



**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, 2021 and 2020, 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, 2021 and 2020, 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 that reads "Owen J. Flanagan + Co." in a cursive script.

October 13, 2021

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Investments, at fair value	\$ 95,430,968	\$ 77,830,027
Operating cash	560,821	647,020
Accrued interest and dividends receivable	30,762	12,777
Grant refund receivable	—	60,557
Prepaid expenses and other assets	50,233	71,317
Property and equipment, net of accumulated depreciation	1,028,355	1,100,802
<b>Total Assets</b>	<b>\$ 97,101,139</b>	<b>\$ 79,722,500</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 4,584,579	\$ 5,790,944
Accounts payable and accrued expenses	75,395	65,140
Deferred Federal excise tax payable	320,133	80,712
<b>Total Liabilities</b>	<b>4,980,107</b>	<b>5,936,796</b>
Net Assets without Donor Restriction	92,121,032	73,785,704
<b>Total Liabilities and Net Assets</b>	<b>\$ 97,101,139</b>	<b>\$ 79,722,500</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, 2021 and 2020

	2021	2020
<b>Revenue</b>		
Net investment return	\$ 21,233,487	\$ (2,628,610)
Less:		
Federal excise tax	53,210	8,205
Deferred federal excise tax expense (recovery)	239,421	(108,374)
	292,631	(100,169)
<b>Investment Return Net of Taxes</b>	<b>20,940,856</b>	<b>(2,528,441)</b>
<b>Grants and Expenses</b>		
Grants authorized	1,290,364	2,102,095
Program administration	464,885	492,302
	1,755,249	2,594,397
Investment administration	180,807	198,832
Management and general	669,472	704,869
<b>Total Grants and Expenses</b>	<b>2,605,528</b>	<b>3,498,098</b>
<b>CHANGE IN NET ASSETS FOR YEAR</b>	<b>18,335,328</b>	<b>(6,026,539)</b>
Net Assets, beginning of year	73,785,704	79,812,243
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 92,121,032</b>	<b>\$ 73,785,704</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, 2021 and 2020

	2021	2020
<b>Cash Flows Provided (Used)</b>		
From operating activities:		
Change in Net Assets for Year	\$ 18,335,328	\$ (6,026,539)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	144,468	127,145
<i>Net realized gain on investments</i>	(3,751,291)	(556,276)
<i>Change in unrealized appreciation of investments</i>	(17,224,558)	3,647,721
(Increase) decrease in assets:		
<i>Grant refund receivable</i>	60,557	(60,557)
<i>Accrued interest and dividends receivable</i>	(17,985)	11,701
<i>Prepaid expenses and other assets</i>	21,084	(27,940)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,206,365)	(1,126,255)
<i>Accounts payable and accrued expenses</i>	10,255	(8,499)
<i>Deferred Federal excise tax payable</i>	239,421	(108,374)
<b>Cash Used in Operating Activities</b>	<b>(3,389,086)</b>	<b>(4,127,873)</b>
From investing activities:		
Capital expenditures	(72,021)	(331,791)
Proceeds from sale of investments	16,070,996	17,038,487
Purchases of investments	(12,696,088)	(12,431,322)
<b>Cash Provided by Investing Activities</b>	<b>3,302,887</b>	<b>4,275,374</b>
Net (decrease) increase in cash for year	(86,199)	147,501
Cash, Beginning of Year	647,020	499,519
<b>Cash, End of Year</b>	<b>\$ 560,821</b>	<b>\$ 647,020</b>
Supplemental Information:		
<b>Taxes paid</b>	<b>\$ 27,577</b>	<b>\$ 32,423</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, 2021 and 2020

	<b>2021</b>			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 1,290,364			\$ 1,290,364
Salaries	296,295	\$ 92,870	\$ 312,992	702,157
Payroll taxes and benefits	116,306	35,162	123,011	274,479
Professional and consulting fees	6,158	1,862	41,100	49,120
Occupancy and maintenance	23,560	7,123	24,108	54,791
Travel and meetings	924	279	945	2,148
Printing and publications	—	—	5,132	5,132
Office expenses	21,642	7,394	53,833	82,869
Depreciation	—	36,117	108,351	144,468
Subtotal	464,885	180,807	669,472	1,315,164
	<b>\$ 1,755,249</b>	<b>\$ 180,807</b>	<b>\$ 669,472</b>	<b>\$ 2,605,528</b>

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

## STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT D  
continuedSamuel H. Kress Foundation  
Years Ended June 30, 2021 and 2020

	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.

Samuel H. Kress Foundation  
June 30, 2021

**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. The Foundation’s primary source of revenue is from investments.

**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

**NOTE 2**  
**(continued)**

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 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. Effective July 1, 2020, the Foundation adopted ASU 2018-08 regarding conditional grants and exchange transactions. The adoption of this ASU did not materially change the grant reporting for the Foundation.

#### *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, 2018.

#### *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, 2021 through October 13, 2021, 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:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 2,270,524	\$ 2,270,524	\$ 5,350,289	\$ 5,350,289
Common stock	8,264,280	10,998,910	5,676,802	5,398,589
Large capital equity funds	8,611,900	13,509,990	8,570,967	9,167,462
Global strategy equity fund	3,500,000	4,712,053	2,000,000	2,162,961
International equity funds	5,887,771	6,537,114	9,487,766	9,938,144
International bond funds	4,461,676	4,437,849	4,231,093	4,271,141
Fixed income funds	8,310,559	8,528,228	5,179,682	5,555,569
Emerging market funds	3,350,031	4,520,020	2,934,611	3,118,197
Hedge funds	19,128,160	25,804,687	19,230,120	21,781,676
Special situation funds	8,614,921	14,111,593	8,439,093	10,162,983
	72,399,822	95,430,968	71,100,423	76,907,011
Net receivable for pending trades	—	—	923,016	923,016
	<b>\$72,399,822</b>	<b>\$95,430,968</b>	<b>\$72,023,439</b>	<b>\$77,830,027</b>

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

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

			<b>2021</b>
Description	Level I	Investments	Total
		Valued at NAV	
Common stock			
Financial	\$ 2,227,159	\$ —	\$ 2,227,159
Information technology	3,126,633	—	3,126,633
Consumer discretionary	1,820,533	—	1,820,533
Industrials	2,220,123	—	2,220,123
Other	1,604,462	—	1,604,462
Large capital equity funds	3,630,097	9,879,893	13,509,990
Global strategy equity fund	—	4,712,053	4,712,053
International equity funds	—	6,537,114	6,537,114
International bond fund	—	4,437,849	4,437,849
Fixed income funds	8,528,228	—	8,528,228
Emerging markets fund	—	4,520,020	4,520,020
Hedge funds	—	25,804,687	25,804,687
Special situation funds	—	14,111,593	14,111,593
Short-term cash investments and pending trades			2,270,524
	<b>\$ 23,157,235</b>	<b>\$ 70,003,209</b>	<b>\$ 95,430,968</b>
			<b>2020</b>
Description	Level I	Investments	Total
		Valued at NAV	
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 funds	—	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 market funds	—	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>

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

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2021 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Period
Large capital equity funds (a)	\$ 9,879,893	\$ —	Quarterly up to 25% / 33%	45–60 days
Global equity strategy fund (b)	2,976,591	—	Monthly	60 days
Global equity strategy fund (b)	1,735,462	—	Not Eligible	2 year lockup
International equity funds (c)	6,537,114	—	Monthly	10 days
International bond fund (d)	4,437,849	—	Semi-monthly	5 days
Emerging markets fund (e)	4,520,020	—	Monthly	30 days
Hedge funds (f)	11,655,848	—	Monthly– Quarterly	30–90 days
Hedge funds (f)	14,148,839	120,000	Semi-annually over 3 years	60–180 days
Special situation funds (g)	4,260,231	—	Quarterly	180 days
Special situation funds (g)	4,500,098	—	Semi-annually over 3 years	180 days
Special situation funds (g)	5,351,264	—	Annually up to 5%	90 days
	<b>\$ 70,003,209</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. It has two initial investment dates resulting in different liquidity levels.

(c) *International equity funds* consist of one investment which focuses 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 nine 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 and one fund is in the process of redemption.

(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 \$5,351,264, 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:

	<b>2021</b>	<b>2020</b>
Interest	\$ 599	\$ 12,680
Dividends	719,875	929,800
Realized gains on sale of investments	3,751,291	556,276
Net change in unrealized appreciation	17,224,558	(3,647,721)
Direct investment expenses	(462,836)	(479,645)
	<b>\$ 21,233,487</b>	<b>\$ (2,628,610)</b>

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

The following reflects the Samuel H. Kress Foundation's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use within one year of that date due to contractual or donor-imposed restrictions:

	<b>2021</b>	<b>2020</b>
Investments, at fair value	\$ 95,430,968	\$ 77,830,027
Operating cash	560,821	647,020
Grant refund receivable	—	60,557
Accrued interest and dividends receivable	30,762	12,777
	96,022,551	78,550,381
Less: Illiquid investments	15,972,218	18,480,525
	<b>\$ 80,050,333</b>	<b>\$ 60,069,856</b>

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 a flat rate of 1.39% for the year ending June 30, 2021. For 2020, the Foundation's rate was 1%.

Deferred federal excise tax on unrealized appreciation of investments is provided at the 1.39% tax rate.

A deferred federal excise expense for 2021 was \$239,421. For 2020, there was a recovery of \$108,374.

**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, 2021 and 2020 totaled \$65,573 and \$64,726, 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:

	<b>2021</b>	<b>2020</b>
Grants payable, July 1	\$ 5,790,944	\$ 6,917,199
Grants approved	1,149,550	2,045,243
Grants paid	(2,539,100)	(3,368,043)
Change in discount to present value	183,185	196,545
<b>Grants payable, June 30</b>	<b>\$ 4,584,579</b>	<b>\$ 5,790,944</b>

The Foundation received grant refunds of \$42,372 and \$139,693 in fiscal years 2021 and 2020, 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 FY2021 were the second placement 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:

2022	1,971,550
2023	1,505,300
2024	<u>1,300,300</u>
	4,777,150
Discount	<u>192,571</u>
	<b><u>\$ 4,584,579</u></b>

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

Property and equipment consist of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	1,256,966	1,073,482
In progress	—	111,464
	<u>4,561,524</u>	<u>4,489,504</u>
Less: Accumulated depreciation	3,533,169	3,388,702
<b>Net Property and Equipment</b>	<b><u>\$ 1,028,355</u></b>	<b><u>\$ 1,100,802</u></b>

Depreciation expense for 2021 and 2020 was \$144,468 and \$127,145, respectively.

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

During the years ended June 30, 2021 and 2020, 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 future impact of any changes cannot be determined at this time.