

JEROME FOUNDATION, INC.
Saint Paul, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report
As of and for the Years Ended April 30, 2018 and 2017

JEROME FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Jerome Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of April 30, 2018 and 2017, and the related statements of activities and changes in net assets 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, 2018 and 2017, 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 8, 2018

JEROME FOUNDATION, INC

STATEMENTS OF FINANCIAL POSITION
As of April 30, 2018 and 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 436,116	\$ 215,394
Other receivables	2,184	1,558
Prepaid expenses	35,740	9,213
Investments (Notes 2 and 3)	99,603,219	95,347,659
Beneficial interest in charitable remainder trust (Notes 2 and 11)	4,300,166	3,788,131
Property and equipment, net (Note 5)	<u>13,210</u>	<u>21,959</u>
TOTAL ASSETS	<u>\$ 104,390,635</u>	<u>\$ 99,383,914</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grant commitments payable (Note 6)	\$ 3,923,464	\$ 2,355,290
Accounts payable	18,759	9,335
Accrued liabilities	46,708	47,910
Excise tax payable (Note 7)	-	79,786
Deferred excise tax payable (Note 7)	<u>469,161</u>	<u>455,842</u>
Total Liabilities	<u>4,458,092</u>	<u>2,948,163</u>
NET ASSETS		
Unrestricted	95,632,377	92,647,620
Temporarily restricted (Note 11)	<u>4,300,166</u>	<u>3,788,131</u>
Total Net Assets	<u>99,932,543</u>	<u>96,435,751</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 104,390,635</u>	<u>\$ 99,383,914</u>

See accompanying notes to financial statements.

JEROME FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended April 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING						
SUPPORT AND REVENUE						
Contributions	\$ 15,000	\$ -	\$ 15,000	\$ 15,000	\$ -	\$ 15,000
Spending allowance appropriation	<u>4,572,780</u>	<u>-</u>	<u>4,572,780</u>	<u>3,834,967</u>	<u>-</u>	<u>3,834,967</u>
Total Support and Revenue	<u>4,587,780</u>	<u>-</u>	<u>4,587,780</u>	<u>3,849,967</u>	<u>-</u>	<u>3,849,967</u>
EXPENSES						
Grants awarded, net of cancellations and refunds of \$0 in 2018 and \$35,641 in 2017 (Note 6)	5,161,845	-	5,161,845	4,452,962	-	4,452,962
Salaries and benefits	679,325	-	679,325	867,687	-	867,687
Office and other expenses	<u>423,251</u>	<u>-</u>	<u>423,251</u>	<u>298,127</u>	<u>-</u>	<u>298,127</u>
Total Expenses	<u>6,264,421</u>	<u>-</u>	<u>6,264,421</u>	<u>5,618,776</u>	<u>-</u>	<u>5,618,776</u>
CHANGE IN NET ASSETS - OPERATING	(1,676,641)	-	(1,676,641)	(1,768,809)	-	(1,768,809)
NONOPERATING						
Interest and dividends	2,129,653	-	2,129,653	2,305,262	-	2,305,262
Net gain (loss) on investments (Note 3)	7,378,396	-	7,378,396	8,727,785	-	8,727,785
Spending allowance appropriation	(4,572,780)	-	(4,572,780)	(3,834,967)	-	(3,834,967)
Federal excise tax expense (Note 7)	(190,249)	-	(190,249)	(581,871)	-	(581,871)
Investment and agent fees	(83,622)	-	(83,622)	(96,110)	-	(96,110)
Change in value of beneficial interest in charitable remainder trust	<u>-</u>	<u>512,035</u>	<u>512,035</u>	<u>-</u>	<u>501,059</u>	<u>501,059</u>
CHANGE IN NET ASSETS - NONOPERATING	<u>4,661,398</u>	<u>512,035</u>	<u>5,173,433</u>	<u>6,520,099</u>	<u>501,059</u>	<u>7,021,158</u>
TOTAL CHANGE IN NET ASSETS	2,984,757	512,035	3,496,792	4,751,290	501,059	5,252,349
NET ASSETS - Beginning of Year	<u>92,647,620</u>	<u>3,788,131</u>	<u>96,435,751</u>	<u>87,896,330</u>	<u>3,287,072</u>	<u>91,183,402</u>
NET ASSETS - End of Year	<u>\$ 95,632,377</u>	<u>\$ 4,300,166</u>	<u>\$ 99,932,543</u>	<u>\$ 92,647,620</u>	<u>\$ 3,788,131</u>	<u>\$ 96,435,751</u>

See accompanying notes to financial statements.

JEROME FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS USED FOR OPERATING ACTIVITIES		
Change in net assets	\$ 3,496,792	\$ 5,252,349
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	8,749	8,890
Net gain on investments	(7,378,396)	(8,727,785)
Change in beneficial interest in value of charitable remainder trust	(512,035)	(501,059)
Deferred excise tax expense	13,319	455,842
Changes in operating assets and liabilities		
Other receivables	(626)	205
Prepaid expense	(26,527)	
Excise tax payable	(79,786)	77,956
Grant commitments payable	1,568,174	1,169,817
Accrued liabilities	(1,202)	47,910
Accounts payable	9,424	6,503
	<u>(2,902,114)</u>	<u>(2,209,372)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,162,129)	(2,352,597)
Proceeds from sales of investments	5,284,965	4,404,036
Net Cash Flows From Investing Activities	<u>3,122,836</u>	<u>2,051,439</u>
Net Change in Cash and Cash Equivalents	220,722	(157,933)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>215,394</u>	<u>373,327</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 436,116</u>	<u>\$ 215,394</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for excise tax	<u>\$ 262,151</u>	<u>\$ 46,243</u>

See accompanying notes to financial statements.

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2018 and 2017

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, digital media, 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.

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, 2018 and 2017.

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 beneficiary. 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 beneficiary based on the life expectancy using a discount rate of 6%. During the year ended April 30, 2018, the Foundation received notice that the noncharitable beneficiary died, which resulted in a change in the Foundation's estimate of the future payments to the noncharitable beneficiary.

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2018 and 2017

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 and all expenditures for repairs, maintenance, improvements and betterments in excess of \$3,000 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 change in net assets.

Contributions

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. Any unrelated business income may also 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, 2018 and 2017. The Foundation's tax returns are subject to review and examination by federal and state authorities.

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.

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statements 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 the change in value of the beneficial interest in the charitable remainder trust.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. The Foundation is not expecting this standard will have a significant impact on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Foundation is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this standard will have on its financial statements.

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Foundation has evaluated subsequent events through August 8, 2018, which is the date that the financial statements were approved and available to be issued.

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, 2018 and 2017.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.
- 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 market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the Foundation's own data.

Valuation Techniques and Inputs

- Level 1 - Level 1 assets include investments in money market funds and mutual funds for which quoted prices are readily available.
- Level 2 - Level 2 assets include the Foundation's beneficial interest in a charitable remainder trust. The trust is administered by a third party and following the death of the noncharitable beneficiary in fiscal 2018, the Foundation's interest is based upon the fair value of the securities held in the trust, which are priced based upon quoted prices in active markets for identical assets and liabilities that the Foundation can access at the measurement date.
- Level 3 - Level 3 assets include investments in timber and timberlands and in fiscal 2017, a beneficial interest in a charitable remainder trust for which there is no readily determinable fair value as the valuation is 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 the 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).

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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, 2018 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and short term investments	\$ 513,934	\$ 513,934	\$ -	\$ -
Mutual funds - domestic stocks	45,33,125	45,339,125	-	-
Mutual funds - international stocks	26,665,598	26,665,598	-	-
Mutual funds - bonds	24,617,562	24,617,562	-	-
Timber and timberlands	2,467,000	-	-	2,467,000
Beneficial interest in charitable remainder trust	<u>4,300,166</u>	<u>-</u>	<u>4,300,166</u>	<u>-</u>
Total	<u>\$ 103,903,385</u>	<u>\$ 97,136,218</u>	<u>\$ 4,300,166</u>	<u>\$ 2,467,000</u>

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of April 30, 2017 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and short-term investments	\$ 512,687	\$ 512,687	\$ -	\$ -
Mutual funds - domestic stocks	52,191,585	52,191,585	-	-
Mutual funds - international stocks	19,184,295	19,184,295	-	-
Mutual funds - bonds	21,097,092	21,097,092	-	-
Timber and timberlands	2,362,000	-	-	2,362,000
Beneficial interest in charitable remainder trust	<u>3,788,131</u>	<u>-</u>	<u>-</u>	<u>3,788,131</u>
Total	<u>\$ 99,135,790</u>	<u>\$ 92,985,659</u>	<u>\$ -</u>	<u>\$ 6,150,131</u>

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

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, 2018:

	Balances April 30, 2017	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, 2018
Timber and timberlands	\$ 2,362,000	\$ 105,000	\$ -	\$ -	\$ 2,467,000
Beneficial interest in charitable remainder trust	<u>3,788,131</u>	<u>512,035</u>	<u>-</u>	<u>(4,300,166)</u>	<u>-</u>
Total	<u>\$ 6,150,131</u>	<u>\$ 617,035</u>	<u>\$ -</u>	<u>\$ (4,300,166)</u>	<u>\$ 2,467,000</u>

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, 2018 \$ 105,000

During the year ended April 30, 2018 and upon the Foundation's receipt of notice of the death of the noncharitable beneficiary of a charitable remainder trust, the Foundation transferred the classification of the charitable remainder trust from Level 3 to Level 2.

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, 2017:

	Balances April 30, 2016	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, 2017
Timber and timberlands	\$ 2,271,500	\$ 222,446	\$ (131,946)	\$ -	\$ 2,362,000
Beneficial interest in charitable remainder trust	<u>3,287,072</u>	<u>501,059</u>	<u>-</u>	<u>-</u>	<u>3,788,131</u>
Total	<u>\$ 5,558,572</u>	<u>\$ 723,505</u>	<u>\$ (131,946)</u>	<u>\$ -</u>	<u>\$ 6,150,131</u>

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, 2017 \$ 591,559

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

NOTE 3 - INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Money market funds and short-term investments	\$ 513,934	\$ 512,687
Mutual fund - domestic stocks	45,339,125	52,191,585
Mutual fund - international stocks	26,665,598	19,184,295
Mutual fund - bonds	24,617,562	21,097,092
Timber and timberlands	<u>2,467,000</u>	<u>2,362,000</u>
	<u>\$ 99,603,219</u>	<u>\$ 95,347,659</u>

Realized gains associated with the Foundation's investments for the years ended April 30, 2018 and 2017 were \$6,698,509 and \$4,168,905, respectively. Unrealized gains (losses) associated with the Foundation's investments for the years ended April 30, 2018 and 2017 were \$679,887 and \$4,558,880, 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 4 - RELATED PARTY TRANSACTIONS

The Camargo Foundation, a legally separate operating foundation also founded by artist and philanthropist Jerome Hill, conducts artist in residency programs in Cassis, France. Since 2013, individual Directors who serve on the Board of the Foundation were also elected to serve as individual Trustees of the Camargo Foundation. In addition, the Foundation's President also served as the Director of the Camargo Foundation. During the fiscal year ended April 30, 2018, the governance of the two organization was restructured, which resulted in three of eight overlapping board members as of April 30, 2018 and a separation of the executive leadership of both organization. For the years ended April 30, 2018 and 2017, the Foundation awarded grants totaling \$145,500 and \$115,000, respectively, in support of Camargo Foundation's operations. As of April 30, 2018 and 2017, amounts due from the Foundation to the Camargo Foundation were \$3,000 and zero, respectively. In addition, the Foundation donated staff services, travel, and meeting support valued at \$56,675 and \$132,863 during the years ended April 30, 2018 and 2017, respectively.

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Equipment	\$ 63,725	\$ 63,725
Vehicle	28,821	28,821
Leasehold improvements	<u>66,524</u>	<u>66,524</u>
Totals	159,070	159,070
Less: Accumulated depreciation	<u>145,860</u>	<u>137,111</u>
Net Property and Equipment	<u>\$ 13,210</u>	<u>\$ 21,959</u>

NOTE 6 - GRANT COMMITMENTS PAYABLE

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

	<u>2018</u>	<u>2017</u>
Grant commitments payable, beginning of year	\$ 2,355,290	\$ 1,185,473
Grants awarded, net	5,161,844	4,452,962
Payments	<u>(3,593,670)</u>	<u>(3,283,145)</u>
Grant commitments payable, end of year	<u>\$ 3,923,464</u>	<u>\$ 2,355,290</u>

At April 30, 2018, grant commitments payable are expected to be paid as follows:

Year Ending April 30:	
2019	\$ 2,580,439
2020	<u>1,343,025</u>
Total Grant Commitments Payable	<u>\$ 3,923,464</u>

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

NOTE 7 - FEDERAL EXCISE TAX

The Foundation is subject to a 2% excise tax on its taxable investment income, which includes income from investments plus net realized capital gains. The tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain minimum requirements of the Internal Revenue Code. During the years ended April 30, 2017 and 2018, the Foundation's qualifying distributions did not meet the minimum requirements, which resulted in the determination of current tax expense based upon the 2% rate.

Deferred excise taxes are calculated based upon the 2% rate and result from the difference between the carrying value and tax basis of the Foundation's investments, as well as from certain income and expense items being accounted for in different time periods for financial statement purposes than for federal excise tax purposes.

The federal excise tax provision consists of the following:

	<u>2018</u>	<u>2017</u>
Current	\$ 176,930	\$ 126,029
Deferred	<u>13,319</u>	<u>455,842</u>
Totals	<u>\$ 190,249</u>	<u>\$ 581,871</u>

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 years ended April 30, 2018 and 2017 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, 2018 and 2017, respectively. Retirement plan expense was \$46,362 and \$47,665 for the years ended April 30, 2018 and 2017, respectively.

NOTE 9 - FUNCTIONAL EXPENSES

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

	<u>2018</u>	<u>2017</u>
Programs	\$ 5,161,845	\$ 4,452,962
Management and general	<u>1,102,576</u>	<u>1,165,814</u>
Totals	<u>\$ 6,264,421</u>	<u>\$ 5,618,776</u>

JEROME FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2018 and 2017

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 \$63,076 and \$59,285 for the years ended April 30, 2018 and 2017, respectively.

On March 27, 2018, the Foundation entered into a non-cancelable operating lease for new office space. The term of the new lease commences October 1, 2018 and expires September 30, 2028. The Foundation is required to pay base rent and its proportionate share of operating expenses.

At April 30, 2018, the minimum lease payments due under the lease agreements were as follows:

Year Ending April 30:		
2019	\$	41,105
2020		53,855
2021		55,475
2022		57,144
2023		58,855
Thereafter		<u>350,658</u>
Total Lease Commitments	\$	<u>617,092</u>

NOTE 11 - NET ASSETS

Temporarily restricted net assets as of April 30, 2018 and 2017 consist of funds related to the Foundation's beneficial interest in a charitable remainder trust. During the year ended April 30, 2018, the Foundation received notice that the noncharitable beneficiary under the charitable remainder trust died. On June 1, 2018, the trust was liquidated and the Foundation received funds totaling \$4,300,166.

	<u>2018</u>	<u>2017</u>
Beneficial interest in charitable remainder trust	\$ <u>4,300,166</u>	\$ <u>3,788,131</u>