Financial Statements

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Samuel H. Kress Foundation

We have audited the accompanying statement of financial position of the Samuel H. Kress Foundation as of June 30, 2004 and June 30, 2003 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 at June 30, 2004 and June 30, 2003 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CONDON O'MEARA McGINTY & DONNELLY LLP

September 14, 2004

Statement of Financial Position

ASSETS

	June 30	
	2004	2003
Cash	$ 38,280	$ 66,809
Investments, at market value (note 1)		
Common stock (cost, 2004 – $34,300,027; 2003 – $32,578,031)	39,498,028	35,786,940
Mutual funds (cost, 2004 – $32,163,610; 2003 – $33,320,093)	32,457,447	28,816,056
Investment trusts (cost, 2004 – $18,071,679; 2003 – $14,747,639)	19,994,119	17,276,047
Total investments	91,949,594	81,879,043
Accrued interest and dividends receivable	37,413	64,634
Prepaid taxes and other assets	13,831	67,289
Due from investment managers for sale of investments – net	3,194,851	1,230,107
Property and equipment, net of accumulated depreciation (notes 1 and 2)	2,062,084	2,118,888
Total assets	$ 97,296,053	$ 85,426,770

LIABILITIES AND NET ASSETS

	2004	2003
Liabilities		
Grants authorized but not paid (note 4)	$ 7,645,100	$ 6,220,638
Other liabilities and accrued expenses	126,186	125,926
Total liabilities	7,771,286	6,346,564
Unrestricted net assets	89,524,767	79,080,206
Total liabilities and net assets	$ 97,296,053	$ 85,426,770

See notes to financial statements.

Statement of Activities

	Year Ended June 30	
	2004	2003
Revenue		
Interest	$ 68,835	$ 105,017
Dividends	1,361,547	1,643,546
Investment trusts	619,364	587,310
Total revenue	2,049,746	2,335,873
Less: Expenses directly related to investments		
Investment management and custodian fees	563,358	636,609
Federal excise taxes (note 6)	213,017	16,860
Foreign withholding taxes	29,024	69,814
Total investment expenses	805,399	723,283
Revenue available for grants and operating expenses	1,244,347	1,612,590
Grants and operating expenses		
Grants authorized (note 1)	5,187,541	5,240,098
Operating expenses	1,261,962	1,264,737
Total grants and operating expenses	6,449,503	6,504,835
(Deficiency) of revenue to cover expenses before net gain on investments	(5,205,156)	(4,892,245)
Net gain on investments (notes 1 and 3)	15,649,717	367,582
Increase (decrease) in unrestricted net assets	10,444,561	(4,524,663)
Unrestricted net assets, beginning of year	79,080,206	83,604,869
Unrestricted net assets, end of year	$ 89,524,767	$ 79,080,206

See notes to financial statements.

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	$ 10,444,561	$ (4,524,663)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash (used in) operating activities		
Depreciation expense	125,638	124,327
Net (gain) loss on sale of investments	(9,468,719)	6,940,395
Net change in unrealized (gain) on investments	(6,180,998)	(7,307,977)
(Increase) decrease in assets		
Accrued interest and dividends receivable	27,221	(2,822)
Prepaid taxes and other assets	53,458	9,208
Due from investment managers for sale of investments – net	(1,964,744)	816,180
Increase (decrease) in liabilities		
Grants authorized but not paid	1,424,462	1,165,621
Other liabilities and accrued expenses	260	(46,371)
Net cash (used in) operating activities	(5,538,861)	(2,826,102)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposition of investments	83,200,643	68,206,443
Purchase of investments	(77,621,477)	(65,411,244)
Additions to property and equipment	(68,834)	(5,832)
Net cash provided by investing activities	5,510,332	2,789,367
Net (decrease) in cash	(28,529)	(36,735)
Cash, beginning of year	66,809	103,544
Cash, end of year	$ 38,280	$ 66,809
Supplemental disclosure of cash flow information		
Cash paid for Federal excise tax	$ 164,100	$ -

See notes to financial statements.

Notes to Financial Statements

JUNE 30, 2004

Note 1 – Summary of significant accounting policies

OPERATIONS

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 maintaining and administering a fund and applying the principal and income thereof, to promote 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.

INVESTMENTS

Investments are carried at market value. Realized and unrealized gains or losses are determined by comparison of cost to proceeds and market values, respectively. Cost of investments sold is determined on a first-in, first-out basis.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Foundation's financial instruments consist of cash, investments and accrued interest and dividends receivable. The Foundation believes that the fair value of all financial instruments as of June 30, 2004 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying statement of financial position. Cash is valued at its face value. The carrying amount of accrued interest and dividends receivable reported in the statement of financial position approximates fair value because of the short maturities of these investments. The carrying value of investments is based on quoted market prices.

FINANCIAL INSTRUMENTS WITH OFF-STATEMENT OF FINANCIAL POSITION MARKET RISK

The Foundation's investments include futures contracts. The Foundation did not exchange any cash in order to enter into these contracts, which generally have maturities of less than one year. Changes in the market value of the futures contracts are recognized in the statement of activities, using the marked-to-market method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. In fiscal years 2004 and 2003, the depreciation expense amounted to $125,638 and $124,327, respectively, of which $92,198 in fiscal year 2004 and $91,556 in fiscal year 2003 was allocated directly to building operating expenses.

Note 1 – Summary of significant accounting policies (continued)

GRANTS

The Foundation records grants as expenses and liabilities at the time each grant is authorized by the Trustees. 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.

CONCENTRATION OF CREDIT RISK

The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio exposed to concentrations of credit risk. As a consequence of diversification, concentrations of credit risk, including financial instruments with off-statement of financial position market risk, are limited.

Note 2 – Property and equipment

Property and equipment consist of the following:

	June 30	
	2004	2003
Land	$ 500,000	$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures and equipment	566,157	500,483
Total	3,870,715	3,805,041
Less accumulated depreciation	1,808,631	1,686,153
Net property and equipment	$ 2,062,084	$ 2,118,888

Note 3 – Net gain on investments

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

	Year Ended June 30	
	2004	2003
Realized gain (loss)	$ 9,468,719	$ (6,940,395)
Unrealized gain (loss)		
Beginning of year	1,233,280	(6,074,697)
End of year	7,414,278	1,233,280
Net change in unrealized gain (loss)	6,180,998	7,307,977
Net gain	$ 15,649,717	$ 367,582

Note 4 – Grants authorized but not paid

As of June 30, 2004, the Trustees of the Foundation had approved for payment, in installments over a period of years, grants in an aggregate amount of $8,335,000. Although certain of these grants are subject to the satisfaction of prior conditions by the intended recipient before payment of the grant, the Foundation expects its recipients to satisfy the conditions. A summary of the grants to be paid by fiscal year is as follows:

Fiscal Year	Amount
2005	$ 3,815,000
2006	1,285,000
2007	1,095,000
2008	1,070,000
2009	1,070,000
Total grants authorized	8,335,000
Less amount to reduce the grants authorized to their present value (discount rate 5%)	689,900
Total	$ 7,645,100

Note 5 – Retirement plan and commitments

The Foundation maintains a deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code for all eligible employees. The Foundation matches the employee's contribution up to a maximum of 6% of an employee's compensation. The plan expense for the 2004 and 2003 fiscal years totaled $30,026 and $28,106, respectively.

The Foundation has entered into agreements with two key employees to provide certain retirement and other payments to them. The payments are contingent on the employees meeting certain conditions in the agreements, as defined. Additionally, the payments, if any, that may be required will be reduced by certain savings and other retirement payments, as defined in the agreements.

Note 6 – Taxes

In accordance with the provisions of the Tax Reform Act of 1969, as amended, the Foundation is subject to an excise tax on its net investment income. In addition, the Tax Reform Act requires the Foundation to make certain minimum distributions.