



**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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in black ink, reading "Owen J. Flanagan + Co." in a cursive script.

October 21, 2020

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Investments, at fair value	\$ 77,830,027	\$ 85,528,637
Operating cash	647,020	499,519
Accrued interest and dividends receivable	12,777	24,478
Grant refund receivable	60,557	—
Prepaid expenses and other assets	71,317	43,377
Property and equipment, net of accumulated depreciation	1,100,802	896,156
<b>Total Assets</b>	<b>\$ 79,722,500</b>	<b>\$ 86,992,167</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 5,790,944	\$ 6,917,199
Accounts payable and accrued expenses	65,140	73,639
Deferred Federal excise tax payable	80,712	189,086
<b>Total Liabilities</b>	<b>5,936,796</b>	<b>7,179,924</b>
Net Assets without Donor Restriction	73,785,704	79,812,243
<b>Total Liabilities and Net Assets</b>	<b>\$ 79,722,500</b>	<b>\$ 86,992,167</b>

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

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2020 and 2019

	2020	2019
<b>Revenue</b>		
Net investment return	\$ (2,628,610)	\$ 679,428
Less:		
Federal excise tax	8,205	49,913
Deferred federal excise tax recovery	(108,374)	(40,339)
	(100,169)	9,574
<b>Investment Return Net of Taxes</b>	<b>(2,528,441)</b>	<b>669,854</b>
<b>Grants and Expenses</b>		
Grants authorized	2,102,095	7,960,005
Program administration	492,302	493,267
	2,594,397	8,453,272
Investment administration	198,832	196,168
Management and general	704,869	713,171
<b>Total Grants and Expenses</b>	<b>3,498,098</b>	<b>9,362,611</b>
<b>CHANGE IN NET ASSETS FOR YEAR</b>	<b>(6,026,539)</b>	<b>(8,692,757)</b>
Net Assets, beginning of year	79,812,243	88,505,000
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 73,785,704</b>	<b>\$ 79,812,243</b>

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, 2020 and 2019

	2020	2019
<b>Cash Flows Provided (Used)</b>		
From operating activities:		
Change in Net Assets for Year	\$ (6,026,539)	\$ (8,692,757)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	127,145	118,154
<i>Net realized gain on investments</i>	(556,276)	(1,971,010)
<i>Change in unrealized appreciation of investments</i>	3,647,721	2,016,940
(Increase) decrease in assets:		
<i>Grant refund receivable</i>	(60,557)	—
<i>Accrued interest and dividends receivable</i>	11,701	12,732
<i>Prepaid expenses and other assets</i>	(27,940)	(1,475)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,126,255)	4,959,589
<i>Accounts payable and accrued expenses</i>	(8,499)	(9,559)
<i>Deferred Federal excise tax payable</i>	(108,374)	(40,339)
Cash Used in Operating Activities	(4,127,873)	(3,607,725)
From investing activities:		
Capital expenditures	(331,791)	(24,700)
Proceeds from sale of investments	17,038,487	20,574,045
Purchases of investments	(12,431,322)	(16,883,061)
Cash Provided by Investing Activities	4,275,374	3,666,284
Net increase in cash for year	147,501	58,559
Cash, Beginning of Year	499,519	440,960
<b>Cash, End of Year</b>	<b>\$ 647,020</b>	<b>\$ 499,519</b>
Supplemental Information:		
<b>Taxes paid</b>	<b>\$ 32,423</b>	<b>\$ 41,000</b>

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, 2020 and 2019

	2020			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 2,102,095			\$ 2,102,095
Salaries	294,296	\$ 90,586	\$ 302,997	687,879
Payroll taxes and benefits	112,094	33,889	116,361	262,344
Professional and consulting fees	4,986	1,507	42,422	48,915
Trustee honoraria	—	4,620	9,380	14,000
Occupancy and maintenance	38,212	11,552	39,100	88,864
Travel and meetings	4,496	12,513	27,245	44,254
Printing and publications	—	—	3,773	3,773
Office expenses	38,218	12,379	70,182	120,779
Transit benefit tax expense	—	—	(1,950)	(1,950)
Depreciation	—	31,786	95,359	127,145
Subtotal	492,302	198,832	704,869	1,396,003
	<b>\$ 2,594,397</b>	<b>\$ 198,832</b>	<b>\$ 704,869</b>	<b>\$ 3,498,098</b>

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

# STATEMENTS OF FUNCTIONAL EXPENSES

## EXHIBIT D continued

Samuel H. Kress Foundation  
Years Ended June 30, 2020 and 2019

	2019			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 7,960,005			\$ 7,960,005
Salaries	286,832	\$ 87,656	\$ 303,651	678,139
Payroll taxes and benefits	111,079	34,382	123,013	268,474
Professional and consulting fees	5,246	1,624	34,241	41,111
Trustee honoraria	—	4,620	9,380	14,000
Occupancy and maintenance	43,384	13,428	46,482	103,294
Travel and meetings	8,944	12,524	29,389	50,857
Printing and publications	—	—	5,630	5,630
Office expenses	37,782	12,395	70,820	120,997
Transit benefit tax expense	—	—	1,950	1,950
Depreciation	—	29,539	88,615	118,154
Subtotal	493,267	196,168	713,171	1,402,606
	<b>\$ 8,453,272</b>	<b>\$ 196,168</b>	<b>\$ 713,171</b>	<b>\$ 9,362,611</b>

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



Samuel H. Kress Foundation  
June 30, 2020

**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**

*Basis of Presentation*

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 U.S. 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 I inputs have the highest reliability and are related to assets with unadjusted quoted prices

## NOTE 2 (continued)

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 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, 2017.

#### *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, 2020 through October 21, 2020, 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:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 5,350,289	\$ 5,350,289	\$ 1,485,440	\$ 1,485,440
Common stock	5,676,802	5,398,589	8,304,181	8,902,398
Large capital equity funds	8,570,967	9,167,462	7,273,168	8,552,849
Global strategy equity fund	2,000,000	2,162,961	2,000,000	2,053,176
International equity funds	9,487,766	9,938,144	13,849,078	15,372,033
International bond funds	4,231,093	4,271,141	4,194,468	4,128,123
Fixed income funds	5,179,682	5,555,569	7,400,147	7,520,305
Emerging market funds	2,934,611	3,118,197	2,812,774	3,573,183
Hedge funds	19,230,120	21,781,676	20,192,293	23,097,309
Special situation funds	8,439,093	10,162,983	8,592,636	10,873,678
	71,100,423	76,907,011	76,104,185	85,558,494
Net receivable for pending trades	923,016	923,016	(29,857)	(29,857)
	<b>\$ 72,023,439</b>	<b>\$ 77,830,027</b>	<b>\$ 76,074,328</b>	<b>\$85,528,637</b>

**NOTE 3**  
**(continued)**

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

**2020**

Description	Level 1	Investments Valued at	
		NAV	Total
Common stock			
Financial	\$ 1,288,140	\$ —	\$ 1,288,140
Information technology	1,539,462	—	1,539,462
Consumer discretionary	786,710	—	786,710
Industrials	761,295	—	761,295
Other	1,022,982	—	1,022,982
Large capital equity funds	2,422,233	6,745,229	9,167,462
Global strategy equity fund	—	2,162,961	2,162,961
International equity funds	—	9,938,144	9,938,144
International bond fund	—	4,271,141	4,271,141
Fixed income funds	5,555,569	—	5,555,569
Emerging markets fund	—	3,118,197	3,118,197
Hedge funds	—	21,781,676	21,781,676
Special situation funds	—	10,162,983	10,162,983
Short-term cash investments and pending trades			6,273,305
	<b>\$ 13,376,391</b>	<b>\$ 58,180,331</b>	<b>\$ 77,830,027</b>

**2019**

Description	Level 1	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 funds	—	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 market funds	—	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
	<b>\$ 21,783,680</b>	<b>\$ 62,289,374</b>	<b>\$ 85,528,637</b>

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2020 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Period
Large capital equity funds (a)	\$ 6,745,229	\$ —	Quarterly up to 25% / 33%	45–60 days
Global equity strategy fund (b)	2,162,961	—	Not Eligible	1 year lockup
International equity funds (c)	9,938,144	—	Monthly	10 days
International bond fund (d)	4,271,141	—	Semi-monthly	5 days
Emerging markets fund (e)	3,118,197	—	Monthly	30 days
Hedge funds (f)	9,130,466	—	Monthly–Quarterly	60–90 days
Hedge funds (f)	9,032,216	120,000	Annually–Semi-annually over 3 years	65–180 days
Hedge funds (f)	3,618,994	—	Annual	Rolling 3 years
Special situation funds (g)	2,523,170	—	Quarterly	180 days
Special situation funds (g)	3,973,459	—	Semi-annually	180 days
Special situation funds (g)	3,666,354	—	Annually up to 5%	90 days
	<b>\$ 58,180,331</b>	<b>\$ 120,000</b>		

(a) *Large capital equity funds* consist of two investment funds that seek 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* consist 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.

**NOTE 3**  
**(continued)**

(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.

(f) *Hedge funds* consist 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. Three funds have restrictions on redemptions spanning three years.

(g) *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, valued at \$3,666,354, has limitations on withdrawal of 5% per year and restrictions on redemptions spanning three years.

**NOTE 4**  
**Investment Return**

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

	2020	2019
Interest	\$ 12,680	\$ 8,937
Dividends	929,800	1,265,611
Realized gains on sale of investments	556,276	1,971,010
Net change in unrealized appreciation	(3,647,721)	(2,016,940)
Direct investment expenses	(479,645)	(549,190)
	<b>\$ (2,628,610)</b>	<b>\$ 679,428</b>

**NOTE 5**  
**Liquidity and**  
**Availability of**  
**Financial Assets**

The following reflects the Samuel H. Kress Foundation's financial assets as of June 30, 2020, 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	\$ 77,830,027
Operating cash	647,020
Grant refund receivable	60,557
Accrued interest and dividends receivable	12,777
	<u>78,550,381</u>
Less: Illiquid investments	18,480,525
	<u><b>\$ 60,069,856</b></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 6**  
**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 2020 and 2019, the Foundation's rate was 1% and 2%, respectively.

Deferred federal excise tax on unrealized appreciation of investments is provided at the 1.39% tax rate that will be in effect for the 2021 fiscal year. For the year ended June 30, 2019, the deferred excise tax was recorded at the 2% rate.

A deferred federal excise tax recovery of \$108,374 and \$40,339 has been recorded for fiscal years ending June 30, 2020 and 2019, respectively, due to a decline in unrealized appreciation. In 2020, the change in excise tax rate for 2021 also contributed to the recovery.

**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. 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, 2020 and 2019 totaled \$64,726 and \$64,034, 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 8**  
**Grants Payable**

A reconciliation of grants payable is as follows:

	2020	2019
Grants payable, July 1	\$ 6,917,199	\$ 1,957,610
Grants approved	2,045,243	8,574,148
Grants paid	(3,368,043)	(3,042,258)
Change in discount to present value	196,545	(572,301)
<b>Grants payable, June 30</b>	<b>\$ 5,790,944</b>	<b>\$ 6,917,199</b>

The Foundation received grant refunds of \$139,693 and \$41,842 in fiscal years 2020 and 2019, respectively.



**NOTE 8**  
**(continued)**

The Foundation operates on a five-year grant cycle, and the current cycle is FY2020–FY2024. The majority of grants paid during FY2020 were for multi-year grant commitments made during FY2019.

Grants payable in future years are discounted at a risk-free rate of 5% and are expected to be paid as follows:

2021	\$ 1,955,800
2022	1,585,300
2023	1,325,300
2024	<u>1,300,300</u>
	6,166,700
Discount	<u>375,756</u>
	<b><u>\$ 5,790,944</u></b>

**NOTE 9**  
**Property and**  
**Equipment**

Property and equipment consist of the following:

	<b>2020</b>	<b>2019</b>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	1,073,482	853,153
In progress	<u>111,464</u>	<u>—</u>
	4,489,504	4,157,711
Less: Accumulated depreciation	<u>3,388,702</u>	<u>3,261,555</u>
<b>Net Property and Equipment</b>	<b>\$ 1,100,802</b>	<b>\$ 896,156</b>

Depreciation expense for 2020 and 2019 was \$127,145 and \$118,154, respectively.

**NOTE 10**  
**Concentration of Risk**

During the years ended June 30, 2020 and 2019, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.

**NOTE 11**  
**Coronavirus**

The Foundation's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is affecting economic conditions throughout the world. As the outbreak continues and conditions evolve, the Foundation may experience a disruption in operations as well as a decline in the fair value of investments. The outbreak is likely to adversely affect the Foundation's activities, financial conditions, and change in net assets on an interim basis. An estimate amount of the total loss due to the outbreak cannot be determined at this time.