



**FINANCIAL  
REVIEW**



## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Samuel H. Kress Foundation

We have audited the accompanying financial statements of the Samuel H. Kress Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*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, 2013 and 2012, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in cursive script that reads "Owen J. Flanagan + Co." The signature is written in black ink and is positioned above the date.

October 22, 2013

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2013 and 2012

	2013	2012
<b>Assets</b>		
Investments	\$ 82,300,194	\$ 76,958,686
Operating cash	165,133	291,417
Accrued interest and dividends receivable	14,438	27,102
Prepaid taxes and other assets	22,082	51,564
Property and equipment, net of accumulated depreciation	1,355,066	1,399,840
<b>Total Assets</b>	<b>\$ 83,856,913</b>	<b>\$ 78,728,609</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 2,152,347	\$ 3,876,016
Accounts payable and accrued expenses	95,536	114,037
Deferred Federal excise tax payable	57,000	—
<b>Total Liabilities</b>	<b>2,304,883</b>	<b>3,990,053</b>
Unrestricted Net Assets	81,552,030	74,738,556
<b>Total Liabilities and Net Assets</b>	<b>\$ 83,856,913</b>	<b>\$ 78,728,609</b>

See Accompanying Notes to Financial Statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2013 and 2012

	2013	2012
<b>Revenue</b>		
Interest	\$ 298	\$ 457
Dividends	1,202,634	1,166,151
	1,202,932	1,166,608
Less: Direct investment expenses		
Investment management and custodian fees	1,099,634	913,376
Federal excise taxes	62,716	7,752
Foreign withholding taxes	640	966
	1,162,999	922,094
<b>Net Revenue</b>	<b>39,933</b>	<b>244,514</b>
<b>Grants and Expenses</b>		
Grants authorized	2,363,163	3,041,594
Foundation directed projects	54,442	5,000
Grants management and administrative	1,365,280	1,294,115
<b>Total Grants and Expenses</b>	<b>3,782,885</b>	<b>4,340,709</b>
Change in Net Assets before (Loss) on Investments	(3,742,952)	(4,096,195)
Net Gain (Loss) on Investments	10,566,426	(5,342,655)
<b>CHANGE IN NET ASSETS</b>	<b>6,813,474</b>	<b>(9,438,850)</b>
Net Assets, beginning of year	74,738,556	84,177,406
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 81,552,030</b>	<b>\$ 74,738,556</b>

See Accompanying Notes to Financial Statements.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets for Year	\$ 6,813,474	\$ (9,438,850)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	107,371	105,288
<i>Net realized gain on investments</i>	(5,021,982)	(1,821,013)
<i>Change in unrealized appreciation</i>	(5,591,444)	7,253,918
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	12,664	15,577
<i>Prepaid taxes and other assets</i>	29,482	(2,635)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,732,669)	(861,733)
<i>Accounts payable and accrued expenses</i>	(18,501)	(40,786)
<i>Deferred Federal excise tax payable</i>	57,000	(90,250)
Net Cash Used by Operating Activities	(5,335,605)	(4,880,484)
From Investing Activities:		
Proceeds from sale of investments	72,666,254	57,405,253
Purchases of investments	(67,394,336)	(52,527,150)
Additions to property and equipment	(62,597)	(36,662)
Net Cash Provided by Investing Activities	5,209,321	4,841,481
Net decrease in cash	(126,284)	(39,003)
Cash, Beginning of Year	291,417	330,420
<b>Cash, End of Year</b>	<b>\$ 165,133</b>	<b>\$ 291,417</b>
Supplemental Disclosure:		
<b>Cash paid for Federal Excise Tax</b>	<b>\$ 31,000</b>	<b>\$ 7,000</b>

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation  
June 30, 2013

**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, 2013 through October 22, 2013, 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:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 2,109,132	\$ 2,109,132	\$ 4,631,829	\$ 4,631,829
Common stocks				
Financials	2,680,477	2,891,745	3,899,270	3,494,276
Information technology	4,428,006	5,054,608	4,671,778	5,252,373
Industrials	1,753,097	1,976,613	2,394,958	2,446,061
Consumer discretionary	2,515,016	2,693,088	3,184,403	3,581,510
Other	6,369,184	7,087,901	6,584,699	7,112,652
Small capital equity funds	3,000,000	3,148,164	—	—
Large capital equity funds	10,041,683	10,395,876	—	—
International equity funds	21,380,289	22,235,708	33,727,500	28,509,778
International bond funds	3,941,085	3,739,269	—	—
Fixed income funds	3,905,919	3,874,359	10,179,953	10,068,394
Emerging market funds	6,023,967	5,574,043	—	—
Hedge funds	11,535,120	11,752,483	181,026	365,723
Multi Asset funds	—	—	10,250,657	11,502,047
	79,682,975	82,532,989	79,706,073	76,964,643
Net receivable for pending trades	(232,795)	(232,795)	(5,957)	(5,957)
	<b>\$ 79,450,180</b>	<b>\$ 82,300,194</b>	<b>\$ 79,700,116</b>	<b>\$ 76,958,686</b>

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

**2013**

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	\$ 1,876,337	\$ —	\$ —	\$ 1,876,337
Common stocks	19,703,955	—	—	19,703,955
Small capital equity funds	3,148,164	—	—	3,148,164
Large capital equity funds	10,395,876	—	—	10,395,876
International equity funds	—	19,806,608	2,429,100	22,235,708
International bond funds	—	3,739,269	—	3,739,269
Fixed income funds	3,874,359	—	—	3,874,359
Emerging market funds	5,574,043	—	—	5,574,043
Hedge funds	—	2,038,811	9,713,672	11,752,483
	<b>\$44,572,734</b>	<b>\$25,584,688</b>	<b>\$ 12,142,772</b>	<b>\$ 82,300,194</b>

**2012**

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	\$ 4,625,872	\$ —	\$ —	\$ 4,625,872
Common stocks and bonds	21,886,872	—	—	21,886,872
International equity funds	15,030,104	13,479,674	—	28,509,778
Fixed income funds	10,068,394	—	—	10,068,394
Hedge funds	—	—	365,723	365,723
Multi Asset funds	—	11,502,047	—	11,502,047
	<b>\$ 51,611,242</b>	<b>\$24,981,721</b>	<b>\$ 365,723</b>	<b>\$ 76,958,686</b>

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

	2013			2012
	International Equity Funds	Hedge Funds	Total	Hedge Funds
Beginning Balance	\$ —	\$ 365,723	\$ 365,723	\$ 1,230,651
Realized gains and losses reported in income	—	237,310	237,310	382,925
Unrealized gains and losses reported in income	(70,900)	(6,144)	(77,044)	(172,483)
Purchases	2,500,000	9,500,000	12,000,000	—
Sales and settlements	—	(382,217)	(383,217)	(1,075,370)
<b>Ending Balance</b>	<b>\$ 2,429,100</b>	<b>\$ 9,713,672</b>	<b>\$ 12,142,772</b>	<b>\$ 365,723</b>

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2013 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 22,235,708	—	Monthly-Quarterly	6–95 days
International bond funds (b)	3,739,269	—	Monthly	10 days
Hedge funds (c)	11,752,483	—	Quarterly	45–90 days
	<b>\$ 37,727,460</b>			

\*Two hedge funds held at June 30, 2013 are illiquid. These two funds make distributions at the managers discretion as underlying assets are sold. Distributions from these two funds began in December 2010.

(a) International equity funds consists of three investments which focus on long-term growth through investing in diversified portfolios of equity securities of companies outside the United States.

(b) International bond funds consist of one investment which focuses on achieving favorable returns from a globally diversified portfolio of debt or debt-like securities.

(c) Hedge funds consists of six investments which all seek to preserve and grow capital through different combinations of long and short investments in different foreign and domestic equity sectors.

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

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

	<b>2013</b>	<b>2012</b>
Realized gains on sale of investments	\$ 5,021,982	\$ 1,821,031
Net change in unrealized appreciation	5,591,444	(7,253,918)
Deferred Federal excise (tax) recovery	(57,000)	90,250
<b>Net Gain (Loss) on Investments</b>	<b>\$ 10,556,426</b>	<b>\$(5,342,655)</b>

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

Property and equipment consists of the following:

	<b>2013</b>	<b>2012</b>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	727,134	676,914
	4,031,692	3,981,472
Less: Accumulated depreciation	2,676,626	2,581,632
<b>Net Property and Equipment</b>	<b>\$ 1,355,066</b>	<b>\$ 1,399,840</b>

Depreciation expense for 2013 and 2012 was \$107,371 and \$105,288, respectively.

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

The Foundation estimates that all of its grants payable commitments will be paid in the coming year. A reconciliation of grants payable is as follows:

	<b>2013</b>	<b>2012</b>
Grants payable, July 1	\$ 3,876,016	\$ 4,737,749
Grants approved	2,427,701	3,144,683
Grants paid, net of refunds of \$24,929 and \$72,150 in fiscal year 2013 and 2012, respectively	(4,086,832)	(3,903,327)
Decrease in discount to present value	(64,538)	(103,089)
<b>Grants payable, June 30</b>	<b>\$ 2,152,347</b>	<b>\$ 3,876,016</b>

**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. 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 of the retirement plan for the years ended June 30, 2013 and 2012 totaled \$54,806 and \$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 2013 and 2012 the Foundation's rate was 1%.

Deferred Federal excise tax on unrealized appreciation of investments is provided at the 2% tax rate since the qualification for the 1% tax is not determinable until the year in which gains are realized.

At June 30, 2013 a payable of \$57,000 for deferred Federal excise tax expense was recorded. No deferred Federal excise tax liability was provided for at June 30, 2012 as cost exceeded the fair value of investments.

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

During the years ended June 30, 2013 and 2012, 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, 2010.