JERONE FOUNDATION, INC.

Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended April 30, 2013 and 2012

JEROME FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Jerome Foundation, Inc.
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Jerome Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of April 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Foundation as of April 30, 2013 and 2012, 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 26, 2013

JEROME FOUNDATION, INC

STATEMENTS OF FINANCIAL POSITION
As of April 30, 2013 and 2012

ASSETS

	2013	2012
Cash and cash equivalents	$ 31,102	$ 225,198
Prepaid expenses and other receivables	-	2,595
Prepaid excise tax	21,315	24,918
Investments	84,751,593	77,968,907
Beneficial interest in charitable remainder trust	2,787,849	3,196,150
TOTAL ASSETS	$ 87,591,859	$ 81,417,768

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Grant commitments payable	$ 1,013,478	$ 736,909
Accounts payable	3,463	18,293
Deferred excise tax payable	87,360	3,100
Total Liabilities	1,104,301	758,302
NET ASSETS		
Unrestricted		
Undesignated	83,305,067	77,105,168
Board designated	394,642	358,148
Total unrestricted net assets	83,699,709	77,463,316
Temporarily restricted	2,787,849	3,196,150
Total Net Assets	86,487,558	80,659,466
TOTAL LIABILITIES AND NET ASSETS	$ 87,591,859	$ 81,417,768

See accompanying notes to financial statements.

JEROME FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended April 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING						
SUPPORT AND REVENUE						
Contributions	$ 35,000	$ -	$ 35,000	$ 35,096	$ -	$ 35,096
Spending allowance appropriation	3,607,703	-	3,607,703	3,460,407	-	3,460,407
Other income	500	-	500	-	-	-
	3,643,203	-	3,643,203	3,495,503	-	3,495,503
Net assets released from restrictions	750,000	(750,000)	-	-	-	-
Total Support and Revenue	4,393,203	(750,000)	3,643,203	3,495,503	-	3,495,503
EXPENSES						
Grants awarded	3,440,075	-	3,440,075	2,857,329	-	2,857,329
Salaries and benefits	649,524	-	649,524	645,781	-	645,781
Office and other expenses	188,459	-	188,459	158,398	-	158,398
Total Expenses	4,278,058	-	4,278,058	3,661,508	-	3,661,508
CHANGE IN NET ASSETS - OPERATING	115,145	(750,000)	(634,855)	(166,005)	-	(166,005)
NONOPERATING						
Interest	710,423	-	710,423	748,987	-	748,987
Dividends	1,599,375	-	1,599,375	1,355,375	-	1,355,375
Net gain (loss) on investments	7,710,542	-	7,710,542	(491,006)	-	(491,006)
Spending allowance appropriation	(3,607,703)	-	(3,607,703)	(3,460,407)	-	(3,460,407)
Federal excise tax benefit (provision)	(105,863)	-	(105,863)	75,218	-	75,218
Investment and agent fees	(185,526)	-	(185,526)	(169,881)	-	(169,881)
Change in value of beneficial interest in charitable remainder trust	-	341,699	341,699	-	95,034	95,034
CHANGE IN NET ASSETS - NONOPERATING	6,121,248	341,699	6,462,947	(1,941,714)	95,034	(1,846,680)
TOTAL CHANGE IN NET ASSETS	6,236,393	(408,301)	5,828,092	(2,107,719)	95,034	(2,012,685)
NET ASSETS - Beginning of Year	77,463,316	3,196,150	80,659,466	79,571,035	3,101,116	82,672,151
NET ASSETS - End of Year	$ 83,699,709	$ 2,787,849	$ 86,487,558	$ 77,463,316	$ 3,196,150	$ 80,659,466

See accompanying notes to financial statements.

JEROME FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2013 and 2012

	2013	2012
CASH FLOWS USED FOR OPERATING ACTIVITIES		
Change in net assets	$ 5,828,092	$ (2,012,685)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	-	2,738
Net (gain) loss on investments	(7,710,542)	505,457
Change in beneficial interest in value of charitable remainder trust	408,301	(95,034)
Changes in operating assets and liabilities		
Prepaid expenses and other receivables	2,595	(1,396)
Prepaid excise tax	3,603	9,982
Grant commitments payable	276,569	(36,123)
Accounts payable	(14,830)	9,965
Deferred excise tax payable	84,260	(102,200)
Net Cash Flows Used For Operating Activities	(1,121,952)	(1,719,296)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,120,548)	(2,156,113)
Proceeds from sales of investments	4,048,404	3,961,719
Net Cash Flows From Investing Activities	927,856	1,805,606
Net Change in Cash and Cash Equivalents	(194,096)	86,310
CASH AND CASH EQUIVALENTS - Beginning of Year	225,198	138,888
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 31,102	$ 225,198
Supplemental dislosure of cash flow information		
Cash paid during the year for excise tax	$ 18,000	$ 17,000

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Jerome Foundation, Inc. (the "Foundation") is a private foundation incorporated under the laws of Minnesota. Grants are made to support programs and projects located in the State of Minnesota and New York City in the areas of dance, literature, film and video, multidisciplinary arts, music, theater, and visual arts.

Net Assets

Net assets, revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Resources over which the Board of Directors (the "Board") has discretionary control. Board designated amounts represent net assets set aside for individual grants in the Minnesota Film and Video Program, New York City Film and Video Program, and Travel and Study Program that are not yet committed to individuals.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Temporarily restricted net assets consist of the value of the Foundation's beneficial interest in a charitable remainder trust.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on the assets. The Foundation currently has no permanently restricted net assets at April 30, 2013 and 2012.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash and cash equivalents.

Beneficial Interest in Charitable Remainder Trust

The Foundation is named as a beneficiary of a charitable remainder trust, which allows for a distribution to the Foundation after the death of the named beneficiaries. The Foundation is not the trustee and therefore does not control or have access to the assets of the trust. The Foundation's interest in the trust is reported as fair value of the assets of the trust less the present value of estimated future payments to the noncharitable beneficiaries based on the life expectancy using a discount rate of 6%.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Foundation records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair market value at date of the gift, if donated. All acquisitions of property and equipment in excess of $3,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized and are depreciated using the straight-line method over their estimated useful lives. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Contribution Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Tax-Exempt Status

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law. Due to the Foundation's classification as a private foundation under the Internal Revenue Code, it pays an excise tax of 2% (reduced to 1% if certain requirements are met) of its net taxable investment income. However, any unrelated business income may be subject to taxation. The Foundation is not currently under examination by any taxing jurisdiction.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of April 30, 2013 and 2012. The Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2010 and thereafter are open to examination by federal and state authorities.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Expenses

Grants and expenses associated with the Foundation's direct charitable activities are considered to be program expenses, while other expenses of the Foundation are considered to be management and general expenses.

Grants

Grant commitments are charged to operations at the time the grants are approved by the Board of Directors.

Concentration of Credit Risk

At times during the year, the Foundation may have cash in excess of federally insured limits of $250,000 per financial institution. Substantially all investments are held by one custodian, Vanguard.

Measure of Operations

In its Statement of Activities and Changes in Net Assets, the Foundation includes in its definition of operations all support, revenues, and expenses that are an integral part of its programs and supporting activities. Non-operating activity consists primarily of interest, dividends, net realized and unrealized gains and losses, investment and agent fees, federal excise tax provision, and change in value of beneficial interest in the charitable remainder trust.

Fair Value of Financial Instruments

The carrying amounts reflected on the Statement of Financial Position for cash and cash equivalents, grant commitments and other payables, and prepaid excise tax approximate fair value due to the short maturity of these financial instruments. The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories. There have been no changes in the techniques and inputs used at April 30, 2013 and 2012.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include investments in money market funds and short-term investments and mutual funds for which quoted prices are readily available.

Level 3 - Level 3 assets include investments in timber and timberlands and a beneficial interest in remainder trusts for which there is no readily determinable fair value as the valuations are based on significant unobservable inputs. The Foundation has estimated fair value of the timber and timberlands using an independent appraisal by a forestry consultant. The Foundation's beneficial interest in a remainder trust is administered by a third party and fair value is based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of April 30, 2013 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds and short-term investments	$ 548,297	$ 548,297	$ -	$ -
Mutual funds - domestic stocks	47,866,252	47,866,252	-	-
Mutual funds - international stocks	15,468,554	15,468,554	-	-
Mutual funds - bonds	19,099,290	19,099,290	-	-
Timber and timberlands	1,769,200	-	-	1,769,200
Beneficial interest in charitable remainder trust	2,787,849	-	-	2,787,849
Total	$ 87,539,442	$ 82,982,393	$ -	$ 4,557,049

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of April 30, 2012 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds and short-term investments	$ 55,795	$ 55,795	$ -	$ -
Mutual funds - domestic stocks	44,346,580	44,346,580	-	-
Mutual funds - international stocks	13,422,163	13,422,163	-	-
Mutual funds - bonds	18,464,452	18,464,452	-	-
Timber and timberlands	1,679,917	-	-	1,679,917
Beneficial interest in charitable remainder trust	3,196,150	-	-	3,196,150
Total	$ 81,165,057	$ 76,288,990	$ -	$ 4,876,067

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended April 30, 2013:

	Balances April 30, 2012	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances April 30, 2013
Timber and timberlands	$ 1,679,917	$ 89,283	$ -	$ -	$ 1,769,200
Beneficial interest in charitable remainder trust	3,196,150	341,699	(750,000)	-	2,787,849
Total	$ 4,876,067	$ 430,982	$ (750,000)	$ -	$ 4,557,049

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at April 30, 2013	$ 430,982

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended April 30, 2012:

	Balances April 30, 2011	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances April 30, 2012
Timber and timberlands	$ 1,602,200	$ 77,717	$ -	$ -	$ 1,679,917
Beneficial interest in charitable remainder trust	3,101,116	95,034	-	-	3,196,150
Total	$ 4,703,316	$ 172,751	$ -	$ -	$ 4,876,067
The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at April 30, 2012					$ 172,751

NOTE 3 - SECURITIES LENDING

Prior to March 17, 2010, the Foundation, through its custodial bank, Wells Fargo lent its investment securities to registered broker-dealers. The borrower provided Wells Fargo collateral in an amount initially in excess of the loaned securities' aggregate value. Collateral was held and invested by investment custodian. The Foundation received either (i) a fee in the case of non-cash collateral or (ii) payment of a portion of earnings in the case of cash-collateral. The amount of collateral held was adjusted daily based on market value changes of the loaned securities. The borrower then returned identical securities to close the loan at which time the collateral was returned. As a part of the exit from this program during 2010, the Foundation was required to purchase a portion of the collateral. The carrying value of such collateral was written down to zero value in 2010 due to the uncertainty of its value.

For the years ended April 30, 2013 and 2012, the Foundation received $167,980 and $182,546, respectively from the previously impaired purchased collateral account and this amount is recorded as dividend revenue. Any subsequent receipts from this account will be similarly recorded as revenue in the year received.

NOTE 4 - INVESTMENTS

Long-term investments held by the Foundation at April 30 are as follows:

	2013	2012
Money market funds and short-term investments	$ 548,297	$ 55,795
Mutual fund – domestic stocks	47,866,252	44,346,580
Mutual fund- international stocks	15,468,554	13,422,163
Mutual fund - bonds	19,099,290	18,464,452
Timber and timberlands	1,769,200	1,679,917
	$ 84,751,593	$ 77,968,907

Realized gains associated with the Foundation's investments for the years ended April 30, 2013 and 2012 were $73,458 and $230,560, respectively. Unrealized gains (losses) associated with the Foundation's investments for the years ended April 30, 2013 and 2012 were $7,637,084 and ($721,566), respectively.

Investments, in general, are subject to various risks, including credit, interest, concentration and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property costs and accumulated depreciation at April 30 is as follows:

	2013	2012
Equipment	$ 56,985	$ 56,985
Vehicle	23,006	23,006
Leasehold improvements	66,524	66,524
Totals	146,515	146,515
Less: Accumulated depreciation	146,515	146,515
Net Property and Equipment	$ -	$ -

NOTE 6 - GRANT COMMITMENTS PAYABLE

Grant activity for the years ended April 30 is summarized as follows:

	2013	2012
Grant commitments payable, beginning of year	$ 736,909	$ 773,032
Grants awarded	3,440,075	2,857,329
Payments	(3,163,506)	(2,893,452)
Grant commitments payable, end of year	$ 1,013,478	$ 736,909

Grant commitments payable at April 30, 2013 are expected to be paid as follows:

Year Ending April 30:	
2014	$ 1,002,021
2015	11,457
Total Grant Commitments	$ 1,013,478

NOTE 7 - FEDERAL EXCISE TAX

The federal excise tax benefit (provision) consists of the following:

	2013	2012
Provision		
Current	$ (21,603)	$ (26,982)
Deferred	(84,260)	102,200
Totals	$ (105,863)	$ 75,218

The Foundation is subject to minimum distribution requirements of the Internal Revenue Code.

Deferred taxes result from certain income and expense items being accounted for in different time periods for financial statement purposes than for federal excise tax purposes. Deferred excise tax benefit (expense) arises from the change in unrealized appreciation (depreciation) in fair value of investments. The deferred excise tax benefit (provision) is calculated utilizing the 1% excise tax rate for the years ended April 30, 2013 and 2012.

NOTE 8 - RETIREMENT PLAN

The Foundation has a defined contribution profit-sharing and 401(k) plan for all eligible employees. Contributions are subject to the Board of Directors' discretion. Employer contributions for the year ended April 30, 2013 amounted to 6% of qualified compensation per individual employee. The Foundation also matched up to and including 3% of qualified compensation for any employee who contributed up to and including 3% to his/her retirement plan for the years ended April 30, 2013 and 2012, respectively. Retirement plan expense was $42,903 and $46,893 for the years ended April 30, 2013 and 2012, respectively.

NOTE 9 - FUNCTIONAL EXPENSES

The functional allocation of expenses for the years ended April 30 is as follows:

	2013	2012
Programs	$ 3,509,145	$ 2,924,318
Management and general	768,913	737,190
Totals	$ 4,278,058	$ 3,661,508

NOTE 10 - LEASE COMMITMENT

The Foundation has a non-cancelable operating lease for office space that expires September 30, 2018. The Foundation is required to pay base rent and its share of operating expenses. Rent expense related to this lease was $58,669 and $57,503 for the years ended April 30, 2013 and 2012, respectively. At April 30, 2013, the minimum lease payments were as follows:

Year Ending April 30:	
2014	$ 52,762
2015	53,566
2016	54,371
2017	55,175
2018	55,980
2019	23,465
Total Lease Commitments	$ 295,319

NOTE 11 - NET ASSETS

Temporarily restricted net assets as of April 30, 2013 and 2012 consist of funds related to the Foundation's beneficial interest in a charitable remainder trust.

	2013	2012
Beneficial interest in a charitable remainder trust	$ 2,787,849	$ 3,196,150

There was a release of restrictions totaling $750,000 for the year ended April 30, 2013. There was no release of restrictions for the year ended April 30, 2012.

NOTE 12 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through August 26, 2013 which is the date that the financial statements were approved and available to be issued.