



**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, 2012 and 2011, 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, 2012 and 2011, 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 24, 2012

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Investments	\$ 76,958,686	\$ 87,269,694
Operating cash	291,417	330,420
Accrued interest and dividends receivable	27,102	42,679
Prepaid taxes and other assets	51,564	48,929
Property and equipment, net of accumulated depreciation	1,399,840	1,468,506
<b>Total Assets</b>	<b>\$ 78,728,609</b>	<b>\$ 89,160,228</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 3,876,016	\$ 4,737,749
Accounts payable and accrued expenses	114,037	154,823
Deferred Federal excise tax payable	—	90,250
<b>Total Liabilities</b>	<b>\$ 3,990,053</b>	<b>\$ 4,982,822</b>
Unrestricted Net Assets	74,738,556	84,177,406
<b>Total Liabilities and Net Assets</b>	<b>\$ 78,728,609</b>	<b>\$ 89,160,228</b>

See Accompanying Notes to Financial Statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2012 and 2011

	2012	2011
<b>Revenue</b>		
Interest	\$ 457	\$ 4,802
Dividends	1,166,151	1,386,051
	1,166,608	1,390,853
Less: Direct investment expenses		
Investment management and custodian fees	913,376	606,222
Federal excise taxes	7,752	26,881
Foreign withholding taxes	966	3,866
	922,094	636,969
<b>Net Revenue</b>	<b>244,514</b>	<b>753,884</b>
<b>Grants and Expenses</b>		
Grants authorized	3,041,594	3,643,226
Foundation directed projects	5,000	70,000
Grants management and administrative	1,294,115	1,243,594
<b>Total Grants and Expenses</b>	<b>4,340,709</b>	<b>4,956,820</b>
Change in Net Assets before Gain (Loss) on Investments	(4,096,195)	(4,202,936)
Net Gain (Loss) on Investments	(5,342,655)	18,068,238
<b>CHANGE IN NET ASSETS</b>	<b>(9,438,850)</b>	<b>13,865,302</b>
Net Assets, beginning of year	84,177,406	70,312,104
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 74,738,556</b>	<b>\$ 84,177,406</b>

See Accompanying Notes to Financial Statements.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets for Year	\$ (9,438,850)	\$ 13,865,302
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	105,288	103,958
<i>Net realized gain on investments</i>	(1,821,013)	(2,150,781)
<i>Change in unrealized appreciation</i>	7,253,918	(16,007,707)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	15,577	(11,985)
<i>Prepaid taxes and other assets</i>	(2,635)	18,879
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(861,733)	(280,869)
<i>Accounts payable and accrued expenses</i>	(40,786)	25,041
<i>Deferred Federal excise tax payable</i>	(90,250)	90,250
Net Cash Used by Operating Activities	(4,880,484)	(4,347,912)
From Investing Activities:		
Proceeds from sale of investments	57,405,253	41,540,335
Purchases of investments	(52,527,150)	(37,347,291)
Additions to property and equipment	(36,622)	(12,151)
Net Cash Provided by Investing Activities	4,841,481	4,180,893
Net decrease in cash	(39,003)	(167,019)
Cash, Beginning of Year	330,420	497,439
<b>Cash, End of Year</b>	<b>\$ 291,417</b>	<b>\$ 330,420</b>
Supplemental Disclosure:		
<b>Cash paid for Federal Excise Tax</b>	<b>\$ 7,000</b>	<b>\$ —</b>

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation  
June 30, 2012

**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, 2012 through October 24, 2012, 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:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 4,631,829	\$ 4,631,829	\$ 3,098,783	\$ 3,098,783
Common stocks and bonds				
Financials	3,899,270	3,494,276	7,640,552	8,219,252
Information Technology	4,671,778	5,252,373	5,639,852	6,601,708
Industrials	2,394,958	2,446,061	4,983,363	5,637,674
Consumer discretionary	3,184,403	3,581,510	5,378,040	5,522,506
Other	6,584,699	7,112,652	11,563,723	13,666,766
Mutual funds	44,159,183	40,377,548	36,741,209	36,747,721
Government bond funds	10,179,953	10,068,394	7,761,189	7,824,789
	79,706,073	76,964,643	82,806,711	87,319,199
Net receivable for pending trades	(5,957)	(5,957)	(49,505)	(49,505)
	<b>\$ 79,700,116</b>	<b>\$ 76,958,686</b>	<b>\$ 82,757,206</b>	<b>\$ 87,269,694</b>

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

Description	2012			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	\$ 4,625,872	\$ —	\$ —	\$ 4,625,872
Common stocks and bonds	21,886,872	—	—	21,886,872
Mutual funds	15,030,104	24,981,721	365,723	40,377,548
Government bond funds	10,068,394	—	—	10,068,394
	<b>\$ 51,611,242</b>	<b>\$ 24,981,721</b>	<b>\$ 365,723</b>	<b>\$ 76,958,686</b>



2011

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	\$ 3,049,278	\$ —	\$ —	\$ 3,049,278
Common stocks and bonds	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
	<b>\$ 70,197,884</b>	<b>\$ 15,841,159</b>	<b>\$ 1,230,651</b>	<b>\$ 87,269,694</b>

The following is a reconciliation of the beginning and ending balances for assets valued using level 3 inputs:

	2012 Alternative Investments	2011 Alternative Investments
Beginning balance	\$ 1,230,651	\$ 5,599,935
Realized gains and losses reported in income	382,925	1,782,517
Unrealized gains and losses reported in income	(172,483)	(242,773)
Purchases	—	—
Sales and settlements	(1,075,370)	(5,909,046)
Ending Balance	\$ 365,723	\$ 1,230,651

Level 3 investments consist of two mutual fund investments with no remaining commitment. The Foundation began receiving distributions from these investments at the manager's discretion after December 31, 2010.

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

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

	<u>2012</u>	<u>2011</u>
Realized gains on sale of investments	\$ 1,821,013	\$ 2,150,781
Net change in unrealized appreciation	(7,253,918)	16,007,707
Deferred Federal excise recovery (tax)	90,250	(90,250)
<b>Net Gain (Loss) on Investments</b>	<b>\$ (5,342,655)</b>	<b>\$18,068,238</b>

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

Property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	676,914	640,292
	3,981,472	3,944,850
Less: Accumulated depreciation	2,581,632	2,476,344
<b>Net Property and Equipment</b>	<b>\$ 1,399,840</b>	<b>\$ 1,468,506</b>

Depreciation expense for 2012 and 2011 was \$105,288 and \$103,958, respectively.

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

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

Year ended June 30,		<u></u>
2013		\$ 2,585,254
2014		1,355,300
		3,940,554
Less: Discount to present value		64,538
<b>Total</b>		<b>\$ 3,876,016</b>

The Foundation used a discount rate of 5% in 2012 and 2011.

**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, 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 amounted to \$47,329. As of January 1, 2012 the Foundation amended its plan from a matching contribution plan to contributing 10% of each employee's salary annually. The expense for the retirement plan for the year ended June 30, 2012 totaled \$53,648.

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 2012 and 2011 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.

No deferred Federal excise tax payable was provided for at June 30, 2012 as cost exceeded the fair value of investments. At June 30, 2011, \$90,250 of deferred Federal excise tax payable was recorded.

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

During the years ended June 30, 2012 and 2011, 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, 2009.