



**FINANCIAL
REVIEW**

L^o BRAYBROOKE
P. BRIONI TORINO 1802
ANNO 1772



INDEPENDENT AUDITOR'S 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, 2015 and 2014, 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, 2015 and 2014, 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 below the text "Respectfully submitted,".

November 23, 2015

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2015 and 2014

	2015	2014
Assets		
Investments	\$ 90,202,343	\$ 92,949,741
Operating cash	224,878	253,118
Accrued interest and dividends receivable	9,790	10,888
Prepaid expenses and other assets	31,085	42,622
Property and equipment, net of accumulated depreciation	1,256,026	1,348,334
Total Assets	\$ 91,724,122	\$ 94,604,703
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 6,646,696	\$ 7,834,717
Accounts payable and accrued expenses	135,716	110,802
Excise tax payable	56,279	16,317
Deferred Federal excise tax payable	186,284	227,653
Total Liabilities	7,024,975	8,189,489
Unrestricted Net Assets	84,699,147	86,415,214
Total Liabilities and Net Assets	\$ 91,724,122	\$ 94,604,703

See Accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2015 and 2014

	2015	2014
Revenue		
Interest	\$ 159	\$ 36
Dividends	1,310,268	1,518,836
	1,310,427	1,518,872
Less: Direct investment expenses		
Investment management and custodian fees	603,774	603,868
Federal excise taxes	147,962	88,135
Foreign withholding taxes	765	950
	752,501	692,953
Net Revenue	557,926	825,919
Grants and Expenses		
Grants authorized	2,966,550	9,568,817
Foundation directed projects	20,000	48,124
Grants management and administrative	1,413,841	1,348,001
Total Grants and Expenses	4,400,391	10,964,942
Change in Net Assets before Gain on Investments	(3,842,465)	(10,139,023)
Net Gain on Investments (net of deferred Federal excise taxes)	2,126,398	15,002,207
CHANGE IN NET ASSETS FOR YEAR	(1,716,067)	4,863,184
Net Assets, beginning of year	86,415,214	81,552,030
NET ASSETS, END OF YEAR	\$ 84,699,147	\$ 86,415,214

See Accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows Provided (Used)		
From Operating Activities:		
Change in Net Assets for Year	\$ (1,716,067)	\$ 4,863,184
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	116,977	112,607
<i>Net realized gain on investments</i>	(7,003,487)	(3,790,215)
<i>Change in unrealized appreciation</i>	4,918,458	(11,382,645)
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	1,098	3,550
<i>Prepaid expenses and other assets</i>	11,537	(20,540)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,188,021)	5,682,370
<i>Accounts payable and accrued expenses</i>	24,914	19,449
<i>Excise tax payable</i>	39,962	12,134
<i>Deferred Federal Excise tax</i>	(41,369)	170,653
Net Cash Used by Operating Activities	(4,835,998)	(4,329,453)
From Investing Activities:		
Proceeds from sale of investments	44,626,335	17,773,659
Purchases of investments	(39,793,908)	(13,250,346)
Additions to property and equipment	(24,669)	(105,875)
Net Cash Provided by Investing Activities	4,807,758	4,417,438
Net increase (decrease) in cash for year	(28,240)	87,985
Cash, Beginning of Year	253,118	165,133
Cash, End of Year	\$ 224,878	\$ 253,118
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ 108,000	\$ 76,000

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation
June 30, 2015

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 interest was 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.

NOTE 2
(continued)

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 statement of financial position date of June 30, 2015 through November 23, 2015, 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.

NOTE 3
(continued)

The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") or its equivalent, as reported by management of the respective alternative investment funds. U.S. GAAP guidance provides for the use of NAV or the equivalent reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein and their classification within level 2 or 3 is based on the Foundation's ability to redeem in the near term.

A summary of investments is as follows:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 2,891,941	\$ 2,891,941	\$ 576,938	\$ 576,938
Common stock				
Financials	3,717,595	4,127,967	4,144,569	4,934,127
Information technology	4,039,179	5,034,320	4,524,233	5,806,065
Healthcare	2,240,915	2,947,035	2,455,888	3,225,950
Consumer discretionary	2,390,072	2,616,955	2,939,998	3,637,475
Other	3,861,673	3,858,726	4,263,583	4,908,965
Small capital equity funds	1,905,573	2,708,445	2,816,732	3,512,298
Large capital equity funds	6,510,161	8,466,697	9,758,230	12,645,423
International equity funds	16,024,831	18,451,345	18,656,111	22,683,717
International bond funds	4,258,510	3,664,183	4,010,941	3,990,098
Fixed income funds	3,284,737	3,275,425	3,435,162	3,433,877
Emerging market funds	6,281,380	5,918,841	6,143,638	6,560,543
Hedge funds	12,500,000	14,377,418	12,500,000	13,986,931
Special situation funds	11,000,000	11,881,470	2,500,000	3,056,275
	80,906,567	90,220,768	78,726,023	92,958,682
Net receivable for pending trades	(18,425)	(18,425)	(8,941)	(8,941)
	\$80,888,142	\$90,202,343	\$ 78,717,082	\$ 92,949,741

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

2015

Description	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 2,873,516	\$ —	\$ —	\$ 2,873,516
Common stock	18,585,003	—	—	18,585,003
Small capital equity funds	2,708,445	—	—	2,708,445
Large capital equity funds	8,466,697	—	—	8,466,697
International equity funds	—	18,451,345	—	18,451,345
International bond funds	—	3,664,183	—	3,664,183
Fixed income funds	3,275,425	—	—	3,275,425
Emerging market funds	5,918,841	—	—	5,918,841
Hedge funds	—	6,004,043	8,373,375	14,377,418
Special situation funds	—	3,109,125	8,772,345	11,881,470
	\$ 41,827,927	\$ 31,228,696	\$ 17,145,720	\$ 90,202,343

2014

Description	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unob- servable Inputs	Total
	Level 1	Level 2	Level 3	
Short-term cash investments	\$ 567,997	\$ —	\$ —	\$ 567,997
Common stock	22,512,582	—	—	22,512,582
Small capital equity funds	3,512,298	—	—	3,512,298
Large capital equity funds	12,645,423	—	—	12,645,423
International equity funds	—	22,683,717	—	22,683,717
International bond funds	—	3,990,098	—	3,990,098
Fixed income funds	3,433,877	—	—	3,433,877
Emerging market funds	6,560,543	—	—	6,560,543
Hedge funds	—	6,919,062	7,067,869	13,986,931
Special situation funds	—	—	3,056,275	3,056,275
	\$ 49,232,720	\$ 33,592,877	\$ 10,124,144	\$ 92,949,741

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

	2015		
	Special Situation Funds	Hedge Funds	Total
Beginning Balance	\$ 3,056,275	\$ 7,067,869	\$ 10,124,144
Realized gains and losses reported in income	—	—	—
Unrealized gains and losses reported in income	325,195	517,627	842,822
Purchases	8,500,000	2,000,000	10,500,000
Sales	—	—	—
Transfers between levels	(3,109,125)	(1,212,121)	(4,321,246)
Ending Balance	\$ 8,772,345	\$ 8,373,375	\$ 17,145,720

The transfer between levels reflects expiration of initial redemption lockups.

	2014		
	Special Situation Funds	Hedge Funds	Total
Beginning Balance	\$ 2,429,100	\$ 9,713,672	\$ 12,142,772
Realized gains and losses reported in income	—	59,030	59,030
Unrealized gains and losses reported in income	627,175	1,165,172	1,792,347
Purchases	—	1,000,000	1,000,000
Sales	—	(94,150)	(94,150)
Transfers between levels	—	(4,775,855)	(4,775,855)
Ending Balance	\$ 3,056,275	\$ 7,067,869	\$ 10,124,144

NOTE 3
(continued)

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2015 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 18,451,345	—	Monthly	10 days
International bond funds (b)	3,664,183	—	Monthly Monthly-Semi	10 days
Hedge funds (c)	12,377,418	—	Annually	45–90 days
Hedge funds (c)	2,000,000	—	Not Eligible	3 year lockup
Special situation funds (d)	3,109,125	—	Quarterly	90 days
Special situation funds (d)	<u>8,772,345</u>	—	Not Eligible	1–4 year lockup
	<u>\$ 48,374,416</u>			

(a) International equity funds consists of two 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. One of these funds is not eligible for redemption until 2018.

(d) Special situations consists of three funds which seek to invest in undervalued companies that may be overlooked or misunderstood, in order to generate favorable, high returns. Two of the funds as well as a portion of the third fund are not eligible for redemption for 1–4 years.

NOTE 4
Net Gain on
Investments

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

	<u>2015</u>	<u>2014</u>
Realized gains on sale of investments	\$ 7,003,487	\$ 3,790,215
Net change in unrealized appreciation	(4,918,458)	11,382,645
Deferred Federal excise tax	41,369	(170,653)
Net Gain on Investments	\$ 2,126,398	\$ 15,002,207

NOTE 5
Property and
Equipment

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	838,195	833,009
	4,142,753	4,137,567
Less: Accumulated depreciation	2,886,727	2,789,233
Net Property and Equipment	\$ 1,256,026	\$ 1,348,334

Depreciation expense for 2015 and 2014 was \$116,977 and \$112,607, respectively.

NOTE 6
Grants Payable

A reconciliation of grants payable is as follows:

	<u>2015</u>	<u>2014</u>
Grants payable, July 1	\$ 7,834,717	\$ 2,152,347
Grants approved	2,740,452	10,204,790
Grants paid, net of refunds of \$40,693 and \$20,388 in fiscal year 2015 and 2014, respectively	(4,154,275)	(3,886,447)
Change in discount to present value	225,802	(635,973)
Grants payable, June 30	\$ 6,646,696	\$ 7,834,717

The Foundation operates on a five year grant cycle. The majority of the grants approved in the year ended June 30, 2014 are for the next cycle which started July 1, 2014. These grants will be paid out through the year ended June 30, 2019.

NOTE 6
(continued)

Grants payable as of June 30, 2015 are discounted to present value using a 5% rate and are expected to be paid over the next four years as follows:

2016	\$ 2,527,511
2017	1,603,385
2018	1,495,385
2019	<u>1,430,585</u>
	7,056,866
Discount	<u>(410,170)</u>
	<u>\$6,646,696</u>

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. Under this plan, the Foundation contributes 10% of each employee's salary annually. The expense of the retirement plan for the years ended June 30, 2015 and 2014 totaled \$55,285 and \$56,070.

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 2015 and 2014 the Foundation's rate was 2%, respectively.

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.

Deferred Federal excise tax (recovery) expense of \$(41,369) and \$170,653 has been recorded for fiscal years ending June 30, 2015 and 2014, respectively.

NOTE 9
Concentration of Risk

During the years ended June 30, 2015 and 2014, 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, 2012.