



**FINANCIAL  
REVIEW**



## 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, 2009 and 2008, 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, 2009 and 2008 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,



October 6, 2009

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Investments	\$68,758,650	\$107,065,554
Operating cash	—	479,633
Accrued interest and dividends receivable	37,459	37,359
Prepaid taxes and other assets	14,089	13,564
Property and equipment, net of accumulated depreciation	1,657,193	1,665,859
<b>Total Assets</b>	<b>\$70,467,391</b>	<b>\$109,261,969</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 6,594,245	\$ 3,996,321
Accounts payable and accrued expenses	160,430	191,116
<b>Total Liabilities</b>	<b>\$ 6,754,675</b>	<b>\$ 4,187,437</b>
Unrestricted Net Assets	63,712,716	105,074,532
<b>Total Liabilities and Net Assets</b>	<b>\$70,467,391</b>	<b>\$109,261,969</b>

See accompanying Notes to Financial Statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2009 and 2008

	2009	2008
<b>Revenue</b>		
Interest	\$ 12,355	\$ 124,156
Dividends	1,624,015	2,109,303
Investment trusts	—	483,020
	1,636,370	2,716,479
Less: Direct investment expenses		
Investment management and custodian fees	553,214	812,489
Federal excise taxes	11,847	269,171
Foreign withholding taxes	5,419	24,909
	570,480	1,106,569
<b>Net Revenue</b>	<b>1,065,890</b>	<b>1,609,910</b>
<b>Grants and Expenses</b>		
Grants authorized	6,788,653	3,755,790
Foundation directed projects	45,650	—
Grants management and administrative	1,298,598	1,632,011
<b>Total Grants and Expenses</b>	<b>8,132,901</b>	<b>5,387,801</b>
Change in Net Assets before Loss on Investments	(7,067,011)	(3,777,891)
Net Loss on Investments	(34,294,805)	(12,732,334)
<b>CHANGE IN NET ASSETS</b>	<b>(41,361,816)</b>	<b>(16,510,225)</b>
Net Assets, beginning of year	105,074,532	121,584,757
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 63,712,716</b>	<b>\$ 105,074,532</b>

See accompanying Notes to Financial Statements.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets	\$ (41,361,816)	\$ (16,510,225)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	103,801	104,096
<i>Net realized (gain) loss on investments</i>	19,334,085	(12,544,623)
<i>Change in unrealized appreciation</i>	14,960,720	25,723,658
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(100)	1,737
<i>Prepaid taxes and other assets</i>	(525)	24,316
Increase (decrease) in liabilities:		
<i>Grants payable</i>	2,597,924	(1,038,714)
<i>Accounts payable and accrued expenses</i>	(30,686)	(84,297)
<i>Deferred Federal Excise Tax</i>	—	(446,702)
Net Cash Used by Operating Activities	(4,396,597)	(4,770,754)
From investing activities:		
Proceeds from sale of investments	53,368,768	97,450,391
Purchases of investments	(49,356,669)	(92,222,819)
Additions to property and equipment	(95,135)	(8,000)
Net Cash Provided by Investing Activities	3,916,964	5,219,572
Net increase (decrease) in cash	(479,633)	448,818
Cash, Beginning of Year	479,633	30,815
<b>Cash End of Year</b>	<b>\$ —</b>	<b>\$ 479,633</b>
Supplemental Disclosure:		
<b>Cash paid for Federal Excise Tax</b>	<b>\$ 15,000</b>	<b>\$ 245,000</b>

See accompanying Notes to Financial Statements.

Samuel H. Kress Foundation  
June 30, 2009

**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's investment in these funds will represent the amount that the Foundation could reasonably expect to receive from the fund if the Foundation's interests 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.

*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**

*Fair Value of Investments*

The Foundation adopted FASB Statement No. 157, *Fair Value Measurements*, (“SFAS 157”) as of July 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

### *Level 1 Inputs*

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. SFAS 157 requires entities to measure fair value using quoted market prices whenever available, unless the active market is not readily available to the entity (for example the entity holds a large block), in which case a Level 2 or Level 3 valuation methodology may be appropriate.

### *Level 2 Inputs*

Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly with fair value being determined through the use of models or other valuation methodologies. The types of investments which may be included in this category include less liquid and restricted equity securities and certain over-the-counter derivatives.

### *Level 3 Inputs*

Level 3 inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist. Level 3 inputs require significant management judgement and estimation. The types of investments which would generally be included in this category are equity and debt securities issued by private entities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A summary of investments is as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 1,978,295	\$ 1,978,295	\$ 2,985,405	\$ 2,985,405
Common stocks	42,064,141	36,134,416	50,749,219	45,852,216
Mutual funds	35,173,911	22,683,979	56,708,008	58,216,468
Government bond funds	8,050,756	8,121,148	—	—
	87,267,103	68,917,838	110,442,632	107,054,089
Net receivable for pending trades	(159,188)	(159,188)	11,465	11,465
	<b>\$87,107,915</b>	<b>\$68,758,650</b>	<b>\$110,454,097</b>	<b>\$107,065,554</b>

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

Description	<b>2009</b>			
	Level 1	Level 2	Level 3	Total
Short-term cash investments	\$ 1,978,295	\$—	\$ —	\$ 1,978,295
Common stocks and bonds	35,975,203	25	—	35,975,228
Mutual funds	18,836,744	—	3,847,235	22,683,979
Government bond funds	8,121,148	—	—	8,121,148
	<b>\$64,911,390</b>	<b>\$25</b>	<b>\$3,847,235</b>	<b>\$68,758,650</b>

Description	<b>2008</b>			
	Level 1	Level 2	Level 3	Total
Short-term cash investments	\$ 2,985,405	\$ —	\$ —	\$ 2,985,405
Common Stocks and Bonds	45,863,553	128	—	45,863,681
Mutual Funds	53,521,415	—	4,695,053	58,216,468
Government Bond Funds	—	—	—	—
	<b>\$102,370,373</b>	<b>\$128</b>	<b>\$4,695,053</b>	<b>\$107,065,554</b>

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using level 3 inputs:

#### **Alternative Investments**

Beginning Balance	\$ 4,695,053
Total Gains and Losses (Realized/Unrealized)	
Included in Earnings	(847,818)
Purchases, Issuances, Settlements	—
Ending Balance	<b>\$3,847,235</b>

**NOTE 4**  
**Net Gain (Loss) on**  
**Investments**

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

	<u>2009</u>	<u>2008</u>
Realized gains (losses) on sale of investments	\$ (19,334,085)	\$ 12,544,623
Net change in unrealized appreciation	(14,960,720)	(25,723,659)
Deferred excise tax	—	446,702
<b>Net Gain (Loss) on Investments</b>	<b><u>\$(34,294,805)</u></b>	<b><u>\$(12,732,334)</u></b>

**NOTE 5**  
**Property and**  
**Equipment**

Property and equipment consists of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	621,706	526,571
	<u>3,926,264</u>	<u>3,831,129</u>
Less: Accumulated depreciation	2,269,071	2,165,270
<b>Net Property and Equipment</b>	<b><u>\$ 1,657,193</u></b>	<b><u>\$ 1,665,859</u></b>

Depreciation expense for 2009 and 2008 was \$103,801 and \$104,096, respectively.

**NOTE 6**  
**Grants Payable**

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

Year ended June 30,	2010	\$3,352,329
	2011	1,277,200
	2012	820,000
	2013	760,000
	2014	760,000
		<u>6,969,529</u>
Less: Discount to present value		375,284
<b>Total</b>		<b><u>\$6,594,245</u></b>

The Foundation used a discount rate of 5% in 2009 and 2008.

**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. In 2009 and 2008, the Foundation matched double the employee's contributions up to a maximum employee contribution of 5% of the employee's salary per year. The plan expense for the years ended June 30, 2009 and 2008 amounted to \$35,015 and \$33,174, 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**  
**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 2009 and 2008 the Foundation's rates were 1% and 2%, respectively.

No Deferred Federal excise tax payable was provided for at June 30, 2009 and 2008 as cost exceeded the fair value of investments.

**NOTE 9**  
**Concentration of Risk**

During the years ended June 30, 2009 and 2008, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.