



**FINANCIAL  
REVIEW**



## INDEPENDENT AUDITOR'S REPORT

Samuel H. Kress Foundation  
Board of Trustees

### *Opinion*

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, 2023 and 2022 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Samuel H. Kress Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Samuel H. Kress Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

*Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with Generally Accepted Auditing Standards (GAAS) will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Samuel H. Kress Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Samuel H. Kress Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 26, 2023



Agnolo Gaddi (Italian, c. 1350–1396)  
*Madonna and Child Adored by Two Angels (also,  
Madonna of Humility)*, late 14th century  
Tempera on panel  
Samuel H. Kress Collection  
University of Arizona Museum of Art, Tucson, AZ

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2023 and 2022

	2023	2022
<b>Assets</b>		
Investments, at fair value	\$ 79,883,665	\$ 74,070,253
Operating cash	510,021	499,025
Accrued interest and dividends receivable	27,945	15,088
Prepaid expenses and other assets	53,827	75,811
Property and equipment, net of accumulated depreciation	1,133,307	1,085,548
<b>Total Assets</b>	<b>\$ 81,608,765</b>	<b>\$ 75,745,725</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 3,061,443	\$ 3,464,181
Accounts payable and accrued expenses	173,005	79,080
Deferred Federal excise tax payable	141,644	22,035
<b>Total Liabilities</b>	<b>3,376,092</b>	<b>3,565,296</b>
Net Assets without Donor Restriction	78,232,673	72,180,429
<b>Total Liabilities and Net Assets</b>	<b>\$ 81,608,765</b>	<b>\$ 75,745,725</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2023 and 2022

	2023	2022
<b>Revenue</b>		
Net investment return	\$ 10,488,511	\$ (16,733,255)
Less:		
Federal excise tax	23,111	62,711
Deferred federal excise tax (recovery)	119,609	(298,098)
	142,720	(235,387)
<b>Investment Return Net of Taxes</b>	<b>10,345,791</b>	<b>(16,497,868)</b>
<b>Grants and Expenses</b>		
Grants authorized	2,797,329	2,075,270
Program administration	586,830	508,762
	3,384,159	2,584,032
Investment administration	220,913	201,080
Management and general	688,475	657,623
<b>Total Grants and Expenses</b>	<b>4,293,547</b>	<b>3,442,735</b>
<b>CHANGE IN NET ASSETS FOR YEAR</b>	<b>6,052,244</b>	<b>(19,940,603)</b>
Net Assets, beginning of year	72,180,429	92,121,032
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 78,232,673</b>	<b>\$ 72,180,429</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2023 and 2022

	2023	2022
<b>Cash Flows Provided (Used)</b>		
From operating activities:		
Change in Net Assets for Year	\$ 6,052,244	\$ (19,940,603)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	85,421	89,025
<i>Net realized gain on investments</i>	(1,500,606)	(4,522,209)
<i>Change in unrealized appreciation of investments</i>	(8,604,956)	21,445,902
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(12,857)	15,674
<i>Prepaid expenses and other assets</i>	21,984	(25,578)
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(402,738)	(1,120,398)
<i>Accounts payable and accrued expenses</i>	93,925	3,685
<i>Deferred Federal excise tax payable</i>	119,609	(298,098)
Cash Used in Operating Activities	(4,147,974)	(4,352,600)
From investing activities:		
Capital expenditures	(133,180)	(146,218)
Proceeds from sale of investments	29,747,192	22,761,799
Purchases of investments	(25,455,042)	(18,324,777)
Cash Provided by Investing Activities	4,158,970	4,290,804
Net increase (decrease) in cash for year	10,996	(61,796)
Cash, Beginning of Year	499,025	560,821
<b>Cash, End of Year</b>	<b>\$ 510,021</b>	<b>\$ 499,025</b>
Supplemental Information:		
<b>Taxes paid</b>	<b>\$ —</b>	<b>\$ 85,000</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF FUNCTIONAL EXPENSES

## EXHIBIT D

Samuel H. Kress Foundation  
Years Ended June 30, 2023 and 2022

	<b>2023</b>			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 2,797,329			\$ 2,797,329
Salaries	312,279	\$ 102,983	\$ 328,286	743,548
Payroll taxes and benefits	125,511	40,864	126,933	293,308
Professional and consulting fees	53,970	9,872	40,072	103,914
Trustee honoraria	—	3,630	7,370	11,000
Occupancy and maintenance	41,664	13,565	41,664	96,893
Travel and meetings	10,189	16,589	37,134	63,912
Printing and publications	—	—	8,503	8,503
Office expenses	43,217	12,055	34,447	89,719
Depreciation	—	21,355	64,066	85,421
Subtotal	586,830	220,913	688,475	1,496,218
	<b>\$ 3,384,159</b>	<b>\$ 220,913</b>	<b>\$ 688,475</b>	<b>\$ 4,293,547</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT D  
continued

Samuel H. Kress Foundation  
Years Ended June 30, 2023 and 2022

	2022			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 2,075,270			\$ 2,075,270
Salaries	304,870	\$ 98,335	\$ 310,947	714,152
Payroll taxes and benefits	121,869	39,678	123,413	284,960
Professional and consulting fees	5,809	1,891	38,557	46,257
Trustee honoraria	—	5,280	10,720	16,000
Occupancy and maintenance	39,588	12,889	39,588	92,065
Travel and meetings	5,783	9,886	22,439	38,108
Printing and publications	—	—	5,989	5,989
Office expenses	30,843	10,865	39,201	80,909
Depreciation	—	22,256	66,769	89,025
Subtotal	508,762	201,080	657,623	1,367,465
	<b>\$ 2,584,032</b>	<b>\$ 201,080</b>	<b>\$ 657,623</b>	<b>\$ 3,442,735</b>

The accompanying notes are an integral part of these financial statements.

Samuel H. Kress Foundation  
June 30, 2023

**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. The Foundation’s primary source of revenue is from investments.

**NOTE 2**  
**Summary of Significant**  
**Accounting Policies**

*Basis of Presentation*

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 are recorded when received. Realized and unrealized gains and losses are included in the change in net assets shown on the statement of activities.

*Fair Value Measurements*

The Foundation follows U.S. 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 I inputs have the

**NOTE 2**  
**(continued)**

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. 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.

*Expense Allocation Methodology*

The financial statements report certain categories of expenses, such as occupancy and maintenance, travel and meetings, and office expense that are attributable to one or more program or supporting function of

the Foundation. These expenses are allocated based on estimated time and use. In addition, salary and related benefit costs are allocated based on time and effort of staff.

#### *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.

#### *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 periods prior to June 30, 2020.

#### *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, 2023 through October 26, 2023, which was the date the financial statements were available to be issued.

**NOTE 3**  
**Investments**

A summary of investments reported by major categories is as follows:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 7,248,335	\$ 7,248,335	\$ 5,272,670	\$ 5,272,670
Common stock	—	—	7,983,893	7,253,864
Large capital equity funds	5,000,000	8,358,750	6,000,000	8,447,243
Global strategy equity funds	13,036,898	11,937,597	8,500,000	6,035,292
International bond fund	3,868,369	3,680,522	4,208,971	3,687,661
Fixed income fund	4,670,992	4,334,614	8,846,868	8,111,460
Emerging market fund	—	—	3,498,316	3,930,802
Hedge funds	16,652,281	19,986,887	19,177,570	20,586,628
Special situation funds	8,834,968	13,955,339	9,006,768	10,754,681
	59,311,843	69,502,044	72,495,056	74,080,301
Net receivable for pending trades	10,381,621	10,381,621	(10,048)	(10,048)
	<b>\$ 69,693,464</b>	<b>\$ 79,883,665</b>	<b>\$ 72,485,008</b>	<b>\$ 74,070,253</b>

**NOTE 3**  
**(continued)**

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

Description	Level I	2023	
		Investments Valued at NAV	Total
Large capital equity funds	\$ —	\$ 8,358,750	\$ 8,358,750
Global strategy equity funds	8,401,946	3,535,651	11,937,597
International bond fund	—	3,680,522	3,680,522
Fixed income fund	4,334,614	—	4,334,614
Hedge funds	—	19,986,887	19,986,887
Special situation funds	—	13,955,339	13,955,339
Short-term cash investments and pending trades			17,629,956
	<b>\$ 12,736,560</b>	<b>\$ 49,517,149</b>	<b>\$ 79,883,665</b>

Description	Level I	2022	
		Investments Valued at NAV	Total
Common stock			
Information technology	\$ 2,419,420	\$ —	\$ 2,419,420
Industrials	1,662,283	—	1,662,283
Financials	1,352,123	—	1,352,123
Consumer discretionary	886,019	—	886,019
Other	934,019	—	934,019
Large capital equity funds	—	8,447,243	8,447,243
Global strategy equity funds	—	6,035,292	6,035,292
International bond fund	—	3,687,661	3,687,661
Fixed income fund	8,111,460	—	8,111,460
Emerging markets fund	—	3,930,802	3,930,802
Hedge funds	—	20,586,628	20,586,628
Special situation funds	—	10,754,681	10,754,681
Short-term cash investments and pending trades			5,262,622
	<b>\$ 15,365,324</b>	<b>\$ 53,442,307</b>	<b>\$ 74,070,253</b>

**NOTE 3**  
**(continued)**

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2023 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency (if currently eligible)	Redemption Notice Period
Large capital equity funds (a)	\$ 8,358,750	—	Quarterly up to 25%/33%	45–60 days
Global equity strategy fund (b)	3,535,651	—	Quarterly	60 days
International bond fund (c)	3,680,522	—	Semi-monthly	5 days
Hedge funds (d)	9,648,133	—	Monthly-Quarterly	30–90 days
Hedge funds (d)	10,338,754	—	Semi-annually over 3 years	60–180 days
Special situation funds (e)	3,365,162	—	Quarterly - 20% gate	180 days
Special situation funds (e)	4,417,446	—	Semi-annually over 3 years	180 days
Special situation funds (e)	6,172,731	—	Annually up to 5%	90 days
	<b>\$ 49,517,149</b>	<b>\$ —</b>		

(a) *Large capital equity funds* consist of two investment funds that seek to achieve favorable returns through investing in U.S. long-only equities.

(b) *Global equity strategy fund* consists of one investment fund that focuses on venture capital and emerging markets in Asia.

(c) *International bond fund* consists of one investment which focuses on achieving favorable returns from a globally diversified portfolio of debt or debt-like securities.

(d) *Hedge funds* consist 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. Three funds have restrictions on redemptions spanning three years and one fund is in the process of redemption.

(e) *Special situation funds* consist of three funds which seek to invest in undervalued companies that may be overlooked or misunderstood, in order to generate favorable, high returns. The funds have limitation on annual withdrawals and full redemptions over three to five years.

**NOTE 4**  
**Investment Return**

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

	<u>2023</u>	<u>2022</u>
Interest	\$ 15,411	\$ 373
Dividends	772,181	624,297
Realized gains on sale of investments	1,500,606	4,522,209
Net change in unrealized appreciation	8,604,956	(21,445,902)
Direct investment expenses	(404,643)	(434,232)
	<u><b>\$ 10,488,511</b></u>	<u><b>\$ (16,733,255)</b></u>

**NOTE 5**  
**Liquidity and**  
**Availability of**  
**Financial Assets**

The following reflects the Samuel H. Kress Foundation's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use within one year of that date due to contractual or donor-imposed restrictions:

	<u>2023</u>	<u>2022</u>
Investments, at fair value	\$ 79,883,665	\$ 74,070,253
Operating cash	510,021	499,025
Accrued interest and dividends receivable	27,945	15,088
	80,421,631	74,584,366
Less: Illiquid investments	11,150,700	9,720,978
	<u><b>\$ 69,270,931</b></u>	<u><b>\$ 64,863,388</b></u>

Annually the Foundation determines its budget for grants, programs and supporting services in accordance with its spending guidelines. The investment committee, with the assistance of its investment advisor, determines which investments to redeem to meet cash needs.

**NOTE 6**  
**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 a flat rate of 1.39%.

Deferred federal excise tax on unrealized appreciation of investments is provided at the 1.39% tax rate.

Deferred federal excise expense for 2023 was \$119,609. For 2022, there was a recovery of \$298,098.

**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 for the retirement plan for the years ended June 30, 2023 and 2022 totaled \$66,904 and \$62,230, 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**  
**Grants Payable**

A reconciliation of grants payable is as follows:

	<u>2023</u>	<u>2022</u>
Grants payable, July 1	\$ 3,464,181	\$ 4,584,579
Grants approved	2,864,007	1,979,936
Grants paid	(3,283,807)	(3,218,485)
Change in discount to present value	17,062	118,151
<b>Grants payable, June 30</b>	<b>\$ 3,061,443</b>	<b>\$ 3,464,181</b>

The Foundation received grant refunds of \$83,740 and \$22,817 in fiscal years 2023 and 2022, respectively.

**NOTE 8**  
**(continued)**

The Foundation operates on a five-year grant cycle, and the current cycle is FY2020–FY2024. The majority of grants paid during FY2023 were the fourth payment for multi-year grant commitments made during FY2019.

In FY2023 the current five-year grant cycle (2020-2024) was extended by one year and now ends in the year ending June 30, 2025.

Grants payable in future years are discounted at a risk-free rate of 5% and are expected to be paid as follows:

2024	\$ 1,914,300
2025	<u>1,204,500</u>
	3,118,800
Discount	<u>57,357</u>
	<b><u>\$ 3,061,443</u></b>

**NOTE 9**  
**Property and**  
**Equipment**

Property and equipment consist of the following:

	<b>2023</b>	<b>2022</b>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	<u>1,536,364</u>	<u>1,403,184</u>
	4,840,922	4,707,742
Less: Accumulated depreciation	<u>3,707,615</u>	<u>3,622,194</u>
<b>Net Property and Equipment</b>	<b><u>\$ 1,133,307</u></b>	<b><u>\$ 1,085,548</u></b>

Depreciation expense for 2023 and 2022 was \$85,421 and \$89,025, respectively.

**NOTE 10**  
**Concentration of Risk**

During the years ended June 30, 2023 and 2022, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.