



**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, 2011 and 2010, 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, 2011 and 2010 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 17, 2011

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2011 and 2010

	2011	2010
Assets		
Investments	\$ 87,269,694	\$ 73,304,250
Operating cash	330,420	497,439
Accrued interest and dividends receivable	42,679	30,694
Prepaid taxes and other assets	48,929	67,808
Property and equipment, net of accumulated depreciation	1,468,506	1,560,313
Total Assets	\$ 89,160,228	\$ 75,460,504
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 4,737,749	\$ 5,018,618
Accounts payable and accrued expenses	154,823	129,782
Deferred Federal excise tax payable	90,250	—
Total Liabilities	\$ 4,982,822	\$ 5,148,400
Unrestricted Net Assets	84,177,406	70,312,104
Total Liabilities and Net Assets	\$ 89,160,228	\$ 75,460,504

See Accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
 Years Ended June 30, 2011 and 2010

	2011	2010
Revenue		
Interest	\$ 4,802	\$ 7,796
Dividends	1,386,051	1,589,203
	1,390,853	1,596,999
Less: Direct investment expenses		
Investment management and custodian fees	606,222	558,891
Federal excise taxes	26,881	33,695
Foreign withholding taxes	3,866	2,467
	636,969	595,053
Net Revenue	753,884	1,001,946
Grants and Expenses		
Grants authorized	3,643,226	2,576,166
Foundation directed projects	70,000	41,526
Grants management and administrative	1,243,594	1,214,173
Total Grants and Expenses	4,956,820	3,831,865
Change in Net Assets before Gain on Investments	(4,202,936)	(2,829,919)
Net Gain on Investments	18,068,238	9,429,307
CHANGE IN NET ASSETS	13,865,302	6,599,388
Net Assets, beginning of year	70,312,104	63,712,716
NET ASSETS, END OF YEAR	\$ 84,177,406	\$ 70,312,104

See Accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets	\$ 13,865,302	\$ 6,599,388
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	103,958	103,315
<i>Net realized (gain) loss on investments</i>	(2,150,781)	(2,575,262)
<i>Change in unrealized appreciation</i>	(16,007,707)	(6,854,045)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(11,985)	6,765
<i>Prepaid taxes and other assets</i>	18,879	(53,719)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(280,869)	(1,575,627)
<i>Accounts payable and accrued expenses</i>	25,041	(30,648)
<i>Deferred Federal excise tax payable</i>	90,250	—
Net Cash Used by Operating Activities	(4,347,912)	(4,379,833)
From Investing Activities:		
Proceeds from sale of investments	41,540,335	49,441,961
Purchases of investments	(37,347,291)	(44,558,254)
Additions to property and equipment	(12,151)	(6,435)
Net Cash Provided by Investing Activities	4,180,893	4,877,272
Net increase (decrease) in cash	(167,019)	497,439
Cash, Beginning of Year	497,439	—
Cash, End of Year	\$ 330,420	\$ 497,439
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ —	\$ 82,000

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation
June 30, 2011

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, 2011 through October 17, 2011, 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 inputs and are used to the extent that observable inputs do not exist.

A summary of investments is as follows:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 3,098,783	\$ 3,098,783	\$ 1,337,968	\$ 1,337,968
Common stocks			33,657,008	32,362,562
Financials	7,640,552	8,219,252		
Information Technology	5,639,852	6,601,708		
Industrials	4,983,363	5,637,674		
Consumer discretionary	5,378,040	5,522,506		
Other	11,563,723	13,666,766		
Mutual funds	36,741,209	36,747,721	44,571,553	34,278,941
Government bond funds	7,761,189	7,824,789	5,150,053	5,241,892
	82,806,711	87,319,199	84,716,582	73,221,363
Net receivable for pending trades	(49,505)	(49,505)	82,887	82,887
	\$ 82,757,206	\$ 87,269,694	\$ 84,799,469	\$ 73,304,250

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

Description	2011			Total
	Quoted prices in Active Markets for Identical Assets Level 1	Significant Other Observable Assets Level 2	Significant Unobservable Inputs Level 3	
Short-term cash investments	\$ 3,049,278	\$ —	\$ —	\$ 3,049,278
Common stocks	39,647,906	—	—	39,647,906
Mutual funds	19,675,911	15,841,159	1,230,651	36,747,721
Government bond funds	7,824,789	—	—	7,824,789
	\$ 70,197,884	\$ 15,841,159	\$ 1,230,651	\$ 87,269,694

2010

Description	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Assets	Significant Unob- servable Inputs	Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 1,420,855	\$—	\$ —	\$ 1,420,855
Common stocks	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
	\$67,704,297	\$—	\$ 5,599,953	\$ 73,304,250

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	\$ 5,599,935
Realized gains and losses reported in income	1,782,517
Unrealized gains and losses reported in income	(242,773)
Purchases	—
Sales and settlements	(5,909,046)
Ending Balance	\$1,230,651

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

NOTE 4 Net Gain (Loss) on Investments

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

	2011	2010
Realized gains on sale of investments	\$ 2,150,781	\$ 2,575,262
Net change in unrealized appreciation	16,007,707	6,854,045
Deferred Federal excise tax	(90,250)	—
Net Gain on Investments	\$18,068,238	\$ 9,429,307

NOTE 5
Property and
Equipment

Property and equipment consists of the following:

	2011	2010
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	640,292	628,141
	<u>3,944,850</u>	<u>3,932,699</u>
Less: Accumulated depreciation	2,476,344	2,372,386
Net Property and Equipment	<u>\$ 1,468,506</u>	<u>\$ 1,560,313</u>

Depreciation expense for 2011 and 2010 was \$103,958 and \$103,315, respectively.

NOTE 6
Grants Payable

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

Year ended June 30,	2012	\$ 2,451,876
	2013	1,333,500
	2014	1,120,000
		<u>4,905,376</u>
Less: Discount to present value		167,627
Total		<u>\$ 4,737,749</u>

The Foundation used a discount rate of 5% in 2011 and 2010.

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 2011 and 2010, 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, 2011 and 2010 amounted to \$47,329 and \$40,137, 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 2011 and 2010 the Foundation's rate was 1%.

Deferred Federal excise tax on unrealized appreciation of investments is provided at the two percent tax rate since the qualification for the one percent tax is not determinable until the year in which gains are realized.

At June 30, 2011, \$90,250 of deferred Federal excise tax payable was recorded. No deferred Federal excise tax payable was provided for at June 30, 2010 as cost exceeded the fair value of investments.

NOTE 9
Concentration of Risk

During the years ended June 30, 2011 and 2010, 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, 2008.