

**BLANDIN FOUNDATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2000 AND 1999**

**BLANDIN FOUNDATION  
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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees of the Blandin Foundation  
Grand Rapids, Minnesota

We have audited the accompanying statements of financial position of the Blandin Foundation (a nonprofit organization) as of December 31, 2000 and 1999 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Blandin Foundation as of December 31, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Brainerd, Minnesota  
February 16, 2001

**BLANDIN FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2000 AND 1999**

	<u>NOTE</u>	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>			
Cash and Cash Equivalents		\$ 2,000,794	\$ 4,195,182
Investments at Fair Value	2	54,351,202	44,039,059
Investment Income Receivable		823,282	382,197
Contribution Receivable - Trust		-	3,000,000
Property and Equipment	3	4,155,226	4,174,588
Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	1	396,421,000	351,954,521
Other Assets		188,555	185,328
		<u>\$ 457,940,059</u>	<u>\$ 407,930,875</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 1,055,810	\$ 913,775
Grants Payable	7	12,748,740	5,081,600
<b>TOTAL LIABILITIES</b>		<u>\$ 13,804,550</u>	<u>\$ 5,995,375</u>
<b>NET ASSETS</b>			
Unrestricted	1	\$ 43,823,836	\$ 37,735,078
Temporarily Restricted	1	3,890,673	12,245,901
Permanently Restricted	1	396,421,000	351,954,521
<b>TOTAL NET ASSETS</b>		<u>\$ 444,135,509</u>	<u>\$ 401,935,500</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u>\$ 457,940,059</u>	<u>\$ 407,930,875</u>

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS AND OTHER SUPPORT					
Contribution from Blandin Residuary Trust		\$ -	\$ 16,392,372	\$ -	\$ 16,392,372
Investment Income		1,929,077	-	-	1,929,077
Net Realized and Unrealized Investment Gains	2	5,489,246	-	-	5,489,246
Increase in Present Value of Estimated Cash Flows from Blandin Residuary Trust	1	-	-	44,466,479	44,466,479
Other Income		14,318	-	-	14,318
Net Assets Released from Restrictions		24,747,600	(24,747,600)	-	-
Total Revenues, Gains and Other Support		\$ 32,180,241	\$ (8,355,228)	\$ 44,466,479	\$ 68,291,492
EXPENSES					
Charitable Activities:					
Grants		\$ 20,535,028	\$ -	\$ -	\$ 20,535,028
Scholarships		642,736	-	-	642,736
Programs	8	2,569,602	-	-	2,569,602
Administrative		2,344,117	-	-	2,344,117
Total Expenses		\$ 26,091,483	\$ -	\$ -	\$ 26,091,483
CHANGE IN NET ASSETS		\$ 6,088,758	\$ (8,355,228)	\$ 44,466,479	\$ 42,200,009
Net Assets - Beginning of Year		37,735,078	12,245,901	351,954,521	401,935,500
NET ASSETS - END OF YEAR		\$ 43,823,836	\$ 3,890,673	\$ 396,421,000	\$ 444,135,509

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**STATEMENTS OF ACTIVITIES (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

	1999				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS AND OTHER SUPPORT					
Contribution from Blandin Residuary Trust		\$ -	\$ 18,497,450	\$ -	\$ 18,497,450
Investment Income		756,743	-	-	756,743
Net Realized and Unrealized Investment Gains	2	6,636,055	-	-	6,636,055
Increase in Present Value of Estimated Cash Flows from Blandin Residuary Trust	1	-	-	47,854,677	47,854,677
Other Income		-	-	-	-
Net Assets Released from Restrictions		13,781,525	(13,781,525)	-	-
Total Revenues, Gains and Other Support		\$ 21,174,323	\$ 4,715,925	\$ 47,854,677	\$ 73,744,925
EXPENSES					
Charitable Activities:					
Grants		\$ 11,568,485	\$ -	\$ -	\$ 11,568,485
Scholarships		624,039	-	-	624,039
Programs	8	2,123,598	-	-	2,123,598
Administrative		1,862,035	-	-	1,862,035
Total Expenses		\$ 16,178,157	\$ -	\$ -	\$ 16,178,157
CHANGE IN NET ASSETS					
		\$ 4,996,166	\$ 4,715,925	\$ 47,854,677	\$ 57,566,768
Net Assets - Beginning of Year					
		32,738,912	7,529,976	304,099,844	344,368,732
NET ASSETS - END OF YEAR					
		\$ 37,735,078	\$ 12,245,901	\$ 351,954,521	\$ 401,935,500

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Blandin Residuary Trust	\$ 19,392,372	\$ 16,247,450
Interest and Dividends Received	1,487,992	927,775
Cash Paid to Employees and Suppliers	(1,921,911)	(2,080,630)
Grant and Program Expenditures Paid	(16,078,625)	(11,902,467)
Net Cash Provided by Operating Activities	<u>\$ 2,879,828</u>	<u>\$ 3,192,128</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Purchase of Equipment and Building	\$ (263,489)	\$ (2,045,173)
Proceeds from Sale of Investments	49,484,164	39,865,866
Purchase of Investments	(54,294,891)	(39,567,378)
Net Cash Used by Investing Activities	<u>\$ (5,074,216)</u>	<u>\$ (1,746,685)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (2,194,388)</u>	<u>\$ 1,445,443</u>
Cash and Cash Equivalents - Beginning	<u>4,195,182</u>	<u>2,749,739</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 2,000,794</u></u>	<u><u>\$ 4,195,182</u></u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 42,200,009	\$ 57,566,768
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	268,679	175,711
Loss on Disposal of Assets	2,002	2,499
Increase in Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	(44,466,479)	(47,854,677)
Net Realized and Unrealized Investment Gains	(5,489,246)	(6,636,055)
(Increase) Decrease In Current Assets		
Interest and Dividends Receivable	(441,085)	171,032
Prepaid Expenses and Other Receivables	(3,227)	78,187
Receivable from Blandin Residuary Trust	3,000,000	(2,250,000)
Increase (Decrease) in Current Liabilities		
Accounts Payable and Accrued Expenses	140,434	115,223
Grants and Scholarships Payable	7,668,741	1,823,440
Net Cash Provided by Operating Activities	<u><u>\$ 2,879,828</u></u>	<u><u>\$ 3,192,128</u></u>

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2000 AND 1999**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organizational Purpose

The Blandin Foundation, incorporated under the laws of Minnesota, distributes funds to strengthen communities in rural Minnesota.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Foundation considers all short-term, highly liquid money market investments to be cash equivalents.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. Program related investments, consisting of promissory notes receivable from various organizations and non-publicly traded equity securities, are carried at cost or estimated market value, if lower than cost.

Property, Furniture and Equipment

Property, furniture, and equipment are recorded at cost and depreciated over their estimated useful lives, as shown below, using the straight-line method of depreciation.

Building and Improvements	10 - 30 Years
Furniture and Equipment	5 - 10 Years
Vehicles	5 Years

Present Value of Estimated Future Cash Flows from Charles K. Blandin Residuary Trust

The Blandin Foundation is the sole beneficiary of the Charles K. Blandin Residuary Trust, the assets of which are not in the possession of the Foundation. Substantially all of the Foundation's non-investment income is received from this Trust. The present value of future cash flows from the Trust is the current market value of the net assets held by the Trust and is shown as permanently restricted as these assets are currently unavailable for distribution. Market value fluctuations in the Trust are reflected on the Statement of Activities, as a change in permanently restricted net assets.



**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2000 AND 1999**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net Assets

Net assets and 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 – Represents assets over which the Board of Trustees has discretionary control.

Temporarily Restricted – Assets received from the Charles K. Blandin Residuary Trust, being held for the exclusive purpose of providing grants for educational and charitable purposes.

The following table illustrates the total receipts from the Trust and the total spending by the Foundation on charitable activities since the Foundation started accounting for temporarily restricted net assets in 1996.

Beginning Temporarily Restricted Net Assets	\$ 5,631,946
Contributions from Blandin Residuary Trust	70,875,764
Net Assets Released from Restrictions	<u>(72,617,037)</u>
Ending Temporarily Restricted Net Assets	<u>\$ 3,890,673</u>

Permanently Restricted - Assets of the Charles K. Blandin Residuary Trust are permanently restricted at the donor's request. The Trust is required by IRS regulations to distribute annually, 5% of the average market value of its net assets. If the earnings on the assets of the Trust are not greater than or equal to the Trust's required 5% distribution, a portion of the corpus of the Trust will be paid out to cover the remaining distribution requirement.

Net Assets Released from Restrictions

Net assets released from restrictions represent current year's grant and scholarship commitments.

Functional Allocation of Expense

Salaries and related expenses are allocated based on estimates of time spent on various programs. Other expenses, not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2000 AND 1999**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**NOTE 2 INVESTMENTS**

Cost, market value and net appreciation (depreciation) of investments is as follows:

	2000			1999		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	Cost	Fair Value	Unrealized Appreciation (Depreciation)
U.S. Government and Corporate Debt						
Securities	\$ 10,543,403	\$ 10,824,705	\$ 281,302	\$ 11,122,323	\$ 10,738,559	\$ (383,764)
Domestic Equities	23,095,790	28,113,453	5,017,663	12,382,856	19,353,342	6,970,486
International Equities	1,657,164	1,788,635	131,471	3,580,121	4,194,138	614,017
Venture and Real Estate	6,071,440	9,682,609	3,611,169	5,373,576	5,161,020	(212,556)
Program-Related	3,941,800	3,941,800	-	4,592,000	4,592,000	-
Totals	<u>\$ 45,309,597</u>	<u>\$ 54,351,202</u>	<u>\$ 9,041,605</u>	<u>\$ 37,050,876</u>	<u>\$ 44,039,059</u>	<u>\$ 6,988,183</u>
Net Realized Gain on Investment Transactions		<u>\$ 3,777,127</u>			<u>\$ 4,379,746</u>	
Increase in Unrealized Market Appreciation		<u>\$ 2,053,422</u>			<u>\$ 2,256,309</u>	

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2000	1999
Land, Building and Improvements	\$ 5,197,672	\$ 5,032,659
Furniture, Equipment and Vehicles	1,231,526	1,331,548
Total	\$ 6,429,198	\$ 6,364,207
Less: Accumulated Depreciation	(2,273,972)	(2,189,619)
Net Property and Equipment	<u>\$ 4,155,226</u>	<u>\$ 4,174,588</u>

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2000 AND 1999**

**NOTE 4 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation, and as such, is subject to a federal excise tax of 2% (reduced to 1% if certain requirements are met) on taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible) less expenses incurred.

The federal excise tax, representing 2% in 2000 and 1% in 1999 of taxable investment income, was \$169,000 and \$26,522 in 2000 and 1999, respectively.

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, within one year after the end of each fiscal year, 100% of the contribution received from the Trust and 5% of the average market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 15% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2000.

**NOTE 5 EMPLOYEE BENEFIT PLANS**

Defined Contribution Plans

All employees of the Foundation working a minimum of 1,000 hours in a plan year, are covered by a defined contribution money purchase plan. The Foundation annually contributes 6% of each employee's annual compensation. All participants are entitled to a benefit equal to their vested percentage of the individuals pension account balance. The vesting schedule is based on the number of full years of service as follows:

Years	Percent Vested
0-1	0%
2	20%
3	40%
4	60%
5	80%
6 or More	100%

The Foundation also contributes to a plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees and those part-time employees who work a minimum of 1,000 hours in a twelve-month period. The Foundation contributes a matching contribution of up to 6% of gross compensation for all participating employees. All participants are immediately vested in contributions from the Foundation, all deferral contributions and investment earnings thereon. Employee deferrals are subject to annual limits as defined by the Internal Revenue Code.

Total expense related to these defined contribution plans was approximately \$97,000 and \$99,000 for the years ended December 31, 2000 and 1999, respectively.

**BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999**

**NOTE 5 EMPLOYEE BENEFIT PLANS (CONTINUED)**

Severance Agreements

The Foundation has entered into severance agreements which provide benefits to specific employees upon reaching retirement age, as defined. The related liability, discounted to the present value of the future commitment, is \$281,821 and \$242,528 at December 31, 2000 and 1999, respectively.

Deferred Compensation

The Foundation provides a deferred compensation, salary deferral arrangement under Internal Revenue Code Section 457(f). The plan allows for salary deferral for participating employees, with no matching contributions by the Foundation.

**NOTE 6 CONTINGENCIES AND CONCENTRATION OF CREDIT RISK**

Certain debt instruments involve credit risk. The Foundation's mortgage investments are collateralized while other debt instruments are generally unsecured.

The Foundation is a secondary guarantor on a \$1,000,000 mortgage. Management believes the likelihood of the Foundation becoming responsible for this liability is remote.

**NOTE 7 GRANTS PAYABLE**

Grants payable are recorded when approved by the Foundation's Board of Trustees. Long-term grants payable (payable in over one year) are discounted to the present value of future commitments using the prime rate of interest at year-end. Grants have been approved and scheduled for payment as follows:

	2000	1999
2000	\$ -	\$ 3,965,383
2001	8,159,811	994,504
2002	2,226,200	208,000
2003	1,959,250	110,000
2004	1,600,000	-
Total Grant Commitments	\$ 13,945,261	\$ 5,277,887
Discount to Present Value	(1,196,521)	(196,287)
Total Present Value of Grant Commitments	\$ 12,748,740	\$ 5,081,600

**BLANDIN FOUNDATION**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**  
**(SEE INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION)**

**NOTE 8 CHARITABLE ACTIVITIES - PROGRAMS**

In 2000, the Foundation began classifying its self administered grants as internally administered charitable programs. The charitable programs listed separately below represent the major programs which are internally administered, with other self-administered grant programs comprising the smaller charitable programs that are also internally administered.

Charitable Activities - Programs	<u>2000</u>
Children 1st	95,186
Community Investment Partnership	463,485
Community Leadership Program	1,243,089
Convening	396,490
Other Self Administered Grant Programs	<u>371,352</u>
Total Charitable Activities - Programs	<u><u>2,569,602</u></u>