



**FINANCIAL
REVIEW**



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, 2017 and 2016, 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, 2017 and 2016, and the changes in its 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 black ink that reads "Owen J. Flanagan + Co." The signature is written in a cursive, flowing style.

November 1, 2017

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2017 and 2016

	2017	2016
Assets		
Investments	\$ 88,360,970	\$ 77,093,008
Operating cash	381,186	539,789
Accrued interest and dividends receivable	26,222	11,813
Prepaid expenses and other assets	48,902	47,684
Property and equipment, net of accumulated depreciation	1,030,272	1,139,362
Total Assets	\$ 89,847,552	\$ 78,831,656
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 3,544,561	\$ 4,937,113
Accounts payable and accrued expenses	89,400	118,263
Deferred Federal excise tax payable	245,618	7,328
Total Liabilities	3,879,579	5,062,704
Unrestricted Net Assets	85,967,973	73,768,952
Total Liabilities and Net Assets	\$ 89,847,552	\$ 78,831,656

See Accompanying Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2017 and 2016

	2017	2016
Revenue		
Interest	\$ 4,702	\$ 509
Dividends	1,238,542	1,189,650
	1,243,244	1,190,159
Less direct investment expenses:		
Investment management and custodian fees	584,121	567,387
Federal excise taxes	70,701	19,505
	654,822	586,892
Net Investment Revenue	588,422	603,267
Contributions	—	33,500
Grants and Expenses		
Grants authorized	1,889,365	1,986,967
Foundation directed projects	—	19,986
Grants management and administrative	1,320,282	1,371,969
Total Grants and Expenses	3,209,647	3,378,922
Change in Net Assets before Net Gain (Loss) on Investments	(2,621,225)	(2,742,155)
Net Gain (Loss) on Investments (net of deferred Federal excise taxes)	14,820,246	(8,188,040)
CHANGE IN NET ASSETS FOR YEAR	12,199,021	(10,930,195)
Net Assets, beginning of year	73,768,952	84,699,147
NET ASSETS, END OF YEAR	\$ 85,967,973	\$ 73,768,952

See Accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

Samuel H. Kress Foundation
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows Provided (Used)		
From operating activities:		
Change in Net Assets for Year	\$ 12,199,021	\$ (10,930,195)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	109,090	116,664
<i>Net realized gain on investments</i>	(3,143,999)	(580,831)
<i>Change in unrealized appreciation</i>	(11,914,537)	8,947,827
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(14,409)	(2,023)
<i>Prepaid expenses and other assets</i>	(1,218)	(16,599)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,392,552)	(1,709,583)
<i>Accounts payable and accrued expenses</i>	(28,863)	(17,453)
<i>Excise tax payable</i>	—	(56,279)
<i>Deferred Federal excise tax</i>	238,290	(178,956)
Net Cash Used by Operating Activities	(3,949,177)	(4,427,428)
From Investing Activities:		
Proceeds from sale of investments	20,889,745	20,546,649
Purchases of investments	(17,099,171)	(15,804,310)
Net Cash Provided by Investing Activities	3,790,574	4,742,339
Net (decrease) increase in cash for year	(158,603)	314,911
Cash, Beginning of Year	539,789	224,878
Cash, End of Year	\$ 381,186	\$ 539,789
Supplemental Disclosure:		
Cash paid for Federal Excise Tax	\$ 68,071	\$ 95,000

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation
June 30, 2017

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 cash maintained in checking accounts.

Investment Valuation and Investment Income Recognition

Investments are carried at fair value. The fair value of some alternative investments has been estimated using the Net Asset Value (NAV) as reported by the management of the respective alternative investment fund. Accounting principles generally accepted in the United States of America provide for the use of the NAV as a "Practical Expedient" for estimating the fair value of the Foundation's interest.

Purchases and sales of securities are recorded on a settlement date basis. Interest and dividend income is recorded when received. Realized and unrealized gains and losses are included in the statement of activities.

Fair Value Measurements

The Foundation follows US Generally Accepted Accounting Principles 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

NOTE 2
(continued)

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. Investments valued using the NAV as a practical expedient are excluded from the fair value hierarchy.

Investment Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, may not be currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical costs, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

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.

NOTE 2
(continued)

Accounting for uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Foundation has no uncertain tax positions that would require financial statement recognition or disclosure. The Foundation is no longer subject to examinations by applicable taxing jurisdictions for the periods prior to June 30, 2014.

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, 2017 through November 1, 2017, which was the date the financial statements were available to be issued.

NOTE 3

Investments

A summary of investments is as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 2,043,788	\$ 2,043,788	\$ 3,365,829	\$ 3,365,829
Common stock				
Financials	1,812,849	2,605,877	3,716,009	3,710,946
Information technology	2,410,043	3,590,655	3,481,269	4,095,306
Healthcare	2,420,896	2,645,490	2,027,192	2,040,209
Consumer discretionary	948,952	1,171,978	1,665,722	1,545,121
Other	4,864,282	5,343,165	4,469,266	4,223,102
Small capital equity funds	—	—	2,131,560	2,522,324
Large capital equity funds	5,113,476	6,897,159	6,195,249	7,381,958
International equity funds	13,879,857	16,647,151	15,113,851	14,994,124
International bond funds	4,226,058	3,888,833	4,298,129	3,944,078
Fixed income funds	8,101,350	8,078,569	2,070,727	2,086,615
Emerging market funds	5,431,816	6,606,925	5,288,931	5,317,439
Hedge funds	14,127,586	15,575,241	11,923,385	12,004,705
Special situation funds	10,637,401	13,204,433	10,838,683	9,720,420
	76,018,354	88,299,264	76,585,802	76,952,176
Net receivable for pending trades	61,706	61,706	140,832	140,832
	\$76,080,060	\$ 88,360,970	\$ 76,726,634	\$ 77,093,008

NOTE 3
(continued)

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

2017

Description	Level I	Investments Valued at	
		NAV	Total
Short-term cash investments	\$ 2,105,494	\$ —	\$ 2,105,494
Common stock	15,357,165	—	15,357,165
Small capital equity funds	—	—	—
Large capital equity funds	6,897,159	—	6,897,159
International equity funds	—	16,647,151	16,647,151
International bond funds	—	3,888,833	3,888,833
Fixed income funds	8,078,569	—	8,078,569
Emerging market funds	3,126,361	3,480,564	6,606,925
Hedge funds	—	15,575,241	15,575,241
Special situation funds	—	13,204,433	13,204,433
	\$ 35,564,748	\$ 52,796,222	\$ 88,360,970

2016

Description	Level I	Investments Valued at	
		NAV	Total
Short-term cash investments	\$ 3,506,661	\$ —	\$ 3,506,661
Common stock	15,614,684	—	15,614,684
Small capital equity funds	2,522,324	—	2,522,324
Large capital equity funds	7,381,958	—	7,381,958
International equity funds	—	14,994,124	14,994,124
International bond funds	—	3,944,078	3,944,078
Fixed income funds	2,086,615	—	2,086,615
Emerging market funds	2,550,379	2,767,060	5,317,439
Hedge funds	—	12,004,705	12,004,705
Special situation funds	—	9,720,420	9,720,420
	\$ 33,662,621	\$ 43,430,387	\$ 77,093,008

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2017 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 16,647,151	—	Monthly	10 days
International bond fund (b)	3,888,833	—	Monthly	10 days
Emerging markets fund (c)	3,480,564	—	Monthly	30 days
Hedge funds (d)	11,591,903	—	Annually	45–90 days
Hedge funds (d)	3,983,338	—	Not Eligible	1–2 year lockup
Special situation funds (e)	6,248,663	—	Quarterly	90–180 days
Special situation funds (e)	<u>6,955,770</u>	—	Not Eligible	2 year lockup
	<u>\$ 52,796,222</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 fund* consists of one investment which focuses on achieving favorable returns from a globally diversified portfolio of debt or debt-like securities.

(c) *Emerging markets fund* consists of one fund focused on achieving long-term capital appreciation by investing in companies that are located in emerging market economies.

(d) *Hedge funds* consists of eight 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 and another is not eligible for redemption until 2019.

(e) *Special situation funds* consists of three funds which seek to invest in undervalued companies that may be overlooked or misunderstood, in order to generate favorable, high returns. One fund and a portion of another are not eligible for redemption for 2 years.

NOTE 4
Net Gain (Loss)
on Investments

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

	2017	2016
Realized gains on sale of investments	\$ 3,143,999	\$ 580,831
Net change in unrealized appreciation	11,914,537	(8,947,827)
Deferred Federal excise tax	(238,290)	178,956
Net Gain (Loss) on Investments	\$ 14,820,246	\$ (8,188,040)

NOTE 5
Property and
Equipment

Property and equipment consists of the following:

	2017	2016
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	758,415	758,415
	4,062,973	4,062,973
Less: Accumulated depreciation	3,032,701	2,923,611
Net Property and Equipment	\$ 1,030,272	\$ 1,139,362

Depreciation expense for 2017 and 2016 was \$109,090 and \$116,664, respectively.

NOTE 6
Grants Payable

A reconciliation of grants payable is as follows:

	2017	2016
Grants payable, July 1	\$ 4,937,113	\$ 6,646,696
Grants approved	1,845,566	1,842,067
Grants paid	(3,385,701)	(3,757,328)
Change in discount to present value	147,583	205,678
Grants payable, June 30	\$ 3,544,561	\$ 4,937,113

The Foundation received grant refunds of \$103,784 and \$60,778 in fiscal years 2017 and 2016, respectively.

The Foundation operates on a five year grant cycle, and the current cycle is FY2015–FY2019. The majority of grants paid annually are for multi-year grant commitments made during FY2014, to be paid through the year ended June 30, 2019.

NOTE 6
(continued)

Grants payable as of June 30, 2017 are discounted to present value using a 5% rate and are expected to be paid over the next two years as follows:

2018	2,406,385
2019	1,195,085
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	3,601,470
Discount	(56,909)
	<hr/>
	\$3,544,561

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 expenses for the retirement plan for the years ended June 30, 2017 and 2016 totaled \$50,677 and \$56,181, 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 2017 and 2016, 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 rate is not determinable until the year in which gains are realized.

Deferred Federal excise tax expense of \$238,290 and recovery of \$178,956 have been recorded for fiscal years ending June 30, 2017 and 2016, respectively.

NOTE 9
Concentration of Risk

During the years ended June 30, 2017 and 2016, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.