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Return of Private Foundation
or Section 4947(a)(1) Nonexempt Charitable Trust
Treated as a Private Foundation

Note. The foundation may be able to use a copy of this return to satisfy state reporting requirements

2012

Open to public inspection

For calendar year 2012 or tax year beginning

, and ending

Name of foundation GRAYCE B. KERR FUND, INC.		A Employer identification number 73-1256124
Number and street (or P O box number if mail is not delivered to street address) 117 BAY STREET	Room/suite	B Telephone number 410-822-6652
City or town, state, and ZIP code EASTON, MD 21601		C If exemption application is pending, check here ☐
G Check all that apply. ☐ Initial return ☐ Initial return of a former public charity ☐ Final return ☐ Amended return ☐ Address change ☐ Name change		D 1 Foreign organizations, check here ☐ 2. Foreign organizations meeting the 85% test, check here and attach computation ☐
H Check type of organization: ☒ Section 501(c)(3) exempt private foundation ☐ Section 4947(a)(1) nonexempt charitable trust ☐ Other taxable private foundation		E If private foundation status was terminated under section 507(b)(1)(A), check here ☐
I Fair market value of all assets at end of year (from Part II, col (c), line 16) \$ 31,291,087.	J Accounting method: ☒ Cash ☐ Accrual ☐ Other (specify)	F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here ☐

Part I Analysis of Revenue and Expenses (The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a))		(a) Revenue and expenses per books	(b) Net investment income	(c) Adjusted net income	(d) Disbursements for charitable purposes (cash basis only)
1 Contributions, gifts, grants, etc., received				N/A	
2 Check ☒ If the foundation is not required to attach Sch B					
3 Interest on savings and temporary cash investments		66,258.	66,258.		
4 Dividends and interest from securities		265,121.	265,121.		
5a Gross rents		48,640.	48,640.		STATEMENT 1
b Net rental income or (loss) 30,774.					STATEMENT 2
6a Net gain or (loss) from sale of assets not on line 10		-697,487.			
b Gross sales price for all assets on line 6a 2,201,663.					
7 Capital gain net income (from Part IV, line 2)					
8 Net short-term capital gain					
9 Income modifications					
10a Gross sales less returns and allowances					
b Less Cost of goods sold					
c Gross profit or (loss)					
11 Other income		93,540.	93,540.		STATEMENT 3
12 Total Add lines 1 through 11		-223,928.	473,559.		
13 Compensation of officers, directors, trustees, etc		215,000.	50,500.		164,500.
14 Other employee salaries and wages		57,750.	11,550.		46,200.
15 Pension plans, employee benefits		94,369.	21,469.		72,900.
16a Legal fees STMT 4		1,185.	593.		592.
b Accounting fees STMT 5		23,490.	11,745.		11,745.
c Other professional fees STMT 6		160,746.	156,630.		4,116.
17 Interest					
18 Taxes STMT 7		19,610.	3,665.		12,445.
19 Depreciation and depletion		43,953.	0.		
20 Occupancy		20,991.	7,059.		13,932.
21 Travel, conferences, and meetings		114,060.	35,357.		78,703.
22 Printing and publications		593.	0.		593.
23 Other expenses STMT 8		31,467.	0.		31,467.
24 Total operating and administrative expenses Add lines 13 through 23		783,214.	298,568.		437,193.
25 Contributions, gifts, grants paid		615,738.			615,738.
26 Total expenses and disbursements Add lines 24 and 25		1,398,952.	298,568.		1,052,931.
27 Subtract line 26 from line 12:					
a Excess of revenue over expenses and disbursements		-1,622,880.			
b Net investment income (if negative, enter -0-)			174,991.		
c Adjusted net income (if negative, enter -0-)				N/A	

90-14

Part II Balance Sheets Attached schedules and amounts in the description column should be for end-of-year amounts only

		Beginning of year	End of year		
		(a) Book Value	(b) Book Value	(c) Fair Market Value	
Assets	1 Cash - non-interest-bearing	317,366.	84,101.	84,101.	
	2 Savings and temporary cash investments	318,911.	349,655.	349,655.	
	3 Accounts receivable ▶ 200,990.				
	Less: allowance for doubtful accounts ▶		200,990.	200,990.	
	4 Pledges receivable ▶				
	Less: allowance for doubtful accounts ▶				
	5 Grants receivable				
	6 Receivables due from officers, directors, trustees, and other disqualified persons				
	7 Other notes and loans receivable ▶				
	Less: allowance for doubtful accounts ▶				
	8 Inventories for sale or use				
	9 Prepaid expenses and deferred charges				
	10a Investments - U.S. and state government obligations				
	b Investments - corporate stock STMT 9	5,195,373.	5,042,070.	5,747,707.	
	c Investments - corporate bonds STMT 10	1,021,870.	1,021,870.	1,126,675.	
Assets	11 Investments - land, buildings, and equipment basis ▶ 1,896,520.				
	Less: accumulated depreciation ▶ 1,088,729.	847,258.	807,791.	807,791.	
	12 Investments - mortgage loans				
	13 Investments - other STMT 11	21,659,124.	20,173,514.	22,909,653.	
	14 Land, buildings, and equipment: basis ▶				
	Less: accumulated depreciation ▶				
	15 Other assets (describe ▶ STATEMENT 12)	8,015.	64,515.	64,515.	
	16 Total assets (to be completed by all filers)	29,367,917.	27,744,506.	31,291,087.	
	Liabilities	17 Accounts payable and accrued expenses			
		18 Grants payable			
19 Deferred revenue					
20 Loans from officers, directors, trustees, and other disqualified persons					
21 Mortgages and other notes payable					
22 Other liabilities (describe ▶ OTHER LIABILITIES)		531.	0.		
23 Total liabilities (add lines 17 through 22)		531.	0.		
Net Assets or Fund Balances	Foundations that follow SFAS 117, check here ▶ ☐				
	24 Unrestricted				
	25 Temporarily restricted				
	26 Permanently restricted				
	Foundations that do not follow SFAS 117, check here ▶ ☒				
	27 Capital stock, trust principal, or current funds	29,367,386.	27,744,506.		
	28 Paid-in or capital surplus, or land, bldg, and equipment fund	0.	0.		
	29 Retained earnings, accumulated income, endowment, or other funds	0.	0.		
	30 Total net assets or fund balances	29,367,386.	27,744,506.		
	31 Total liabilities and net assets/fund balances	29,367,917.	27,744,506.		

Part III Analysis of Changes in Net Assets or Fund Balances

1 Total net assets or fund balances at beginning of year - Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	29,367,386.
2 Enter amount from Part I, line 27a	2	-1,622,880.
3 Other increases not included in line 2 (itemize) ▶	3	0.
4 Add lines 1, 2, and 3	4	27,744,506.
5 Decreases not included in line 2 (itemize) ▶	5	0.
6 Total net assets or fund balances at end of year (line 4 minus line 5) - Part II, column (b), line 30	6	27,744,506.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2-story brick warehouse; or common stock, 200 shs. MLC Co.)	(b) How acquired P - Purchase D - Donation	(c) Date acquired (mo., day, yr.)	(d) Date sold (mo., day, yr.)
1a INVESTRUST MUTUAL FUNDS & ETFs	P	01/01/01	01/23/12
b INVESTRUST TRADITIONAL ENERGY	P	01/01/01	12/31/12
c INVESTRUST BOSTON ADVISORS	P	01/01/01	12/31/12
d VARIOUS PARTNERSHIP INVESTMENTS	P	01/01/01	12/31/12
e BRAZIL FUND	P	01/01/01	12/31/12

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a 450,264.		415,283.	34,981.
b 639,312.		689,372.	-50,060.
c 1,777,464.		1,601,382.	176,082.
d -866,367.			-866,367.
e 200,990.		193,113.	7,877.

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69			(i) Gains (Col. (h) gain minus col. (k), but not less than -0-) or Losses (from col. (h))
(i) F.M.V. as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of col. (i) over col. (j), if any	
a			34,981.
b			-50,060.
c			176,082.
d			-866,367.
e			7,877.

2 Capital gain net income or (net capital loss)	If gain, also enter in Part I, line 7 If (loss), enter -0- in Part I, line 7	2	-697,487.
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6): If gain, also enter in Part I, line 8, column (c). If (loss), enter -0- in Part I, line 8		3	N/A

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period?

☐ Yes ☒ No

If "Yes," the foundation does not qualify under section 4940(e). Do not complete this part.

1 Enter the appropriate amount in each column for each year; see the instructions before making any entries

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (col. (b) divided by col. (c))
2011	1,406,297.	32,521,416.	.043242
2010	1,502,800.	30,809,536.	.048777
2009	1,303,648.	27,312,892.	.047730
2008	2,334,130.	35,646,156.	.065481
2007	1,733,065.	39,680,665.	.043675

2 Total of line 1, column (d)	2	.248905
3 Average distribution ratio for the 5-year base period - divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	.049781
4 Enter the net value of noncharitable-use assets for 2012 from Part X, line 5	4	30,466,710.
5 Multiply line 4 by line 3	5	1,516,663.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	1,750.
7 Add lines 5 and 6	7	1,518,413.
8 Enter qualifying distributions from Part XII, line 4	8	1,057,417.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions.

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 - see instructions)

1a	Exempt operating foundations described in section 4940(d)(2), check here ☐ and enter "N/A" on line 1. Date of ruling or determination letter: _____ (attach copy of letter if necessary-see instructions)		
b	Domestic foundations that meet the section 4940(e) requirements in Part V, check here ☐ and enter 1% of Part I, line 27b	1	3,500.
c	All other domestic foundations enter 2% of line 27b. Exempt foreign organizations enter 4% of Part I, line 12, col. (b).		
2	Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	2	0.
3	Add lines 1 and 2	3	3,500.
4	Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	4	0.
5	Tax based on investment income Subtract line 4 from line 3. If zero or less, enter -0-	5	3,500.
6	Credits/Payments:		
a	2012 estimated tax payments and 2011 overpayment credited to 2012	6a	61,253.
b	Exempt foreign organizations - tax withheld at source	6b	
c	Tax paid with application for extension of time to file (Form 8868)	6c	10,000.
d	Backup withholding erroneously withheld	6d	
7	Total credits and payments. Add lines 6a through 6d	7	71,253.
8	Enter any penalty for underpayment of estimated tax. Check here ☐ if Form 2220 is attached	8	
9	Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed	9	
10	Overpayment If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10	67,753.
11	Enter the amount of line 10 to be: Credited to 2013 estimated tax ☐ Refunded ☐	11	0.

Part VII-A Statements Regarding Activities

	Yes	No
1a During the tax year, did the foundation attempt to influence any national, state, or local legislation or did it participate or intervene in any political campaign?		X
1b Did it spend more than \$100 during the year (either directly or indirectly) for political purposes (see instructions for definition)? If the answer is "Yes" to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the foundation in connection with the activities		X
1c Did the foundation file Form 1120-POL for this year?		X
d Enter the amount (if any) of tax on political expenditures (section 4955) imposed during the year: (1) On the foundation. ☐ \$ 0. (2) On foundation managers. ☐ \$ 0.		
e Enter the reimbursement (if any) paid by the foundation during the year for political expenditure tax imposed on foundation managers. ☐ \$ 0.		
2 Has the foundation engaged in any activities that have not previously been reported to the IRS? If "Yes," attach a detailed description of the activities		X
3 Has the foundation made any changes, not previously reported to the IRS, in its governing instrument, articles of incorporation, or bylaws, or other similar instruments? If "Yes," attach a conformed copy of the changes		X
4a Did the foundation have unrelated business gross income of \$1,000 or more during the year?		X
b If "Yes," has it filed a tax return on Form 990-T for this year?		
5 Was there a liquidation, termination, dissolution, or substantial contraction during the year? If "Yes," attach the statement required by General Instruction T		X
6 Are the requirements of section 508(e) (relating to sections 4941 through 4945) satisfied either: • By language in the governing instrument, or • By state legislation that effectively amends the governing instrument so that no mandatory directions that conflict with the state law remain in the governing instrument?	X	
7 Did the foundation have at least \$5,000 in assets at any time during the year? If "Yes," complete Part II, col (c), and Part XV.	X	
8a Enter the states to which the foundation reports or with which it is registered (see instructions) ☐ <u>MD</u>		
b If the answer is "Yes" to line 7, has the foundation furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by General Instruction G? If "No," attach explanation	X	
9 Is the foundation claiming status as a private operating foundation within the meaning of section 4942(j)(3) or 4942(j)(5) for calendar year 2012 or the taxable year beginning in 2012 (see instructions for Part XIV)? If "Yes," complete Part XIV		X
10 Did any persons become substantial contributors during the tax year? If "Yes," attach a schedule listing their names and addresses		X

N/A

Part VII-A Statements Regarding Activities (continued)

11	At any time during the year, did the foundation, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," attach schedule (see instructions)	11		X
12	Did the foundation make a distribution to a donor advised fund over which the foundation or a disqualified person had advisory privileges? If "Yes," attach statement (see instructions)	12		X
13	Did the foundation comply with the public inspection requirements for its annual returns and exemption application? Website address ► WWW.GBKF.ORG	13	X	
14	The books are in care of ► JOHN VALLIANT Located at ► 117 BAY STREET, EASTON, MD	Telephone no. ► 410-822-6652 ZIP+4 ► 21601		
15	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041 - Check here and enter the amount of tax-exempt interest received or accrued during the year ► 15 N/A 0.			
16	At any time during calendar year 2012, did the foundation have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country ►	16	Yes	No X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required

File Form 4720 if any item is checked in the "Yes" column, unless an exception applies.

	Yes	No
1a During the year did the foundation (either directly or indirectly):		
(1) Engage in the sale or exchange, or leasing of property with a disqualified person?	☐ Yes ☒ No	
(2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?	☐ Yes ☒ No	
(3) Furnish goods, services, or facilities to (or accept them from) a disqualified person?	☐ Yes ☒ No	
(4) Pay compensation to, or pay or reimburse the expenses of, a disqualified person?	☒ Yes ☐ No	
(5) Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?	☐ Yes ☒ No	
(6) Agree to pay money or property to a government official? (Exception Check "No" if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.)	☐ Yes ☒ No	
b If any answer is "Yes" to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see instructions)? Organizations relying on a current notice regarding disaster assistance check here ► ☐	1b	X
c Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2012?	1c	X
2 Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5)):		
a At the end of tax year 2012, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2012? If "Yes," list the years ► , , ,	☐ Yes ☒ No	
b Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer "No" and attach statement - see instructions.)	N/A	2b
c If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here. ► , , ,		
3a Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year?	☐ Yes ☒ No	
b If "Yes," did it have excess business holdings in 2012 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969; (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest; or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2012.)	N/A	3b
4a Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?	4a	X
b Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2012?	4b	X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required (continued)

5a During the year did the foundation pay or incur any amount to:

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))?

☐ Yes ☒ No

(2) Influence the outcome of any specific public election (see section 4955); or to carry on, directly or indirectly, any voter registration drive?

☐ Yes ☒ No

(3) Provide a grant to an individual for travel, study, or other similar purposes?

☐ Yes ☒ No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)?

☐ Yes ☒ No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?

☐ Yes ☒ No

b If any answer is "Yes" to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)?

N/A

5b

Organizations relying on a current notice regarding disaster assistance check here

▶ ☐

c If the answer is "Yes" to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant?

N/A

☐ Yes ☐ No

If "Yes," attach the statement required by Regulations section 53.4945-5(d)

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?

☐ Yes ☒ No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract?

6b

If "Yes" to 6b, file Form 8870

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction?

☐ Yes ☒ No

b If "Yes," did the foundation receive any proceeds or have any net income attributable to the transaction?

N/A

7b

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation.

(a) Name and address	(b) Title, and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
SEE STATEMENT 13		215,000.	13,281.	0.

2 Compensation of five highest-paid employees (other than those included on line 1). If none, enter "NONE."

(a) Name and address of each employee paid more than \$50,000	(b) Title, and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
NONE				

Total number of other employees paid over \$50,000

0

Part VIII**Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors** (continued)**3** Five highest-paid independent contractors for professional services. If none, enter "NONE."

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
ASSET SERVICES CORPORATION - 5101 CLASSEN CIRCLE, SUITE 600, OKLAHOMA CITY, OK 73118	INVESTMENT MNGT	107,616.
Total number of others receiving over \$50,000 for professional services		0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc.

	Expenses
1 THE ORGANIZATION PROVIDES GRANTS AND CONTRIBUTIONS TO 501(C)(3) ORGANIZATIONS	1,052,931.
2	
3	
4	

Part IX-B Summary of Program-Related Investments

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.		Amount
1	N/A	
2		
All other program-related investments. See instructions.		
3		
Total. Add lines 1 through 3		0.

Part X Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see instructions.)

1	Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:		
a	Average monthly fair market value of securities	1a	29,909,868.
b	Average of monthly cash balances	1b	186,677.
c	Fair market value of all other assets	1c	834,125.
d	Total (add lines 1a, b, and c)	1d	30,930,670.
e	Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1e	0.
2	Acquisition indebtedness applicable to line 1 assets	2	0.
3	Subtract line 2 from line 1d	3	30,930,670.
4	Cash deemed held for charitable activities. Enter 1 1/2% of line 3 (for greater amount, see instructions)	4	463,960.
5	Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5	30,466,710.
6	Minimum investment return. Enter 5% of line 5	6	1,523,336.

Part XI Distributable Amount (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here ☐ and do not complete this part.)

1	Minimum investment return from Part X, line 6	1	1,523,336.
2a	Tax on investment income for 2012 from Part VI, line 5	2a	3,500.
b	Income tax for 2012. (This does not include the tax from Part VI.)	2b	
c	Add lines 2a and 2b	2c	3,500.
3	Distributable amount before adjustments. Subtract line 2c from line 1	3	1,519,836.
4	Recoveries of amounts treated as qualifying distributions	4	0.
5	Add lines 3 and 4	5	1,519,836.
6	Deduction from distributable amount (see instructions)	6	0.
7	Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1	7	1,519,836.

Part XII Qualifying Distributions (see instructions)

1	Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes:		
a	Expenses, contributions, gifts, etc. - total from Part I, column (d), line 26	1a	1,052,931.
b	Program-related investments - total from Part IX-B	1b	0.
2	Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2	4,486.
3	Amounts set aside for specific charitable projects that satisfy the:		
a	Suitability test (prior IRS approval required)	3a	
b	Cash distribution test (attach the required schedule)	3b	
4	Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4	4	1,057,417.
5	Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b	5	0.
6	Adjusted qualifying distributions. Subtract line 5 from line 4	6	1,057,417.

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.

Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2011	(c) 2011	(d) 2012
1 Distributable amount for 2012 from Part XI, line 7				1,519,836.
2 Undistributed income, if any, as of the end of 2012				
a Enter amount for 2011 only			0.	
b Total for prior years:		0.		
3 Excess distributions carryover, if any, to 2012:				
a From 2007				
b From 2008	457,503.			
c From 2009				
d From 2010				
e From 2011				
f Total of lines 3a through e	457,503.			
4 Qualifying distributions for 2012 from Part XII, line 4 ▶ \$ 1,057,417.				
a Applied to 2011, but not more than line 2a			0.	
b Applied to undistributed income of prior years (Election required - see instructions)		0.		
c Treated as distributions out of corpus (Election required - see instructions)	0.			
d Applied to 2012 distributable amount	0.			1,057,417.
e Remaining amount distributed out of corpus	457,503.			457,503.
5 Excess distributions carryover applied to 2012 (If an amount appears in column (d), the same amount must be shown in column (a))				
6 Enter the net total of each column as indicated below:				
a Corpus Add lines 3f, 4c, and 4e Subtract line 5	0.			
b Prior years' undistributed income. Subtract line 4b from line 2b		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b. Taxable amount - see instructions		0.		
e Undistributed income for 2011. Subtract line 4a from line 2a. Taxable amount - see instr.			0.	
f Undistributed income for 2012. Subtract lines 4d and 5 from line 1. This amount must be distributed in 2013				4,916.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3)	0.			
8 Excess distributions carryover from 2007 not applied on line 5 or line 7	0.			
9 Excess distributions carryover to 2013 Subtract lines 7 and 8 from line 6a	0.			
10 Analysis of line 9:				
a Excess from 2008				
b Excess from 2009				
c Excess from 2010				
d Excess from 2011				
e Excess from 2012				

Part XIV Private Operating Foundations (see instructions and Part VII-A, question 9)

N/A

1 a If the foundation has received a ruling or determination letter that it is a private operating foundation, and the ruling is effective for 2012, enter the date of the ruling

b Check box to indicate whether the foundation is a private operating foundation described in section ☐ 4942(j)(3) or ☐ 4942(j)(5)

2 a Enter the lesser of the adjusted net income from Part I or the minimum investment return from Part X for each year listed

b 85% of line 2a

c Qualifying distributions from Part XII, line 4 for each year listed

d Amounts included in line 2c not used directly for active conduct of exempt activities

e Qualifying distributions made directly for active conduct of exempt activities.

Subtract line 2d from line 2c

3 Complete 3a, b, or c for the alternative test relied upon:

a "Assets" alternative test - enter:

(1) Value of all assets

(2) Value of assets qualifying under section 4942(j)(3)(B)(i)

b "Endowment" alternative test - enter 2/3 of minimum investment return shown in Part X, line 6 for each year listed

c "Support" alternative test - enter:

(1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)

(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)

(3) Largest amount of support from an exempt organization

(4) Gross investment income

Part XV Supplementary Information (Complete this part only if the foundation had \$5,000 or more in assets at any time during the year-see instructions.)**1 Information Regarding Foundation Managers:**

a List any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than \$5,000). (See section 507(d)(2).)

NONE

b List any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest.

NONE

2 Information Regarding Contribution, Grant, Gift, Loan, Scholarship, etc., Programs:

Check here ☐ if the foundation only makes contributions to preselected charitable organizations and does not accept unsolicited requests for funds. If the foundation makes gifts, grants, etc. (see instructions) to individuals or organizations under other conditions, complete items 2a, b, c, and d.

a The name, address, and telephone number or e-mail of the person to whom applications should be addressed:

SEE STATEMENT 14

b The form in which applications should be submitted and information and materials they should include:

c Any submission deadlines:

d Any restrictions or limitations on awards, such as by geographical areas, charitable fields, kinds of institutions, or other factors:

Part XV Supplementary Information (continued)**3** Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
a Paid during the year				
SEE ATTACHED LIST	NONE	501(C)(3)	TO BE USED IN ACCORDANCE WITH THE ESTABLISHED PURPOSE OF THE RECIPIENT ORGANIZATION.	615,738.
Total			▶ 3a	615,738.
b Approved for future payment				
SEE ATTACHED LIST	NONE	501(C)(3)	TO BE USED IN ACCORDANCE WITH THE ESTABLISHED PURPOSE OF THE RECIPIENT ORGANIZATION.	1,154,792.
Total			▶ 3b	1,154,792.

Part XVI-A Analysis of Income-Producing Activities

Enter gross amounts unless otherwise indicated.

Enter gross amounts unless otherwise indicated.	Unrelated business income		Excluded by section 512, 513, or 514		(e) Related or exempt function income
	(a) Business code	(b) Amount	(c) Exclu- sion code	(d) Amount	
1 Program service revenue:					
a _____					
b _____					
c _____					
d _____					
e _____					
f _____					
g Fees and contracts from government agencies					
2 Membership dues and assessments					
3 Interest on savings and temporary cash investments			14	66,258.	
4 Dividends and interest from securities			14	265,121.	
5 Net rental income or (loss) from real estate:					
a Debt-financed property					
b Not debt-financed property			16	30,774.	
6 Net rental income or (loss) from personal property					
7 Other investment income			01	93,540.	
8 Gain or (loss) from sales of assets other than inventory			18	-697,487.	
9 Net income or (loss) from special events					
10 Gross profit or (loss) from sales of inventory					
11 Other revenue:					
a _____					
b _____					
c _____					
d _____					
e _____					
12 Subtotal. Add columns (b), (d), and (e)		0.		-241,794.	0.
13 Total. Add line 12, columns (b), (d), and (e)				13 -241,794.	

(See worksheet in line 13 instructions to verify calculations.)

Part XVI-B Relationship of Activities to the Accomplishment of Exempt Purposes

[illegible]

Part XVII

Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations

- | | | Yes | No |
|---|--|-------|----|
| 1 | Did the organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations? | | |
| a | Transfers from the reporting foundation to a noncharitable exempt organization of: | | |
| | (1) Cash | 1a(1) | X |
| | (2) Other assets | 1a(2) | X |
| b | Other transactions. | | |
| | (1) Sales of assets to a noncharitable exempt organization | 1b(1) | X |
| | (2) Purchases of assets from a noncharitable exempt organization | 1b(2) | X |
| | (3) Rental of facilities, equipment, or other assets | 1b(3) | X |
| | (4) Reimbursement arrangements | 1b(4) | X |
| | (5) Loans or loan guarantees | 1b(5) | X |
| | (6) Performance of services or membership or fundraising solicitations | 1b(6) | X |
| c | Sharing of facilities, equipment, mailing lists, other assets, or paid employees | 1c | X |
| d | If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting foundation. If the foundation received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received. | | |

[illegible]

- 2a Is the foundation directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ☐ Yes ☒ No

- b If "Yes," complete the following schedule.

(a) Name of organization	(b) Type of organization	(c) Description of relationship
N/A		

**Sign
Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer or trustee

Date _____

Title

PRESIDENT

May the IRS discuss this return with the preparer shown below (see instr. 1)?

☒ Yes ☐ No

**Paid
Preparer
Use Only**

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if
self-employed

PT1N

JAMES E. CRISP

JAMES E. CRISP

11/04/13

P00025401

Firm's name ► GROSS, MENDELSON & ASSOCIATES, P.A.

Firm's EIN ► 52-0982413

Firm's address ► 36 SOUTH CHARLES ST., 18TH FLOOR
BALTIMORE, MD 21201

Phone no. 410-685-5512

FORM 990-PF	RENTAL INCOME	STATEMENT	1
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KIND AND LOCATION OF PROPERTY	ACTIVITY NUMBER	GROSS RENTAL INCOME
117 BAY STREET	1	48,640.
TOTAL TO FORM 990-PF, PART I, LINE 5A		48,640.

FORM 990-PF	RENTAL EXPENSES	STATEMENT	2
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DESCRIPTION	ACTIVITY NUMBER	AMOUNT	TOTAL
DEPRECIATION		10,807.	
OTHER EXPENSES		7,059.	
- SUBTOTAL -	1		17,866.
TOTAL RENTAL EXPENSES			17,866.
NET RENTAL INCOME TO FORM 990-PF, PART I, LINE 5B			30,774.

FORM 990-PF	OTHER INCOME	STATEMENT	3
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DESCRIPTION	(A) REVENUE PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME
PARTNERSHIP INCOME (LOSS)	93,540.	93,540.	
TOTAL TO FORM 990-PF, PART I, LINE 11	93,540.	93,540.	

FORM 990-PF	LEGAL FEES	STATEMENT	4
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DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
LEGAL FEES	1,185.	593.		592.
TO FM 990-PF, PG 1, LN 16A	1,185.	593.		592.

FORM 990-PF	ACCOUNTING FEES	STATEMENT	5
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DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
ACCOUNTING FEES	23,490.	11,745.		11,745.
TO FORM 990-PF, PG 1, LN 16B	23,490.	11,745.		11,745.

FORM 990-PF	OTHER PROFESSIONAL FEES	STATEMENT	6
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DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
CUSTODIAL FEES	9,810.	9,810.		0.
ASSET SERVICE CORPORATION FEES	107,616.	107,616.		0.
INVESTMENT CONSULTANTS	16,000.	16,000.		0.
MANAGERS FEES	23,204.	23,204.		0.
OTHER PROFESSIONAL FEES	4,116.	0.		4,116.
TO FORM 990-PF, PG 1, LN 16C	160,746.	156,630.		4,116.

FORM 990-PF	TAXES	STATEMENT	7
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DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
PAYROLL TAXES	16,110.	3,665.		12,445.
EXCISE TAXES	3,500.	0.		0.
TO FORM 990-PF, PG 1, LN 18	19,610.	3,665.		12,445.

FORM 990-PF	OTHER EXPENSES	STATEMENT	8
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DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
COMPUTER EXPENSES	8,167.	0.		8,167.
VEHICLE REPAIRS	1,911.	0.		1,911.
MISCELLANEOUS EXPENSES	3,363.	0.		3,363.
OFFICE SUPPLIES	7,573.	0.		7,573.
POSTAGE & DELIVERY	355.	0.		355.
INSURANCE	6,434.	0.		6,434.
MEMBERSHIPS	3,664.	0.		3,664.
TO FORM 990-PF, PG 1, LN 23	31,467.	0.		31,467.

FORM 990-PF	CORPORATE STOCK	STATEMENT	9
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DESCRIPTION	BOOK VALUE	FAIR MARKET VALUE
ORLEANS CAP MGMT	1,549,285.	1,713,738.
BOSTON ADVISORS	1,555,946.	1,772,422.
INTERNATIONAL	1,936,839.	2,261,547.
TOTAL TO FORM 990-PF, PART II, LINE 10B	5,042,070.	5,747,707.

FORM 990-PF	CORPORATE BONDS	STATEMENT	10
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DESCRIPTION	BOOK VALUE	FAIR MARKET VALUE
ASSET SERVICES	1,021,870.	1,126,675.
TOTAL TO FORM 990-PF, PART II, LINE 10C	1,021,870.	1,126,675.

FORM 990-PF

OTHER INVESTMENTS

STATEMENT 11

DESCRIPTION	VALUATION METHOD	BOOK VALUE	FAIR MARKET VALUE
ALTERNATIVE INVESTMENTS INST., LP	COST	1,521,385.	2,895,540.
BARLOW PARTNERS - OFFSHORE FUNDS	COST	2,300,000.	2,616,375.
NATURAL RESOURCE FUND - PARTNERSHIP	COST	3,136,124.	2,128,802.
MCKINLEY CAPITAL INTERNATIONAL, LP	COST	2,064,565.	2,298,185.
MIT PRIVATE EQUITY FUND, LP	COST	347,804.	396,348.
MIT PRIVATE EQUITY FUND II, LP	COST	453,172.	586,929.
INTERNATIONAL MUTUAL FUNDS - FOREIGN EQUITIES	COST	5,451,406.	6,406,698.
NYES LEDGE CAPITAL OFFSHORE FUN, LTD	COST	2,200,000.	2,672,310.
TIFF PARTNERS II, LLC	COST	-59,233.	28,047.
TIFF PARTNERS III, LLC	COST	94,591.	109,211.
ART WORK	COST	63,700.	90,130.
BRAZIL AND VALUE GROWTH FUND	COST	0.	0.
WEATHERLOW FUND I, LP	COST	2,600,000.	2,681,078.
TOTAL TO FORM 990-PF, PART II, LINE 13		20,173,514.	22,909,653.

FORM 990-PF

OTHER ASSETS

STATEMENT 12

DESCRIPTION	BEGINNING OF YR BOOK VALUE	END OF YEAR BOOK VALUE	FAIR MARKET VALUE
EXCISE TAX RECEIVABLE	8,015.	64,515.	64,515.
TO FORM 990-PF, PART II, LINE 15	8,015.	64,515.	64,515.

FORM 990-PF

PART VIII - LIST OF OFFICERS, DIRECTORS
TRUSTEES AND FOUNDATION MANAGERS

STATEMENT 13

NAME AND ADDRESS	TITLE AND AVRG HRS/WK	COMPEN- SATION	EMPLOYEE BEN PLAN CONTRIB	EXPENSE ACCOUNT
JOHN R.VALLIANT 117 BAY STREET EASTON, MD 21601	PRESIDENT & CEO 40.00	165,000.	11,533.	0.
SHERYL V. KERR 117 BAY STREET EASTON, MD 21601	CHAIR 20.00	25,000.	1,748.	0.
BRENE M. KERR 117 BAY STREET EASTON, MD 21601	CHAIR EMERITUS 2.00	0.	0.	0.
MARCY KERR YUKNAT 117 BAY STREET EASTON, MD 21601	FAMILY TRUSTEE 1.00	0.	0.	0.
JAMES S. MAFFITT, IV 117 BAY STREET EASTON, MD 21601	SECRETARY/TREAS 10.00	25,000.	0.	0.
DAVID A. YUKNAT 117 BAY STREET EASTON, MD 21601	FAMILY TRUSTEE 1.00	0.	0.	0.
TOTALS INCLUDED ON 990-PF, PAGE 6, PART VIII		215,000.	13,281.	0.

FORM 990-PF

GRANT APPLICATION SUBMISSION INFORMATION
PART XV, LINES 2A THROUGH 2D

STATEMENT 14

NAME AND ADDRESS OF PERSON TO WHOM APPLICATIONS SHOULD BE SUBMITTED

JOHN VALLIANT
117 BAY STREET
EASTON, MD 21601

TELEPHONE NUMBER

410-822-6652

FORM AND CONTENT OF APPLICATIONS

THE APPLICANT SHOULD CALL THE ORGANIZATION TO OBTAIN INFORMATION REGARDING
THE APPLICATION PROCESS AND REQUESTED INFORMATION.

ANY SUBMISSION DEADLINES

APPLICATIONS ARE REVIEWED AS RECEIVED.

RESTRICTIONS AND LIMITATIONS ON AWARDS

MUST BE 501(C)(3) ORGANIZATION. PREFERENCE GIVEN TO EDUCATIONAL ENDEAVORS.

2012 DEPRECIATION AND AMORTIZATION REPORT

117 BAY STREET

RENT

1

Asset No	Description	Date Acquired	Method	Life	Line No	Unadjusted Cost Or Basis	Bus % Excl	* Reduction In Basis	Basis For Depreciation	Accumulated Depreciation	Current Sec 179	Current Year Deduction

GRAYCE B. KERR FUND, INC
EIN: 73-1256124
FORM 990-PF, PART XV, LINE 3(a)
YEAR ENDED DECEMBER 31, 2012

GRANTS AND CONTRIBUTIONS PAID DURING THE YEAR

**ALL GRANTS AND CONTRIBUTIONS ARE TO BE USED IN ACCORDANCE WITH THE
ESTABLISHED PURPOSE OF THE RECIPIENT ORGANIZATION.**

NAME OF ORGANIZATION	LOCATION	RELATIONSHIP	AMOUNT
Weill Cornell Medical College	New York, NY	NONE	231,444
University of Maryland Foundation	Adelphi, MD	NONE	66,758
Talbot Hospice Foundation	Easton, MD	NONE	50,100
Mabel Wadsworth Womens Health Center	Bagor, ME	NONE	50,000
Massachusetts Institute of Technology	Cambridge, MA	NONE	50,000
Washington College	Chestertown, MD	NONE	50,000
Young Mens Christian Association of Talbot County	Easton, MD	NONE	50,000
Mid-Shore Community Meditation Center	Easton, MD	NONE	40,000
American Red Cross	Timonium, MD	NONE	10,000
Critchlow Adkins Children's Centers	Easton, MD	NONE	5,506
Christ Church	St Michaels, MD	NONE	3,800
Phillips Academy	Andover, MA	NONE	2,000
Women & Girls Fund of the Mid-Shore	Easton, MD	NONE	1,500
The Avalon Foundation	Easton, MD	NONE	530
Calvert School	Baltimore, MD	NONE	500
Mid-Shore Community Foundation	Easton, MD	NONE	500
United Fund of Talbot County	Easton, MD	NONE	500
Easton Volunteer Fire Department	Easton, MD	NONE	500
Easton High School (After Graduation Party)	Easton, MD	NONE	500
St Michaels High School	St Michaels, MD	NONE	500
Saints Peter and Paul School	Woolford, MD	NONE	500
Saint Pauls Episcopal Church	Alexandria, VA	NONE	400
Saint Mary's School	Bryantown, MD	NONE	100
Tred Avon Players	Oxford, MD	NONE	100
TOTAL CASH GRANTS			<u>\$ 615,738</u>

GRAYCE B. KERR FUND, INC
EIN: 73-1256124
FORM 990-PF, PART XV, LINE 3(b)
YEAR ENDED DECEMBER 31, 2012

GRANTS APPROVED FOR FUTURE PAYMENT

ALL GRANTS AND CONTRIBUTIONS ARE TO BE USED IN ACCORDANCE WITH THE
ESTABLISHED PURPOSE OF THE RECIPIENT ORGANIZATION.

NAME OF ORGANIZATION	LOCATION	RELATIONSHIP	AMOUNT
Eastern Shore Land Conservancy	Queenstown, MD	NONE	250,000
Cornell University	Ithaca, NY	NONE	180,579
Phillips Wharf Environmental	Tilghman, MD	NONE	152,974
Talbot Hospice Foundation	Easton, MD	NONE	150,000
Massachusetts Institute of Technology	Cambridge, MA	NONE	100,000
Woods Hole Oceanographic Institution	Wood Hole, MA	NONE	81,239
Benedictine Foundation	Ridgely, MD	NONE	60,000
Washington College	Chestertown, MD	NONE	50,000
Wye River Upper School	Wye Mills, MD	NONE	50,000
Young Mens Christian Association of Talbot County	Easton, MD	NONE	50,000
Horizons at Radcliffe Creek	Chestertown, MD	NONE	30,000
TOTAL			<u>\$1,154,792</u>