fund	—	4,128,123	4,128,123
Fixed income funds	7,520,305	—	7,520,305
Emerging markets fund	—	3,573,183	3,573,183
Hedge funds	—	23,097,309	23,097,309
Special situation funds	—	10,873,678	10,873,678
Short-term cash investments and pending trades			1,455,583
	\$ 21,783,680	\$ 62,289,374	\$ 85,528,637
			2018
Description	Level I	Investments	
		Valued at	
		NAV	Total
Common stock			
Financial	\$ 3,279,102	\$ —	\$ 3,279,102
Information technology	4,802,934	—	4,802,934
Healthcare	1,936,463	—	1,936,463
Consumer discretionary	890,950	—	890,950
Other	3,808,320	—	3,808,320
Large capital equity funds	5,206,696	—	5,206,696
International equity funds	—	16,063,783	16,063,783
International bond fund	—	3,922,333	3,922,333
Fixed income funds	12,987,582	—	12,987,582
Emerging market 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

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2019 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice
Large capital equity fund (a)	\$ 3,191,872	\$ —	Quarterly up to 25%	45 days
Global equity strategy fund (b)	2,053,176	—	Not Eligible	2 year lockup
International equity funds (c)	15,372,033	—	Monthly	10 days
International bond fund (d)	4,128,123	—	Semi-monthly	5 days
Emerging markets fund (e)	3,573,183	—	Monthly	30 days
Hedge funds (f)	12,324,203	—	Monthly–Quarterly	60–90 days
Hedge funds (f)	7,465,112	750,000	Annually–Semi-annually over 2.5-5 years	65–180 days
Hedge funds (f)	3,307,994	—	Not Eligible	3 year lockup
Special situation funds (g)	2,967,375	—	Quarterly	180 days
Special situation funds (g)	3,701,083	—	Semi-annually	180 days
Special situation funds (g)	4,205,220	—	Not Eligible	1–3 year lockup
	\$ 62,289,374	\$ 750,000		

(a) *Large capital equity fund* consists of one investment fund that seeks to achieve favorable returns through investing in U.S. long-only equities.

(b) *Global equity strategy fund* consists of one investment fund that focuses on venture capital and emerging markets in Asia.

(c) *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.

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

(e) *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.

NOTE 4
(continued)

(d) *Hedge funds* consists of ten 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 fund has a three year lock up, while two others have restrictions on redemptions spanning 2.5 to 5 years.

(e) *Special situation funds* consist 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 March 2022 with a small portion not eligible until September 2020.

NOTE 5
Investment Return

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

	2019	2018
Interest	\$ 8,937	\$ 5,037
Dividends	1,265,611	1,269,848
Realized gains on sale of investments	1,971,010	6,089,384
Net change in unrealized appreciation	(2,016,940)	(809,661)
Direct investment expenses	(549,190)	(596,136)
	\$ 679,428	\$ 5,958,472

NOTE 6
Liquidity and
Availability of
Financial Assets

The following reflects the Samuel H. Kress Foundation's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of that date due to contractual or donor-imposed restrictions:

Investments, at fair value	\$ 85,528,637
Operating cash	499,519
Accrued interest and dividends receivable	24,478
	<u>86,052,634</u>
Less: Illiquid investments	17,031,502
	<u>\$ 69,021,132</u>

Annually the Foundation determines its budget for grants, programs and supporting services in accordance with its spending guidelines. The investment committee, with the assistance of its investment advisor, determines which investments to redeem to meet cash needs.

NOTE 7
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 2019 and 2018, 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.

A deferred federal excise tax recovery of \$40,339 and \$16,193 has been recorded for fiscal years ending June 30, 2019 and 2018, respectively, due to a decline in unrealized appreciation.

In accordance with the Tax Cuts and Jobs Act, the Foundation incurred \$1,950 of unrelated business income tax on transit benefits provided to its employees for the period of January 1, 2018 through 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 expense for the retirement plan for the years ended June 30, 2019 and 2018 totaled \$64,034 and \$62,395, 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
Grants Payable

A reconciliation of grants payable is as follows:

	2019	2018
Grants payable, July 1	\$ 1,957,610	\$ 3,544,561
Grants approved	8,574,148	2,055,106
Grants paid	(3,042,258)	(3,698,966)
Change in discount to present value	(572,301)	56,909
Grants payable, June 30	\$ 6,917,199	\$ 1,957,610

NOTE 9
(continued)

The Foundation received grant refunds of \$41,842 and \$214,128 in fiscal years 2019 and 2018, respectively.

The Foundation operates on a five-year grant cycle, and the current cycle is FY2015–FY2019. The majority of grants paid during FY2019 were for multi-year grant commitments made during FY2014.

In June 2019, the Board approved the FY2020–FY2024 grant cycle, committing \$7,489,500 of grants to be paid over the next five years. Grants payable in future years are discounted at a risk-free rate of 5% and are expected to be paid as follows:

2020	\$ 2,135,800
2021	1,706,800
2022	1,256,300
2023	1,206,300
2024	<u>1,184,300</u>
	7,489,500
Discount	<u>572,301</u>
	<u>\$ 6,917,199</u>

NOTE 10
Property and Equipment

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	853,153	828,453
	<u>4,157,711</u>	<u>4,133,011</u>
Less: Accumulated depreciation	3,261,555	3,143,401
Net Property and Equipment	<u>\$ 896,156</u>	<u>\$ 989,610</u>

Depreciation expense for 2019 and 2018 was \$118,154 and \$110,700, respectively.

NOTE 11
Concentration of Risk

During the years ended June 30, 2019 and 2018, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.