

KRESS

The Samuel H. Kress Foundation

Financial Statements 2007



*Well of Moses, Daniel and Isaiah, 1395–1406, Claus Sluter and workshop, Dijon, Chartreuse de Champmol, in situ. From *Agency, Visuality and Society at the Chartreuse de Champmol*, by Sherry C. M. Lindquist of Northwestern University, the recipient of a Kress 2007 publications grant. (Photo by the author.)*

REPORT FOR FISCAL YEAR ENDED JUNE 30, 2006

SAMUEL H. KRESS FOUNDATION

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MEMBERS
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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, 2007 and 2006, 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, 2007 and 2006 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,



November 6, 2007

SAMUEL H. KRESS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|----------------------|----------------------|
| <u>Assets</u> | | |
| Investments | \$125,472,161 | \$108,306,130 |
| Operating cash | 30,815 | 97,843 |
| Accrued interest and dividends receivable | 39,096 | 36,459 |
| Prepaid taxes and other assets | 37,880 | 8,584 |
| Property and equipment, net of accumulated depreciation | <u>1,761,955</u> | <u>1,855,530</u> |
| <u>Total Assets</u> | <u>\$127,341,907</u> | <u>\$110,304,546</u> |
| <u>Liabilities and Net Assets</u> | | |
| <u>Liabilities</u> | | |
| Grants payable | \$ 5,035,035 | \$ 5,408,075 |
| Accounts payable and accrued expenses | 275,413 | 131,558 |
| Deferred Federal Excise Tax | <u>446,702</u> | <u>203,428</u> |
| <u>Total Liabilities</u> | <u>5,757,150</u> | <u>5,743,061</u> |
| <u>Unrestricted Net Assets</u> | <u>121,584,757</u> | <u>104,561,485</u> |
| <u>Total Liabilities and Net Assets</u> | <u>\$127,341,907</u> | <u>\$110,304,546</u> |

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| <u>Revenue</u> | | |
| Interest | \$ 147,912 | \$ 108,700 |
| Dividends | 1,499,275 | 1,385,508 |
| Investment trusts | <u>729,199</u> | <u>850,141</u> |
| | <u>2,376,386</u> | <u>2,344,349</u> |
| Less: Direct investment expenses | | |
| Investment management and custodian fees | 904,719 | 709,049 |
| Federal excise taxes | 215,000 | 220,212 |
| Foreign withholding taxes | <u>35,088</u> | <u>32,712</u> |
| | <u>1,154,807</u> | <u>961,973</u> |
| <u>Net Revenue</u> | <u>1,221,579</u> | <u>1,382,376</u> |
| <u>Grants and Expenses</u> | | |
| Grants authorized | 4,510,195 | 4,236,774 |
| Grants management and administrative | <u>1,659,932</u> | <u>1,456,285</u> |
| <u>Total Grants and Expenses</u> | <u>6,170,127</u> | <u>5,693,059</u> |
| Change in Net Assets before Gain on Investments | <u>(4,948,548)</u> | <u>(4,310,683)</u> |
| <u>Net Gain on Investments</u> | <u>21,971,820</u> | <u>14,381,107</u> |
| <u>CHANGE IN NET ASSETS FOR YEAR</u> | 17,023,272 | 10,070,424 |
| Net Assets, beginning of year | <u>104,561,485</u> | <u>94,491,061</u> |
| <u>NET ASSETS, END OF YEAR</u> | <u>\$121,584,757</u> | <u>\$104,561,485</u> |

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|--------------------|--------------------|
| <u>Cash Flows Provided (Used)</u> | | |
| From operating activities: | | |
| Change in Net Assets for Year | \$ 17,023,272 | \$ 10,070,424 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 105,828 | 113,566 |
| Net realized (gain) on investments | (10,051,369) | (10,668,541) |
| Change in unrealized appreciation | (12,163,725) | (3,788,333) |
| (Increase) decrease in assets: | | |
| Accrued interest and dividends receivable | (2,637) | 8,383 |
| Prepaid taxes and other assets | (29,296) | 23,293 |
| Increase (decrease) in liabilities: | | |
| Grants payable | (373,040) | (697,236) |
| Accounts payable and accrued expenses | 143,855 | 1,882 |
| Deferred Federal Excise Tax | <u>243,274</u> | <u>75,767</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(5,103,838)</u> | <u>(4,860,795)</u> |
| From investing activities: | | |
| Proceeds from sale of investments | 58,752,886 | 84,678,085 |
| Purchases of investments | (53,703,823) | (79,741,614) |
| Additions to property and equipment | <u>(12,253)</u> | <u>(13,985)</u> |
| Net Cash Provided by Investing Activities | <u>5,036,810</u> | <u>4,922,486</u> |
| Net Increase (decrease) in cash for year | (67,028) | 61,691 |
| Cash, Beginning of Year | <u>97,843</u> | <u>36,152</u> |
| Cash, End of Year | <u>\$ 30,815</u> | <u>\$ 97,843</u> |
| Supplemental Disclosure: | | |
| Cash paid for Federal Excise Tax | <u>\$ 250,000</u> | <u>\$ 185,000</u> |

See Notes to Financial Statements

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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.

Operating Cash

For purposes of cash flows, cash consists of checking accounts.

Investments

Investments in marketable securities are valued at quoted market prices. Investments in alternative investment funds are ordinarily valued at the most recent estimate determined by the investment manager or agents based upon the valuation reported by the Fund Administrators in accordance with the policies established by the relevant funds. As a general matter, the fair value of the Foundation investment in these funds will represent the amount that the Foundation could reasonably expect to receive from the fund if the Foundation’s interest were redeemed at the time of valuation, based upon the information reasonably available at the time the valuation was made.

Valuations provided by these funds may be based upon estimated or unaudited reports, and may be subject to later adjustment or revision. Any such adjustments or revision will either increase or decrease the net asset value of the Foundation at the time the Foundation is provided with the information regarding the adjustment. The Foundation does not expect to restate its previous net asset values to reflect an adjustment or revision by these funds.

Realized gains and losses from the sale of securities are determined by comparison of cost to proceeds and are determined under the first-in, first-out method.

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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>2007</u> | | <u>2006</u> | |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Short-term cash investments | \$ 1,808,078 | \$ 1,808,078 | \$ 7,744,437 | \$ 7,744,437 |
| Common stocks | 48,647,917 | 56,913,962 | 46,186,852 | 46,708,981 |
| Mutual funds | 34,544,115 | 46,348,224 | 28,438,031 | 36,517,355 |
| Investment partnerships | <u>18,312,159</u> | <u>20,577,121</u> | <u>17,739,373</u> | <u>19,309,311</u> |
| | 103,312,269 | 125,647,385 | 100,108,693 | 110,280,084 |
| Net receivable for pending trades | <u>(175,224)</u> | <u>(175,224)</u> | <u>(1,973,954)</u> | <u>(1,973,954)</u> |
| | <u>\$103,137,045</u> | <u>\$125,472,161</u> | <u>\$ 98,134,739</u> | <u>\$108,306,130</u> |

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 4 - Net Gain on Investments

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

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|---------------------|---------------------|
| Realized gains on sale of investments | \$10,051,369 | \$10,668,541 |
| Net change in unrealized appreciation | 12,163,725 | 3,788,333 |
| Deferred excise tax | <u>(243,274)</u> | <u>(75,767)</u> |
| <u>Net Gain on Investments</u> | <u>\$21,971,820</u> | <u>\$14,381,107</u> |

Note 5 - Property and Equipment

Property and equipment consists of the following:

| | <u>2007</u> | <u>2006</u> |
|-----------------------------------|--------------------|---------------------|
| Land | \$ 500,000 | \$ 500,000 |
| Building | 2,804,558 | 2,804,558 |
| Furniture, fixtures and equipment | <u>518,571</u> | <u>519,053</u> |
| | 3,823,129 | 3,823,611 |
| Less: Accumulated depreciation | <u>2,061,174</u> | <u>1,968,081</u> |
| <u>Net Property and Equipment</u> | <u>\$1,761,955</u> | <u>\$ 1,855,530</u> |

Depreciation expense for 2007 and 2006 was \$105,828 and \$113,566, respectively.

SAMUEL H. KRESS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 6 - Grants Payable

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

| | |
|---------------------------------|--------------------|
| Year ended June 30, 2008 | \$3,284,125 |
| 2009 | 1,569,000 |
| 2010 | 281,500 |
| 2011 | <u>1,500</u> |
| | 5,136,125 |
| Less: Discount to present value | <u>101,090</u> |
| <u>Total</u> | <u>\$5,035,035</u> |

The Foundation used a discount rate of 5% in 2007 and 2006.

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 2007 and 2006 fiscal years totaled \$30,199 and \$29,792, respectively.

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 2007 and 2006 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.