



**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, 2010 and 2009, 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, 2010 and 2009 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 19, 2010

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2010 and 2009

	2010	2009
<b>Assets</b>		
Investments	\$ 73,304,250	\$ 68,758,650
Operating cash	497,439	—
Accrued interest and dividends receivable	30,694	37,459
Prepaid taxes and other assets	67,808	14,089
Property and equipment, net of accumulated depreciation	1,560,313	1,657,193
<b>Total Assets</b>	<b>\$ 75,460,504</b>	<b>\$ 70,467,391</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 5,018,618	\$ 6,594,245
Accounts payable and accrued expenses	129,782	160,430
<b>Total Liabilities</b>	<b>\$ 5,148,400</b>	<b>\$ 6,754,675</b>
Unrestricted Net Assets	70,312,104	63,712,716
<b>Total Liabilities and Net Assets</b>	<b>\$ 75,460,504</b>	<b>\$ 70,467,391</b>

See accompanying Notes to Financial Statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2010 and 2009

	2010	2009
<b>Revenue</b>		
Interest	\$ 7,796	\$ 12,355
Dividends	1,589,203	1,624,015
	1,596,999	1,636,370
Less: Direct investment expenses		
Investment management and custodian fees	558,891	553,214
Federal excise taxes	33,695	11,847
Foreign withholding taxes	2,467	5,419
	595,053	570,480
<b>Net Revenue</b>	<b>1,001,946</b>	<b>1,065,890</b>
<b>Grants and Expenses</b>		
Grants authorized	2,576,166	6,788,653
Foundation directed projects	41,526	45,650
Grants management and administrative	1,214,173	1,298,598
<b>Total Grants and Expenses</b>	<b>3,831,865</b>	<b>8,132,901</b>
Change in Net Assets before Gain (Loss) on Investments	(2,829,919)	(7,067,011)
Net Gain (Loss) on Investments	9,429,307	(34,294,805)
<b>CHANGE IN NET ASSETS</b>	<b>6,599,388</b>	<b>(41,361,816)</b>
Net Assets, beginning of year	63,712,716	105,074,532
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 70,312,104</b>	<b>\$ 63,712,716</b>

See accompanying Notes to Financial Statements.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets	\$ 6,599,388	\$ (41,361,816)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	103,315	103,801
<i>Net realized (gain) loss on investments</i>	(2,575,262)	19,334,085
<i>Change in unrealized appreciation</i>	(6,854,045)	14,960,720
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	6,765	(100)
<i>Prepaid taxes and other assets</i>	(53,719)	(525)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,575,627)	2,597,924
<i>Accounts payable and accrued expenses</i>	(30,648)	(30,686)
Net Cash Used by Operating Activities	(4,379,833)	(4,396,597)
From Investing Activities:		
Proceeds from sale of investments	49,441,961	53,368,768
Purchases of investments	(44,558,254)	(49,356,669)
Additions to property and equipment	(6,435)	(95,135)
Net Cash Provided by Investing Activities	4,877,272	3,916,964
Net increase (decrease) in cash	497,439	(479,633)
Cash, Beginning of Year	—	479,633
<b>Cash, End of Year</b>	<b>\$ 497,439</b>	<b>\$ —</b>
Supplemental Disclosure:		
<b>Cash paid for Federal Excise Tax</b>	<b>\$ 82,000</b>	<b>\$ 15,000</b>

See accompanying Notes to Financial Statements.

Samuel H. Kress Foundation  
June 30, 2010

**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.

#### *Subsequent Events*

In connection with the preparation of the financial statements the Foundation evaluated subsequent events after the balance sheet date of June 30, 2010 through October 19, 2010, which was the date the financial statements were available to be issued.

### **NOTE 3 Investments**

#### *Fair Value Measurements of Investments*

Investments are carried at fair value based on quoted market prices. The Samuel H. Kress Foundation follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable input and are used to the extent that observable inputs do not exist.

A summary of investments is as follows:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 1,337,968	\$ 1,337,968	\$ 1,978,295	\$ 1,978,295
Common stocks and bonds	33,657,008	32,362,562	42,064,141	36,134,416
Mutual funds	44,571,553	34,278,941	35,173,911	22,683,979
Government bond funds	5,150,053	5,241,892	8,050,756	8,121,148
	84,716,582	73,221,363	87,267,103	68,917,838
Net receivable for pending trades	82,887	82,887	(159,188)	(159,188)
	<b>\$ 84,799,469</b>	<b>\$ 73,304,250</b>	<b>\$ 87,107,915</b>	<b>\$ 68,758,650</b>

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

Description	2010				Total
	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Assets	Significant Unobservable Inputs		
	Level 1	Level 2	Level 3		
Short-term cash investments	\$ 1,420,855	\$ —	\$ —	\$ 1,420,855	
Common stocks and bonds	32,362,562	—	—	32,362,562	
Mutual funds	28,678,988	—	5,599,953	34,278,941	
Government bond funds	5,241,892	—	—	5,241,892	
	<b>\$ 67,704,297</b>	<b>\$ —</b>	<b>\$ 5,599,953</b>	<b>\$ 73,304,250</b>	

Description	2009				Total
	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Asset	Significant Unobservable Inputs		
	Level 1	Level 2	Level 3		
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>	



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

**Mutual Funds**

Beginning balance	\$ 3,847,235
Total gains and losses (realized/unrealized)	1,752,718
Included in earnings	—
Purchases, issuances, settlements	—

**Ending Balance** **\$ 5,599,953**

Level 3 investments consist of a mutual fund investment with no remaining commitment. The Foundation cannot receive distributions from this investment until December 31, 2010, after which time the investment will make periodic distributions at the manager's discretion.

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

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

	<b>2010</b>	<b>2009</b>
Realized gains (losses) on sale of investments	\$ 2,575,262	\$ (19,334,085)
Net change in unrealized appreciation	6,854,045	(14,960,720)
<b>Net Gain (Loss) on Investments</b>	<b>\$ 9,429,307</b>	<b>\$(34,294,805)</b>

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

Property and equipment consists of the following:

	<b>2010</b>	<b>2009</b>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	628,141	621,706
	3,932,699	3,926,264
Less: Accumulated depreciation	2,372,386	2,269,071
<b>Net Property and Equipment</b>	<b>\$ 1,560,313</b>	<b>\$ 1,657,193</b>

Depreciation expense for 2010 and 2009 was \$103,315 and \$103,801, respectively.

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

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

Year ended June 30,	2011	\$ 2,534,475
	2012	1,082,500
	2013	845,000
	2014	795,000
		<hr/>
		5,256,975
Less: Discount to present value		238,357
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<b>Total</b>		<b>\$ 5,018,618</b>

The Foundation used a discount rate of 5% in 2010 and 2009.

**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 2010 and 2009, 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, 2010 and 2009 amounted to \$40,137 and \$35,015, 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 2010 and 2009 the Foundation's rates was 1%.

No deferred Federal excise tax payable was provided for at June 30, 2010 and 2009 as cost exceeded the fair value of investments.

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

During the years ended June 30, 2010 and 2009, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.

**NOTE 10**  
**Uncertain Tax**  
**Positions**

The Samuel H. Kress Foundation has not entered into any uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions prior to periods ending June 30, 2007.