

KRESS

The Samuel H. Kress Foundation

Financial Statements 2006



Detail of the Arch of Titus, 81 A.D., in the Roman Forum, from the Photographic Archive of the American Academy in Rome, which received a grant for conservation of photographs of Classical and Medieval art and architecture of Italy.

REPORT FOR FISCAL YEAR ENDED JUNE 30, 2006

SAMUEL H. KRESS FOUNDATION

174 East 80th Street

New York, New York 10021

tel 212-861-4993

fax 212-628-3146

www.kressfoundation.org

OWEN J. FLANAGAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
60 EAST 42ND STREET, SUITE 1536
NEW YORK, NEW YORK 10165

OWEN J. FLANAGAN, CPA
(1925-1996)

KEVIN C. SUNKEL, CPA
JOHN L. CORCORAN, CPA
DONALD F. SCHERER

(212) 682-2783
FACSIMILE (212) 697-5843
E-MAIL: ojfcpa@aol.com

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

Independent Auditors' Report

The Board of Trustees
Samuel H. Kress Foundation

We have audited the statements of financial position of the Samuel H. Kress Foundation as of June 30, 2006 and 2005, 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 as of June 30, 2006 and 2005 and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Owen J. Flanagan & Co.

September 22, 2006

SAMUEL H. KRESS FOUNDATION**STATEMENTS OF FINANCIAL POSITION****JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Investments	\$108,306,130	\$ 98,785,727
Operating cash	97,843	36,152
Accrued interest and dividends receivable	36,459	44,842
Prepaid taxes and other assets	8,584	31,877
Property and equipment, net of accumulated depreciation	<u>1,855,530</u>	<u>1,955,111</u>
<u>Total Assets</u>	<u>\$110,304,546</u>	<u>\$100,853,709</u>
<u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Grants payable	\$ 5,408,075	\$ 6,105,311
Accounts payable and accrued expenses	131,558	129,676
Deferred Federal Excise Tax	<u>203,428</u>	<u>127,661</u>
<u>Total Liabilities</u>	<u>5,743,061</u>	<u>6,362,648</u>
<u>Unrestricted Net Assets</u>	<u>104,561,485</u>	<u>94,491,061</u>
<u>Total Liabilities and Net Assets</u>	<u>\$110,304,546</u>	<u>\$100,853,709</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION**STATEMENTS OF ACTIVITIES****YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<u>Revenue</u>		
Interest	\$ 107,700	\$ 136,688
Dividends	1,385,508	1,994,770
Investment trusts	<u>850,141</u>	<u>742,707</u>
	<u>2,344,349</u>	<u>2,874,165</u>
Less: Direct investment expenses		
Investment management and custodian fees	709,049	618,420
Federal excise taxes	220,212	167,977
Foreign withholding taxes	<u>32,712</u>	<u>18,790</u>
	<u>961,973</u>	<u>805,187</u>
<u>Net Revenue</u>	<u>1,382,376</u>	<u>2,068,978</u>
<u>Grants and Expenses</u>		
Grants authorized	4,236,774	2,895,822
Grants management and administrative	<u>1,456,285</u>	<u>1,348,043</u>
<u>Total Grants and Expenses</u>	<u>5,693,059</u>	<u>4,243,865</u>
Change in Net Assets before Gain on Investments	<u>(4,310,683)</u>	<u>(2,174,887)</u>
<u>Net Gain on Investments</u>	<u>14,381,107</u>	<u>7,141,181</u>
<u>CHANGE IN NET ASSETS FOR YEAR</u>	10,070,424	4,966,294
Net Assets, beginning of year	<u>94,491,061</u>	<u>89,524,767</u>
<u>NET ASSETS, END OF YEAR</u>	<u>\$104,561,485</u>	<u>\$94,491,061</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION**STATEMENTS OF CASH FLOWS****YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<u>Cash Flows Provided (Used)</u>		
From operating activities:		
Change in Net Assets for Year	\$ 10,070,424	\$ 4,966,294
Adjustments to reconcile change in net assets to		
Net cash used by operating activities:		
Depreciation	113,566	122,188
Net realized (gain) on investments	(10,668,541)	(8,300,062)
Change in unrealized appreciation	(3,788,333)	1,031,220
(Increase) decrease in assets:		
Accrued interest and dividends receivable	8,383	(7,429)
Prepaid taxes and other assets	23,293	(18,046)
Increase (decrease) in liabilities:		
Grants payable	(697,236)	(1,539,789)
Accounts payable and accrued expenses	1,882	3,490
Deferred Federal Excise Tax	<u>75,767</u>	<u>127,661</u>
Net Cash Provided (Used) by Operating Activities	<u>(4,860,795)</u>	<u>(3,614,473)</u>
From investing activities:		
Proceeds from sale of investments	84,678,085	79,619,334
Purchases of investments	(79,741,614)	(75,991,774)
Additions to property and equipment	<u>(13,985)</u>	<u>(15,215)</u>
Net Cash Provided by Investing Activities	<u>4,922,486</u>	<u>3,612,345</u>
Net Increase (decrease) in cash for year	61,691	(2,128)
Cash, Beginning of Year	<u>36,152</u>	<u>38,280</u>
Cash, End of Year	<u>\$ 97,843</u>	<u>\$ 36,152</u>
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	<u>\$ 185,000</u>	<u>\$ 199,000</u>

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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, 2006 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.

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, 2006****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>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term cash investments	\$ 7,744,437	\$ 7,744,437	\$ 2,898,760	\$ 2,898,760
Common stocks	46,186,852	46,708,981	34,116,920	37,178,227
Mutual funds	28,438,031	36,517,355	38,894,737	41,693,803
Investment partnerships	<u>17,739,373</u>	<u>19,309,311</u>	<u>16,230,298</u>	<u>16,752,983</u>
	100,108,693	110,280,084	92,140,715	98,523,773
Net receivable for pending trades	<u>(1,973,954)</u>	<u>(1,973,954)</u>	<u>261,954</u>	<u>261,954</u>
	<u>\$ 98,134,739</u>	<u>\$108,306,130</u>	<u>\$92,402,669</u>	<u>\$98,785,727</u>

SAMUEL H. KRESS FOUNDATION**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****Note 4 - Net Gain on Investments**

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

	<u>2006</u>	<u>2005</u>
Realized gains on sale of investments	\$10,668,541	\$ 8,300,062
Net change in unrealized appreciation	3,788,333	(1,031,220)
Deferred excise tax	<u>(75,767)</u>	<u>(127,661)</u>
<u>Net Gain on Investments</u>	<u>\$14,381,107</u>	<u>\$ 7,141,181</u>

Note 5 - Property and Equipment

Property and equipment consists of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures and equipment	<u>519,053</u>	<u>546,090</u>
	3,823,611	3,850,648
Less: Accumulated depreciation	<u>1,968,081</u>	<u>1,895,537</u>
<u>Net Property and Equipment</u>	<u>\$ 1,855,530</u>	<u>\$ 1,955,111</u>

Depreciation expense for 2006 and 2005 was \$113,566 and \$122,188, respectively.

SAMUEL H. KRESS FOUNDATION**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****Note 6 - Grants Payable**

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

Year ended June 30, 2007	\$3,032,500
2008	1,310,000
2009	1,215,000
2010	<u>30,000</u>
	5,587,500
Less: Discount to present value	<u>179,425</u>
<u>Total</u>	<u>\$5,408,075</u>

The Foundation used a discount rate of 5% in 2006 and 2005.

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 2006 and 2005 fiscal years totaled \$29,792 and \$32,687, 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 2006 and 2005 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.