

KRESS

The Samuel H. Kress Foundation

Financial Statements 2005



Meleager, Atalanta and Cupid, ca. 1755, by John Cheere. A grant from the European Preservation Program to the World Monuments Fund supported conservation of the outstanding collection of English lead garden sculpture in situ at Queluz Palace in Portugal.

REPORT FOR FISCAL YEAR ENDED JUNE 30, 2005

SAMUEL H. KRESS FOUNDATION

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Independent Auditors' Report

The Board of Trustees
Samuel H. Kress Foundation

We have audited the statement of financial position of the Samuel H. Kress Foundation as of June 30, 2005, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Samuel H. Kress Foundation for the year ended June 30, 2004 were audited by other auditors, whose report dated September 14, 2004, expressed an unqualified opinion on those statements.

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 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 audit provides 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 as of June 30, 2005, its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Owen J. Flanagan & Co.

September 26, 2005

SAMUEL H. KRESS FOUNDATION
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Investments	\$ 98,785,727	\$95,144,445
Operating cash	36,152	38,280
Accrued interest and dividends receivable	44,842	37,413
Prepaid taxes and other assets	31,877	13,831
Property and equipment, net of accumulated depreciation	<u>1,955,111</u>	<u>2,062,084</u>
<u>Total Assets</u>	<u>\$100,853,709</u>	<u>\$97,296,053</u>
 <u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Grants payable	\$ 6,105,311	\$ 7,645,100
Accounts payable and accrued expenses	129,676	126,186
Deferred Federal Excise Tax	<u>127,661</u>	<u>-</u>
<u>Total Liabilities</u>	<u>6,362,648</u>	<u>7,771,286</u>
<u>Unrestricted Net Assets</u>	<u>94,491,061</u>	<u>89,524,767</u>
<u>Total Liabilities and Net Assets</u>	<u>\$100,853,709</u>	<u>\$97,296,053</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION**STATEMENTS OF ACTIVITIES****YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<u>Revenue</u>		
Interest	\$ 136,688	\$ 68,835
Dividends	1,994,770	1,361,547
Investment trusts	<u>742,707</u>	<u>619,364</u>
	<u>2,874,165</u>	<u>2,049,746</u>
Less: Direct investment expenses		
Investment management and custodian fees	618,420	563,358
Federal excise taxes	167,977	213,017
Foreign withholding taxes	<u>18,790</u>	<u>29,024</u>
	<u>805,187</u>	<u>805,399</u>
<u>Net Revenue</u>	<u>2,068,978</u>	<u>1,244,347</u>
<u>Grants and Expenses</u>		
Grants authorized	2,895,822	5,187,541
Grants management and administrative	<u>1,348,043</u>	<u>1,261,962</u>
<u>Total Grants and Expenses</u>	<u>4,243,865</u>	<u>6,449,503</u>
Change in Net Assets before Gain on Investments	<u>(2,174,887)</u>	<u>(5,205,156)</u>
<u>Net Gain on Investments</u>	<u>7,141,181</u>	<u>15,649,717</u>
<u>CHANGE IN NET ASSETS FOR YEAR</u>	4,966,294	10,444,561
Net Assets, beginning of year	<u>89,524,767</u>	<u>79,080,206</u>
<u>NET ASSETS, END OF YEAR</u>	<u>\$94,491,061</u>	<u>\$89,524,767</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION**STATEMENTS OF CASH FLOWS****YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<u>Cash Flows Provided (Used)</u>		
From operating activities:		
Change in Net Assets for Year	\$ 4,966,294	\$ 10,444,561
Adjustments to reconcile change in net assets to		
Net cash used by operating activities:		
Depreciation	122,188	125,638
Net realized (gain) on investments	(8,300,062)	(9,468,719)
Change in unrealized appreciation	1,031,220	(6,180,998)
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(7,429)	27,221
Prepaid taxes and other assets	(18,046)	53,458
Increase (decrease) in liabilities:		
Grants payable	(1,539,789)	1,424,462
Accounts payable and accrued expenses	3,490	260
Deferred Federal Excise Tax	<u>127,661</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>(3,614,473)</u>	<u>(3,574,117)</u>
From investing activities:		
Proceeds from sale of investments	79,619,334	83,200,643
Purchases of investments	(75,991,774)	(79,586,221)
Additions to property and equipment	<u>(15,215)</u>	<u>(68,834)</u>
Net Cash Provided by Investing Activities	<u>3,612,345</u>	<u>3,545,588</u>
Net Increase (decrease) in cash for year	(2,128)	(28,529)
Cash, Beginning of Year	<u>38,280</u>	<u>66,809</u>
Cash, End of Year	<u>\$ 36,152</u>	<u>\$ 38,280</u>
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	<u>\$ 199,000</u>	<u>\$ 164,100</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

Investments

Investments are carried at fair value. Realized gains or losses are determined by comparison of cost to proceeds and are determined under the first-in, first-out method.

Fair Values of Financial Instruments

The Foundation’s financial instruments consist of cash and investments. The Foundation believes that the fair value of all financial instruments as of June 30, 2005 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 value of investments is based on quoted market prices for marketable securities and at the value reported by the partnership for partnerships.

Financial Instruments with Off-Statement of Financial Position Market Risk

At June 30, 2004, the Foundation’s investments included futures contracts with maturities of less than one year. Changes in the market value of the contracts were recognized in the statement of activities using the marked-to-market method.

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.

SAMUEL H. KRESS FOUNDATION**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2005****Note 2 - 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 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. The estimates are not material in the aggregate.

Note 3 - Investments

A summary of investments is as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term cash investments	\$ 2,898,760	\$ 2,898,760	\$ 3,577,630	\$ 3,577,630
Common stocks	34,116,920	37,178,227	32,442,410	37,640,410
Mutual funds	38,894,737	41,693,803	30,443,594	30,737,432
Investment partnerships	<u>16,230,298</u>	<u>16,752,983</u>	<u>18,071,679</u>	<u>19,994,119</u>
	92,140,715	98,523,773	84,535,313	91,949,591
Net receivable for pending trades	<u>261,954</u>	<u>261,954</u>	<u>3,194,854</u>	<u>3,194,854</u>
	<u>\$92,402,669</u>	<u>\$98,785,727</u>	<u>\$87,730,167</u>	<u>\$95,144,445</u>

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 4 - Net Gain on Investments

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

	<u>2005</u>	<u>2004</u>
Realized gains on sale of investments	\$8,300,062	\$ 9,468,719
Net change in unrealized appreciation	(1,031,220)	6,180,998
Deferred excise tax	<u>(127,661)</u>	<u>-</u>
<u>Net Gain on Investments</u>	<u>\$7,141,181</u>	<u>\$15,649,717</u>

Note 5 - Property and Equipment

Property and equipment consists of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures and equipment	<u>546,090</u>	<u>566,157</u>
	3,850,648	3,870,715
Less: Accumulated depreciation	<u>1,895,537</u>	<u>1,808,631</u>
<u>Net Property and Equipment</u>	<u>\$1,955,111</u>	<u>\$ 2,062,084</u>

Depreciation expense for 2005 and 2004 was \$122,188 and \$125,638, respectively.

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6 - Grants Payable

The Foundation estimates that its grants payable will be paid as follows:

Year ended June 30, 2006	\$2,905,000
2007	1,275,000
2008	1,110,000
2009	1,105,000
2010	<u>30,000</u>
	6,425,000
Less: Discount to present value	<u>319,689</u>
 <u>Total</u>	 <u>\$6,105,311</u>

The Foundation used a discount rate of 5% in 2005 and 2004.

Note 7 - 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 2005 and 2004 fiscal years totaled \$32,687 and \$30,026, respectively.

The Foundation has entered into agreements with two key employees to provide certain retirement and other payments to them as part of retention planning. The payments are contingent on the employees meeting certain conditions in the agreement 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 8 - 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 2005 and 2004 the Foundation's rate was 2%.

Deferred Federal excise taxes payable were also recorded on the unrealized appreciation of investments using a 2% excise tax rate beginning in 2005.

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 - Reclassifications

Certain prior year numbers have been reclassified to conform with the present year presentation.