



**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, 2022 and 2021 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, 2022 and 2021 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 black ink that reads "Owen J. Flanagan & Co." in a cursive script.

October 27, 2022



Unknown South German Artist
Venus, c. 1500
Samuel H. Kress Collection
National Gallery of Art, Washington, DC

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

Samuel H. Kress Foundation
June 30, 2022 and 2021

	2022	2021
Assets		
Investments, at fair value	\$ 74,070,253	\$ 95,430,968
Operating cash	499,025	560,821
Accrued interest and dividends receivable	15,088	30,762
Prepaid expenses and other assets	75,811	50,233
Property and equipment, net of accumulated depreciation	1,085,548	1,028,355
Total Assets	\$ 75,745,725	\$ 97,101,139
Liabilities and Net Assets		
Liabilities		
Grants payable	\$ 3,464,181	\$ 4,584,579
Accounts payable and accrued expenses	79,080	75,395
Deferred Federal excise tax payable	22,035	320,133
Total Liabilities	3,565,296	4,980,107
Net Assets without Donor Restriction	72,180,429	92,121,032
Total Liabilities and Net Assets	\$ 75,745,725	\$ 97,101,139

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

STATEMENTS OF ACTIVITIES

EXHIBIT B

Samuel H. Kress Foundation
Years Ended June 30, 2022 and 2021

	2022	2021
Revenue		
Net investment return	\$ (16,733,255)	\$ 21,233,487
Less:		
Federal excise tax	62,711	53,210
Deferred federal excise tax (recovery)	(298,098)	239,421
	(235,387)	292,631
Investment Return Net of Taxes	(16,497,868)	20,940,856
Grants and Expenses		
Grants authorized	2,075,270	1,290,364
Program administration	508,762	464,885
	2,584,032	1,755,249
Investment administration	201,080	180,807
Management and general	657,623	669,472
Total Grants and Expenses	3,442,735	2,605,528
CHANGE IN NET ASSETS FOR YEAR	(19,940,603)	18,335,328
Net Assets, beginning of year	92,121,032	73,785,704
NET ASSETS, END OF YEAR	\$ 72,180,429	\$ 92,121,032

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, 2022 and 2021

	2022	2021
Cash Flows Provided (Used)		
From operating activities:		
Change in Net Assets for Year	\$ (19,940,603)	\$ 18,335,328
Adjustments to reconcile change in net assets to net cash used in operating activities:		
<i>Depreciation</i>	89,025	144,468
<i>Net realized gain on investments</i>	(4,522,209)	(3,751,291)
<i>Change in unrealized appreciation of investments</i>	21,445,902	(17,224,558)
(Increase) decrease in assets:		
<i>Grant refund receivable</i>	—	60,557
<i>Accrued interest and dividends receivable</i>	15,674	(17,985)
<i>Prepaid expenses and other assets</i>	(25,578)	21,084
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,120,398)	(1,206,365)
<i>Accounts payable and accrued expenses</i>	3,685	10,255
<i>Deferred Federal excise tax payable</i>	(298,098)	239,421
Cash Used in Operating Activities	(4,352,600)	(3,389,086)
From investing activities:		
Capital expenditures	(146,218)	(72,021)
Proceeds from sale of investments	22,761,799	16,070,996
Purchases of investments	(18,324,777)	(12,696,088)
Cash Provided by Investing Activities	4,290,804	3,302,887
Net decrease in cash for year	(61,796)	(86,199)
Cash, Beginning of Year	560,821	647,020
Cash, End of Year	\$ 499,025	\$ 560,821
Supplemental Information:		
Taxes paid	\$ 85,000	\$ 27,577

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, 2022 and 2021

	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
	\$ 2,584,032	\$ 201,080	\$ 657,623	\$ 3,442,735

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, 2022 and 2021

	2021			
	Grants and Program Administration	Investment Administration	Management and General	Total
Grants	\$ 1,290,364			\$ 1,290,364
Salaries	296,295	\$ 92,870	\$ 312,992	702,157
Payroll taxes and benefits	116,306	35,162	123,011	274,479
Professional and consulting fees	6,158	1,862	41,100	49,120
Trustee honoraria	—	—	—	—
Occupancy and maintenance	23,560	7,123	24,108	54,791
Travel and meetings	924	279	945	2,148
Printing and publications	—	—	5,132	5,132
Office expenses	21,642	7,394	53,833	82,869
Depreciation	—	36,117	108,351	144,468
Subtotal	464,885	180,807	669,472	1,315,164
	\$ 1,755,249	\$ 180,807	\$ 669,472	\$ 2,605,528

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

Samuel H. Kress Foundation
June 30, 2022

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. Effective July 1, 2020, the Foundation adopted ASU 2018-08 regarding conditional grants and exchange transactions. The adoption of this ASU did not materially change the grant reporting for the Foundation.

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, 2019.

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, 2022 through October 27, 2022, 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:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 5,272,670	\$ 5,272,670	\$ 2,270,524	\$ 2,270,524
Common stock	7,983,893	7,253,864	8,264,280	10,998,910
Large capital equity funds	6,000,000	8,447,243	8,611,900	13,509,990
Global strategy equity fund	8,500,000	6,035,292	3,500,000	4,712,053
International equity fund	—	—	5,887,771	6,537,114
International bond fund	4,208,971	3,687,661	4,461,676	4,437,849
Fixed income funds	8,846,868	8,111,460	8,310,559	8,528,228
Emerging market funds	3,498,316	3,930,802	3,350,031	4,520,020
Hedge funds	19,177,570	20,586,628	19,128,160	25,804,687
Special situation funds	9,006,768	10,754,681	8,614,921	14,111,593
	72,495,056	74,080,301	72,399,822	95,430,968
Net receivable for pending trades	(10,048)	(10,048)	—	—
	\$72,485,008	\$ 74,070,253	\$ 72,399,822	\$ 95,430,968

NOTE 3
(continued)

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

			2022
Description	Level I	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 fund	—	6,035,292	6,035,292
International bond fund	—	3,687,661	3,687,661
Fixed income funds	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
	\$ 15,365,324	\$ 53,442,307	\$ 74,070,253
			2021
Description	Level I	Investments Valued at	
		NAV	Total
Common stock			
Financial	\$ 2,227,159	\$ —	\$ 2,227,159
Information technology	3,126,633	—	3,126,633
Consumer discretionary	1,820,533	—	1,820,533
Industrials	2,220,123	—	2,220,123
Other	1,604,462	—	1,604,462
Large capital equity funds	3,630,097	9,879,893	13,509,990
Global strategy equity fund	—	4,712,053	4,712,053
International equity fund	—	6,537,114	6,537,114
International bond fund	—	4,437,849	4,437,849
Fixed income funds	8,528,228	—	8,528,228
Emerging markets fund	—	4,520,020	4,520,020
Hedge funds	—	25,804,687	25,804,687
Special situation funds	—	14,111,593	14,111,593
Short-term cash investments and pending trades			2,270,524
	\$ 23,157,235	\$ 70,003,209	\$ 95,430,968

NOTE 3
(continued)

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2022 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency
Large capital equity funds (a)	\$ 8,447,243	\$ —	Quarterly up to 25% / 33%
Global equity strategy fund (b)	3,206,670	—	Monthly
Global equity strategy fund (c)	2,828,622	—	Beginning 12/22 - Quarterly
International bond fund (d)	3,687,661	—	Semi-monthly
Emerging markets fund (e)	3,930,802	—	Monthly
Hedge funds (f)	9,801,870	—	Monthly— Quarterly
Hedge funds (f)	10,784,758	—	Semi-annually over 3 years
Special situation funds (g)	2,483,988	—	Quarterly - 20% gate
Special situation funds (g)	3,347,477	—	Semi-annually over 3 years
Special situation funds (g)	4,923,216	—	Annually up to 5%
	\$ 53,442,307	\$ —	

(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 equity funds* consist of one investment which focuses on long-term growth through investing in diversified portfolios of equity securities of companies outside the United States.

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

(e) *Emerging markets fund* consists of one fund focused on achieving

NOTE 3
(continued)

long-term capital appreciation by investing in companies that are located in emerging market economies.

(f) *Hedge funds* consist of nine 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.

(g) *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:

	2022	2021
Interest	\$ 373	\$ 599
Dividends	624,297	719,875
Realized gains on sale of investments	4,522,209	3,751,291
Net change in unrealized appreciation	(21,445,902)	17,224,558
Direct investment expenses	(434,232)	(462,836)
	\$ (16,733,255)	\$ 21,233,487

NOTE 5
Liquidity and Availability of Financial Assets

The following reflects the Samuel H. Kress Foundation's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use within one year of that date due to contractual or donor-imposed restrictions:

	2022	2021
Investments, at fair value	\$ 74,070,253	\$ 95,430,968
Operating cash	499,025	560,821
Accrued interest and dividends receivable	15,088	30,762
	74,584,366	96,022,551
Less: Illiquid investments	9,720,978	15,972,218
	\$ 64,863,388	\$ 80,050,333

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 2022 was \$298,098. For 2021, there was an expense of \$239,421.

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, 2022 and 2021 totaled \$62,230 and \$65,573, 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>2022</u>	<u>2021</u>
Grants payable, July 1	\$ 4,584,579	\$ 5,790,944
Grants approved	1,979,936	1,149,550
Grants paid	(3,218,485)	(2,539,100)
Change in discount to present value	118,151	183,185
Grants payable, June 30	\$ 3,464,181	\$ 4,584,579

The Foundation received grant refunds of \$22,817 and \$42,372 in fiscal years 2022 and 2021, 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 FY2022 were the third payment for multi-year grant commitments made during FY2019.

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

2023	\$ 1,975,800
2024	<u>1,562,800</u>
	3,538,600
Discount	<u>74,419</u>
	<u>\$ 3,464,181</u>

NOTE 9
Property and Equipment

Property and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	<u>1,403,184</u>	<u>1,256,966</u>
	4,707,742	4,561,524
Less: Accumulated depreciation	<u>3,622,194</u>	<u>3,533,169</u>
Net Property and Equipment	<u>\$ 1,085,548</u>	<u>\$ 1,028,355</u>

Depreciation expense for 2022 and 2021 was \$89,025 and \$144,468, respectively.

NOTE 10
Concentration of Risk

During the years ended June 30, 2022 and 2021, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.